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June 15, 1942
10:28 a.m.

HMJr: Hello.

Operator: Mr. Hopkins.

HMJr: Harry.

Harry
Hopkins: Yeah.

HMJr: Henry talking.

H: Yeah.

HMJr: How are you?

H: All right.

HMJr: Harry, you sent me a note, which you may have or
may not forgot about - something to do with Lauch
Currie looking into this thing of a shipbuilding
business.....

H: Yeah.

HMJr:of a man by the name of Cohen.

H: Yeah.

HMJr: You asked me to call you up about it.

H: Yeah.

HMJr: Well, I've read it over the week-end.....

H: Uh huh.

HMJr:and I wondered what you had in mind.

H: Well, I had in mind some of the people that are
mixed up in that thing.

HMJr: I see.

H: If you remember, there's one sentence in it that
they paid two hundred odd thousand dollars out in
legal fees.

HMJr: To a certain member of Congress.

H: Yeah. Well, I don't know whether it was. I think it was another friend of ours.

HMJr: Oh.

H: What I was - I was thinking of two things. One, have you any interest in this?

HMJr: Yes, I.....

H: On the grounds that it's.....

HMJr: I have an interest. We have a tax interest.

H: Yeah.

HMJr: We'd like to look into the tax angle.

H: And.....

HMJr: And also we have an interest if the English are wasting their funds.

H: Yeah. Yeah.

HMJr: So we have first the tax, and the second, the English.....

H: When did this happen about? Would you say about a year?

HMJr: Oh, this is quite old.

H: About a year and a half ago?

HMJr: I'd say - well, I wouldn't want to - no, but it's quite old.

H: Yeah.

HMJr: It's quite old.

H: It looks pretty bad, doesn't it?

HMJr: It looks terrible, and, of course, the bad thing about it is that it is so old.

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H: Yeah.

HMJr: I mean, what I would do normally would be to turn a thing like this over to Elmer Ireby, who's the head of Internal Revenue Intelligence, and tell him to go to it.

H: Could he do that even without having that document?

HMJr: Well, what I would do is.....

H: And that would - he'd at once steer into the SEC, you see.

HMJr: Well, what I would do is - if it was agreeable to you - is let him read it, and then make notes from it, you see, to guide him, and then send it back.

H: Yeah.

HMJr: But I wouldn't do that unless you were willing.

H: Well, I don't see that there's anything in it. It's a private Government document, but there's surely no reason why you shouldn't see it.

HMJr: No, I don't see any.

H: It's the kind of a thing that you.....

HMJr: Well, SEC would give it to me if I.....

H: Oh, sure they'd give it to you.

HMJr: Yeah. No, it isn't.....

H: I think I'll just - I tell you, why don't you do that, and I'll just tell Lauch that I'm anxious to see the rest of it when it comes through, and that I have showed it to you.

HMJr: That's all right.

H: And then.....

HMJr: And that we're looking into it from the tax angle.

H: Then he'll send that on to Purcell, and Purcell will know that you know about it.

HMJr: Yeah. And then after they've made notes, I can return it to you?

H: Yeah.

HMJr: Is that all right?

H: Sure.

HMJr: Okay. When can I give you a meal?

H: Oh, soon.

HMJr: Well.....

H: Soon.

HMJr: What are you doing tomorrow?

H: Good.

HMJr: Tomorrow?

H: Yeah.

HMJr: Tuesday, one o'clock?

H: Yeah.

HMJr: Fine.

H: Fine, Henry.

HMJr: Good-bye.

H: Good-bye.

June 15, 1942
10:40 a.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Baker

H.M.JR: Why does it have to be a certificate?

MR. BELL: It doesn't have to be, I guess.

H.M.JR: Let me ask you gents a question. I haven't anything here to work with yet. This last certificate we got out when?

MR. BELL: June 2 - oh, I was thinking of the last refunding.

H.M.JR: When was the last certificate? Have I got anything to work from?

MR. MURPHY: It was dated April 15, Mr. Secretary.

MR. BELL: April 15, due November 1.

H.M.JR: November 1, and that was for how much?

MR. BELL: A billion five hundred seven.

H.M.JR: How much?

MR. BELL: A billion five hundred seven.

H.M.JR: Well, and that matures when?

MR. BELL: November 1.

H.M.JR: And it was sold April--

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MR. BELL: April 15.

H.M.JR: You mean that was the day of the offering?

MR. BELL: No, that was the date of the payment.

H.M.JR: Then we come along two months later. Now, Dan, I read George's memo.

(Discussion off the record.)

H.M.JR: Well, anyway, what is worrying me, Dan, is this. The other, a billion and a half - with your running three hundred million over we would be taking a billion and a half. Is that going to be enough?

MR. BELL: Yes, we think it is, but we are going to have to have another issue to be paid for on July 15.

H.M.JR: That I expected.

MR. BELL: This would be the week of the sixth.

H.M.JR: That doesn't trouble me.

MR. BELL: We are going out of June with about a billion nine.

H.M.JR: Out of June?

MR. BELL: Yes, sir.

H.M.JR: That is O.K.

MR. BELL: That will run us until the fifteenth.

H.M.JR: That is all right.

George, any doubts on the note thing?

MR. HAAS: On the certificate, you mean?

H.M.JR: Certificate.

MR. HAAS: No, sir, it looks all right to me.

H.M.JR: How about the pricing in your--

MR. HAAS: Well, there is that possibility, but it is one of those things. I think there is a very slim possibility that you might have some trouble. If you did, the Fed would take it out. You need reserves, so what is the difference?

H.M.JR: That is a hell of a way to approach it.
(Laughter.)

MR. BELL: That would please George, to get a little reserve.

H.M.JR: He thinks we are back in the NRA days.

MR. BELL: We had a meeting with the banker group and insurance group, and they have gone down to the room to think about it themselves. I think Ed Brown and Burgess would like to see a billion-dollar certificate and a half a billion dollar two-year note.

H.M.JR: Who would?

MR. BELL: Burgess and Ed Brown. They think that the note would go into the hands of these corporations which Eccles would like to see short tap issues go to. He thinks a lot of corporations would come in and buy that, and individuals, too, with idle money.

H.M.JR: Well, they might buy that. On the other hand, if we came along later with a two percent, they could sell that and buy the two percent.

MR. BELL: Ed Brown says there are a lot of people who have substantial cash balances that are just sitting by waiting until this war is over, and then either speculate or go into business.

He thinks that they would like to have something not more than two years. Some of them have bought certificates.

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Tom Smith said he had a case the other day where a gentleman came in with a substantial balance and wanted to do something with it. He wasn't interested in Eccles' tap issue; he didn't want that, but he bought this half-percent certificate.

H.M.JR: Why wouldn't he buy F and G?

MR. BELL: Well, he had more money then.

H.M.JR: Did he buy F and G?

MR. BELL: I don't know. He did buy certificates. Most all of them, I think, have been talking about this tap issue, and they say that a lot of them who have money to invest in that type of security say that if they wanted to redeem that they didn't want to come to the Treasury and be accused of redeeming it at a time when they shouldn't. They want something they can sell in the market.

MR. BAKER: Be better off in buying the certificates and rolling them over.

H.M.JR: That is what I think. The only argument that would make me hesitate would be if they say a billion and a half is too much.

MR. BAKER: I think you have an offset to that point, and also to the questions on pricing, by the fact that the market is not only looking for a certificate, but it seems to be hoping for it. There seems to be a lot of interest in it.

MR. BELL: Yes, there is a lot of interest in the certificate.

H.M.JR: Henry?

MR. MURPHY: I would go for the certificate. My feel tells me it will go all right.

H.M.JR: Your what?

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MR. MURPHY: I say my feel tells me that it will go perfectly all right. I do have that little qualm on the pricing.

H.M.JR: Let's go in and take a look at the charts. The charts are up?

MR. BELL: Yes.

Subjects for Consideration by the Representatives of Banking and Insurance Institutions who will Confer with the Secretary on Monday, June 15

1. June Financing

The amount of the offering for consideration at this time is \$1,500,000,000 new cash. The question is what type of financing the Treasury should adopt for this month.

If it is an issue to which banks can subscribe, should we eliminate all restrictions as to subscriptions, as we did in connection with the 2% bond issue of last month?

If it is a certificate of indebtedness, should we eliminate the requirement of a payment of 10% at the time of the subscription?

2. July and August Financing

Preliminary estimates indicate that the aggregate of the financing required for these two months will be not less than 4-1/2 billion dollars. If the June financing is of a short character, it is possible that the long-term market will go up. In order to counteract this tendency, would it be advisable at the time we announce the June financing, also to announce the volume of financing that is facing us for the subsequent two months? This might dampen the long bond market and keep it about where it is at the present time.

3. Reserves

The excess reserves of the country were \$2,780,000,000 at the close of business Wednesday, June 10, of which \$495,000,000 were in New York City.

As you know, there is pending in Congress a bill which would permit the Federal Reserve Board to lower the reserve requirements in New York and Chicago without changing the reserve requirements of other cities. It would be helpful to have your advice with respect to the whole reserve picture for our guidance in dealing with this problem.

4. Treasury Bills

We are now on a program of \$300,000,000 a week, of which \$150,000,000 is new money. This program was increased \$50,000,000 a week on June 10. The amount of bids received two weeks prior to that time ran from \$461,000,000 to \$497,000,000 at a rate of about .365%. Total bids received on June 10, with the increased amount, was \$690,000,000 at an average rate of .367%. The question raised here is whether the Treasury should increase the weekly offerings of Treasury bills to \$350,000,000. In this connection, consideration should be given as to whether this increase, if you recommend an increase, should be deferred until after the payment date of the issue to be offered next week. (Payment date will be June 25.) The question of an increase in Treasury bills should also be considered in its relation to the reserve situation.

5. 2-1/2% Long-Term Registered Issue

There have been some recent indications that long-term funds have accumulated in the market. There is some question in our minds as to whether enough of these funds will have accumulated by the July financing to allow the Treasury to offer at that time another long-term registered security or reopen the last 2-1/2%. The Treasury would like to have your advice as to whether you now believe that it might be possible to offer a long bond issue in July or whether this proposed issue should wait until August, at which time more funds will have accumulated in this area.

June 15, 1942
11:00 a.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Brown
Mr. Smith
Mr. Burgess
Mr. Harrison
Mr. Edwards
Mr. Parkinson

H.M.JR: Well, we are at our monthly job of raising a little money. Bell tells me we need a billion and a half.

MR. BELL: That is right.

H.M.JR: And what I want to do is get a little advice. We know how much we want.

MR. BELL: We discussed it a little, Mr. Secretary, in my office and then they went down to discuss it among themselves. I don't think they have had much time.

H.M.JR: That is good. (Laughter)

MR. BELL: Maybe they can give you individual opinions.

H.M.JR: Supposing we start from the right this time and go around the circle.

MR. HARRISON: If it were a billion and a half, I, personally, would make the short-money drive rather than to open it up for long-time investment money. It was only a short while ago that you appealed to the investment fund market. I would let that rest a bit, and,

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as Stanley expressed it, fill the well a little more before you go after it again lest you appear to have an unsuccessful drive due to the fact that funds have not accumulated in sufficient volume.

If we limit it to a short-time market, I, personally, would prefer an optional issue certificate of indebtedness anywhere from six to ten months, and a note around two, or maybe up to three years, if you have to, on account of maturities, which I think would be the fairest test of tapping the so-called corporate fund market.

I think all of us agree that two years would be preferable to three years. The difficulty with that is that '44 is pretty crowded. Now, if you can find a date in there where you could afford to take, say seven hundred and fifty millions of dollars, I don't know, but I think that would be what I would want to explore. We didn't have the chart with us, so we couldn't tell quite what all your maturities were.

H.M.JR: I have got the chart.

MR. HARRISON: If I did do that, though - if you decide upon the short issues, whether optional or whether only one, I think it would be very important for the Treasury to let it be known that you have a vast amount of financing to do in the next few months and that it is expected that at that time some long-time issues would be put out, so that the fellows who are accumulating money for a personal investment would not be impatient and would wait until the long-time issue, rather than to force their money into the short-time issue now for patriotic reasons.

H.M.JR: I am not going to ask any questions until we go around the room, because my questions might be leading questions, so I think I will absorb first.

Were you through?

MR. HARRISON: I am all through.

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MR. PARKINSON: I think I would agree with what George Harrison has said. I think it would be desirable to have some kind of a long-time tap issue that was permanently open, would absorb funds like the insurance funds; but I don't think now is the time to open it for a short period because I agree with him that there probably hasn't accumulated enough funds in our hands to make a good showing with such an issue open for a short time. But I do think that we have to have in mind, as I am sure you have, Mr. Secretary, the accumulating problem of these short-term maturities.

H.M.JR: You mean, we have got to meet them when they come due?

MR. PARKINSON: Yes, and the shorter they are and the more of them we have, the harder it will be as they do come due.

H.M.JR: well, I just had them do me a chart on the World War I, and of course what they did there, they sold these certificates every week and then when they got enough of them they refunded them into something longer, but that wasn't really what we have had in mind so far. I mean, the idea was there was enough short paper in the market.

MR. SMITH: They didn't offer bonds as frequently as you do, either.

H.M.JR: Well, they didn't raise very much money, either.

MR. SMITH: That is correct.

H.M.JR: Anything else, Mr. Parkinson?

MR. PARKINSON: No.

H.M.JR: I will come back. I am going to save my questions.

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MR. SMITH: I agree with George in general. I think it is important to have something to answer this short-time tap issue. That has gotten pretty well over the country. There is discussion of it. If you issue something, say due June 15, '44, when there is a break, that would satisfy it.

H.M.JR: What do you mean, a break?

MR. SMITH: I mean, there is a place in there where you could put an issue, and that might furnish the investment for the funds, corporate funds, that are available. I also think it is important to indicate that this tap issue will be opened again, but I don't think you should open it until August.

H.M.JR: Until August, and you favor what right now?

MR. SMITH: A short certificate, six to ten months and obligation due and maturing June 15, 1944, with some kind of a statement about the long-time being opened again.

H.M.JR: B.M.?

MR. EDWARDS: I agree with Mr. Harrison, Mr. Secretary. I would say about a seven months' certificate for around a billion dollars and a two-year note for five hundred million. You have a break there in June 1944. You do not have the maturity in that month - I think about four hundred million, isn't it, Danny?

MR. BELL: Yes, four hundred sixteen, I think.

MR. EDWARDS: If you put five hundred million more in that month you would have about a billion dollars maturing in June '44. I think that two-percent note will probably give us an opportunity to see how much corporate money--

MR. BELL: You mean the two-year note.

MR. EDWARDS: Yes, the two-year note. What did I say?

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MR. BELL: Two percent.

H.M.JR: He was just saying what he was thinking.
(Laughter)

MR. EDWARDS: It would probably bring out some of that money, on a temporary basis.

H.M.JR: So far - I hope we are going to have some revolutionary fellow here that isn't going to agree with everybody. Randolph?

MR. BURGESS: I am sorry I can't be very revolutionary. I think we are all agreed on the desirability of an option. I know the Street is thinking in terms of one issue of a billion and a half, and I have talked with the fellows in the Street. I think that is a mistake. I think in the first place that we are loading in the short stuff pretty heavily. This bill increase gave a billion and a half to certificates, and while I have agreed that there wasn't enough of the short stuff, they are getting it pretty fast and they are getting a pretty good load, and I think there is a little danger of choking that calf. So I would split it, either a billion, or even less, in the certificate, and a choice on the certificates between February five-eighths or a May first three-quarters. I would lean a little toward the long one because I think that the rate would tend to attract some people, some non-bank investors that wouldn't go in for the others. Then I think the optional thing ought to be a note of either two or three years, probably two. I think that June '44 is pretty good.

Then if you want to do something radical and revolutionary I think July is the time to do it, and then you might well consider both opening up this tap issue, and I think July may be the time to do it, and then perhaps a serial bond issue. But you can't decide that now.

I agree with George that it is desirable to announce at this time when you do get this issue out what your present

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program indicates for July and August, four and a half billion, or whatever it is, with the suggestion that you will be asking for bonds at that time, including a bond of the general type of the two and a half percent for insurance companies, something to attract long-term investors.

MR. BROWN: Well, I agree that you have got to put out short stuff. I strongly believe that part of the program should be a two-year note. I think that if you only want a billion and a half - I think probably it would be better to split it, seven hundred and fifty million in certificates and seven hundred and fifty million dollars in a note. I would announce that the note would have no exchange privilege if it is going to be as short as two percent. I don't know whether it is feasible to state that preference in subscription would be given to subscribers to the two-year note other than banks and dealers. If we could, I think it would help in getting a larger percentage of it in the hands of the non-banking investors.

MR. EDWARDS: Dan, you didn't catch that. He had two percent on his mind also.

MR. BROWN: I meant, two-year note. That is one of the reasons I think a two-year note would go, if you had a one-percent coupon rate. There are a lot of corporations with anywhere from fifty thousand up to several million dollars to invest who receive a one-percent rate, and when you talk of five-eighths or three-quarters, or some fraction, it doesn't appeal to them the same way. I think your July and August financing has got to be, or should be, longer-term securities, and I agree that some announcement should be made that in connection with the July and August financing either the last two and a half percent tap issue would be reopened or similar investment opportunities given to the insurance companies and other long-term investors.

MR. HARRISON: Mr. Secretary, I don't think that - I didn't intend, and I don't think the others intend, in suggesting that you make some announcement about later

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financing, that you commit yourself to any particular issue, any particular maturity, or even necessarily any particular rate, but rather that with the volume of financing that will be necessary in July and August it would be your intention to offer some long-time bonds. That is all you would have to say.

H.M.JR: Let me ask my first question. I mean, leaving out the long-time bond for the moment, do you gentlemen think that I ought to say before this offering - it is Thursday, isn't it?

MR. BELL: Yes, sir.

H.M.JR: On Thursday, that we will have to raise so much in July and so much in August and we ought to do this before Thursday or wait until this is over and do it next Monday. "Now, this is over, and I just want to let you know what the program is."

MR. SMITH: I think you ought to say it before the offering date.

MR. BURGESS: I think so.

H.M.JR: You just want to make it a little extra hard for me.

MR. SMITH: If they think about it they know it is bound to come, and it gives a better impression.

MR. BURGESS: The difficulty is, Henry, if you just announce that you are going to have a certificate issue, a note issue, just a short issue, the tendency is for the bond market to bounce up. If you tell them at the same time that you are going to have a bond issue the following month, it tends to keep the market on an even keel and makes it a more stable market to operate.

H.M.JR: I don't think I would say a bond issue. I would say, "Well, we need four - four and a half billion dollars the next two months." Isn't that right?

MR. BELL: Yes, sir.

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H.M.JR: Whatever it is we have got to raise it, that is all.

MR. BURGESS: I am thinking of the insurance companies. They can speak for themselves.

H.M.JR: I wouldn't want to say a bond issue.

MR. SMITH: It would be helpful if they knew that or had a little more assurance that these long-term securities are coming.

MR. BELL: You see, when we offered the certificate issue in April the bond market went up about eight points. It is now up above one hundred one.

H.M.JR: If I announce we have got to raise some four or four and a half--

MR. BELL: Four and a half billion.

H.M.JR: I could say between four and five billion. That is something - I am not telling anybody any secret. I mean, that is a commitment I can't escape, but if I say it is a bond issue--

MR. HARRISON: I wouldn't say that, Mr. Secretary. I think all you have to say is that with the heavy financing that is coming along it can be contemplated that some of the money will be raised by long-time issues. That is all you have to say.

H.M.JR: Well, I will think about it, but Dan has talked to me about that over Saturday, and I hate to get my neck stuck out more than one day.

MR. HARRISON: The reason I suggested - you take when the certificate issue went out there were some insurance companies that didn't want it. We were one; we really didn't want it, but we subscribed because we felt that we might be charged with being unpatriotic.

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We didn't know whether you wanted us to subscribe or not do it. If we had known then or could have relied upon the fact, and I am just using this as a typical case, that long-time money was to be asked for a little later on, we could have understood then that you don't want us now, particularly, to go to the six months' certificate, that we will be given our opportunity later. There will be a lot of insurance companies, a lot of investment funds, that will be in that same fix. They won't know whether to wait or whether they are expected to subscribe right now.

H.M.JR: Well, George, you don't have to answer this question if you don't want to. You bought so many million dollars of these certificates in April, then we came along with a tap issue. Did you keep all your certificates?

MR. HARRISON: Yes, we have got them all.

MR. PARKINSON: We sold all of ours, put them into the tap issue.

H.M.JR: Have any difficulty in selling them?

MR. PARKINSON: Not a bit.

H.M.JR: Well, supposing we come along, just for argument's sake, do what the Treasury has recommended, a billion and a half certificate, and each of you take some, and then next month we come along with something especially fashioned to be attractive to the insurance companies, there is nothing to keep you from selling them.

The thing that I wanted to ask all of you was this. Are you afraid the billion and a half is too big? Is that what is bothering you? That is what I want to ask.

MR. HARRISON: Not me.

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MR. SMITH: I am not. I think we are trying to fashion something that will be taken more easily by the market. I don't think any of us are afraid of the size of the issue.

H.M.JR: Let me tell you what is in my mind, what bothers me about your suggestion. I don't think we can fool around any more with half a billion dollar issues. I don't know - I have got to raise fifty billion dollars for the rest of this calendar year.

MR. BELL: Fiscal year '43.

H.M.JR: Fiscal year. Have you included the President's last thirty-nine?

MR. BELL: Yes. The budget estimates have been changed on expenditure basis.

H.M.JR: And including the increase in soldiers' pay?

MR. BELL: No, that wasn't in there but then that isn't--

H.M.JR: Well, anyway, for the rest of the fiscal year, how much?

MR. BELL: Fiscal beginning July 1, about fifty-three billion dollars a year.

H.M.JR: Let's call it fifty, that is a nice round tidy sum. I think what you have got to do is - maybe you have done it, and maybe we are wrong, but you have got time to think about it for a day or two - supposing we get out - well, it won't be out by the time you get - supposing we have outstanding three billion dollars of these certificates, wouldn't that be right, if we got them out every three months, a billion and a half?

MR. BELL: You would have six billion if you had a billion and a half every three months.

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H.M.JR: No, you wouldn't, Dan, figure it out. By the time you get around to your third billion and a half you retire your first. Am I right or am I wrong?

MR. SMITH: Four and a half - you would have four and a half.

H.M.JR: I don't think you would.

MR. BURGESS: It is according to what maturity you had.

H.M.JR: If it was six months.

MR. BURGESS: Well--

MR. BELL: Then you would have three billion, for a six months' period.

H.M.JR: It might be a short-time four and a half but if it was all six it would be three. Now, let's just think of it in these terms. Just say three billion for a month. It might go to four and a half billion of certificates, and let's say we increase these bills to another fifty million, how much would that be, total bills outstanding, if we go to three hundred fifty a week?

MR. HAAS: Four and a half.

H.M.JR: It would be four and a half of bills, from three to four and a half of certificates, to support a program to raise - well, it would still be fifty billion dollars of something longer. See?

Now, I don't expect an answer, but I want you to think about it. So can you fool around, gentlemen, with five hundred million two-year issues and fill that spot with five hundred million? I mean, don't you have to save that for some time when you are going to get out something over a billion? Now, I waited until you got through. I wanted you to think about it, but what we were thinking about is they tell me - you men know a great deal better than I - these six months' certificates are very

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popular; they are very useful to the banks; and is that too much short-term stuff to have, looking forward to this tremendous step that we have got to take?

MR. HARRISON: I think your point is very well taken. If I may make a confession, my reason for suggesting the option, the principal reason, and offering a two-year note, plus the certificate, is largely the fear that some of our friends in other departments have not yet gotten over this problem of attacking the corporate funds that are accumulating and that we are not--

H.M.JR: Who?

MR. HARRISON: Well, Eccles, for instance.

H.M.JR: Well, I wouldn't worry about that.

MR. HARRISON: He is still talking about his five-year redeemable issue.

H.M.JR: That is all right. Sometimes he is right, sometimes wrong, but the fact that he is talking, I don't think that--

MR. HARRISON: I think that--

H.M.JR: I mean, sometimes he is right, and sometimes he is wrong.

MR. HARRISON: My purpose in suggesting it was that really the fairest test you could have as to the amount of corporate funds outstanding would be those two issues, in my judgment, and that was one reason that I thought you could perfectly well split it up and find out whether there is a supply of corporate funds, some of which would be available for ten months,

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say, in the certificate, and some for two years in the note.

H.M.JR: Well, George, on that corporate stuff, we have sent people out into the field and you men can check me, but certainly the people who have got war orders haven't got these surplus funds, and if they have got them, if I was their banker I would advise them to put them into tax anticipation ones. That is what they should do with them.

We send people out, we have had questionnaires, we have been all out. I am talking now of people in active business, but I will be damned if I can find them now, and Eccles can't prove that they are there. I mean, he has got a very nice theory, but when you have got people in the field all over the country who sit down and talk with businessmen, and with the increased cost of inventory, even though the volume of the inventory is the same, increased cost of merchandise up nineteen or twenty percent, and you sit down with these people across the desk and say, "Have you got any money," with the possible exception of the breweries, - I am talking generally, there are always exceptions - I can't find the stuff that Eccles has been talking about. Now, that isn't individuals, but corporations. I just can't find it. You people have got bank accounts; you can say, "Well, Morgenthau, you are wrong. We know where it is." But I would like to know where it is.

MR. PARKINSON: I just said a few moments ago that what you have said is true of the corporations that I am familiar with, but there was a feeling in the group that there were other corporations which did have idle funds which wouldn't be drawn in by such a program

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H.M.JR: Mr. Parkinson, some months ago I sent some people out to the Treasury. They went to the Federal Reserve Bank, invited in a lot of people, sat down and talked with them, and we just couldn't find the thing Eccles has been talking about; and as far as I was concerned - that was what, two or three months ago?

MR. BELL: Two or three.

MR. SMITH: It is worse today.

H.M.JR: But as of two or three months ago, with the exception of the breweries, that stuck out in my mind. As far as I was concerned, it was just an exploded theory, what I call a swivel-chair theory. A fellow sits at his desk and says, "There it is." It is just a swivel-chair theory. You say it is--

MR. SMITH: There is less money now than there was then.

H.M.JR: Then, why the hell, just to disprove Eccles, should I go out and make a mistake, when I am satisfied in my own mind, unless a fellow like Ned Brown, or National City says to me, "Well, Morgenthau, you are wrong; we can show you where there are corporations who have got idle funds."

Now if I am wrong, I would like to know it.

MR. SMITH: Of course, dividing up these issues might be an inconvenience, but it wouldn't be a mistake.

H.M.JR: Well, Tom, dividing it up doesn't bother me, but what you gentlemen are saying, all of you, "Let's sell five hundred million of a two-year issue, to prove or disprove that the so-called idle funds--

MR. BROWN: I wouldn't say it was that. I think there are some funds - I don't know how much - would be attracted by a two-year note. I also think there are a

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great many small banks who would not buy a certificate under one percent who would buy a two-year note at one percent, and I think that you would get a better distribution of your new money if you had a two-year note, as well as the very short-term certificates, practically all of which will go to the larger banks of the country. By that I don't mean the twenty or thirty largest banks, but the three or four hundred largest banks.

H.M.JR: Well, Mr. Brown, I frankly was a little bit scared, and I don't get scared easy. After this field survey and I saw how little idle money there was in the hands of the corporations, I said, "Where in heaven's name am I going to get this stuff except from the banks and insurance companies?" I can't find it. I am not talking about individuals or trusts, but with the exception of the insurance companies and banks, I swear I don't know where the idle money is.

MR. BURGESS: Well, nobody was more firmly convinced that Eccles was wrong than I was, but I do think there is some money. Now, it isn't all corporate money, there is some individual money.

MR. HAAS: If you want to go at these corporate funds, isn't it better to have a security that you can leave open and allot in full? How about in August when you put out the two and a half? You might then put out something to accompany it, which is a shorter one, I mean, to meet a different type of fund. What I am getting at is if you had the thing opened one day and a person doesn't know how much he is going to be allotted, it is not an instrument designed for those corporations that have those funds, it seems to me. You would sell some, but it would be the sophisticated ones that would buy.

MR. BURGESS: Well, corporation treasurers are practically bankers.

(The Secretary left the conference temporarily.)

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MR. BURGESS: They are very much on their toes on things like that, and the banks all call it to their attention. I don't believe there are many of them that would buy that sort of thing that didn't get it on the offering.

MR. SMITH: If one issue, I would rather issue the two-year ones.

H.M.JR: Among your customers now - because I am going to come to F and G's afterwards - just as you run it through your mind, and again you don't have to answer the question if you don't want to, do you have many people - many corporations that have idle funds?

MR. BROWN: We haven't so many corporations, unless they are corporations that are in the nature of holding companies, but we have a good many wealthy individuals who either through corporations which they control or in their own name have a considerable amount of funds who want to go into the stock market or want to go into some form of business activity as soon as the war is over who are not interested in long-term securities, because they want to be able to go into them when the war is over. I don't think that the amount that is available is anything like the amount that Eccles thinks is available, but there is a considerable amount of that money, and they would be more interested in something that bore the one-percent interest, even if it ran two years, than they would in ninety-day bills or a six or seven months' certificate of indebtedness.

H.M.JR: What about the National City?

MR. BURGESS: I think we have got some money of that sort that will be attracted by the two-year one that would not be attracted by the shorter issue, and the more you can sell outside the banks, the better, of course. The more attractive you make it for them, the better.

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I will confess that - you say nobody is afraid of the billion and a half certificate - I am not exactly afraid of it. I think it will go all right, but I think there is always a little danger of overloading some particular market. You have been running your bills up pretty fast here.

H.M.JR: But the amount of bids have increased.

MR. BURGESS: That was artificial; that was induced. We were called up and asked to put in heavy bids this last week.

H.M.JR: Is that so?

MR. BURGESS: Oh, yes.

H.M.JR: Well, I didn't know it.

MR. BELL: I didn't either until this morning.

H.M.JR: Did you know it?

MR. BELL: No.

MR. BURGESS: That increase in the amount was a good deal artificial, and there is a good demand for the short stuff, but as Ned says, it is primarily the big money-center banks. That isn't where you want to sell your stuff primarily. I think there is a little bit of danger of overloading that short market too fast. You have stepped up your bills from one hundred fifty to two fifty to three hundred million. That is all right. You sold a billion and a half of certificates. You have put an awful lot of stuff into that market in a short space of time - I think a little more slowly from here out.

H.M.JR: You know for years I persisted in increasing the short-money stuff, because I know it comes around ever so often.

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Mr. BURGESS: I was the guy that argued to increase it, or one of the guys, but just go a little easy.

H.M.JR: But the Federal Reserve people want this fluidity so that they can get in and buy some, the increased reserves, and so far they have been able to buy very little.

MR. HARRISON: Mr. Secretary, if you are worried about a five hundred million issue, would there be any objection to making your June financing for two billions, spreading it out? That would be two, two, and two then.

H.M.JR: We don't really need the money for this month. We have got enough money for this month with a billion and a half, but it doesn't have to be a certificate, George. I mean, it can be a billion and a half of anything. I mean, I am not wedded to a certificate. All I am arguing against - I don't like a half a billion dollar issue with a fifty billion dollar borrowing program staring me in the face. I don't like to reopen these little issues. I don't mind reopening the tap issue.

MR. HARRISON: I think that is a very good point, and well worth considering.

H.M.JR: I don't expect to settle it this morning. It is exchanging ideas; we get your views, you get mine. We have just started.

MR. BURGESS: You can make it seven fifty of each. Of course, you already have four hundred million in June, so you put in five hundred million, and you have your nine hundred million maturity, which is a pretty good block. You couldn't put a billion and a half in this to that maturity without overloading it.

H.M.JR: You are always worrying about my successor.

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MR. BURGESS: No, that is you.

H.M.JR: Forty-four - will I still be here in '44? God help me. (Laughter)

MR. BURGESS: That is June '44, you know.

H.M.JR: Oh, yes.

MR. BELL: Put it June '45; you may have a chance.

H.M.JR: Yes, feel a little different.

MR. SMITH: You look pretty well. (Laughter)

H.M.JR: It is paint. (Laughter) All right, I am not complaining.

MR. BELL: That previous quarter there is pretty sizable.

H.M.JR: Let's let this particular thing soak for a minute, you see, and I would like to just switch the subject.

This invitation I extended to you - I said I hoped you would stay for two days, and I hope that you can, because I am seeing the Fed tomorrow, am I not, at ten-thirty?

MR. BELL: Yes.

H.J.JR: I would like to see you gentlemen after. There is no reason you can't this time, if you would like to, meet with the Fed like you did the last time. Didn't you meet with the Fed?

MR. HARRISON: We had a little scramble after everything was over.

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H.M.JR: If you people would like to meet with the Federal Board or Fed Open Market Committee, say so, and Bell will arrange it, or if you want to see somebody from there. The thing I would like to put up to you people is this, this money of these private individuals in the banks and this whole so-called F and G program. I wish you gentlemen would take a look at it, you see, have some of our boys like Gamble and Buffington come in and talk to them, and have them tell you what they are doing, because I am still not satisfied we are necessarily on the right track.

Now, you are chairman of the New York County, aren't you, still, for War Bonds?

MR. BURGESS: Vice chairman.

H.M.JR: Why the hell aren't you ringing doorbells today? (Laughter)

MR. BURGESS: Because I am here. (Laughter)

H.M.JR: Who is chairman?

MR. HARRISON: That is one reason.

H.M.JR: That is as good a reason as he can think of quickly.

MR. BURGESS: Pearson is chairman.

H.M.JR: But I would like very much if you would see these people and simply go over this. I am going to talk perfectly frank with you. They tell me they talk about this Victory Fund Committee and what they can do, and they say - someone told me they had twelve people in New York. Now, the Victory Fund Committee says, "We have got everybody, a couple of hundred people; your people over in War Bonds haven't got any one." Well, somewhere or other there is a truth.

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They say for the whole country the Victory Fund people have only got a couple of hundred people, but the fact remains, whatever the individual State situation is, that we are not making the sales that we should, and the thought that is running through my mind, Dan, is this: We have a very fine committee in New York, of which Mr. Potter is chairman, composed of twelve banks, I think, and they set themselves up and wrote me a very fine letter, through Mr. Sproul, in which they said, "Anything you want us to do, you tell us." This is the presidents of the twelve big banks in New York, and I haven't had a chance to ask them to do anything.

Frankly, I am worried about F and G, and particularly New York, and I would like to have you think it over. I know we have this thing set up, but that doesn't bother me-if it is wrong, whether possibly I should ask this committee headed by Mr. Potter, "Won't you gentlemen get in on this thing for the rest of the month, with your own customers," with their own customers, because, after all, a bank president knows what the accounts are and the nature of the accounts, and he knows whether these fellows have been buying F and G a damn sight better than anybody else. I mean, would you be willing to take a look at this thing, have our men come in and just tell you the story and what the situation is. One will tell you the Victory Fund Committee side, and the other the War Bond Committee side, what the situation is, and whether you really think we are doing everything that we can to get this money, the kind of money that you (Brown) have been talking about out in Chicago from fifty thousand up to two million, I think you told me - money sitting there.

The fellow that has got two million, has he bought fifty thousand dollars' worth of either F or G, or if he hasn't, what can we do to get that man to at least buy fifty thousand of F and G or any other - can a corporation buy?

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MR. BELL: Yes, F and G.

H.M.JR: Or anybody else. Now, we talk about tap issues. The insurance companies came through beautifully on that tap issue. They bought about sixty-eight percent, wasn't it?

MR. HAAS: Yes.

H.M.JR: Sixty-eight percent of that tap issue went to insurance companies, and ten percent to all others. So that is where it went. But we have got this device, and I am convinced, until I am proved wrong, that in the banks there is a considerable amount of this money to go into it, and I just wondered if while you are here, after you got this other thing settled - if you have a little time this afternoon, you could sit down with my boys and say, "Well, now, explain this thing to us; we want to know about it."

MR. HARRISON: Where does the responsibility for F and G lie, the War Savings--

H.M.JR: War Bonds Committee.

MR. HARRISON: Not the Victory Fund Committee?

H.M.JR: The setup is this. Dan, you check me. The setup is this: We said the responsibility is with the State chairman of each State of the War Bonds Committee, and he was directed by me to go to the president of the Federal Reserve Bank in his District and ask him to give him all the assistance he could to sell F and G. That was the thing. Now, the War Bonds Committee was satisfied, and the presidents of the Federal Reserve Banks were satisfied, and the Victory Fund fellows were satisfied, but I am not. I am not.

MR. SMITH: You don't want to talk about that now?

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H.M.JR: No, I would like you gentlemen - Bell will arrange to have these men come in, and just tell them - you may come back and say that everything is lovely. I don't think it is in New York.

MR. BURGESS: I don't think so.

H.M.JR: They tell me Chicago is all right.

MR. HARRISON: I know more about this, apparently, than the deputy chairman.

MR. BURGESS: This is under George. I delegated this to him. (Laughter)

MR. HARRISON: I have never seen you in the office yet.

MR. BURGESS: You wouldn't come when I was there.

H.M.JR: Which office?

MR. HARRISON: War Savings.

H.M.JR: I thought you meant the National City.

MR. BURGESS: That is almost true, too.

MR. HARRISON: It is very interesting. It won't take me a minute.

H.M.JR: I am not only interested, but I am worried about the thing, and particularly New York.

MR. HARRISON: This is what happened. Jack Stevens, Nevil Ford, and Kimball - I forget his first name - what is it?

MR. SMITH: Ritchie Kimball.

MR. HARRISON: They asked for a meeting of my finance group. I had the seventeen divisions in the

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financial area, banks, insurance, and the whole works.

H.M.JR: When was this, how recent?

MR. HARRISON: Well, it was just a week ago - I think it was a week ago today.

H.M.JR: We only cleared it a week ago today, didn't we? It was a week ago Friday we cleared it.

MR. HARRISON: They had a telegram.

H.M.JR: Friday morning a week ago. Remember?

MR. BELL: Just before you went away.

MR. HARRISON: And this was Monday, and they came to me. I said, "Before you begin to talk about F and G, has the jurisdiction yet been decided?" I understood there was some conflict between the War Bond Committee, of which I am a member - I mean, the Victory Fund, and I was also on the other group. I knew that Sproul didn't know then that the telegram had been sent to the War Savings people. So they produced the telegram.

H.M.JR: Sproul was here Friday.

MR. HARRISON: Was he?

H.M.JR: He sat through this whole thing Friday.

MR. HARRISON: I may have misunderstood. So I said, "All right then, let's proceed with the meeting."

H.M.JR: Excuse me. Sproul was enthusiastic about the agreement.

MR. HARRISON: I misunderstood from somebody.

H.M.JR: Am I right, Dan?

MR. BELL: Yes, he was here.

MR. HARRISON: And Kimball outlined the whole program of just exactly what he wanted us to do, and all my chairmen were to get busy along the lines of the program, which was to have every corporation in each group surveyed by individuals to see who were in the groups that would be qualified to buy F and G Bonds. Elliot Lee, who is representing the banking group, was there, and understood perfectly what he was supposed to do. I think the theory of it was either that each bank or each corporation would itself approach the men in its organization whom they thought were eligible buyers, or else they were embarrassed about that and turned it over to one of Kimball's groups to handle by an individual approach. They said they had the men who would approach them all individually, and I thought that was in process this week.

H.M.JR: Well, is it?

MR. HARRISON: Well, I don't know. I haven't checked up since last Monday.

H.M.JR: Could you, as chairman?

MR. HARRISON: Surely. The only reason that I hesitated during the week was that I understood it was reopened again to see whether the Victory Fund Committee would be the one that was responsible.

H.M.JR: No, nothing has been changed since Friday a week ago.

MR. SMITH: That is the way we understand it out in the St. Louis district.

H.M.JR: You are a hell of a chairman; how often do you check up on your committees? (Laughter)

MR. HARRISON: I think that is pretty good - checked up just a week ago. They are proceeding, I know, unless

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they got orders not to, and if they didn't get orders not to I am sure they are proceeding.

H.M.JR: Just have a look.

Do you know how it is going in Chicago?

MR. BROWN: No, I don't. They have gotten - I know more about the Victory Fund Committee. They haven't yet got, anyway, too active personal solicitation. A good deal of this type of money, of which Burgess and I were speaking, I think is not interested in F and G's because they are people who want to go into the market, buy a business or expand a business, and they want a negotiable security. They don't want a sixty-day waiting period, and they don't want to run the risk of being thought unpatriotic in turning in their bonds while the war is still in progress, or when there is a difficult time immediately after the war. That is why I think it is desirable to get some sort of a note, certificate, whatever else you want to call it, of two or three years maturity, which would attract that money.

MR. HARRISON: There is another thing they decided, at least that they were asked to do, and that is that each bank, commercial bank and savings bank, which I objected to, approach in one way or another, either through a little circular in the monthly statement to depositors about F and G Bonds, or by a direct appeal to their depositors to subscribe to F and G Bonds - they made particular reference to the presidents of savings deposits into Savings Bonds.

I said that was wrong, and practically everybody in the room thought it was wrong.

H.M.JR: Are you chairman of the finance committee under our New York State War Bonds?

MR. HARRISON: Yes, I have been working so smoothly you didn't even know it. I will send you a report about

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our committee. We have done a pretty good job up there.

H.M.JR: You are behind on your quota.

MR. HARRISON: They gave us an impossible quota of twenty percent of the nation for New York City.

H.M.JR: You fellows are always boasting it is the center of the wealth of the world. (Laughter)

MR. HARRISON: Twenty percent of the nation for New York City, the one place that only has two hundred and fifty thousand war workers out of seven million population. You won't give us any more contracts - no consideration at all.

H.M.JR: All right, Fiorello. (Laughter) This has got nothing to do with war contracts. I am not talking about pay-roll deduction now. I am talking about hoarded wealth.

MR. HARRISON: The quota you were talking about was the E Bonds.

H.M.JR: That was based on the previous twelve months' experience.

MR. BURGESS: We got such a good start - our previous record was so good, and the next record was based on that.

MR. BELL: I don't know how these gentlemen are fixed for staying over. I asked them to come prepared, but I know some of them have appointments tomorrow. B.M. has an appointment.

MR. EDWARDS: I am going to have to go back. I have to go to Charlotte in order to have a quorum of the Federal Reserve Board tomorrow, and there is a Victory Fund Committee meeting tomorrow and I am a member of that; but my being away won't make much difference. On your F and G Bonds, Mr. Secretary, of course down our way we don't have a great deal of money, but we are

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running into some trouble selling the F and G Bonds to corporations on account of section 102 of the Revenue Act, withholding. I have been arguing with the boys over at the Internal Revenue Department.

H.M.JR: Where would that come in? That is withholding of dividends?

MR. EDWARDS: They are afraid - a good many people are afraid that when the Internal Revenue agent checks them, the fact that he put money in F and G Bonds is evidence of the fact that he is withholding money.

MR. BELL: Putting the surplus in--

H.M.JR: That is for a corporation?

MR. EDWARDS: Yes, sir. I have been trying to get the boys over at the Internal Revenue - I have talked to them over there - to at least go far enough to say that a corporation could invest a part of its depreciation reserve in F and G Bonds. That certainly would seem to me would not be--

H.M.JR: Will you (reporter) make a special note for Mr. Sullivan on that, and Commissioner Helvering. I want an answer tomorrow morning on that.

MR. BURGESS: Would it be in order, Henry, to have these people see the suggestion made by the New York group on bond issues, and so on?

H.M.JR: What is that?

MR. BURGESS: That is that memorandum that Mr. Potter sent you with respect to future Government financing programs.

H.M.JR: Sure.

Can you stay over for tomorrow?

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MR. HARRISON: I will be glad to.

MR. BROWN: Yes.

MR. BURGESS: Yes.

MR. SMITH: Yes.

MR. PARKINSON: Yes.

MR. EDWARDS: I will stay if you say so but that is my situation.

H.M.JR: Well, it is still a free country.

MR. HARRISON: Of course we work pretty fast.

H.M.JR: Well, now, you gentlemen had better count on giving me a minimum of two days a month.

MR. HARRISON: I am ready to stay.

H.M.JR: I will let you know just as far in advance as I can, but we can't settle it. We are in complete disagreement right now.

MR. SMITH: This is pretty important, this matter of these committees. We can see that from the distance.

H.M.JR: Which committees?

MR. SMITH: The organization of this --

MR. HARRISON: F and G.

H.M.JR: I want you to have another look at the thing. It isn't settled, but, after all, the answer is - I am a sales manager and the answer is, am I making any sales. I am not making enough. So until I am making enough, something has got to be changed. It is no different than any

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private business. The answer is how much new business do you take in in insurance, isn't that right? That is what your directors want to know, not how much money you made in Government bonds?

I didn't get a smile on that out of Parkinson.

MR. SMITH: I don't think the setup is sound.

H.M.JR: It may or may not be but I think - here you are, coming in on an entirely different level, have these boys in and have them in on the carpet, have them talk, and let's see - my own theory may be entirely wrong, but I think what is going to have to happen is that a president of a bank is going to have to sit down with each customer and say, "Look here, Bill, you and I know how much money you have got. It is here. It has been here for two years. You haven't done anything with it. Are you going to wait until the Government takes it, or are you going to come across cheerfully and let them have fifty thousand?"

MR. SMITH: That is the way the F and G's have been sold in our territory, by the banks selling them.

H.M.JR: That is what I have been saying right along. Again, that is a swivel-chair opinion.

MR. SMITH: That is correct in our district.

H.M.JR: When it gets down to it, I don't see how else you are going to do it unless a bank president - you heard me say that, didn't you?

MR. EDWARDS: Yes, sir.

H.M.JR: And the fellow will just have to sit down. The bank president will say, if necessary, "I have got a letter from Mr. Morgenthau asking me to do this. I am doing this thing as his agent. He has asked me to sit down with each one of my customers that can afford it and go over it. The Government needs this money. Now,

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Bill, you and I know, now why not come across? This isn't giving them anything. It is a reasonable rate, two and a half percent. What the hell are you holding back for?" I don't think a security salesman can talk to a man like that. Am I wrong, Parkinson?

MR. PARKINSON: No, I think that is the big job. That is the reason I threw out the thought that we would be giving more attention to getting these maturities off to a later date. I think that is a big sales job, and I don't think there is any limit to what you ought to do to make people of that kind, individuals or corporations, participate in the buying of these bonds.

H.M.JR: But that is why I am talking so much about the F and G; but just getting out a two-year thing on the theory that maybe these fellows are going to buy, and then just have them go to the banks anyway, is the thing that is bothering me. I may be wrong.

MR. BURGESS: You are absolutely right.

H.M.JR: I think they go right into the banks anyway.

MR. HARRISON: My corporation has bought its limit, I would like to report, in G Bonds.

MR. PARKINSON: And would like to have the limit lifted.

H.M.JR: That is fine, on the first of July.

MR. PARKINSON: And I mean again after that.

H.M.JR: Well, we gave you a pretty good issue, the two and a half, pretty good.

MR. PARKINSON: Yes.

H.M.JR: And we are doing - I am not trying to make -

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I am not trying to split hairs here on interest rates. I never have. I mean, I can't give you fellows three percent.

MR. PARKINSON: I think what we have in mind, Mr. Secretary, in emphasizing the desirability of knowing that more will be available to us is that in administering our responsibility in dealing with our trustees we don't like to pile up too much cash and let current opportunities in private investment go by with a mere expectation or hope that some time in the future you will give us another opportunity that is suitable to our needs.

H.M.JR: I may say something about that, of the four and a half billion, either through July and August longer issues will again be offered to the market, something like that.

MR. PARKINSON: That is all right; that would meet my purpose exactly.

MR. HARRISON: Longer issues?

H.M.JR: Longer issues. I don't want to call it a bond, but issues of longer maturity will be offered.

MR. HARRISON: That is all right.

H.M.JR: Issues of longer maturity.

MR. PARKINSON: It wouldn't have to come before this is sue, as far as I am concerned. It could come immediately after without disturbing this issue at all.

MR. HARRISON: I differ with that because you and I know, but the other fellow won't know whether he is going to get longer issues by the time this is sue is closed and he will wonder whether he has to subscribe to a two-year note or whether he will have to subscribe to a certificate.

MR. PARKINSON: But if it is a short-term issue at

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this time, as the Secretary said a moment ago, it can always be sold at par.

MR. HARRISON: Mr. Secretary, you mentioned something about the legislative provisions a moment ago. The last time we were here we raised the question of whether there was any possibility of having elimination of the FDIC tax on Government deposits.

H.M.JR: Yes.

MR. HARRISON: Also, there was a question raised that I think you were interested in about the possibility even of removing reserve requirement against Government deposits which are a hundred percent secured.

H.M.JR: I am for both of those things.

MR. HARRISON: So am I.

H.M.JR: But they didn't want them put into this bill. They wanted them in in a separate bill. Am I correct when I said I was for both of those?

MR. BELL: That is right, and I think the Fed now is going to come around to the point where they are against changing the reserve requirements for Government deposits and the FDIC is against taking off the assessment on Government bonds so we have the two of them against both provisions.

H.M.JR: I am for both of those things that you have mentioned.

MR. HARRISON: Frankly, I think you are the only one that will be able to get either across, because you haven't got the resistance in one case with Crowley and the other case with the Reserve Board.

H.M.JR: I didn't know about Crowley, but Eccles said, "Let me handle it." You check me, Dan. "If I clutter up this bill with that we won't get the other thing."

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MR. BELL: That is right. He wanted this bill to go first and get it in a hurry and then we would study the other. The omnibus bill would take all of those provisions.

H.M.JR: We will talk about it while you are here. What I thought was this, if you gentlemen could come back at three o'clock that will give you a chance to think the thing over, then I have got another hour then. We can talk some more.

MR. EDWARDS: You want us to talk to the F and G Board before three?

H.M.JR: That is up to you.

MR. SMITH: I think we should.

H.M.JR: Bell will arrange it. That is up to you.

MR. BELL: If you have time, we might spend the next half an hour or forty-five minutes with them.

H.M.JR: All right, gentlemen.

June 15, 1942
12:18 p.m.

Ted
Gamble: Yes, sir.

HMJr: How are you?

G: Fine, thank you, sir.

HMJr: Ted, coming down on the plane, I think I had my first good idea in a week.

G: Swell.

HMJr: And I'd like to pass it along to you, and I got it after reading in the New York Times - evidently the National Manufacturers' Association has got out a report.

G: Yes, I read Witherow's report.

HMJr: Have you read the original?

G: No, I have not. I presume it was sent to you.

HMJr: Well, they have an office here in Washington. You might get a copy.

G: Yes. Mr. Roscoe. I know.

HMJr: Now, this was the thought that I had, that we, the Treasury, rapidly - underline - call regional meetings - let's take New England, for instance, the five New England States, let's say in Hartford or Springfield, and invite the various companies and unions - underline - labor representatives.....

G: Yes.

HMJr:to have a two-day meeting where we will show the best plans which the unions and management have put into effect on payroll allotment plans.

G: Yes.

HMJr: Also inviting other companies who have done an outstanding job on it to send in special exhibits.

G: Yes.

- 2 -

HMJr: You see?

G: Yes.

HMJr: And then let's say we do that for two days with talks, and invite the companies with the help of, say, the National Association of Manufacturers and the unions, you see.....

G: Yes.

HMJr:and our own people, to come in, and we have a two-day or three-day what we used to call in college, a "short course". I don't know what you call it.

G: Yes.

HMJr: Or seminar.....

G: Seminar.

HMJr:for the more high-brow.

G: Yeah, that's right.

HMJr: I went to Agricultural College. We called it a "short course".

G: That's right.

HMJr: But a seminar, two or three days.....

G: Yes.

HMJr:to show the people what the more successful people have done on the payroll deduction plan.

G: Yes, sir.

HMJr: Doing it by regions. Then the next region would be, say, the Middle Atlantic, New York, Pennsylvania, and New Jersey.

G: Yes.

HMJr: And have one there.

- 3 -

G: Yes.

HMJr: And then in the Middle Atlantic States, but do this very rapidly all over the country.....

G: Yes.

HMJr:to give these people the advantages of those who made it a success.....

G: Yes.

HMJr:and having a strong representation from labor as well as management.

G: Yes.

HMJr: And just do that as rapidly as we can all over the country.

G: I think it's a splendid idea.

HMJr: What do you think?

G: I like it very much.

HMJr: Because we're going to sink or swim on payroll deduction.

G: There isn't any question about it, sir.

HMJr: See?

G: Yes.

HMJr: And, if you like it, if you like the idea, can I - can you handle it?

G: Oh, yes. Yes, with ease. What we would - I think the thing to do is to bring the union people and the Association of Manufacturers, as you suggested, the Chamber of Commerce people, and this Trade Council people all together nationally, and form this right away.

HMJr: Well, that committee which I had.....

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G: That's right. We have formed that committee. This is the first job for them.

HMJr: It's the first job, the Railroad Brotherhoods.

G: Right.

HMJr: But now you take, for instance, that trouble we're having with General Motors.....

G: Yes.

HMJr:that labor says they can't get in.

G: Yes.

HMJr: Well, I'd give sixty per cent of the speaking time to labor.

G: Right.

HMJr: And - at these meetings, you see.

G: Yes.

HMJr: And you'd bring Houghteling in so that he'll put up a good scrap for labor.

G: Right.

HMJr: At the beginning.

G: Right.

HMJr: And then you take - for instance, we had one in Detroit. Well, all right, Mr. - the man who represents the Automobile Union.

G: Reuther?

HMJr: Walter Reuther would have a chance to address the meeting.

G: Yes.

HMJr: And that will satisfy him, you see.

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G: Yes.

HMJr: Mr. Thomas.

G: Yes.

HMJr: Now, I don't know - has the Ford Company got going yet or not, you see.

G: Yes.

HMJr: It's a chance to tell them about our fiscal agency business.

G: Yes.

HMJr: A chance for them to say, "Well, Mr. Morgenthau, we can't - this Federal Reserve Bank helps us; this one doesn't."

G: Yes.

HMJr: And I think personally that it would help.....

G: Yes.

HMJr:the payroll deduction thing.

G: Yes. Well, I just have one thing to add to it, and I think that we should concentrate in these ten big states on it, to do it nationally. It's just a task that may make the job run too long.

HMJr: No, no. Now let me tell you why.

G: Yeah.

HMJr: I'll go along with you - you can do it in your ten big states first.

G: Yes.

HMJr: But North Carolina, with Chairman Doughton, is worth three other states for votes.

G: That's right.

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HMJr: And Mr. Walter George, Chairman of my Finance Committee.....

G: Yes.

HMJr:from Georgia.....

G: Yes.

HMJr:which may not have many, is very important to be sold.

G: Yes.

HMJr: And you'll get the publicity in the local papers which Walter George reads.

G: Yes.

HMJr: And it's ten times as important for Walter George to read it in the Atlanta Journal as it is for him to read it in the Washington Post.

G: Right. I agree.

HMJr: And he'll read it in the local papers.

G: I agree.

HMJr: And for Speaker Rayburn to read that it's been going on in Texas and they like it in Dallas, well, he's impressed.

G: Yes.

HMJr: And I had that in mind.

G: Yes.

HMJr: So I'll make this concession: do it in your ten states first, but I do want it in the forty-eight.

G: Well, when you say forty-eight, you don't really care if, for example, in the State of Nevada, that we brought Nevada into the California meeting in the regional situation. That would be all right with you. You.....

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HMJr: Oh, yes. I wouldn't hold it for one state.

G: No.

HMJr: I wouldn't have more than twelve meetings at the most.

G: That's right, that's right.

HMJr: And you most likely can get it down to ten.

G: Yes.

HMJr: But my thought is that you ought to be able to run two a week.

G: Yes.

HMJr: Hello.

G: Yes.

HMJr: You ought to be able to run two a week.

G: Yes. Well, I think we can do it even faster than that; once we have all of our material ready to go, we can do it faster than that.

HMJr: And then I want to bring in the Advertising Council.

G: Yes.

HMJr: See?

G: Yes.

HMJr: They ought to go right along - McClintock.

G: Right. Right.

HMJr: And - on that thing, you see.

G: Well, this is a big undertaking. I'm all for it. I think it's grand, but I just want to tell you it's.....

HMJr: Oh, I know it's a big undertaking. But it's a big country.

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G: I understand, sir.

HMJr: But you were saying you were.....

G: No, I just meant for time. I didn't want you to think that we would have this ready to go in a couple of days, because we won't. It's a bigger job than that.

HMJr: No, but you ought to be able to.....

G: We'll be ready to start today on it.

HMJr: To start, and have your first one, I'd say, immediately after the Fourth of July.

G: Well, we can easily do them all in July, sir. That's no problem. We can do them all in July.

HMJr: Well, that'll satisfy me.

G: Well, that's all right.

HMJr: But - and then you - say you get your - McClintock, and your Advertising Council.....

G: Yes.

HMJr:and all the correlated.....

G: Well, this is good. I'll tell you why - there's another thing that you maybe haven't thought of. We haven't had our people together either, and it's good for us to bring our people together, as well - I'm talking about our workers - as well as the.....

HMJr: Well, now, you take these three hundred A. F. of L. fellows.....

G: Yes.

HMJr:who are out. They'd all come to the regional meeting.

G: Right.

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HMJr: And - you see, I did this in - something like this - in Farm Credit.

G: Yes.

HMJr: And I know how helpful it is, and I know what it means to get your local publicity; and you may want to invite some of the Senators and Congressmen to come into this meeting.

G: That's right.

HMJr: You see?

G: Just like we're doing with these flyers. I mean, we've gotten people interested, we've gotten Mayor Tobin all wrapped up in the clouds because this is something that happened in his back yard.

HMJr: Sure. Well, Mayor Tobin comes down, he doesn't see the President, but he tells it to Marvin McIntyre.

G: Yes.

HMJr: Well, Marvin McIntyre - it sells him.

G: That's right.

H: So it's more - it's - well, I don't have to - are you sold?

G: A hundred per cent. You don't have to say another word.

HMJr: I'll stop talking.

G: All right, sir. (Laughs)

HMJr: All right.

G: Okay.

June 15, 1942
2:42 p.m.

HMJr: Hello.

Operator: Miss Daugherty.

HMJr: Hello.

Miss Daugherty: Hello.

HMJr: This is Mr. Morgenthau speaking.

D: Yes, Mr. Morgenthau.

HMJr: Your boss called me up Friday.....

D: Uh huh.

HMJr:and I was out.....

D: Uh huh.

HMJr:of town, and if you know where he is, I'm in town, if you'll tell him that.

D: Uh huh. Well, I'll tell you, Mr. Secretary, he's on his way to Washington and he's driving.

HMJr: Oh.

D: And he won't be here until about, oh, nine or ten o'clock tonight.

HMJr: Well, I'll be here tomorrow.

D: You will be here tomorrow?

HMJr: Yes.

D: All right. I'll have him call you tomorrow morning.

HMJr: He said he's worried about some radio talk or something.

D: Oh, I see. Well, he's been in Pittsburgh for the

- 2 -

last week and a half, and I don't know just what it was.

HMJr: Well, you tell him tomorrow, then.

D: I certainly will.

HMJr: Thank you.

D: Good-bye.

June 15, 1942
3:10 p.m.

FINANCING

Present: Mr. Bell
Mr. Brown
Mr. Smith
Mr. Burgess
Mr. Harrison
Mr. Edwards
Mr. Haas
Mr. Parkinson
Mr. Baker
Mr. Murphy

H.M.JR: All right, gentlemen, you look as though you had swallowed a mouse.

MR. HARRISON: It was a lion.

MR. BROWN: Mr. Harrison has made some notes. I suggest he talk. He is always voluble.

H.M.JR: I have heard him talk, but never from notes. It sounds serious. I never heard him run out. (Laughter)

MR. HARRISON: I don't know that I like this preface at all. (Laughter) Well, after we left the office here we met around in Mr. Sullivan's room, and in spite of my volubility, I didn't have a chance to talk for an hour and a half. But we had a good deal of discussion on the whole question of the F and G Bonds, which I won't report on now, but rather to the matters which you put up to us first.

H.M.JR: May I interrupt? Did you announce there would be a financing? Did you get my message?

MR. BELL: It was announced that the offering would be announced Thursday morning, and would be a billion and

- 2 -

a half. I gave them that at one-thirty.

MR. HARRISON: We didn't get through there until very nearly two o'clock, and then we rushed across to the Washington, and while there we discussed further the question of financing. While we had great respect for the view you expressed about the possibility of putting all of your billion and a half out in certificates, and while we saw the reasons that prompted you not to want to put out a small issue at this time with all the financing you have got ahead, I think that most of us - in fact, I think it is unanimous - felt that as of the present writing, because we haven't heard your arguments followed through, we would prefer, and think it would be wiser from the point of view of the Treasury and the market, if you had an optional issue of certificates, maybe February or May, and a two-year note.

If for any reason you were not willing to put out the note or felt that you did not want to put out one unless it were three or four years, we thought that the issue of certificates would be better than an optional note more than two years.

H.M.JR: Now, wait a minute. I didn't get the latter, George.

MR. HARRISON: We thought that our preference would be for the certificates, either February or May, and a two-year note, the two-year note, one percent, I think, and with the understanding that it would not carry any rights, neither the certificates.

H.M.JR: I am a little dull. Are you recommending a certificate and a note?

MR. HARRISON: No, the two, the certificate and the note. That is our preference.

MR. BELL: A million-dollar certificate and a half-a-billion-dollar note.

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MR. HARRISON: Or divide up as you please, possibly that and possibly half and half. We thought the note ought not to have any rights; it is too short. We think it would not be wise nor would it accomplish what we had in mind, if you felt that the note ought to go beyond two years - in other words, we would prefer you to put out all certificates than to put out a longer note than the two years.

I will check to see that I haven't missed anything on that. The preference on the certificate was for the May issue rather than February, with a higher coupon than the February. Now, the question is whether May would warrant three-quarters of one percent or not. June could probably stand three-quarters of one percent, but that is a very crowded month for you. If February, it looks as though it ought to be five-eighths.

The next question was whether if there is an issue to which banks can subscribe you should eliminate all restrictions as to subscriptions. We recommended against that last time, but feel that as long as you did it last time you should continue at this time.

MR. BELL: No restrictions on the subscription?

MR. HARRISON: Yes, that if a certificate of indebtedness is issued should you eliminate the ten-percent cash requirement, and we felt you should.

MR. BELL: Should?

MR. HARRISON: Yes.

H.M.JR: Will you note those things, Dan, because for the moment they don't particularly interest me.

MR. HARRISON: On July and August financing - these are just questions Mr. Bell asked us. That is the reason I am giving these.

H.M.JR: Would you mind stopping right there, George?

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Let's just do one thing at a time. I mean, once it is settled, then this other stuff--

MR. HARRISON: ... just falls right in line.

H.M.JR: ... falls in line.

(The Secretary held a telephone conversation with Mr. Rouse, as follows:)

June 15, 1942
3:18 p.m.

HMJr: Hello.

Operator: Mr. Rouse. Go ahead.

HMJr: Bob.

Robert Rouse: Good afternoon.

HMJr: How are you?

R: I'm fine.

HMJr: I want to tell you you're on the loudspeaker and I have a group of some of my advisers here in the room.

R: Uh huh.

HMJr: Hello.

R: Yes, sir.

HMJr: Just so that you know.

R: All right.

HMJr: Now, would you tell me, knowing that we have to borrow a billion and a half, I suppose it's on the ticker, you knew it anyway.

R: Right.

HMJr: From what you've been talking, first, if you'd give me what the Street thinks, and then second what you think, huh?

R: Well, we're all very much of one mind, as far as this piece of financing is concerned.

HMJr: Yeah.

R: The dealers, and to a considerable extent, the banks are in favor of a certificate issue now.

HMJr: Yeah.

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R: And the general opinion, I would say, was for a five eighths coupon, which clearly would have to be a little longer than the six and a half months that was done before.

HMJr: Yeah.

R: And the suggestion, generally, is for February 1. It probably could be - go to February 15 just as well.

HMJr: Yeah.

R: It doesn't make a great deal of difference.

HMJr: Yeah.

R: It presumably would sell at a slight premium of a thirty-second or a little above as far as the chart end of it goes, but it would be accepted, I believe, and quite happily.

HMJr: Uh huh.

R: And I feel about the same way.

HMJr: You feel about the same way. Well, Bob.....

R: I don't think it constitutes any problem. It's - a billion and a half is a great deal of money, but I think we - in the response we're seeing on the Treasury Bills and in the bidding for them, which is not prompted to any extent, there's a whole willingness to go ahead with this short-term picture and the advantages are beginning to be more fully appreciated than they were a month or six weeks ago.

HMJr: Well, some of these gentlemen have been recommending a billion dollars of certificates, and five hundred million two-year notes.

R: I see.

HMJr: What do you think of that?

R: Well, I don't know quite who would buy the two-year note. When you get to the two year difficulty -

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you get two years, and in the note class, you run into the same difficulty of pricing that we've had to face two or three times.

HMJr: Yeah.

R: And we faced it partially in connection with the '46 note a short time ago in the refunding, and I have some doubts about it, frankly.

HMJr: You have.

R: I don't - in the first place, I don't like a five hundred million dollar issue.

HMJr: Yeah.

R: I think we've gotten past that point.

HMJr: Yeah.

R: And when you get out to do the larger issue that would be necessary, I don't think we're ready to in the two-year area.

HMJr: I see.

R: I'd advise against it at this time.

HMJr: Yeah.

R: I think there is some demand for short-term notes on the part of corporations.

HMJr: Yeah.

R: It reflects two things; first, for at actual maturity, it's something a little better yield, longer than the certificates.....

HMJr: Yeah.

R:either the certificates or bills get; and, secondly, a pressure so that cash holdings won't be pointed to them. They're getting a better yield on their tax-exempt notes that are

- 4 -

available in the market than they probably would get on the taxable note, and the whole support in that area of the note market - I say the whole support, a substantial amount of it - is coming from the corporations. Some of our larger banks are selling the '44 and '45 notes, and there's been a fairly substantial supply available.

HMJr: Yeah.

R: And I think I'd rather, if I were making the choice myself, I'd prefer to avoid the notes for the time being and build up this short market, which I think is more important to Treasury operation in the first instance.

HMJr: Are you coming down tomorrow?

R: Yes, I'm planning to.

HMJr: Well, now, in view of this difference of opinion, I tell you what I think you better do. I haven't seen these Government Bond dealers in some time, see.

R: Right.

HMJr: I think you'd better line them up, and you can talk it over with Bell, but the usual four or five houses that come down.....

R: Uh huh.

HMJr:for Wednesday morning.

R: Good.

HMJr: Starting at nine and - (talks aside) What, Bell, give them each a half an hour? Twenty minutes?

Bell doesn't want to run it too late. Start at nine and give them each twenty minutes. I can do three an hour.

R: Fine.

HMJr: So in two hours I could do six.

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R: Yeah. Would you like me to stay over?

HMJr: Well, we could decide that tomorrow, but bring a toothbrush with you.

R: All right, good.

HMJr: But I think I'd bring down the usual people, and I think you'd better put them on notice and see.....

R: Well, I'll discuss it with Dan after your meeting there.

HMJr: And there seems to be a difference of opinion, but I think we'd better do it Wednesday, and I can take care of six in two hours.

R: Good. All right, sir. That's fine.

HMJr: And you talk it over with Dan, but I don't - there's no use having - I think I'd keep it to the - my own feeling - let me ask Dan - I'd keep it to the dealers.

I think it would be the dealers this time.

R: Good.

HMJr: What?

R: All right. That's fine.

HMJr: But I'll let Dan talk it over, but I could do six in two hours. That ought to be enough.

R: Yeah.

HMJr: Don't you think so?

R: Yeah, I think four, probably.

HMJr: What?

R: I think four would be plenty.

HMJr: Well.....

- 6 -

R: If you want to cut it down.
HMJr: I'll be willing to do six.
R: All right, good.
HMJr: All right. How are you?
R: I'm fine. I hope you are.
HMJr: I'm all right.
R: Well, I'll see you tomorrow, then.
HMJr: That's good.
R: Thank you.
HMJr: Thank you.

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H.M.JR: Well, I haven't talked to the man - you know who he is? How would you describe him?

MR. HARRISON: He is vice president in charge of the open-market operations at the New York Bank.

H.M.JR: Yes. Now, I haven't talked to him.

MR. HARRISON: That is a very good statement he made, very good, clear statement.

H.M.JR: But it was in complete disagreement with you gentlemen.

MR. HARRISON: We haven't reached any final conclusions. You said we can mull this thing over. As a matter of fact, our talk was very unsatisfactory because we had to do it at lunch, having taken all the rest of this time on the F and G Bonds.

H.M.JR: I would say a dollar seventy lunch is kind of a heavy price, isn't it?

MR. HARRISON: You haven't got a price ceiling on here in Washington.

H.M.JR: Did that include a ten-cent tip? (Laughter)

MR. SMITH: It included a twenty-five cent tip.

MR. BURGESS: Henry, I thought he in some ways suggested, just as we did, that a little higher rate than a certificate, on a short-term note, would attract some corporations. That is what we were saying, would attract some other buyers than banks. That, I think, is our point, that you get a little wider distribution.

H.M.JR: I don't think you can, Randolph, into that statement--

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MR. BELL: He said there was some money, but he didn't know whether it would be enough to take up that.

MR. BURGESS: He had two arguments against it. One was that it was too small an issue, and I don't understand that. That doesn't make any particular sense to me. You have got already four hundred million; add another five hundred, and I don't think it does any harm.

The other is the difficulty of pricing. That is not a very difficult problem.

MR. HARRISON: I was surprised to hear him raise the question as to how much corporate money there was when they have been all advocating a five-year redeemable issue for the corporations.

MR. BELL: Well, in all fairness to Bob, he hasn't been sold.

MR. BURGESS: No, I don't think he has.

MR. SMITH: He is thinking along the same lines we are, except when he gets to that corporate money. That is what we are thinking about. But we are not very far apart.

H.M.JR: Well, in view of that statement, why don't you have another think? You may not change, and if you don't - that is what makes horse races. At least I hadn't thought of seeing these Government bond dealers; I didn't think it was necessary, but as long as there seems to be a difference, I will see them. I have got until noon, haven't I, on Wednesday?

MR. BELL: Yes, that is crowding us a little.

H.M.JR: You are used to that. If you had time enough, you would go to sleep.

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MR. BELL: I would like to.

H.M.JR: So would I.

MR. HARRISON: As a matter of fact, I rather differ with the reactions here that he was thinking along the same lines we were. In fact, I would have thought he was diametrically opposed to us. I didn't find much solace in that for our point of view at all.

MR. BURGESS: On the one point about corporate money--

H.M.JR: He said it might be there.

MR. BURGESS: That is all we are suggesting, in a small amount.

MR. HARRISON: Ned Brown raised a better point than that this morning which was that not only might it tap some corporate money, but there are a number of banks outside the main centers who are more interested in the rate and are willing to go for the two years to get a little higher rate than they would for a short certificate at a low rate in which they might not be interested at all. I also think that there is something to be said if you are going - it depends on what you are going to do about bills, if you are going to increase your bill issues in not putting out in one jump too much of another short issue for the short money market in the form of a certificate, so it is all part of the program. You have got to integrate it.

H.M.JR: Well, that is the point, George, I mean, for better or worse they have got me kind of sold on this program of around three hundred to three hundred fifty million dollars worth of bills, and then about a billion and a half of these certificates every three months in order to give this thing with this big volume coming - I mean, to start with your base so that the banks will have liquidities of the shift rapidly as between banks to pick up this thing, and certainly - I mean, I sort of kept away from it for a long time, but

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the way the certificates have been acting - they tell me that they deal in them just like they do bills, and it has been very helpful.

Now, you men know whether that is so or not, but that is what they tell me.

MR. SMITH: That is correct.

H.M.JR: Then, if I have this three hundred or three hundred fifty million dollars' worth of bills for a week, and then three billion dollars' worth of certificates out, it gives this thing a liquidity as a basis, foundation, to build this very big thing on, so that people, again telling you what they say, say that if you bankers are short of money, you won't sell your governments, you have got something else to sell. I mean, you are pressed for money or your reserves run down in New York and you need a hundred million or two hundred million dollars, and you have got something to sell, and you can move.

Now, I have listened to this thing for months, and I reluctantly gave in. But I may still be wrong, but that was - at least, I want you to know what the thought behind it is.

MR. HARRISON: I was all for your giving in, and I think you did the right thing, but that doesn't mean you have to run overboard into liquidity, and, queerly, at the present time you are issuing bills at the rate of three hundred million a week, which is a hundred fifty million still of new money every week, and it is different than replacing existing bills. You haven't gotten to the point where you are replacing them. It is a hundred fifty million a week of new money.

H.M.JR: That thing--

MR. HARRISON: I am not objecting, but I think it is.

H.M.JR: That thing that the Fed would keep the thing at three-eighths - I must say that that has worked

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extremely well. I mean, we started - what was the date we started, George?

MR. HAAS: March 19.

H.M.JR: Nineteen.

MR. HARRISON: You didn't start three hundred million then.

H.M.JR: No, but they said they would keep the longest bonds and the shortest money at a position comparable to what it was on the nineteenth, and they have come pretty close to doing it. The red line is the nineteenth, George? (Examining chart)

MR. HAAS: Yes, sir, the short stuff, the short end of the market, is up, the yields are up, and the opposite on the long end.

H.M.JR: Have you seen this chart?

MR. HARRISON: No, I have not.

H.M.JR: We have been running this chart since the nineteenth. Explain it, George - and we keep it, what, every week?

MR. HAAS: Yes. The red curve--

H.M.JR: I made a deal with the Federal, you see.

MR. HAAS: That is the yield curve as of the nineteenth, and this black curve superimposed is the situation as of June 11. Here the yields have come down somewhat. You get the taxable one; those are the tax exempt. The yield has come down somewhat on the long end, and there has been an increase in yields on the short end. That is what has taken place. In other words, there has been improvement in the market here and a reverse over there. In other words, the short ones have come up some, but there is a definite peg on the bills at three-eighths here, you see, but between

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three-eighths and this end of the market.

H.M.JR: You mustn't use "peg;" it reaches its natural level. (Laughter)

MR. HAAS: I wouldn't say it, except that one spot, Mr. Secretary.

H.M.JR: Well, why don't you gentlemen think about it some more? There is an honest difference of opinion here. I don't know, but certainly as between Mr. Rouse, representing the Federal Reserve of New York, and you gentlemen, I think there is a definite difference of opinion. I can't see Burgess' thing. Think about it.

MR. BURGESS: What did you call it, my "thing"?

H.M.JR: I said I can't see how you interpret what Ralph said as in any way being favorable to what you said.

MR. BURGESS: He said he thought there was some corporation buying.

H.M.JR: Yes, but he didn't say they would go after it.

MR. HARRISON: The thing that disturbed me more than anything else was the fact that the banks are selling the '44 note.

MR. SMITH: That was the thing, '45.

MR. HARRISON: '45 and '44 both.

MR. BURGESS: They are selling the tax exempts, which are going into the hands of the people with whom the tightened exemptions are more valuable. That is what is happening.

MR. BROWN: The corporations will get exemptions from excess profits tax.

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MR. BURGESS: That is, the tax exempts have got to a point where they are now pretty rich for a bank to hold. I don't think that affects our position here at all.

H.M.JR: Who is buying them?

MR. BURGESS: Corporations or individuals. You see, those completely tax-exempt notes, even at a very low yield, are as good a yield as individuals can get in other ways.

H.M.JR: Could I leave this where it is, with the thought that you people think some more about it? I am not going to fuss right now about that ten percent or anything else that goes with it right now, but are you ready to say anything about F and G's, or didn't you have time? Was that before lunch or after?

MR. HARRISON: That was before lunch.

H.M.JR: You ought to have been pretty good before lunch. Got any ideas on F and G's?

MR. HARRISON: I will let somebody else report on that. I got a little irritated, I am afraid.

H.M.JR: Did you, with whom? Not with me, did you?

MR. HARRISON: No, no, never.

MR. EDWARDS: Mr. Secretary, as you know, I worked with you on this Defense Savings Staff since its beginning, and my position in the matter is the same now as it was the last time I talked to you. I think that there has to be somebody in charge and there has to be a leading team. I just think if you do anything that is going to materially affect or upset your present Defense Savings Staff, your War Savings organization, that it is going to have a bad effect generally and take a lot of enthusiasm out of the present voluntary workers, who number tens and tens of thousands.

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While I agree that there should be more done towards selling F and G Bonds, I think that gone as far as it has, you ought to build that organization around your War Savings Staff.

MR. SMITH: Henry, the War Savings Staff is in charge of the sale of F and G Bonds now, and have been all the time?

H.M.JR: That is right.

MR. SMITH: And they tell us that--

H.M.JR: Did you see them this morning?

MR. SMITH: Yes, we talked with them until two o'clock.

H.M.JR: Was Gamble there?

MR. SMITH: Yes, Gamble and Buffington, and Dr. Odegard, and they tell us that - Mr. Gamble tells us that they haven't been organized for the handling of F and G's. Check me if I make any mistakes in this - that they are now organizing, and that they propose to build an organization of the character that will handle F and G Bonds, and we didn't - there was very evident disagreement between the two committees.

H.M.JR: Which two?

MR. SMITH: Between Gamble and Buffington. We didn't get into that at all, because what we were trying to get at was, is work being done, and who is doing it?

H.M.JR: That is right, are they making sales.

MR. SMITH: "No, it is being done," was their answer, but they are organizing now to do it. Then we discussed - Mr. Brown brought up the point that the sale of F and G Bonds required special personnel and recommended that they make - whoever had charge of it make use of that

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personnel. Mr. Gamble showed us a memorandum - I don't know how many saw that memorandum, in which they were asking for an organization in each county throughout the country to handle F and G solicitations, but the fact is that there isn't any organization handling F and G now. They are just beginning to get under way. We think that if they are going to get anywhere, they had better hurry up. That is putting it very - and I think they agreed with us, wouldn't you say, Randolph?

H.M.JR: I crossed the bridge last week. We had three very difficult days, and I crowed the bridge for the time being, said I would leave the responsibility for the F and G's with the State administrator of the War Savings Bond, and I don't want to upset that now. For better or worse I made that decision last week, which was very difficult.

MR. SMITH: They say they are organizing to handle them, but they haven't the organization built up as of today.

MR. BROWN: I would go further than that. I think from Gamble's and Odegard's description of this organization that neither in structure or personnel has it got any chances as presently set up to get the assistance of the investment bankers and the private banks of the country. I mean, there will have to be a very drastic reorganization within the War Defense Bonds if you are going to get the wholehearted, consistent support and work from the groups who are able to sell the bonds. That is no criticism of the present War Defense organization which was built for the purpose, primarily, of selling E Bonds--

H.M.JR: That is right.

MR. BROWN: ... which is made up of cross sections of insurance men, particularly industrial insurance men, labor leaders, public speakers--

H.M.JR: Movie actresses.

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MR. BROWN: They never know the problems of the investment or commercial banker or selling bonds, nor have they any personal acquaintance with them. They have organized by counties, the State administrators, and they put their State administrator in Missouri, for instance, in Jefferson City, whereas the actual selling of bonds is done from St. Louis and is done by an entirely different group of people, whom they don't know, who don't know them, and neither side has any acquaintance or particular confidence in the other. You have got a very bad situation, and unless there is a very drastic revamping of the War Defense organization, in my opinion--

MR. SMITH: They haven't the organization built up to handle the F and G Bonds - it is not revamping.

MR. BROWN: They will have to make changes in State personnel if they are going to handle it, and they will have to make changes in district organizations if they get anywhere, in my opinion.

H.M.JR: They report that in Illinois they are off to a good start. Is that true?

MR. BROWN: I don't think so.

H.M.JR: Do you know who is handling it there for you?

MR. BROWN: Well, I mean, I know both the heads of it. The State administrator is Collins, whom I know very intimately; it was partly on my recommendation that he was appointed. I also know the head of the Victory Fund Committee very well, a man named Patton. The two will get along together all right, but the State administrator, who is a small outlying banker without any knowledge of or contact with the problem of selling bonds to investors of any means, is surrounded by very efficient and hard-working groups of industrial insurance salesmen, and so forth. I think that Collins has got sense enough to leave the whole thing to Patton, and Patton will work. As far as Chicago itself, he is the Victory Fund Committee; but Chicago sells all the bonds,

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practically, that are sold in northern Indiana, like La Porte and South Bend. Indiana is organized with headquarters at Indianapolis.

The fellow doesn't know - Collins happens to know Patton. They happen to be friends, and they will get along, but when it comes to the State administrator for Indiana or Michigan or Wisconsin, within the same jurisdiction, it is a different matter.

H.M.JR: Well, do you know what has happened in New York? What is his name - who is supposed to take that over?

MR. HARRISON: Perry Hall.

H.M.JR: Is he going to do it?

MR. HARRISON: I understand he has accepted the job as executive manager, or whatever it is called, of the Victory Fund Committee, and I don't know anybody better in the country than Perry Hall for that job. I understand that the War Savings people claim that the Victory Fund crowd has snatched Perry Hall from them, and that they are dependent upon the War Savings group for some of their personnel anyway.

H.M.JR: Who snatched who?

MR. HARRISON: Victory Fund people snatched Perry Hall away from the War Savings group, so I learned this morning. I didn't know that before.

MR. BELL: He was on Ford's committee, I think.

H.M.JR: Well, may I retrace my steps? I think I made a mistake in bringing this up this morning, because what I really asked you gentlemen down for was to help me decide how to raise a billion and a half dollars this week. I made a decision Friday, a week ago. I don't want to backtrack it. I mean, let it run for the rest of this month and see what happens. So let's - I don't know why I brought it up. It worries me, that

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is why I brought it up. Let's concentrate on this thing, and, Dan, I got word that I think the President is going to see me about eleven tomorrow, so I think you had better advance that Open Market Committee to ten o'clock. Would you?

MR. BELL: Eccles wanted to go the other way. He wanted it to go the other way.

H.M.JR: Who did?

MR. BELL: Eccles, so they could have time to meet over there.

H.M.JR: Well, tell him to be here at eight o'clock. (Laughter) They had better be here at ten. Then what I would like to do--

MR. EDWARDS: Mr. Brown said something about the banks in this series F and G sales effort. I think the banks will work with anybody. I think they will work with the Victory Fund Committee, or they will work with your War Savings Staff, your State administrator, or anybody else.

MR. BROWN: Oh, certainly they will, but I mean they can't get a bunch of people who have no familiarity either with banks or banking or have any knowledge of the actual problems of reaching investors and expect to get the best results directing the banks. There isn't any lack of good will on the part of the banks.

MR. EDWARDS: I just wanted to clear up that end. As far as the banks are concerned, I think they will work anywhere and anyhow. Mr. Buffington did intimate at the meeting this morning that they wouldn't have that same situation with the security dealers, that they would mostly now be merged into this Victory Fund Committee and wouldn't want to be transferred to the War Savings Staff.

H.M.JR: Well, I made a mistake by bringing it up, and let's just forget it for today and tomorrow.

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MR. PARKINSON: Let me say, Mr. Secretary, that is the first time I feel I disagree with you. I think it is a very excellent idea to bring it up because it is one of the most important phases of your whole problem. I got the impression you ought to take hold of it quickly and decisively along the lines that you have already indicated and put your War Savings organization in control of the whole situation and bring a proper organization to contact the bankers and get their help in selling these F and G Bonds to the folks who have that money; but I do think you ought to grab hold of that situation and end the present conflict that we observed this morning.

H.M.JR: What I meant was, I made a mistake - for better or worse, I try to do one job at a time. My immediate job from now until Wednesday noon is to decide how to raise a billion and a half dollars. I agree with you that I have got to take hold of it, and will as soon as I get this thing out of the way.

In view of the difference of opinion between ourselves and the Federal Reserve - I don't know, I haven't talked with Eccles, but we will have an Open Market Committee meeting with them at ten. If it is agreeable to you gentlemen, immediately after meeting with them I would like to meet with you and let you gentlemen know what they say. But the F and G thing is only postponed until I get this immediate financing out of the way; but it bothers me, Mr. Parkinson.

MR. SMITH: You have a right to be bothered about it.

H.M.JR: I made a decision - I don't want to get everybody all upset again - that the responsibility should be with the War Savings Committee and that the Victory Fund Committee when we have these tap issues, something like that, can go to work on; but I still think, and that would follow what B. M. Edwards says, that if the chairman for South Carolina - who is he?

MR. EDWARDS: Bowers.

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H.M.JR: If Mr. Bowers would call on the banks in South Carolina to help him sell F and G's, I think the banks would do it.

MR. EDWARDS: He has one banker in every bank in South Carolina on that committee.

H.M.JR: And I also, for better or worse, don't think we are going to sell him F and G's until we do ask the president of the bank to sit down with his own clients, face to face, and say, "The Secretary of the Treasury has asked me to talk with my customers, and unless you have got some awfully good reason we want you to buy all the F and G's that you can." Now, it may be wrong, but--

MR. PARKINSON: That is right, and you need a banking man to represent the War Savings Sales effort when he deals with the bankers and gets them to do it.

H.M.JR: And I have been saying that right along, but I haven't been able to sell my idea.

MR. HARRISON: Then I - just one word. I agree with Ned Brown that if it is to be handled that way, and I understand that it is now decided, I think there must be some consideration of the personnel in the War Savings Staffs, especially in some of the bigger cities where the personnel was to take care of E Bonds alone. They are not really geared up or capable of taking care of the others in the most efficient way, in my judgment.

H.M.JR: Well, in fairness to them, we have stressed - I have stressed the pay-roll deduction plan; and I think, after all, if we are going to do a job on getting excess money on loans from the people who are earning the biggest money, the way to get it is at the cashier where they get paid.

MR. PARKINSON: All you have to do is to snitch Perry Hall back again, put him to work.

H.M.JR: The F and G thing is an entirely different thing; when we sell F and G Bonds, we are not helping very much on inflation.

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MR. BURGESS: Not very much.

H.M.JR: It is pretty far removed from this whole question.

MR. SMITH: You are keeping it out of the banks, that is about all.

H.M.JR: But I mean, it is entirely different from getting the man who is earning fifty dollars a week to put up ten percent of his payroll and lend it to his Government. They are all thinking along those lines, because I kept their nose to the grindstone on that. Suddenly I say to them, "I want you to sell F and G Bonds," and they are not equipped. I want to be fair to them.

MR. HARRISON: I think we all realize that.

H.M.JR: I have been saying to them, "I don't care a hoot about the other thing, get me the pay-roll thing," and they have succeeded. Ninety-nine percent of the companies who employ five thousand or over in the United States now have a pay-roll deduction plan, which is pretty wonderful - ninety-nine percent.

MR. SMITH: They have done a marvelous job, and it is like asking - I am sure in the insurance field that the man who collects the twenty-five cents a week, industrial insurance, can't go out and write a hundred-thousand-dollar policy.

MR. PARKINSON: That is Mr. Brown's point, exactly.

H.M.JR: Is that right.

MR. HARRISON: Yes.

H.M.JR: I mean, they are two different types of animals.

MR. PARKINSON: Precisely.

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H.M.JR: They are two different types of animals.

MR. SMITH: And they aren't going to get the results until they get the other.

H.M.JR: Well, if it is all right with you, if you will think some more - Mr. Bell is available, Mr. Haas and his staff are available; and if you have got a bright idea before ten o'clock that you want to tell me, before I see the Federal Reserve, I am available. Otherwise, I will see you as soon as I come back from the White House. Is that all right, gentlemen?

MR. HARRISON: That is before lunch tomorrow?

H.M.JR: Yes, sir.

June 15, 1942
4:49 p.m.

HMJr: Hello.

Operator: Mr. Bewley.

HMJr: Hello.

Operator: Go ahead.

Mr. T. K. Bewley: Hello. Bewley speaking.

HMJr: This is Morgenthau.

B: How are you?

HMJr: Fine. How are you?

B: I'm very well, too, thanks.

HMJr: I've got something I'd like very much that you would do for your countrymen and for me.

B: Yes.

HMJr: These Englishmen have been over here - these so-called war heroes.....

B: Yes.

HMJr:have been getting nine dollars a day allowance by your Government.

B: Yes.

HMJr: Somebody cut them down to two and a half. As you know, they've been a tremendous success, most useful to us, and your own people have said most useful to you.

B: Yes.

HMJr: Now, they're terribly disgruntled and very unhappy.

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B: Down to two and a half! It seems terrible, it's not fair.

HMJr: I don't know who did it, Bewley.

B: I don't know anything about that either.

HMJr: But have you got the authority to change it? I mean.....

B: No, not on my own, but I can talk to the people here who are responsible.

HMJr: Well, who would that be?

B: Humphrey Davies, first of all; but this may be a military arrangement of some sort. They are soldiers, aren't they, or are they air men?

HMJr: Well, they're everything.

B: They're everything?

HMJr: They're air men, they're Commandos, they're sailors in the Royal Navy, they're everything.

B: Have you any idea how many of them there are?

HMJr: Yes, I think there's either ten or eleven.

B: Only ten or eleven. It seems to be quite ridiculous to have done it. I'll speak to Humphrey Davies, and see if I can't get it put right.

HMJr: And if you want me, I'll be at my house within the next half hour.

B: Right.

HMJr: And if you'll call District 2626.....

B: District 2626.

HMJr:they'll put you through to my house.

B: Right.

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HMJr: And I - really, this is something I really would like to have done.

B: Yeah. Right you are. Yes, I'll see what I can do.

HMJr: And if necessary - who is Humphrey Davies?

B: He's a Treasury man out here. He looks after staff.

HMJr: Oh. Well, you tell him that - well, I don't.....

B: Oh, I'll give him a very strong message straight from you.

HMJr: I don't want to use too many cuss words, but.....

B: Quite.

HMJr:I really think it's - if you don't mind my saying it - it's the height of stupidity.

B: Yeah, I will. Well, I'll certainly tell him all that.

HMJr: Right.

B: Right you are.

HMJr: Thank you.

Cable referred to ⁸⁶ is
dated 6/8 and
is att to Dr.
White's memo of
6/16 "Proposed Br Loan
to China + State Board"

June 15, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Mr. White's office
June 15, 1942
12:30 P.M.

Present: Mr. White
Dr. Kan Lee
Mr. Friedman

Dr. Lee called to leave with Mr. White copy of cable from Dr. Kung to Dr. Soong dealing with proposed British loan to China and Stabilization Board.

Mr. White told Dr. Lee that the contents of the cable answered the query which had been raised with Dr. Soong and that we would give the matter further study.

ISF/efs
6/17/42

Treasury Department
Division of Monetary Research **88**

Date..... June 1719 42

To: Miss Chauncey

From: Mr. White

Please call this to the
Secretary's attention.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 15, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Proposed British loan to China and Stabilization Board.

1. Dr. Kan Lee called on me this morning to deliver a cable received by Dr. Soong from Dr. Kung, dated June 8, dealing with the proposed British loan to China and the sterling position of the Stabilization Board of China.
2. With regard to the proposed British loan to China, the cable says that the British authorities have made a new proposal representing an improvement over the rejected agreement. The British authorities claim that this new proposal has already been approved by the United States.
3. With reference to the Stabilization Board and its sterling position, Dr. Kung indicates in the cable that the American portion of the Stabilization Fund may be used to purchase sterling after the British share has been used. The cable makes the point that the British authorities have paid over only £3,250,000 of the British share of the Stabilization Fund, which is £5,000,000, and that the balance should be paid over in full.
4. We, of course, had no intention of permitting the dollar funds of the Stabilization Board to be used for the purchase of sterling prior to the exhaustion of the sterling funds of the Board. However, even after the British have transferred to the Board the remainder of their share of the fund, the Board will still have a sterling deficit of about £2 million. To prevent any ambiguity regarding this matter, we are informing Mr. Fox that the Treasury assumes that the dollar funds of the Board will not be used for the purchase of sterling until its sterling assets have been exhausted.

TELEGRAM FROM DR. H. H. KUNG, CHUNGKING, DATED JUNE 8, 1942

(Translation)

I have received your telegram of June 2nd.

According to telegraphic advice from Ambassador Wellington Koo and others, the contents of the British Loan Agreement proposal are essentially the same as what Sir Frederick Phillips told Secretary Morgenthau as indicated in your telegram.

Use of the Loan fund was limited to outlays incurred at the time of the war, and the Loan would automatically be suspended at the end of the war. With the exception of £10,000,000 to be used as a foundation fund for the issuance of bonds, the Loan Fund was to be used only for the purchase of commodities in the sterling area. As present regulations require that purchases of commodities in the sterling area can only be made with the previous approval of the British authorities in charge of currency control, refusal of the British authorities to grant permission for making purchases would be sufficient to prevent the Loan Fund from being utilized. Such conditions were apparently unacceptable, and Ambassador Wellington Koo was promptly informed to that effect. We insisted that the British Loan Agreement should follow the general lines of the Sino-American Loan Agreement.

The British authorities have just made a new proposal, now still under discussion, which represents an improvement over the old proposal. The British authorities indicate that the new proposal has already been approved of by the Americans.

The Stabilization Fund and the Loan are fundamentally two different issues. Whether the British authorities should or should not transfer funds to the Stabilization Fund is a question of contract obligation. It is apparent that no transfer should be made from the American Loan Fund. It is reported that some £5,000,000 of the British portion of the Stabilization Fund have been made use of. The £2,800,000 stated by Sir Phillips as the amount still available includes the remainder of the first Stabilization Fund, in the sum of some £400,000. As the Agreement specifies that Great Britain's share is £5,000,000, the actual amount transferred has been less than one-half of the sum originally agreed upon.

TELEGRAM FROM DR. H. H. KUNG, CHUNGKING, DATED JUNE 9, 1942

(Translation)

The following is in continuation of my telegram to you of June 8th.

The British share of the Stabilization Fund is £5,000,000. Down to the present moment, the British authorities have paid over only £3,250,000. According to the terms of the Agreement, the balance should be paid over in full.

As to the pound sterling already sold from funds provided by the Central Bank, transfer may be made from the American portion of the Stabilization Fund after purchases are effected of sterling. As the Stabilization Fund and the Loan Fund are two separate issues, it seems that the transfer cannot be conveniently made out of the Loan Fund.

June 15, 1942

Dear Mr. McHutt:

Thank you for your letter of June 12th, inviting me to attend the conference to be held in your office at ten o'clock, Friday, June 19th.

I shall make every effort to be present on that date, but, if for any unforeseen reason I find it impossible to attend, I shall see that the Treasury is represented.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Paul V. McHutt,
Administrator,
The Federal Security Administration,
Washington, D. C.

GEF:mm

By Messenger

THE FEDERAL SECURITY ADMINISTRATOR
WASHINGTON

June 12, 1942

Dear Mr. Secretary:

Pursuant to instructions from the President, I have called a conference in my office, the new Social Security Building, 3rd and Independence Avenue, Southwest, Room 5554, at ten o'clock, Friday, June 19, to meet Governor Lehman and Mayor LaGuardia. I sincerely hope that it will be possible for you to attend.

Very cordially yours,



Paul V. McNutt

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

June 15, 1942

Dear Eleanor:

Thank you very much for sending me Judge Marx's letter about the portrait of General MacArthur.

I am sorry that there is no way for the Treasury to make use of this picture, as we have not been calling attention to any one commander in our War Bond publicity. All the same, I appreciate your having transmitted the offer to us.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House,
Washington, D. C.

FA/cgk

File D.M.C

Copies to Sharpson

By Messenger *Manuel 11245*

6/18/42

THE WHITE HOUSE
WASHINGTON

9
JUN 10 1942

Kel

June 8, 1942

Dear Henry:

I am enclosing a letter from Judge Robert Marx of Cincinnati and a copy of a letter to him from Mr. Fritz Werner.

Is there a possibility that Mr. Werner's offer can be accepted?

Affectionately,

[Handwritten signature]

NICHOLS WOOD MARX & GINTER
ATTORNEYS AND COUNSELLORS AT LAW
1100-TRACITION BLDG. N.
CINCINNATI, O.

June 2, 1942

Dear Mrs. Roosevelt:

I feel somewhat guilty in not having written you both to thank you for your recent dinner invitation and to tell you what an enjoyable occasion it was. The President always seems to relax and enjoy himself so much when I have been privileged to be with you. Perhaps he always does or maybe it is because he knows that I, at least, am not going to ask any questions, discuss any "affairs of State" or do more than try to make it a happy evening and it certainly was.

The immediate cause of this letter is to bring to your attention a unique offer which the famous artist, Fritz Werner, has made through me. I enclose herewith type-written copy of his letter to me, which is self-explanatory. Briefly, he is willing to paint a monumental portrait of General McArthur and give this painting to the War Department or the Treasury for such use as they may wish to make of it to raise money for any of the numerous activities.

I have known Fritz Werner for many years and know that his work is of the top quality and he usually receives several thousand dollars for his portraits. I enclose herewith a printed statement concerning his work.

I believe if you would bring this to the attention of Secretary Morgenthau that such an outstanding portrait of McArthur as only Werner could paint could be used successfully in connection with one of the - shall I say "Liberty" bond drives.

With kindest personal regards to you, I am, as ever,

Cordially yours,



Mrs. Franklin D. Roosevelt,
White House,
Washington, D.C.

May 12, 1942

Hon. Robert S. Marx,
Traction Building,
Cincinnati, Ohio.

My dear Judge:

Yesterday I tried to reach you to consult you concerning an idea in connection with our war efforts. My idea is to paint a monumental portrait of General McArthur and offer this painting for the disposition of the President or the War Department for use in raising funds for a war relief drive or for the stimulation of the Defense Bond Campaign or to send the portrait to a public auction in the interest of raising money for more bombers or anything which will help to win this war.

My suggestion would be to tell this offer to the competent officials.

It would be most important for me to have in connection with this painting a collection of good photographs of General McArthur, also a description of his eyes, hair and skin colors, his height and weight. I would also need a General's uniform or a good reproduction in the rank of McArthur with all his decorations. I am quite sure to be able to do something outstanding. Since you know my work, you can speak for me. As further reference if necessary is the 1942-43 edition of Who's Who in America and enclosed folder.

I would be very happy indeed if I could contribute in my art to help win the war.

Very cordially yours,

(Signed) Fritz Werner

NICHOLS WOOD MARX & GINTER
ATTORNEYS AND COUNSELLORS AT LAW
900 TRACTION BUILDING
CINCINNATI, O.

June 3, 1942

Mrs. Franklin D. Roosevelt
White House
Washington, D. C.

Dear Mrs. Roosevelt:

By inadvertence the enclosed printed
statement of the work of Fritz Werner
was omitted from Judge Marx's letter
to you of June 2.

Very truly yours,



Secretary to Robert S. Marx

THE WHITE HOUSE
WASHINGTON

June 15, 1942.

MEMORANDUM FOR

✓ THE SECRETARY OF THE TREASURY
HON. ARCHIBALD MacLEISH

I am told we should stage a special campaign among the organized miners. You can get a list from Phil Murray. I am told they hear nothing of the war except on occasional local radios. The theme of the special campaign should be about the war and also about buying bonds.

F. D. R.

100 ✓

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 15, 1942

TO THE SECRETARY
FROM PETER ODEGARD

This is the memorandum to Mr. Graves concerning the reorganization of the Education and Women's Division of the War Savings Staff which we discussed in our telephone conversation the other day.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 4, 1942.

TO MR. HAROLD GRAVES
FROM MR. PETER ODEGARD

At your suggestion I have spent considerable time studying the administrative organization and program of activities now being carried on under the direction of Orville Poland. It is not necessary to recite the history of this division, which you know as well as I do, or attempt to set forth in detail the work that has already been done and is now being done.

I would like to say that in my judgment a very creditable showing has been made under trying and difficult circumstances. Mr. Poland inherited an organization that was chaotic and lacking in both plan and direction. He has brought it to a place where now a well conceived and well administered program for women's groups and for schools is possible.

As matters now stand, Mr. Poland has responsibility for the planning, direction and control of War Savings activities among educational institutions and women's groups. In addition, he has jurisdiction over what has been described as a "literature" or "publications" section. Mr. Poland, as in the case of the heads of other divisions, has reported to Mr. Sloan and through him to you.

The major purposes and functions of the three sections of this division may be described as follows:

1. Special Literature Section: To write pamphlet or other material at the request and upon the specifications of the Education Section and Women's Section; To do spot jobs of special writing upon the request of any authorized person in the War Savings Staff; To hire outside writers for specialized jobs not within the experience and training of the regular writers; To prepare articles for periodicals, particularly those like trade journals and professional magazines; To cooperate with Mr. Mahan in the preparation of copy, reading proof, and expediting production; and finally, to work with the Field Division, Women's Section, Education Section or other distributing agency in planning and carrying through a program of distribution.

2. Education Section: To promote War Savings activities in educational institutions, including public schools, high schools, junior colleges, colleges, adult education groups, libraries, etc; To enlist the interest and cooperation of organizations like the National Education Association, Parent-Teachers Association, and Office of Education; To service the needs of the various educational institutions with material which could be used in the class room and for the guidance of teachers; To promote plans for securing the investment of college alumni contributions in the form of War Savings Bonds. This plan has been sponsored by the Association of Alumni Secretaries; To aid the State Administrators, with their assent, in the organization and stimulation of state and local education committees.

3. Women's Section: To promote War Savings Activities in the women's associations and clubs, such as the General Federation of Women's Clubs, the Federation of Business and Professional Women, the League of Women Voters, etc; To furnish these associations with a definite program of activity; To supply them with pamphlet material, radio scripts, and short plays; To aid the labor section, foreign language groups, and others in the development of their material and their programs, so far as they relate to women; To cooperate with the Retailers Advisory Committee of the War Savings Staff; To aid the State Administrators, with their assent, in the organization and stimulation of state and local women's committees.

In terms of personnel the division includes:

1. "Special Literature" or "Publications" section:

James M. Clarke
Helen Slents
Florence Pryor
Esther Tomkins Henderson
Jane Bennett

2. Educational Section:

Judy Graves	Mrs. Hubbel
Daniel Melcher	Hannah Kaiser
James Clarke	Mr. Geer

3. Women's Section:

Helen Dallas
Dorothy Crook (part time)
Mrs. Helens Gans (field representative)
Mrs. Dorothy Atkinson " "
Mrs. Eleanor Wilson McAdoo " "

-3-

There is some overlapping here since Mr. Clarke who is designated as head of Special Literature Section works closely with Judy Graves in the educational field. It is worth pointing out that with a few exceptions all of these people were hired primarily for their skill as writers, editors, research or distribution assistants. As a consequence there has been a tendency throughout this division to emphasize the production of written materials rather than the organization and stimulation of effective education and women's committees in the field.

Suggestions for reorganization

The success or failure of the work which this division was created to carry on will depend in large measure upon the extent to which it can secure the friendly interest and cooperation of the field staff not only in Washington but throughout the country. In all fairness I think it can be said that for reasons too complex for analysis here this friendly interest and cooperation has not been secured. I am hopeful that a better attitude will prevail in the future. No mere administrative reorganization can bring this about - but clarification of function, simplification of organization and more effective and vigorous leadership can help.

The Special Literature Section as such should be abolished. The writers Tomkins and Pryor should be assigned to the Press Division under Mr. Callahan. James Clarke, Mrs. Graves, Dan Melcher, Jane Bennett and Mr. Geer, should be assigned to the Education Division to plan and prepare educational materials as required. Helen Dallas, Margaret Brown (now on leave), Miss Crook, Mrs. Hubbel, Mrs. Atkinson, Mrs. Gans and Mrs. McAdoo should remain in the Women's Division.

I would suggest that Helen Slents of the Special Literature Section and Hannah Kaiser of the Education Section be dismissed.

As soon as feasible the planning, direction and control of education and women's activities of the War Savings Staff should be transferred to the Field Division.

Two additional Associate Field Directors should be appointed to have charge of education and women's activities respectively. As in the case of other Associate Field Directors those in charge of education and women's activities would report to the Director of Field Organization.

-4-

Much will depend on the character and quality of the personnel responsible for the planning, direction and control of these activities.

As Associate Field Directors in charge of Women's and Education activities we need a man and a woman of outstanding ability and reputation in these special fields. They should have administrative ability and enjoy the confidence and respect of the educators and women of the country. They must also be able to secure the sympathetic interest and friendly cooperation of the entire War Savings organization.

Such leaders are not too easy to find. The following, however, would in my opinion meet these qualifications. The names suggested for Associate Director in charge of Education are the result of extended conferences with President Frank Graham of the University of North Carolina; James P. Baxter, President of Williams College; W. E. Givens, Executive Secretary of the National Education Association; George F. Zook, President of the American Council on Education; Howard E. Wilson, Professor of Education, Harvard University, and William G. Carr, Secretary of the Educational Policies Commission. Unfortunately, time did not allow similar consultations with leaders of women's organizations.

For Associate Field Director in charge of Women's Activities; Harriett Elliott, Dean of Women, University of North Carolina; Mrs. George Gellhorn, St. Louis Missouri.

For Associate Field Director in charge of Education; James L. McConaughy, President, Wesleyan University, Middletown, Connecticut; William G. Carr, Secretary, Educational Policies Commission; Homer Rainey, President, University of Texas and George Thuster, President, Hunter College.

Pending the appointment of Associate Directors for the Women's and Education activities, I would suggest that Orville Poland be asked to continue in charge.

I would suggest that a Woman's Advisory Committee be appointed to consult with the Associate Field Director in charge of Women's activities on matters of policy. This committee ought not to assume any responsibility for routine management, but should be available on call for consultation and advice.

Speakers Bureau for Women's Section

This is probably not the place to make any recommendations with reference to a National Speakers Bureau for the War Savings Staff as

a whole. I do think we might give serious consideration, however, to the appointment of someone to serve as Director of a Speakers Bureau for the Women's Section. It would be helpful if Mrs. Mergenthau could be prevailed upon to serve not only as Chairman of the National Women's Advisory Committee but also to assume responsibility for the direction of this Speakers Bureau.

There is less need for such a Speakers Bureau in the Educational Section since it will be dealing daily with educators throughout the country who earn their living as speakers.

Editorial Supervision

It seems to me also that, subject to budgetary considerations, editorial supervision of materials to be used in connection with our education and women's programs should be lodged in the associate directors of these activities themselves. Except on matters affecting questions of major policy, it ought not to be necessary to have any additional editorial control beyond, of course, that which would be normally exercised by the Field Director and/or Harold Graves.

THE WOMAN'S COLLEGE
OF
THE UNIVERSITY OF NORTH CAROLINA
GREENSBORO, N. C.

OFFICE OF DEAN OF WOMEN

June 15, 1942

Mr. Peter Odegard
Mr. Polard
Treasury, Room 294
Washington, D. C.

Dear Sirs:

The college administrators, Dean Jackson; the Controller of the University, Mr. Carmichael; and Assistant Controller, Mr. Teague; and one member of the Executive Committee of the Board of Trustees have thought through with me the proposed plan for me to assist in the war bond program. I had this talk with them, Mr. Polard, after my telephone conversation with you on Saturday.

The unanimous decision is that I must not undertake the work on a full time schedule. I went over your plan in detail with these administrators and they all agree that this is extremely necessary work which must be done rapidly and constantly until the war ends. In view of this fact, we all agreed that the person who organizes the "Woman's Division" should be a person who could remain for the duration. If I should undertake the work for the summer months, I would have a very short time for active work after I had completed the organization. This would result in turning over to another director an organization which she had not "set up" and obviously she might not agree with my plans. Since the administration is not willing for me to leave the College for an indefinite period, I feel sure that you will agree that another director of the Woman's Division should be named.

I fear that you may think that I should have known this before I went to Washington for the conference. It was impossible for them to discuss plans with me until I knew what was involved in the program. May I give you a condensed statement of their reasons for arriving at the above decision so far as the College is concerned.

As you know, President Graham is giving practically full time to the Labor Board. This places increasing work upon the Deans of Administration in each unit of the University. If I should leave, Dean Jackson would be forced to assume many of my duties. Even if we should put a temporary dean in my office, a new person could not take over all of my work. In addition, we are losing many members of our faculty, both men and women, to the war effort. Dean Jackson is faced with constant reorganization and the selection of new personnel. All the men in our Physics Department have been drafted. Yesterday the Assistant Dietitian left for army service; several young women instructors have designed to enter special services. Each day general college workers, yard men, kitchen men, dairy farm workers resign to enter war industries. The Dean of Administration is finding it increasingly difficult to maintain a working organization.

THE WOMAN'S COLLEGE
OF
THE UNIVERSITY OF NORTH CAROLINA
GREENSBORO, N. C.

OFFICE OF DEAN OF WOMEN

-2-

We have 2250 women in this College with about 1900 living in residence halls on our campus. All indications are that our enrollment in 1942-43 may be increased. We have added special nurses training, accelerated courses in clerical training, special work in nutrition and in other fields where women may be needed for emergency work. Recently I was made chairman of a new committee which is making plans for assisting students in selecting their special work.

My work as Dean of Women covers a rather wide range of activities. Both academic advising and social personnel work are integrated in my office. I also serve on the college administrative council which is responsible with the Dean of Administration for the over all direction of the College.

I assure you that ordinarily I would not go into such great detail about my work, but the administrators wanted you to know why I cannot step out of this office for a long period of time without placing someone here to carry on my work. They want you to know also why it would be difficult to find a person to do this work on a temporary basis. We believe that it is important and necessary for colleges to maintain as stable a program as is possible under the circumstances as well as to add emergency war courses. This crisis will disrupt the lives of the young people in no uncertain way and we are doing our best to prepare them not only for the immediate emergency, but also for their responsibilities when they must function in reconstruction days.

My brief conference with you makes me believe that you will not think I am being officious if I give you my first reaction to what should be done in the organization of the Division. I have read carefully the material which Miss Dallas gave me and I am making the following suggestions for whatever they may be worth. There should be a full time director who will make plans for a long hard pull, taking the long look forward. This person should make plans to work through the state directors and should not set up a large national staff. However, I do not agree with Mrs. Atkinson that more regional women are not needed. The small planning and integrating staff in Washington, which would act as a planning board and clearing house, would need full time regional assistants who would keep in constant contact with the state directors, who would in turn work through the local committees. In my opinion, there should be at least 6 full time regional workers. This is a huge nation and this is a big job. Skimming the surface will not bring results.

Miss Dallas should have 2 or 3 expert assistants who could assist in the detail work, preparing directive outlines and condensing into brief and practical form the successful operations of local groups. Efforts which

THE WOMAN'S COLLEGE
OF
THE UNIVERSITY OF NORTH CAROLINA
GREENSBORO, N. C.

OFFICE OF DEAN OF WOMEN

- 1 -

have been successful in one locality should be quickly passed on to all state directors for adaptation to their needs. This would give all states the benefit of organized activities from all parts of the country. Local methods wear out and new approaches will be constantly needed.

The national director in Washington should keep in close contact with the work in the Civilian Defense Office, the Consumer Division in OPA (which is now just a public relations office, but which is planning instructions for consumers in buying and conserving). She should also be in contact with the Home Economics Bureau, which would, I am sure, be glad to assist in budget suggestions and home conservation plans. In addition to this there should be a close "tie in" with the National Nutrition Committee which I organized in 1940. I agree, Mr. Odgaard, that we must "pull in the belt", but at the same time, if we are to have strong people to carry on the war effort, they must be told where to pull in if great harm is not done to our physical fitness. No argument on the fact that we must have guns, tanks, planes and ships, but at the same time we must make every American stronger - stronger than ever before, sturdier in body, steadier in nerves and surer in living. I continue to believe that hungry people, undernourished people and ill people do not make a people strong to carry on a war and to face reconstruction days. This indicates why I think there must be a close integration with the consumer activities, the Nutrition Committee, and the Home Economics Bureau as the pulling in the belt program is advanced. The right hand should know what the left hand is doing. We are all working for the same end - victory.

In addition to the national director and her small national staff, I believe that it would be advantageous to create a small advisory committee of perhaps five women which would meet once each month with the director to advise on ways to increase the efficiency of the Woman's Division. I hope you will not think that I am being presumptuous if I suggest that I would be glad to serve on such a committee. Mrs. Morgerthau, Mrs. Ellen Woodward (who has practical sense and who knows the problems of the rank and file of the home women in this country as a result of her long service in WPA) and Mrs. Louise Stanley would make excellent members of such a committee. I suggest Louise Stanley since I think we should use to the limit the existing agencies of the Government and Mrs. Stanley would give the practical home economics advice which I believe will be needed if we are to make this a real home front. I can see no reason to build up special committees on conservation suggestions, home budgeting, etc. when we have a permanent agency of the Government which has been working on this problem for years. The College is willing for me to give time to this if you think I am needed. I could spend at least one week each month in Washington and not disrupt my office here. I am sure that you have other women on your list whom you considered for the directorship. I am making some suggestions for your further consideration.

THE WOMAN'S COLLEGE
OF
THE UNIVERSITY OF NORTH CAROLINA
GREENSBORO, N. C.

OFFICE OF DEAN OF WOMEN

-4-

I believe Mrs. Carolina Wolfe, Salt Lake City, Utah, would make an excellent director. She has common sense; she is an expert office woman and I know that she is deeply concerned with the war effort. Miss Mary Dewson and Mrs. Roosevelt know her intimately and could give you an evaluation of her ability. She knows how to work and she has the point of view of the rank and file of the women you must reach. I worked with her for seven months in 1935 on a national educational program and I have great respect for her ability. She is a calm person and does not lose her head in a crisis.

Mrs. Belhorn of Saint Louis is another woman who has organization ability and real driving power. Miss Dallas knows her. She is well known all over the country. She has been active in the League of Women Voters.

Another woman for whom I have great respect is Mrs. Irene T. Heineman, 311 California State Building, Los Angeles, California. Mrs. Heineman is Assistant Secretary of Education in California. I have worked with her in the A.A.U.W. She is a vital person who would do a grand job if she could be released from California for the duration. I know that Mrs. Heineman is an expert public relations person.

I regret more than I can tell you that I cannot accept this directorship. I am particularly sorry that I took so much of your time on Friday, but I believe you will know that I could not present the problem to the college administration until I knew in detail what would be required of me. I assure you that the College wants to do its part in every possible way. I do not believe that it is necessary for me to say that I want to do everything that I can to help win this war. I hope you will not think that the College administrators are selfish in feeling that I must remain here at this time.

Sincerely yours,

Harriet Elliott

Harriet Elliott
Dean of Women

HE:m1

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 15, 1942

TO THE SECRETARY
FROM TED R. GAMBLE

Mr. Callahan is on annual leave. He will be away from Washington three weeks. He is in daily touch with the office.

Mr. Callahan is visiting each of the large cities and radio stations, owners and operators, and plans doing several days work in California where, as you know, many national programs originate.

He has long wanted to visit many of the key points of the radio industry in connection with Treasury programs, particularly the handling of new transcriptions and is coupling this job with his vacation. He will return the weekend of the 4th of July.

June 15, 1942

Dear Mayor Quin:

On July 1st, according to present plans, an Army plane will arrive at San Antonio with 15 outstanding American and British war heroes who have distinguished themselves in actual combat. These are the men of our own Army and Navy and of the Royal Air Force and Commando units who are now touring the leading cities of the country to stimulate our War Bond campaign and our war effort generally.

To attain the best possible results we feel that a public rally and parade should be staged in your city to welcome them. It goes without saying that we shall need your active assistance. I realize, of course, that your time is severely taxed, but I shall appreciate your designation of a member of your official family or some other outstanding citizen who can take charge of all the arrangements. A member of the War Savings Staff of San Antonio will call on you and discuss the various details with you.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. C. K. Quin,
Mayor of San Antonio,
San Antonio, Texas.

*Copies to Thompson
D.M.C.
Air mail*

FK/cgk

June 15, 1942

Dear Henry:

Thank you very much for sending me the results of Mr. DePuy's survey of our War Bond activities in Iowa and the neighboring states. I was not only interested in reading the "strong points" of the Treasury's campaign but I was especially interested in the constructive criticisms, and I have asked our War Savings Staff to pay particular attention to them.

I appreciate very much your own remark that we seem to have done a good job in the Iowa region.

Sincerely,

(Signed) Henry

The Honorable,
The Vice President,
Washington, D. C.

M. M. C.
Copies to Thompson

FK/cgk

(Survey sent to Secy. House)

OFFICE OF THE VICE PRESIDENT
WASHINGTON

113
Ruth

JUN 10 1942

June 8, 1942

The Honorable

The Secretary of the Treasury

Dear Henry:

I am enclosing a letter and attachments from an old friend of mine in Des Moines. It would seem from his report that the bankers of his part of the country feel that the Treasury has done an unusually good job.

Sincerely yours,

H A Wallace

H. A. Wallace

Enclosures

VI
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NORTHWESTERN

CLIFFORD DE PUY
PUBLISHER

DES MOINES, IOWA

June 1, 1942

Henry A. Wallace, Vice President of the United States
Washington, D. C.

Dear Henry:

Knowing that you are keenly interested as all of us are in the sale of war bonds, I thought you would like to see a recent survey which we have made among bankers throughout the middlewest in which the NORTHWESTERN BANKER asked them this question

"What is the strongest and what is the weakest part of the present United States Treasury program to sell war savings bonds as far as the banks are concerned?"

This survey was prompted by an invitation which I received from Ross Barrett, Jr., Chief of the Business Publications Section of the War Savings Staff of the Treasury Department for a conference in Washington to discuss plans on how leading regional banking publications could help increase war bond sales.

The meeting was held on May 18, and while I was unable to be present at that time, I will be in Washington some time between June 14 and July 1 to go over this matter with Mr. Barrett and his associates.

The NORTHWESTERN BANKER survey, however, was prepared in time for this conference and I understand was helpful to the members present in working out their program.

The NORTHWESTERN BANKER survey of May 16 which was sent to the Treasury Department is enclosed, and also pages from the June issue of the NORTHWESTERN BANKER which carried this material in condensed form under the heading of "How the Present Program to Sell War Bonds Can Be Improved".

With all good wishes, I am

Cordially yours

Clifford De Puy
Clifford De Puy, Publisher
THE NORTHWESTERN BANKER

CD:c

P. S. Please give our best to Ilo. June 10th, Frances and I are leaving for New London to attend Evelyn's graduation from Connecticut College for Women on June 14. We hope that Jean has been enjoying Connecticut as much as Evelyn has.

THE OLDEST FINANCIAL JOURNAL WEST OF THE MISSISSIPPI RIVER

VI

114

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CLIFFORD DE PUY
PUBLISHER

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THE NORTHWESTERN BANKER

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Clifford De Puy, Publisher
THE NORTHWESTERN BANKER

CD:c

P. S. Please give our best to Ilo. June 10th, Frances and I are leaving for New London to attend Evelyn's graduation from Connecticut College for Women on June 14. We hope that Jean has been enjoying Connecticut as much as Evelyn has.

THE OLDEST FINANCIAL JOURNAL WEST OF THE MISSISSIPPI RIVER

C
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May 16, 1942

Ross Barrett, Jr., Chief
Business Publications Section
War Savings Staff
Treasury Department
Washington, D. C.

Dear Mr. Barrett:

On May 9th I received a telegram from you, which read as follows:

"Treasury Department needs your personal counsel and advice in developing special war bond program for banks in your district. Can you come to Washington May 18 to meet with executives of other leading sectional banking papers to assist us in preparing specific plans? Please wire reply."

On May 11th I answered you as follows:

"Answering telegram ninth. Sorry cannot be in Washington May 18 but NORTHWESTERN BANKER will gladly cooperate with you in every possible way."

Believing that the greatest contribution we could make to your conference on Monday, May 18 would be to secure the ideas and suggestions of bankers concerning the favorable and unfavorable points in the present war savings bond campaign, we are just now completing a survey on this very important subject.

I believe the answers to our survey should very materially help in your discussions and in formulating whatever program you may have in mind for the banking publications in the United States.

As you know, 85% of the \$5,000,000,000 of war savings bonds bought thus far by the public have been sold by the banks of the United States. Therefore, I believe that any suggestions made by the "leading salesmen" for the United States Treasury are worth serious consideration.

I am sure, therefore, that you will be interested in the following report which I have condensed as much as possible.

The question which we asked leading bankers throughout the Middle West was as follows:

"What is the strongest and what is the weakest part of the present United States Treasury program to sell war savings bonds as far as the banks are concerned?"

FAVORABLE POINTS

1. "It strikes me that the strong point in the present Treasury program is the fact that they are giving splendid cooperation to the banks and, of course, the banks are in an excellent position to feature the sale of war bonds because they can recommend them unqualifiedly, protected as they are from market fluctuations, and this is a great selling point, particularly for the smaller purchaser."--Milwaukee banker.
2. "In theory the present plan is vdry good,--in fact it is my thought this is one of the innovations of the Government that should be carried on even after the duration, as it affords a Government Bond of small denominations for the rank and file of people, with a guarantee that there will be no depreciation of the amount paid in and the assurance of a small return should they let the bond ride on to maturity."
--Sioux City, Iowa, banker.

3. "We feel that Government bonds are desirable both as to yield and maturity. It seems to us the salaried man is buying his share; that many of those with more ample funds do not avail themselves as perhaps they should.

"The banks in this territory are promoting the sale of these bonds in every way. One of our assistant cashiers gives practically his full time to bond sales, together with much of the time of his secretary. We have advertised Government bonds on the radio and in the newspaper at our own expense. We have urged our larger savings holders to invest generously."--Sioux Falls, S. Dak. banker.

4. "The fact that all of our chartered banking institutions in America are definitely behind the program of the Treasury Department to finance this war is a strong factor in knowing the job will be well done. Because of their vocation bankers are more familiar with the effect of uncontrolled inflation than any other class of people, therefore, they see the need of converting the earnings of individuals to financing the war instead of using their funds for unnecessary purchases and buying things they can get along without."--Chicago banker.

5. "Your letter was referred to the department handling the sale of war bonds, and was also brought before our Officers' Committee, this morning, with the result that several suggestions were forthcoming. These suggestions are given to you below in the hope that they may be of some assistance to you and the conference in Washington.

"In the operation of payroll deduction plans, it is suggested that corporations give stamps to employees instead of maintaining cash accounts pending the accumulation of funds sufficient to provide for the issuance of bonds. This plan would place the funds in the hands of the government immediately (through the sale of the stamps), and would eliminate considerable bookkeeping."--St. Paul, Minnesota, banker.

6. "I would say that the strongest part of the program as far as banks are concerned and as far as the government is concerned is that the bonds are not negotiable and must be held by the individual."--Waterloo, Iowa, banker.

7. "I think the strongest point in the present Treasury program to sell war savings bonds as far as the banks are concerned is the fact that the market risk to the purchaser is eliminated, and that such defense bonds of any series thus far offered are redeemable at a fixed amount."--Chicago banker.

8. "The strongest part of the present Treasury program to sell war savings bonds, as far as the banks are concerned, is the organization work which has been developed whereby employees of large organizations are contacted by their employers and urged to buy bonds. Without doubt there would not be the volume of bonds sold if it were not for these organizations which are constantly importuning the employees to make purchases."--Minneapolis banker.

9. "From the volume of sales handled through the Twin City banks, I would say that the program adopted by the Treasury Department is an excellent one, and would hesitate to endeavor to pick any weak points in the plan. Their method of presenting the program through the banks has resulted in almost 100 per cent cooperation."--St. Paul banker.

10. "I believe the investment features should be emphasized more as the bonds pay 2.9%, and are redeemable in ten years."--Des Moines banker.

11. a. "With the organization we have set up and the close cooperation we have received from the Federal Reserve Bank, I cannot see any weakness in our present method of selling bonds and stamps. The thought occurs to me, however, that the smaller banks might be able to promote a more extensive selling campaign if they were reimbursed for the actual out-of-pocket expense in connection with the handling of the bonds and stamps."
- b. "If the Treasury Department wishes to push the 'E' bonds to the utmost, the restriction of \$5,000 face value held by any one person in any one year might be lifted. This 'E' bond is the popular bond, and the advantage to the Government is that no interest is payable until maturity."--Chicago banker.
12. "Starting from the premise that the war job MUST be done, it logically follows that money is an essential ingredient; that it should be provided by the people rather than by the banks. That means quotas first, then sufficient pressure to put them over, and if not, compulsory savings on a percentage basis. This would be too bad but the inflationary effect of putting the burden entirely on the funds of commercial banks would be worse."--Omaha banker.
13. "We are of the opinion that the value of the war savings bonds, as investments, should be stressed more than is being done. The patriotic appeal has its value, but these bonds have a definite investment value, which I believe appeals to more people and then when they are also contributing to the war effort, the bond really should have a strong appeal to everyone."--Omaha banker.
14. "In my opinion the strongest point in the U. S. Treasury's program for selling war savings bonds in the banks is the selling force in their copy and illustration. It seems to me it might be helpful if the Government's Advertising Department had direct and intimate contact with the advertising officials of the banks and with editors of bank publications."--St. Louis banker.
15. "The strongest factor in the present United States Treasury program is the whole-hearted cooperation of banks and other issuing agents to do the job through advertising, etc. without any thought of reimbursement."--Des Moines banker.
16. "Without question I think the strongest part of the war savings bond program is the payroll deduction plan. We have made great strides here in Minneapolis. In checking with the Federal Reserve Bank for figures, they stated that there are about 100,000 employees of some 700 odd concerns in Minneapolis participating in this program."--Minneapolis banker.

UNFAVORABLE POINTS

1. "There is another factor that enters into the purchase of bonds by a lot of our customers. The problem of paying taxes is rather burdensome, and also the fact that living costs have gone up some."--Sioux City, Iowa banker.
2. "Banks should at least be paid for the cost of handling the details in the sale of war bonds. This is being done in Canada, and in the Dominion they also pay the actual solicitors, known as 'non-professionals', such as investment bankers, salesmen and others, one-quarter to one-half of one per cent commission on the bonds sold. During 1941 the Bank of Canada allowed an over-all commission to investment firms of 3/4 of one per cent, to cover their expenses of selling government bonds. The banks in Canada are compensated sufficiently to cover their expenses of handling the bonds, and I think this should apply in the United States."--Des Moines banker.
3. "We are very much in favor of the payroll allotment plan. We also believe that banks should be paid for 'out-of-pocket expense' which it costs them for handling war bonds."--a Cedar Rapids, Iowa banker.
4. "One of the ~~weaknesses~~ in the present program, affecting not only the banks but the general public as well, is the fact that the appointments to head this effort in the various communities, while splendid fellows personally, are not well enough known and will not carry sufficient influence, particularly with the larger possible buyers.

"So far as the banks themselves are concerned, it strikes me that their position in the situation would be much improved if the public could be disabused of the idea that the banks are making any profit in distributing these securities."--a Milwaukee, Wisconsin banker.

5. "In the war effort all corporations have been anxious to assist, but so far as I know, the banks are the only corporations who have contributed their services that have not at least been reimbursed for their expenses, and many on a cost plus basis. After all, banks the same as other corporations have been faced with increased costs, and therefore should be permitted in some way to recover at least the expenses they are out on the sale of war bonds.

"This could either be done by a straight out commission, which probably would be frowned upon, or better still, the Government could issue a special series of Treasury bonds or notes, registered and non-negotiable at a slightly higher rate of interest than the average market so that the banks would reap some profit in the war work. At least this would enable them to recover a portion of their expenses. I don't think this should be done by any private agreement, but should be done out in the open with the reasons specifically stated therefor, and I think the public generally would approve."--St Louis banker

6. "In our territory, the ~~weakest~~ part of the program is the lack of a strong civilian campaign to secure substantial and continuous purchasing of the bonds.

"In our county, the banks are largely responsible for such sale of bonds as have been made. Industries have done fine in establishing payroll deductions. Business men, farmers, retired people in modest circumstances are not buying many bonds.

"It takes a strong campaign to sell anything successfully. In the case of war bonds, without a doubt, quotas will have to be set for subscribers if the money needed comes forth."--Clinton, Iowa banker.

7. "The complaints that come to us over the counter from time to time would indicate that enough of these newly rich workers who are getting exorbitant wages at the present time, are not doing their share in the program but are using their excess earnings for personal gratification. This spending, of course, defeats the whole program of the Government in trying to curtail the rising prices, and unless there is some scheme promulgated, either through taxation or otherwise, to tap this reservoir of potential purchases, it is questioned whether their program will be successful."
--Sioux City, Iowa banker.

8. "With the Government competing against banks in so many various ways, this handling of Government bonds by the banks gratuitously is just another burden to them, but we are making no complaint and are glad to do it."--a Sioux Falls, S. Dakota banker.

9. "One of the ~~weak spots~~ as I view it is the unknown factor of taxation. People did not generally provide for their 1941 taxes as they were told to do, consequently they are deferring payments of last year's taxes on a quarterly basis now and they are trying to anticipate what they may be called upon to pay next year.

"I do not believe the war can be financed on a voluntary basis, but will have to adopt more strenuous means of siphoning off a portion of their current income in every line of endeavor. I also believe that we should set up a block system similar to the methods used in distributing bonds in World War No. 1."--Chicago banker.

10. "Some of our customers have advanced the following beliefs:

- a. "The purchase of war bonds and stamps is being over-stressed on the radio by the use continuously of certain hackneyed phrases.

- b. "There seems to be a certain amount of confusion in the minds of the public regarding the purchase of war bonds, due to the fact that from time to time certain programs are advanced, but before these programs have been in operation for a reasonable time, another plan is brought forth.

"It is our own belief that at the present time the public is in a quandary, and is watching to see what develops in connection with the forced savings plan now being discussed."
--St. Paul banker.

11. "If the Treasury Department offered a negotiable coupon $2\frac{1}{2}\%$ bond, due in 12 or 14 years, with restrictions on borrowing, it would be more acceptable to some investors. It would also be my opinion that it would be better for the Treasury not to have so many demand bonds in the hands of the public,

"There should be some restriction as to when stamps may be cashed for we are having some difficulty in people using the stamps as another form of currency. They are taking payroll deductions, giving stamps to employees who are buying groceries, etc. with these stamps."--Sioux City, Iowa banker.

12. "With reference to some of the weak elements in the program and after a discussion with our Senior Committee this morning, I offer the following:

- a. "While the Federal Reserve Banks are fiscal agents of the Treasury Department in connection with the handling of these savings bonds, deliveries at their hands to the purchasers are so delayed and so disappointing that corporate treasurers are reluctant to put their lists of employe subscribers through the Federal Reserve Banks. Very few corporations want to take out licenses as issuing agents on account of the detail involved so, consequently, they come to the banks where they do business and dump the lists and the checks in the banks' laps and expect them to attend to the detail of issuance and delivery. This, of course, involves considerable expense in connection with the hiring of new people, and the banks are reluctant to take on this added burden, especially in view of the fact that every bank has had to set up additional machinery for the handling of subscriptions not only of their own people but of their customers.
- b. "Lack of strong selling organizations back of the program--the Treasury Department should enlist the services of organizations which could combine the sale of savings bonds with their own selling lines, such as investment bankers, community chest organizations, etc.

- o. Another weak spot in the program--and this is my own reflection and not the conclusions of my associates here--is the unfavorable reaction I get from some of the articles employed by the Treasury Department to sell bonds, such as:
 - (1) Troops of movie actresses and actors moving across the country at considerable expense to the taxpayer, attracting the curious, the movie-bug, and the general, cheap riffraff to a type of entertainment that does not lend itself seriously to the business of encouraging the sale of war savings bonds.
 - (2) Such little incidents as college boys and girls riding around in jeep cars chauffeured by soldiers at a dollar per head per ride, the dollar going to purchase of war stamps. If we have to use government gasoline and tires to sell these stamps and bonds, we ought to go about it in a big way instead of burning up good gas and tires around the college campus.
4. "I do not see any way of reaching this army of new-rich wage earners except to take it away from them at the source and leave the net in their envelopes. I do not think we are going to get it out of the inclusion of this new army into the income tax bracket as many of them would be touched for the first time and would completely ignore their responsibility and laughingly invite Mr. Morgenthau to come and get it he can."--Chicago banker.
13. "While we all fully appreciate the restriction placed on the pledging of such bonds is for the purpose of encouraging continued ownership and avoiding inflation, I am inclined to think that this restriction acts as a retarding influence on a great many people who question the inability of the banks to loan thereon. It seems to me the removal of this restriction at least to some extent, for specific purposes such as sickness, previously contracted and maturing debts of a defined nature, or other non-speculative purposes, would be beneficial notwithstanding the desirability of avoiding a pyramiding of credit.
- "Another feature of the program is the fact that the banks are in no manner whatever reimbursed for their overhead expense and the responsibility entailed in the proper issuance and delivery of such bonds. As far as I am personally concerned this is a minor detail, but nevertheless it is my opinion that a number of banks feel that they should be reimbursed for at least the actual expense to them.

"Possibly the weakest point of the program as far as the banks are concerned is the feeling on the part of a great many of them of the failure of Washington to take them into their complete confidence in an all-out cooperative effort. I do not say this in a critical way at all, but I do feel there is a great opportunity for a better feeling of understanding and confidence between Washington and the banks as a whole."--a Chicago banker.

14. "The weakest part of the program is the fact the pledges are all of a voluntary nature and of course are not binding. While I do not know the figures, it is probably true that the majority of those who do agree to buy bonds have continued to keep up their payments, but in the more general program, which is about to be launched, where pledgers will not be a part of a larger organization, it may develop many of these pledges will not be fulfilled."--Minneapolis banker.
15. "I don't believe that a sufficient appeal has been made; first to the patriotic spirit of the people, and, second, I do not believe that the investment features of these defense bonds have been stressed as much as they should be.

"It doesn't do much good if bonds are purchased and then turned back almost immediately. I think the house-to-house campaign now being carried on in most of the country has been pretty much along this line. The mere statement that I might buy so many bonds a month means nothing."--Lincoln, Nebraska banker.
16. "Current issues of war bonds are not negotiable and cannot be pledged as collateral for a loan, but they can be sold after sixty days. Salaried people are going to accumulate substantial amounts of these bonds and circumstances over which they have no control, and which they could not predict at the time the bonds were purchased, will make use of the funds invested in them necessary for such emergencies. If this necessitates a sale of the bonds they are permanently out of the hands of the investor."--St. Paul banker.
17. "I do not think the organization of the sale of these bonds has been developed as it should be. My memory goes back to the last war and there was a lot of enthusiasm and interest that does not seem to me to prevail at this time. Maybe it is too early, yet we have been in the war for five months."--Omaha banker.
18. "I have talked to our people and find that our customers' most common fear of purchasing the war bonds is because they are afraid that there is a possibility of this type of bond being frozen. A great many of them say that they are doing their utmost in purchasing bonds but that knowing what the tax situation is going to be in the future they will doubtless be in a place where they will have to use a part of this saving to pay taxes and further to pay debts which they had expected to be spread over a longer period of time."--Des Moines banker.

19. "It is my opinion that this program has lagged because of skepticism among the small bond purchaser as to the ultimate payment of these bonds without a loss to him. Unfortunately the wholesale freeing process that we have been put through in the past few months has been detrimental to this program.

"A further observation of mine is that they have always attempted to put these sales over to the public by some third or fourth rate member of the theatrical profession. We are not going to impress upon the public the fact that we are at war until this sales program has a war background. Soldiers, sailors and marines should be the backbone of this program."--Des Moines banker.

20. "The weakest portion of the plan, as we see it, is that there is no provision made for follow-up, particularly in the house-to-house campaign. The prospects are urged to open up a war savings account with a bank and it would seem that in the majority of cases no additional deposits will be made. In that event the money would still lie in the bank and the Treasury Department would receive no benefit."--Minneapolis banker.

IN CONCLUSION

Thus I have tried to give you both the favorable and unfavorable points in this survey which the NORTHWESTERN BANKER has just completed.

I hope that it will be helpful to you in your conference and in the future program of the United States Treasury Department in the financing of war bonds.

Again assuring of my sincere cooperation, both personally and through the NORTHWESTERN BANKER, I am

Cordially yours,

Clifford De Fuy
Clifford De Fuy, Publisher
THE NORTHWESTERN BANKER

GD:ME

NORTHWESTERN

CLIFFORD DE PUY
PUBLISHER

DES MOINES, IOWA

June 1942 Issue

12

How the Present Program to Sell War Bonds Can Be Improved

1. What is wrong with the present U. S. Treasury sales plans?
2. Should banks be paid for expenses incurred in selling war bonds as they are in Canada?
3. Is the **voluntary** sales plan or the **payroll deduction** plan the best method to use in selling war bonds?

These questions and many others are all answered in this article, based on a survey made by the Northwestern Banker.

OVER 85 per cent of the \$5,000,000,000 of war savings bonds have been sold by the bankers of America. Thus, the bankers of the United States have become the backbone of the U. S. Treasury's sale of war bonds.

A conference was called last month at Washington by the U. S. Treasury Department of the publishers of the leading regional banking magazines to discuss methods of how these financial journals could help bankers increase their sale of war bonds.

Clifford DePuy, publisher of the NORTHWESTERN BANKER, was invited to attend the meeting, and believing that the most constructive material to present to this conference would be a survey among leading bankers on this important subject, letters were written asking the following question:

"What is the strongest and what is the weakest part of the present United States Treasury program to sell war savings bonds as far as the banks are concerned?"

On the opposite page we have condensed the FAVORABLE and the UNFAVORABLE points brought out in these letters.

We believe that our NORTHWESTERN BANKER readers will find much of interest in this analysis, as will also the U. S. Treasury Department.

A few of the comments

from the letters which we received, giving constructive criticism and suggestions for the sale of war savings bonds, are as follows. Some bankers had no objection to using their names in quoting their remarks and others preferred that their names not be used, so we have made the plan uniform and referred only to the city where the banker is located.

No Profit for Banks

"One of the weaknesses in the present program, affecting not only banks but the general public as well, is the fact that the appointments to head this effort in the various communities, while splendid fellows personally, are not well enough known and will not

carry sufficient influence, particularly with the larger possible buyers.

"So far as the banks themselves are concerned, their position would be much improved if the public could be disabused of the idea that banks are making any profit in distributing these securities." Milwaukee Banker.

Bonds Not Negotiable

"The strongest part of the program, so far as banks and the government are concerned is that the bonds are not negotiable and must be held by the individual." Waterloo Banker.

Give Stamps Instead of Cash

"In the operation of payroll deduction plans, it is suggested that corporations give stamps to employees instead of maintaining cash accounts pending the accumulation of funds sufficient to provide for the issuance of bonds. This plan would place the funds in the hands of the government immediately (through the sale of the stamps), and would eliminate considerable bookkeeping." St. Paul Banker.

Voluntary Plan Not Enough

"I do not believe the war can be financed on a voluntary basis, but we will have to adopt more strenuous means of siphoning off a portion of the current income in every line of endeavor."

(Turn to page 66, please)



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CLIFFORD DE PUY
PUBLISHER

DES MOINES, IOWA

Here is a Brief Summary of FAVORABLE and UNFAVORABLE Points Mentioned by Bankers in the NORTHWESTERN BANKER Survey on "How to Improve the Sale of War Bonds"

FAVORABLE

- 1. "Banks can recommend war bonds unqualifiedly because they are protected from market fluctuations."
- 2. "Government bonds of small denominations should be sold after the war is over—the present idea is a good one."
- 3. "We feel that government bonds are desirable both as to yield and maturity."

UNFAVORABLE

- 1. "Banks should at least be paid for the cost of handling the details in the sale of war bonds. This is already being done in Canada."
- 2. "One of the weaknesses in the present program is that appointments to head various local committees are men not well enough known to help influence the larger possible buyers of war bonds."



- 4. "It is most desirable as far as banks are concerned, as well as the government, that the bonds are not negotiable and must be held by the individual."
- 5. "The Treasury Department's plan of presenting its program is an excellent one, and is receiving our very best cooperation."
- 6. "I believe the investment feature of war bonds should be emphasized, as they pay 2.9 per cent and are redeemable in 10 years."
- 7. "It seems to me it would be helpful if the government's advertising department had direct and intimate contact with the advertising officials of the banks and with the editors of banking publications."
- 8. "Without question I think the strongest part of the war savings bonds program is the payroll deduction plan."

- 3. "The U. S. Treasury should inform the public that the banks are making no profit in distributing these bonds."
- 4. "Not enough of the 'newly-rich workers' are being sold war bonds. They are spending their money for personal gratification."
- 5. "I do not believe the war can be financed on a voluntary basis, but we will have to adopt a more strenuous means of siphoning off a portion of the current income of every worker."
- 6. "There is too much confusion in the minds of the public regarding the purchase of war bonds and the transferring of them."
- 7. "There is a lack of strong selling organization back of the program, such as used in Community Chest campaigns."
- 8. "Another weak spot in the program is the use of movie actresses to help sell war bonds. Why not use soldiers, sailors and marines for this purpose?"

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WAR BOND PROGRAM CAN BE IMPROVED

(Continued from page 12)

also believe that we should set up a block system similar to the method used in distributing bonds during World War No. 1." Chicago Banker.

Banks Should Be Paid for Cost of Handling Bonds

"Banks should at least be paid for the cost of handling the details in the

sale of war bonds. This is being done in Canada, and in the Dominion they also pay the actual solicitors, known as 'non-professionals', such as investment bankers, salesmen and others, $\frac{3}{4}$ to $\frac{1}{2}$ of 1% commission on the bonds sold. During 1941 the Bank of Canada allowed an over-all commission to investment firms of $\frac{3}{4}$ of 1%, to cover their expenses of selling government bonds. The banks of Canada

are compensated sufficiently to cover their expenses of handling the bonds, and I think this should apply in the United States." Des Moines Banker.

Newly Rich Workers Not Buying Bonds

"The complaints that come to us over the counter indicate that not enough of these newly rich workers who are getting exhorbitant wages at the pres-

ent time, are doing their share in the program but are using their excess earnings for personal gratification. This spending, of course, defeats the whole program of the government." Sioux City Banker.

More Understanding Needed Between Banks and Washington

"Possibly the weakest point of the program as far as the banks are concerned is the feeling on the part of a great many of them of the failure of Washington to take them into their complete confidence in an all-out cooperative effort. I do not say this in a critical way at all but I do feel there is a great opportunity for a better feeling of understanding and confidence between Washington and the banks as a whole." Chicago Banker.

Actual Expenses Should Be Paid Banks

"Banks are in no matter whatever reimbursed for their overhead expense and the responsibility entailed in the proper issuance and delivery of such bonds. As far as I am personally concerned this is a minor detail but nevertheless it is my opinion that a number of banks feel that they should be reimbursed for at least the actual expense to them." Chicago Banker.

Compulsory Savings May Be Needed

"Starting from the premise that the war job MUST be done, it logically follows that money is an essential ingredient; that it should be provided by the people rather than by the banks. That means quotas first, then sufficient pressure to put them over, and if not, compulsory savings on a percentage basis. This would be too bad but the inflationary effect of putting the burden entirely on the funds of commercial banks would be worse." Omaha Banker.

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Purchaser May Be Forced to Sell Bonds

"Current issues of war bonds are not negotiable and cannot be pledged as collateral for a loan, but they can be sold after sixty days. Salaried people are going to accumulate substantial amounts of these bonds and circumstances over which they have no control, and which they could not predict at the time the bonds were purchased, will make use of the funds invested in them necessary for such emergencies. If this necessitates a sale of the bonds they are permanently out of the hands of the investor." St. Paul Banker.

Afraid Bonds Will Be "Frozen"

"It is my opinion that this program has lagged because of skepticism among the small bond purchasers as to the ultimate payment of these bonds without a loss to them. Unfortunately the wholesale freezing process that we have been put through in the past few months has been detrimental to this program." Des Moines Banker.

Payroll Deduction Plan Best

"Without question I think the strongest part of the War Savings

bond program is the payroll deduction plan. We have made great strides here in Minneapolis. In checking with the Federal Reserve Bank for figures, they stated that there are about 100,000 employees of some 700-odd concerns in Minneapolis, participating in this program." Minneapolis Banker.

Bond Advertising Is Good

"In my opinion the strongest point in the U. S. Treasury's program for selling war Savings bonds in the

banks is the selling force in their copy and illustration. It seems to me it might be helpful if the government's advertising department had direct and intimate contact with the advertising officials of the banks and with editors of bank publications." St. Louis Banker.

Taxes and Debts Prevent Sale of Bonds

"Our customers' most common fear of purchasing the war bonds is because they are afraid that there is a possibility of this type of bond being frozen. A great many of them say that they are doing their utmost in purchasing bonds but that knowing what the tax situation is going to be in the future they will doubtless be in a place where they will have to use a part of this saving to pay taxes and further to pay debts which they had expected to be spread over a longer period of time." Des Moines Banker.

Delivery of Bonds Delayed

"With reference to some of the weak elements in the program and after a discussion with our senior committee, I offer the following:

"While the Federal Reserve Banks are fiscal agents of the Treasury Department in connection with the handling of these savings bonds, deliveries

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at their hands to the purchasers are so delayed and so disappointing that corporate treasurers are reluctant to put their lists of employ subscribers through the Federal Reserve Banks. Very few corporations want to take out licenses as issuing agents on account of the detail involved so, consequently, they come to the banks where they do business and dump the lists and the checks in the banks' laps and expect them to attend to the detail of issuance and delivery. This of course involves considerable expense in connection with the hiring of new people, and the banks are reluctant to take on this added burden, especially in view of the fact that every bank has had to set up additional machinery for the handling of subscriptions not only of their own people but of their customers." Chicago Banker.

Investment Features Not Stressed

"I don't believe that a sufficient appeal has been made; first to the patriotic spirit of the people and, second, I do not believe that the investment features of these defense bonds have been stressed as much as they should be." Lincoln Banker.

Should Sell Negotiable Bonds

"If the Treasury Department offered a negotiable 2½% bond, due in 12 or 14 years, with restrictions on borrowing, it would be more acceptable to some investors. It would also be my

opinion that it would be better for the Treasury not to have so many demand bonds in the hands of the public." Sioux City Banker.

Pledges Not Binding

"The weakest part of the program is the fact the pledges are all of a voluntary nature and of course are not binding. While I do not know the figures, it is probably true that the majority of those who do agree to buy bonds have continued to keep up their payments, but in the more general program, which is about to be launched, where pledges will not be a part of a larger organization, it may develop many of these pledges will not be fulfilled." Minneapolis Banker.—THE END.

June 15, 1942

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

PAYROLL SAVINGS AND "TREASURY STAR PARADE"

A. Almost 60 per cent of the radio stations throughout the nation now have installed Payroll Savings Plans. Almost 40 per cent of the nation's radio stations have installed Payroll Savings 100 per cent.

B. Seven-hundred and ninety-two radio stations (out of the nation's eight-hundred and sixty-eight) now are broadcasting the "Treasury Star Parade" series of programs three times weekly.

The second in a series of noted network programs which are being heard every week during the summer (with Lionel Barrymore and Cecil B. De Mille as spokesmen for the Government) in behalf of War Bonds featured Red Skelton, Harriet Hilliard and Ozzie Nelson's Orchestra on Sunday, June 14, from 7 to 7:30 over the NBC coast-to-coast network.

WWS
6/17/42

PAYROLL SAVINGS AND "TREASURY STAR PARADE" - (Continued)

The "BC" Remedy Company, sponsor of "BC" headache powder announcements, reports that it has instructed its network of stations carrying "BC" commercials to use War Bond announcements instead, at least once weekly. A total of 204 radio stations throughout the nation have been so instructed.

The Pepsi-Cola Company reports that entries to date in its War Bond Jingle Contest total 39,339 in the United States, Canada, Mexico and Alaska. A typical script is attached.

Radio station WHOM is the leading example of foreign language radio station cooperation. In May, WHOM broadcasted 867 War Bond and Stamps announcements. In addition, it presented 13 speakers and launched a weekly series in Polish in behalf of War Bonds, entitled "Builders of America". On June 7, WHOM featured a one-hour program in Italian to acquaint Italian-American listeners with the New York State 10% Pledge Drive.

WRJN, Racine, Wisconsin, has inaugurated a 15-minute weekly program in Italian which features Minute Men, Quota and the 10% Club, and is highlighted by a five-minute talk on War Savings by a priest or minister. The theme song of the program is "Any Bonds Today".

PRESS

Attached are samples of New York daily newspapers showing front page editorials, photographs, full-page advertisements and complete sections and cartoons, all devoted to promoting the Greater New York Pledge Campaign for War Bonds and Stamp purchases.

Also attached are copies of "What You Buy With War Bonds", proofs of the new 10% seal and button, and other material issued this week for release by the Press Section.

A total of 81 new authors have now contributed pieces for the War Savings Program. These have been graded according to merit and will be distributed to the newspaper wire services (UP and INS), the War Savings Staff's own Road to Victory feature, and to magazines.

Eighteen articles are designated for press associations. These include pieces by such writers as Dale Carnegie, Believe-it-or-not Ripley, Emile Gauvreau, Rebecca Yancey Williams, Stewart Edward White, Mary Ellen Chase, Charles A. Beard, Quincy Howe, Walter Duranty and others.

Articles graded for our Road to Victory feature include contributions by such writers as Stuart Cloete, Louis Paul, Louis Bromfield and others.

Magazine articles are to be developed by Stuart Chase, Walter Lippmann, Thomas Mann, Margaret Mitchell, Paul Engle, and Erskin Caldwell, among others.

WOMEN'S PRESS

To stimulate the sale of War Savings Stamps and Bonds to women War Savings Corsage sales have been started. Corsages are being sold for \$1.00 as boutonnieres for suit and dress decoration by various department stores throughout the country. The stamps are covered with a transparent cellulose material to protect them.

Various press associations and women's fashion magazines are giving this patriotic vogue their attention. Fifty corsage promotion photographs, fifteen of which were in color, contributed by the Conde Nast and Vogue Studios, have been mailed to AP, UP, INS, NEA, Bell, and King Syndicates, accompanied by a feature story. Similar photographs are being sent to all fashion magazines. Coronet and Glamour expect to use our photographs. The Dress Institute of New York feature, syndicated through J. Walter Thompson and also through Western Newspaper Union, has used an insert of the War Savings Corsages in each of their two releases this week and promised further promotion for the same subject.

MAGAZINES

The Reader's Digest has agreed to republish in its August issue a condensation of Harry Scherman's War Bonds article, scheduled for the July 5 issue of the Saturday Evening Post.

In conjunction with the pictures arranged by the Women's Press Section, featuring War Stamp Corsages, the Saturday Evening Post has promised to make up a cover around this theme.

MAGAZINES (Continued)

McCall's Magazine also plans to use a Stamp Corsage cover in the fall.

McCall's recently has accepted in toto a War Bond budget story originated by the Women's Press Section.

Copies of two of the first July magazine covers to appear - National Geographic and Field Stream - are attached.

War Bond promotion will be emphasized in the July issues of Esquire, Apparel Arts, Charm, American Home, Woman's World, and the Sunday Mirror Magazine. Esquire (a copy of which is attached) is using a full War Bond cover design as well as eight other spots throughout the magazine. Child Life and Calling All Girls are both featuring our Betty Betz cartoons in early issues.

Bride's Magazine will use a story on War Bonds as gifts to brides in their fall issue. Charm Magazine is giving us a late summer War Bond cover, and the July issue carries a double-page spread of their feature attraction, "Suzy", selling War Bonds. Family Circle plans a feature story regarding motion picture star activities for War Bonds. Boy's Life has accepted a Boy Scout War Bond promotion photograph for early use, and Mademoiselle has promised an early fall cover and a story on the various pinafore, Minute Maids and Victory Aid costumes.

The magazines Better Homes and Gardens and Successful Farming have announced that beginning in July all recommendations for home equipment purchases will be put to their readers on the "Buy Your Future Today" basis. Consumers will be urged to buy War Bonds now, convert them into consumer goods after the war.

NEWSPAPER CARRIER SALES

Sale of ten-cent War Savings Stamps by the newspaper carriers of 886 newspapers for the week totaled 10,355,963 units. This represents a total of 327,040,317 ten-cent stamps sold since the beginning of the newspaper carriers campaign last November. The latest copy of the U. S. Defense Agent News is attached.

APRIL STAMP SALES

Attached is a state breakdown and analysis of the April stamp sales. Also attached is a copy of the localized Quota Promotion guide sheet which was issued to all State Administrators.

SPECIAL

A summary table showing the replies to the Secretary's letter tabulated to date, and subsequent telegram to business firms on the 10% Quota Plan, is attached.

RALLIES

The Pawtucket, Rhode Island, rally with Joy Hodges, Barry Wood and Walter O'Keefe making personal appearances, has resulted in \$250,000 in Bond and Stamp sales to date.

Three rallies at Newport, Rhode Island, with Vera Zorina and Allan Jones, stage and screen favorites, doing the personality job, chalked up \$100,000 in cash purchases.

RALLIES (Continued)

Nancy Carroll, stage and screen star, appeared at a meeting of the United Electrical, Radio and Machine Workers Union, Local 12225, Sunday, June 7, at the Brooklyn Academy of Music. It was a payroll participation meeting climaxing a drive for 100 per cent by 7,000 members.

"BONDWAGONS"

Horace Heidt and His Musical Knights Orchestra "Bondwagon" appearances during a Texas tour produced the following results: San Antonio, seven days, \$80,651; Houston, six days, \$87,300; Dallas, six days, \$89,625; Fort Worth, two days, \$16,925.

VICTORY WINDOWS

I. Magnin & Company's West Coast Store Victory Window, after fifty days' operation, totaled sales of \$205,902 in Bonds and Stamps.

AIR CAVALCADE

Jointly sponsored by the War Savings Staff and the Army Air Forces, an "Air Cavalcade" begins a nationwide tour at La Guardia Field, New York City, June 16. The cavalcade includes a Messerschmitt 109E, brought down over England; a Spitfire and a Beaufighter, both with action records in the skies over the English Channel; a P-40 and a P-39, famous United States combat planes; an O-49 converted, as tow for a multiplace glider; and a 20-seat transport for personnel other than pilots. The tour

AIR CAVALCADE (Continued)

itinerary is attached hereto, as is a detailed statement concerning the tour. This is the first time that a Messerschmitt has been seen in the skies over this country.

BUSINESS PUBLICATIONS

Returns to date indicate that 265 publications, with a total circulation in excess of 2,100,000 businessmen, will run our advertising release No. 5, as described in last week's report.

COMPANY PUBLICATIONS

On Wednesday, June 10, we held a meeting of our Company Publications Committee in Washington. Attending the meeting were A. P. Alexander, Jr., of the Coca-Cola Company; Richman B. Williams, of the American Telephone and Telegraph Company; Elizabeth B. Stroud, of the Hercules Powder Company; W. M. Thompson, of the Shell Oil Company; and Victor Keppler, New York Photographer and Consultant to the Treasury Department.

At this meeting we formulated promotion for our next three releases for company publications.

SPECIAL - FARM

An order recently has been issued from the office of the Third Assistant Postmaster General authorizing rural mail carriers to accept applications for War Bond purchases.

LABOR PRESS

Attached is a copy of the publicity memo for use by women's auxiliaries of labor unions. This was published for use at the Convention of Women's Auxiliaries of the AFL Union's meeting later this week in St. Louis, and it will also be used for CIO Unions and Railroad Brotherhoods.

Also attached is the new issue of the Guild Reporter showing how the Guild is continuing to push the War Bond Drive.

The radio program "Labor for Victory" over the NBC network on Saturday, June 13, was sponsored jointly by the Treasury and the AFL. Attached is a release about it.

RETAIL ADVISORY

Attached is a brochure reviewing the activities of the Walgreen Drug Company during the recent May War Stamp Drive.

FIELD STAFF

PLEDGE CAMPAIGNS

The Greater New York War Bond Pledge Campaign will begin June 14 and is expected to end June 24. A letter dated June 11 was sent to every home explaining the campaign and preparing the way for the Minute Men who are to canvass every home. It enclosed a sticker for the door reading "Welcome, Minute Man". Every necessary publicity device is to be used.

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FIELD STAFFPLEDGE CAMPAIGNS (Continued)

Paving the way for the use of air raid wardens and other volunteers in the State of New Hampshire's civilian defense setup in the June 22-23 War Bond Pledge Campaign, the Governor and State Chairman signed an agreement to supply "the necessary qualified volunteers" for the house-to-house canvass. These organizations are at the present time the only ones which are in a position to make contacts in each of the 125,000 homes in New Hampshire.

LATEST COUNTY ORGANIZATION FIGURES

Members of all State Committees	1873
Number of County Committee Chairmen	3024
City Committee Chairmen in 5 States not on County basis	1015
Members of all Committees exclusive of above	<u>264503</u>
Total members of all Committees	270415*

*This figure does not include volunteers who are not Committee members.

RETAIL DIVISION

At the conclusion of Pawtucket's "Retailers for Victory" week (Rhode Island) more than \$100,000 in War Savings Pledges were received.

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FIELD STAFFPAYROLL SAVINGS DIVISION

A total of 1,790 replies have been received from all sections of the country in answer to the Secretary's letter of April 25, and his subsequent telegrams of May 2, 12, 15, and 26. Each company that replied to the letter or telegram is receiving a personal reply from Mr. Graves.

Among those concerns that have reached the 10% goal promptly are the following:

Arma Corporation, Brooklyn, New York, which reports 100% participation among 3,000 employees with more than 12% of the payroll being allotted to War Savings Bonds.

Sonoco Products Company, Hartsville, South Carolina, with 1,525 employees, 99.5% participation, approximately 10% of the payroll.

Diamond T. Motor Car Company, Chicago, Illinois, with 1,743 employees, 98% participation, more than 10% of the payroll.

FIELD STAFFPAYROLL SAVINGS DIVISION (Continued)

W. T. Grant Company, New York, New York; 96% employee participation, 11% of the payroll, 900 employees.

Northwestern Steel and Wire Company, Sterling, Illinois; 1,795 employees, 100% participation, 10% of the payroll.

W. S. Butterfield Theatres, Inc., Detroit, Michigan; 1,289 employees, 10.6% of the payroll subscribed.

The Cummins Construction Company, which employs 2,000 workers on a naval construction project at Cedar Point, Maryland, has all of its employees participating in the Payroll Savings Plan. It is expected that employment will reach a peak of 7,000 and new employees are interviewed for the purpose of having them sign authorization cards at the time they become employed.

The Treasury Department itself has reached the 10% of gross payroll goal.

On Friday, June 12, Camden, New Jersey, staged a community-wide program built around the presentation of the Minute Man Flag to twenty-three concerns employing approximately 23,000 workers. The Governor, the Mayor, the State Administrator, and other celebrities attended.

94,141 concerns throughout the country have now installed the Payroll Savings Plan. 23,855 or 71 per cent of 33,630 concerns with over 100 employees have adopted the Payroll Savings Plan. 475 or 99 per cent of the 479 concerns with 5,000 or more employees; 4,821 or 79 per cent of the 6,138 concerns employing 500 to 4,999 employees; and 18,559 or 69 per cent of the 27,013 concerns employing 100 to 499 workers have installed the Plan.

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FIELD STAFFPAYROLL SAVINGS DIVISION (Continued)

22,181,055 or 64 per cent of the 34,800,000 employees in private concerns, and in Federal Government and State and Local Government, can now purchase Bonds through the Payroll Savings Plan.

7,771,558 are employed by concerns with 5,000 or more workers; 6,544,064 are employed by companies with 500 to 4,999 employees, and 4,413,878 are employed by concerns with 100 to 499 employees.

1,929,374 are employed by concerns with less than 100 employees.

A total of 20,658,874 or 69% of the 30,000,000 employees in private industry have the plan available to them. In addition, 1,522,181 or 32 per cent of the 4,800,000 Federal, State and Local Government employees can now purchase War Savings Bonds through the Payroll Savings Plan.

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of June sales to date with sales during the same number of business days in April and May 1942

(At issue price in thousands of dollars)

Date	June daily sales	Cumulative sales by business days				June as percent of May
		June	May	April		
June 1942						
1	\$ 19,834	\$ 19,834	\$ 12,679	\$ 12,993		156.4%
2	8,008	27,841	24,263	24,256		114.7
3	12,970	40,811	46,532	35,050		87.7
4	17,388	58,199	55,460	47,119		104.9
5	24,789	82,988	73,824	65,115		112.4
6	15,209	98,197	97,049	73,795		101.2
8	27,048	125,245	114,218	85,714		109.7
9	8,912	134,157	128,670	97,925		104.3
10	20,085	154,242	151,956	108,707		101.5
11	15,678	169,920	161,346	116,081		105.3
12	16,550	186,470	177,133	138,272		105.3
13	15,230	201,700	194,047	146,937		103.9

June 15, 1942.

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

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.
Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

UNITED STATES SAVINGS BONDS - TOTAL

Comparison of June sales to date with sales during the same number of business days in April and May 1942

(At issue price in thousands of dollars)

Date	: June : daily : sales	Cumulative sales by business days				: June as : percent of May
		: June	: May	: April		
June 1942						
1	\$ 29,539	\$ 29,539	\$ 19,981	\$ 24,980		147.8%
2	15,903	45,442	39,430	45,933		115.2
3	21,604	67,046	72,048	64,147		93.1
4	31,162	98,208	88,605	82,937		110.8
5	34,132	132,341	122,575	111,289		108.0
6	21,744	154,085	157,866	129,786		97.6
8	38,574	192,659	181,431	149,409		106.2
9	13,863	206,523	201,464	168,289		102.5
10	30,029	236,552	232,801	185,904		101.6
11	23,220	259,772	246,756	196,667		105.3
12	21,952	281,724	271,525	229,895		103.8
13	21,439	303,163	296,152	242,969		102.4

June 15, 1942.

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

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of June sales to date with sales during the
same number of business days in April and May 1942

(At issue price in thousands of dollars)

Date	June daily sales	Cumulative sales by business days				June as percent of May
		June	May	April		
June 1942						
1	\$ 9,705	\$ 9,705	\$ 7,302	\$ 11,987		132.9%
2	7,895	17,601	15,168	21,677		116.0
3	8,634	26,235	25,516	29,097		102.8
4	13,774	40,009	33,145	35,818		120.7
5	9,344	49,353	48,751	46,174		101.2
6	6,535	55,888	60,817	55,991		91.9
8	11,526	67,414	67,213	63,695		100.3
9	4,952	72,366	72,794	70,364		99.4
10	9,945	82,310	80,845	77,197		101.8
11	7,542	89,852	85,410	80,586		105.2
12	5,402	95,254	94,391	91,623		100.9
13	6,210	101,464	102,106	96,031		99.4

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

June 15, 1942.

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

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

Sales of United States Savings Bonds
From June 1 through June 13, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales
	Daily	to June 1	June 1 to	to Date	Daily	to June 1	June 1 to	to Date	Daily	to June 1	June 1 to	to Date
	Date	Date	as % of Quota		Date	Date*	as % of Quota		Date	Date	as % of Quota	
1	\$ 19.8	\$ 19.8	\$ 21.7	91.2%	\$ 9.7	\$ 9.7	\$ 14.0	69.3%	\$ 29.5	\$ 29.5	\$ 35.7	82.6%
2	8.0	27.8	32.0	86.9	7.9	17.6	23.0	76.5	15.9	45.4	55.9	82.5
3	13.0	40.8	46.4	87.9	8.6	26.2	37.9	69.1	21.6	67.0	94.5	79.5
4	17.4	58.2	65.6	91.5	13.8	40.0	51.0	78.4	31.2	98.2	114.6	85.7
5	24.8	83.0	79.6	104.3	9.3	49.4	61.7	80.1	34.1	132.3	141.3	93.6
6	15.2	98.2	93.7	104.8	6.5	55.9	69.4	80.5	21.7	154.1	163.1	94.5
8	27.0	125.2	120.0	104.3	11.5	67.4	82.2	82.0	38.6	192.7	202.2	95.3
9	8.9	134.2	132.4	101.4	5.0	72.4	89.2	81.2	13.9	206.5	221.6	93.2
10	20.1	154.2	149.6	103.1	9.9	82.3	99.6	82.6	30.0	236.6	249.2	94.9
11	15.7	169.9	170.0	99.9	7.5	89.9	108.4	82.9	23.2	259.8	278.4	93.3
12	16.5	186.5	189.0	98.7	5.4	95.3	115.4	82.6	22.0	281.7	304.4	92.5
13	15.2	201.7	205.6	98.1	6.2	101.5	120.8	84.0	21.4	303.2	326.4	92.9
15			236.5				130.9				367.4	
16			251.1				137.3				388.4	
17			271.3				147.8				419.1	
18			295.2				157.0				452.2	
19			317.4				164.6				482.0	
20			336.9				170.6				507.5	
22			373.0				181.9				554.9	
23			390.0				189.2				579.2	
24			413.5				201.3				614.8	
25			441.1				212.0				653.1	
26			466.8				221.0				687.8	
27			489.2				228.0				717.2	
29			530.6				241.4				772.0	
30			550.0				250.0				800.0	

June 15, 1942

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

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.

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EXECUTIVE OFFICE OF THE PRESIDENT

Bureau of the Budget

Washington, D. C.

*no letter was
written to Budget.
Hearing was
granted to Treas.*

June 15, 1942.

My dear Mr. Secretary:

The question of the transfer of the Bureau of Internal Revenue from Class 5 to Class 2 under Budget Circular No. 388 has been discussed with the Commissioner of Internal Revenue, Assistant Secretary Sullivan and Administrative Assistant W. N. Thompson.

In order to insure that no impediments will be placed in the way of the administration of the withholding tax, this change in classification is being made, effective as of this date.

Very truly yours,

(signed) Harold D. Smith

Director

The Honorable,

The Secretary of the Treasury

April 9, 1942

MEMORANDUM FOR THE FILES:

Commissioner Helvering and I conferred with the Secretary today with respect to the loss of personnel in the Internal Revenue Bureau resulting from transfer from that bureau to other agencies of the Government as a result of the classification of the Internal Revenue Service in Class 5 under the Priority Order of the Bureau of the Budget of February 26, 1942, Circular No. 388.

The Commissioner stated the work of collecting taxes was being seriously jeopardized by the loss of personnel under this priority arrangement. He also indicated that it was difficult to fill vacancies with competent applicants because of the requirement that appointments now be made "for the duration" rather than on a permanent basis. I told the Secretary that that was an order applying to the whole Federal Government and I did not think it was particularly serious inasmuch as the duration might be for many years and the turnover in personnel in the meantime would assure new appointees of permanency although their appointments at present would have to be on a duration basis. The Secretary indicated that he was much concerned over the situation and would go to the President and tell him that he couldn't collect the taxes if his organization was to be wrecked in this way. He directed Commissioner Helvering to give me a memorandum of the actual facts as to the loss of personnel and failure to recruit, with instructions to me to take the matter up immediately with a view to correcting the situation.

fms

Treasury Department 149
Division of Monetary Research

Date..... June 17 19 42

To: Secretary Morgenthau

From: Mr. White

The next step probably should
be to call another meeting of the same
persons who were here at the first
meeting to discuss the appended
report of the Subcommittee.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 15, 1942

TO Secretary Morgenthau
FROM Mr. White

Subject: Report of Interdepartmental Committee on a Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations

The Committee, after holding two meetings, each attended by about 16 men almost all of whom were expert in the field of international economics, agreed to transmit to you the following report on its deliberations.

1. The Committee agreed, with the exception of the representative of the State Department, that there is need for an international stabilization fund and an international bank for reconstruction and development. This representative explained that he was unable to express an official position, as he had received no instructions from the State Department.

It is further the opinion of the Committee that such agencies should be established before the end of the war so that they could function effectively during the critical months following an armistice, and also be of some help during the war. It was agreed that it is desirable to proceed as rapidly as possible with the examination of the general proposals by technical representatives of the United and Associated Nations.

2. The Committee examined various proposals as to the appropriate procedure for the organization of the two institutions, and reached the conclusion that the successful operation of both would be furthered by the membership of all friendly governments, and that all friendly nations should be accorded simultaneous opportunity for discussion of these proposals.

Much attention was devoted to the necessity for adequate preparation before the initiation of any formal meeting of plenipotentiaries, as demonstrated by historical instances.

3. The Committee therefore recommends:

(a) That the Finance Ministers of the United and Associated Nations be invited to send technical experts to a meeting to be held in Washington in the near future, for the purpose of

Division of Monetary
Research

- 2 -

exploring the proposals for a Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations, and also for the purpose of considering the feasibility of convoking a formal Conference. The Committee believes that such a meeting of technical experts would eliminate the danger of a premature inauguration of a formal Conference, as the interchange of views at the technical level would permit careful advance planning for a Conference of Finance Ministers, and hence avoid any possibility of a failure at the formal gathering.

(b) That, if these recommendations are accepted, and if they meet with the approval of the President, the following procedure be followed:

(1) The Committee should prepare a draft agenda for the international meeting of technical experts proposed above.

(2) The Committee should complete, before the date fixed for the issuance of invitations to the Finance Ministers, a series of memoranda discussing the pros and cons of the various points raised in this agenda and the various possibilities for implementation of the objectives outlined therein.

(3) The agenda and the memoranda, after approval by appropriate officials, should be dispatched with the invitations sent to Finance Ministers, asking them to name technical advisers to appear at the Washington meeting.

(4) The invitations should advise the Finance Ministers that similar memoranda prepared in their departments would be circulated to all friendly Finance Ministers upon receipt.

(5) The earliest possible date should be fixed for the dispatch of invitations, agenda and documents.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 15, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending June 13, 1942

Summary

(1) While retail trade continues generally quiet, an improving tendency has been evident in the first half of June. Department store sales in the week ended June 6 rose sharply above those of the previous three weeks, and showed a gain of 7 percent over the corresponding week of 1941. After allowing for price increases, however, the actual volume of sales remained below that of the previous year.

(2) Inventories of department stores at the end of April were 59 percent higher than last year, according to Federal Reserve Board data. In addition, sample reports showed the volume of orders outstanding with manufacturers and distributors on that date at 120 percent above last year. In consequence, the recent threat of inventory restrictions has led to a drastic curtailment of wholesale buying, and some stores have started preparations for clearance sales.

(3) Commodity prices show clearer evidence of stabilization under the ceiling order. The BLS all-commodity index has held within a narrow range for the 7th consecutive week. The BLS cost-of-living index of 117.5 on June 2 was 0.1 point lower than on May 15, according to confidential data.

(4) The ceiling order has indirectly effected reductions in prices of various uncontrolled agricultural commodities, largely through restricting prices of processed farm products and discouraging speculative demand. Severe weakness in prices of some farm products, particularly cotton, has led to authorization of a Senate investigation.

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Weekly retail sales sharply higher

Sales by department stores in the week ended June 6 recovered sharply from those of the previous three weeks, and the Federal Reserve Board index of department store sales (in dollar volume) showed a gain of 7 percent over the corresponding week of 1941. (See Chart 1.) The actual volume of goods sold, however, remained lower than last year, since prices have risen substantially more than the sales gain in dollar volume.

Preliminary information on general retail sales last week, based on Dun and Bradstreet's weekly report, indicates a tendency toward improvement on an increased demand for seasonal goods. Retail dollar sales for the country as a whole, however, were estimated at 5 to 10 percent below the corresponding period of 1941.

Sales decline reflects various influences

No single influence has been responsible for the recent lagging tendency in retail sales, but a review of the situation seems to indicate rather clearly that it has been due to a combination of influences. Among the more important influences may be cited:

- (1) The heavy stocking up by consumers in the first quarter of this year and earlier, notably of such items as clothing and canned foods, which has resulted in a backlog of goods that is now being used up.
- (2) The price ceiling order, which has been a powerful influence towards stopping advance buying, since the principal reason for such buying apparently was the fear of higher prices rather than the fear of shortages. With plentiful supplies of most consumer goods still available in retail stores, the threats of shortages seem temporarily to have lost their influence. Furthermore, there have recently been fewer official warnings on shortages of specific products, which had previously served to start buying waves.
- (3) The extension of consumer credit restrictions to cover open accounts, which has apparently reduced new buying. Some press reports last week indicated that as much as 40 percent of charge accounts may be in default on July 10, when the "grace period" expires, and that the ensuing restrictions on new buying might be felt throughout the summer.

- 3 -

- (4) The stepped-up defense bond sales campaign, together with a growing realization that much heavier sacrifices will be required of individuals in financing the war, which has doubtless led to a tendency toward retrenchment.

Retailers fear inventory controls

Purchases of many types of consumer goods from manufacturers and wholesalers have recently been almost stopped because of reports that the Government is considering some form of restrictions on inventories. (The declining tendency in retail sales has doubtless been a contributing influence.) News comments last week mentioned that many department stores and most other retailers have sharply curtailed their purchases, and some have started preparations for clearance sales, despite official statements that plans for inventory control are only in a preliminary stage.

To the extent that wholesale buying has been curtailed by the threat of inventory restrictions, this threat has had a salutary effect in reducing inflationary pressure. It is possible to carry this too far, however, if it should result in cut-price sales by retailers in an attempt to reduce inventories. Such sales, at a time of impending shortages, would result in a wasteful distribution of consumer goods.

Inventory control is scheduled for discussion today at the mid-year convention of the National Retail Drygoods Association at Chicago.

Retail inventories at high level

Quarterly data on department store inventories by departments, released last week by the Federal Reserve Board, show the total value of such inventories on April 30 at 59 percent higher than on the corresponding date last year. This compares with a gain of 32 percent at the end of January. While part of the increase over last year has been due to higher prices, the Board believes it likely that less than half of the increase was accounted for by this factor.

In addition to the increase in stocks on hand, department stores also had a large volume of orders outstanding with manufacturers and distributors on April 30. Such orders, as reported by a representative group of stores, were 120 percent larger than a year earlier, and were equal to about 50 percent of the inventories on hand. This goes far toward explaining the sudden curtailment in buying when restrictions on inventories were suggested.

- 4 -

The types of goods in which the year-to-year increases in inventories have been largest are indicated in Chart 2. This chart shows the percent change from the previous year, by departments, on January 31 and on April 30. Particularly heavy increases are shown on the latter date for hosiery, floor coverings, blankets and linens, and women's skirts, sweaters, etc. Stocks of nearly all items increased sharply from January to April, as compared with the previous year's figures. A noticeable exception, however, is seen in the decline in stocks of household appliances, which were among the first consumer goods to be affected by curtailment orders last year.

Clothing sales show large declines

Department store sales in April by individual departments, as published by the Federal Reserve Board, indicate that the largest falling off recently in year-to-year gains has been in men's and boys' clothing, followed by girls' clothing, and women's coats and suits. (See Chart 3.)

Sales of men's clothing by department stores in the first three months of 1942 averaged 70 percent higher than in the corresponding months of 1941, stimulated largely by talk of a threatened wool shortage and by sharply rising prices. During April, in contrast, sales had dropped to 2 percent below those of the previous year. Sales of household appliances and furniture have doubtless been affected by additional restrictions on installment sales that went into effect April 1. Furniture sales in April remained relatively low, and the year-to-year gain in sales of household appliances dropped to 12 percent from an average of 35 percent in the first three months. Shortages of some items in the latter group were probably also a factor.

Cost-of-living index slightly lower

The effect of the general price ceiling order in stabilizing price quotations is becoming more apparent. The BLS all-commodity index has held within a narrow range for the seventh consecutive week, declining 0.1 point to 98.7 in the week ended June 6. The BLS cost-of-living index, after rising 0.9 point to 117.6 in May, declined slightly to 117.5 on June 2, according to confidential data.

The slight decline shown in the special June 2 tabulation of the cost-of-living index resulted from lower reported costs for clothing, rent, and house furnishings, which were partly offset by a further rise in food costs. (See Chart 4.)

Basic commodity prices

The BLS price index of 8 uncontrolled basic commodities last week continued the decline that has been in progress since the price ceiling order became effective. Despite the further decline in this group, however, the combined index of 28 commodities rose noticeably because of a sharp upward adjustment in the price of shellac, one of the controlled commodities, to cover higher war risk insurance costs. (See Chart 5.)

Changes in price of the 8 uncontrolled commodities since December 6 through June 5 and June 12, are shown in Chart 6. Cotton prices last week declined to a new low since early January. Prices for steers were at their lowest since mid-March, and prices for hogs receded to the levels of a month earlier. Butter prices declined to the Government support level, and the Government resumed purchases of butter for the first time in several weeks. Wheat prices made a slight recovery.

A new record in agricultural production is likely this year if the weather continues favorable. According to the Department of Agriculture's crop report as of June 1, crop prospects are excellent. A wheat crop of 868.1 million bushels is indicated, which would compare with a ten-year average of 747.5 million. Above-average crops of barley, oats, and rye appear probable. Fruit crops, according to preliminary reports, seem likely to be moderately above average. Pasture conditions are the highest since 1927.

Senate to investigate agricultural prices

An investigation to determine reasons for recent weakness in farm product prices has been authorized by the Senate. It is reported by the press that the inquiry will include operations of the emergency price control act.

Although both houses of Congress have agreed to limit powers of the Commodity Credit Corporation in selling Government-owned stocks of commodities, the difference over the terms of the limitation has still to be resolved. Approval by the Senate agricultural committee of the Bankhead bill providing for loans at full parity on this year's leading crops is another evidence of Congressional concern over farm prices.

- 6 -

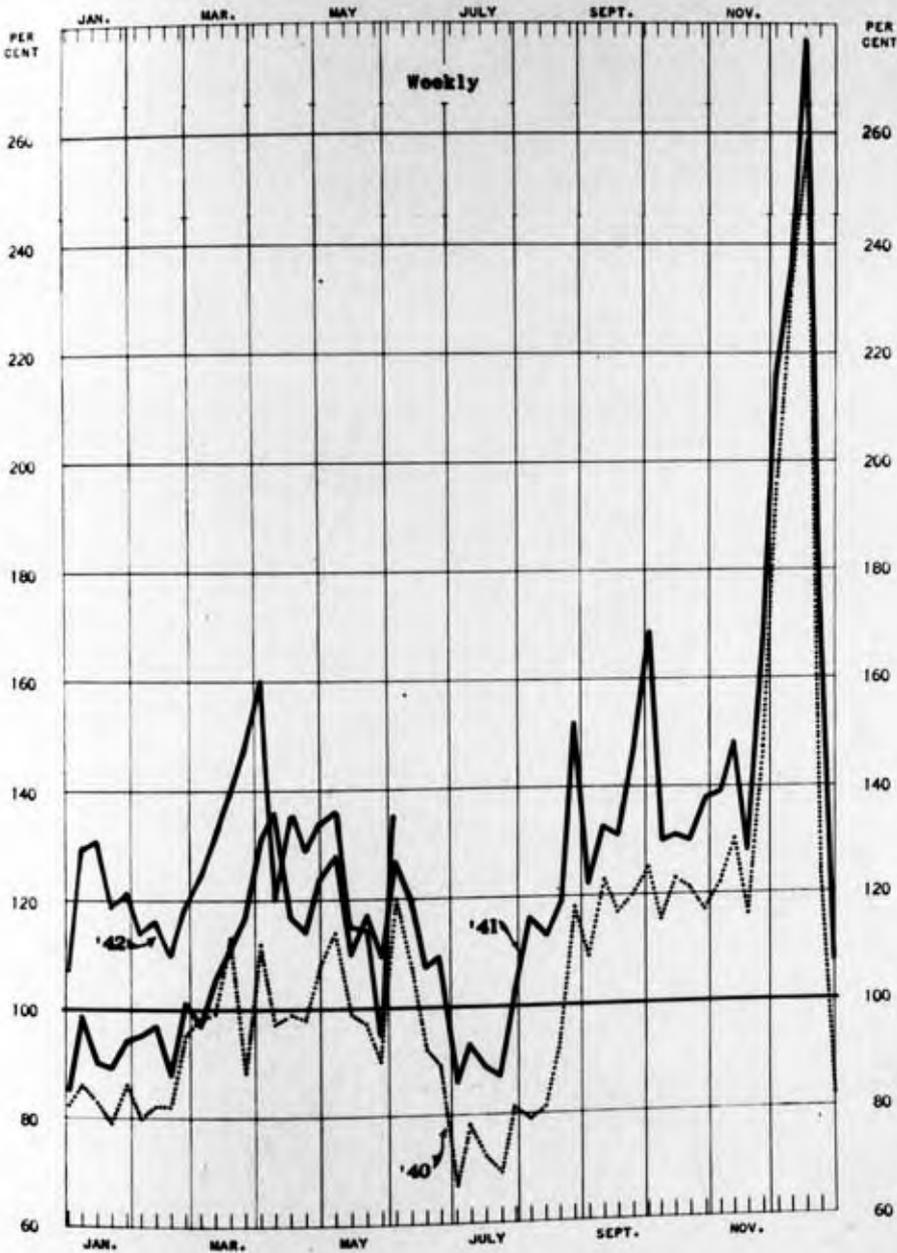
General price ceiling tends to weaken farm prices

One of the repercussions of the general maximum price regulation has been its effect on prices of various commodities not directly subject to its control. Although no ceilings have been placed on prices of livestock, for example, the ceilings on meats have halted the rise in cattle prices which had been in progress since last fall. Prices for upper grades of steers have especially been depressed. On the other hand feeder cattle prices have been relatively high for some time, reflecting the unusually strong demand for lower grades of cattle. As a result, it is likely that cattle will be marketed after a shorter feeding period, thus reducing supplies of well-finished slaughter cattle.

The price for raw cotton, another commodity not directly under a ceiling, has nevertheless been affected. Since the general regulation became effective for cotton goods at an approximate equivalent of the average spot price of 20.37 cents a pound for raw cotton, the cotton price has declined to as low as 18.28 cents. Speculative demand has been discouraged by the limited outlook for profits under the ceilings, and heavy liquidation of futures contracts occurred last week. Press reports indicate that much of the selling of futures has represented liquidation of cotton sold to mills earlier this year on "seller's call" by small country dealers who sell for farmers. In effect, it represents a liquidation of cotton growers' speculative holdings.

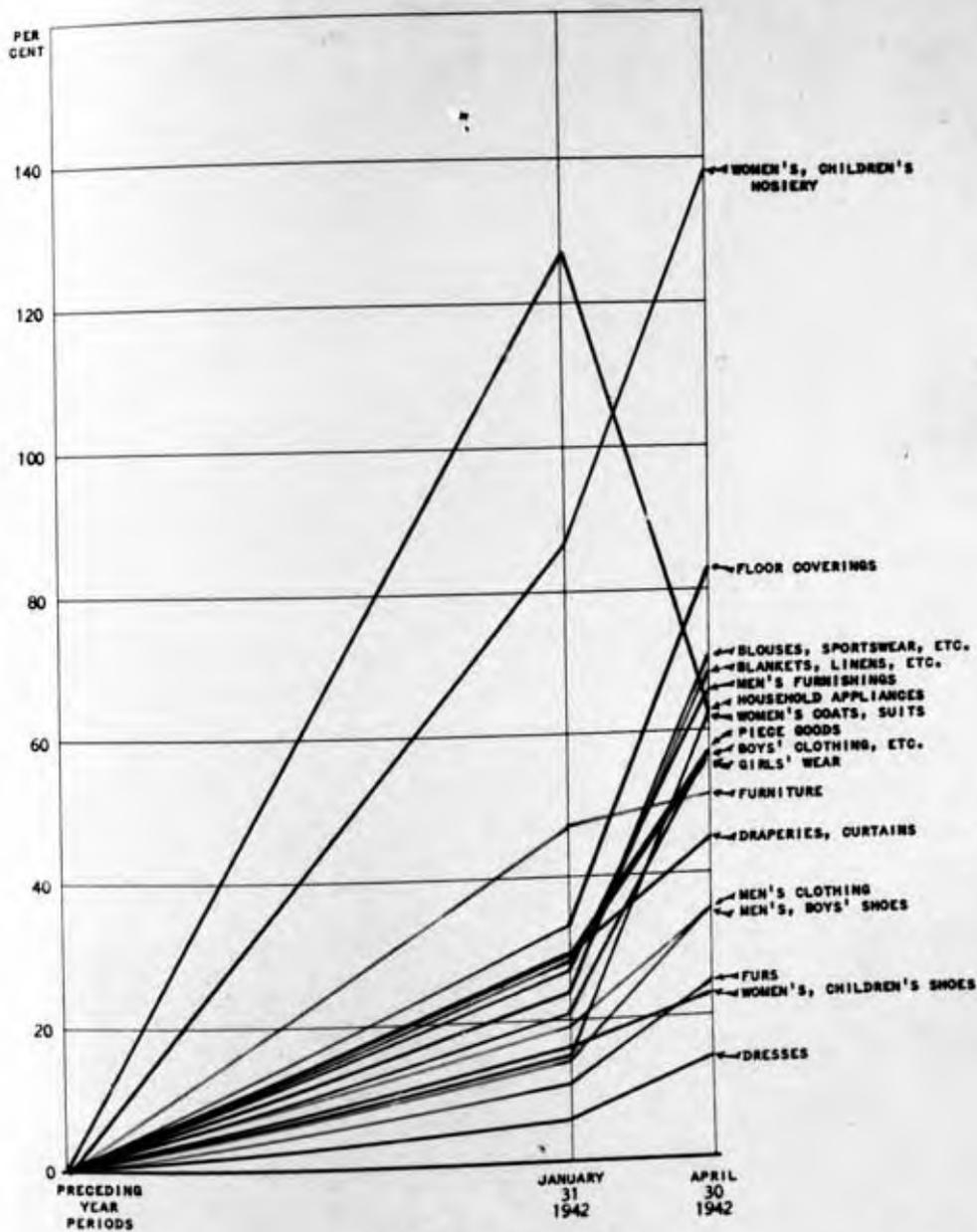
Supply situations for various other commodities have undoubtedly been eased for the time being by the release of speculative holdings, since the price ceilings have limited or terminated the prospect for further speculative profits. Trade comments on the recent easing of supplies are noticed in the markets for various chemicals and drugs.

DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED



DEPARTMENT STORE STOCKS
By Departments

Percentage Changes from Corresponding Periods of Preceding Year



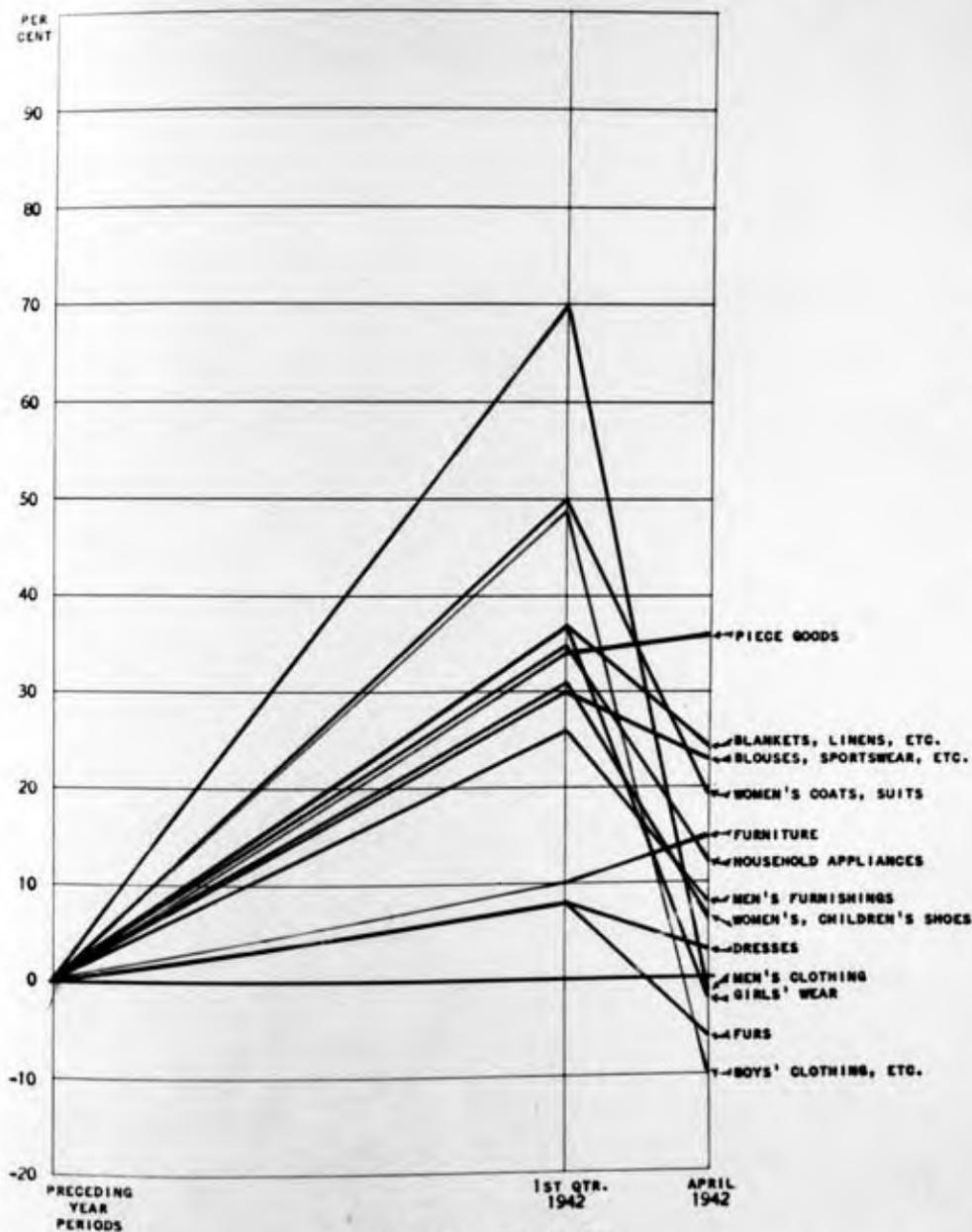
Office of the Secretary of the Treasury
Division of Research and Statistics

SOURCE: FEDERAL RESERVE BOARD

C - 432

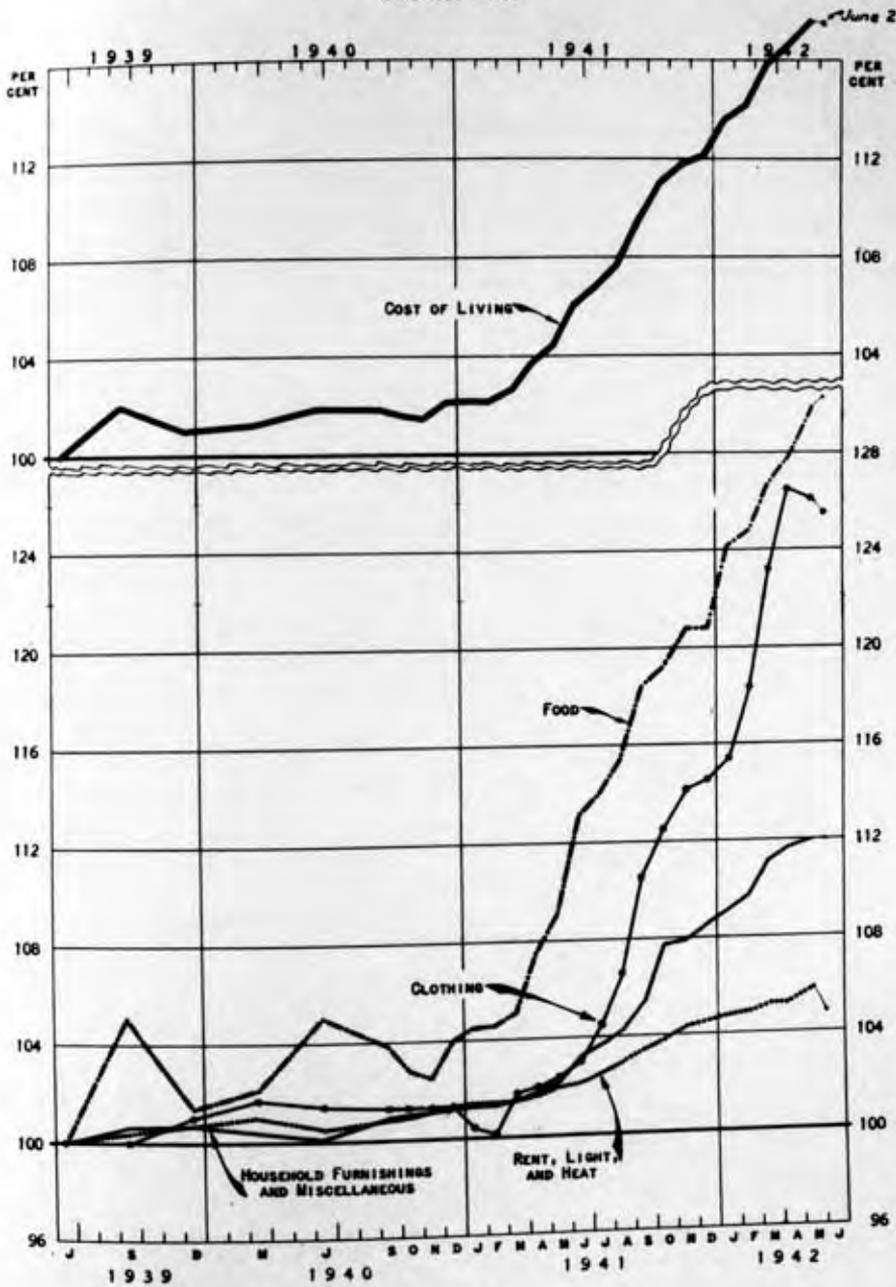
DEPARTMENT STORE SALES
By Departments

Percentage Changes from Corresponding Periods of Preceding Year



SOURCE: FEDERAL RESERVE BOARD

COST OF LIVING AND SELECTED ITEMS
 JUNE 1939 = 100



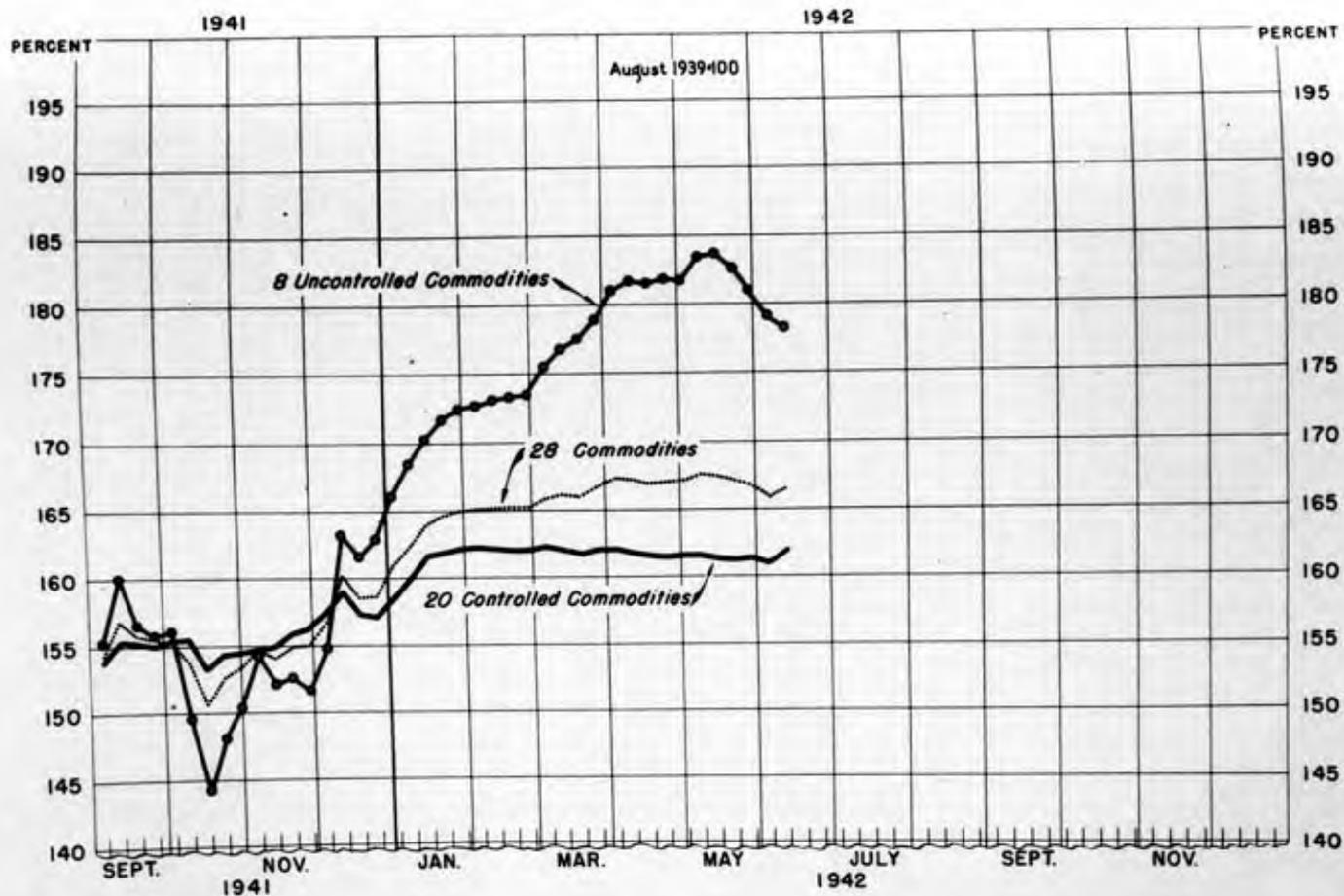
SOURCE: B.L.S.

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

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WHOLESALE PRICES OF 28 BASIC COMMODITIES

Controlled and Uncontrolled Components



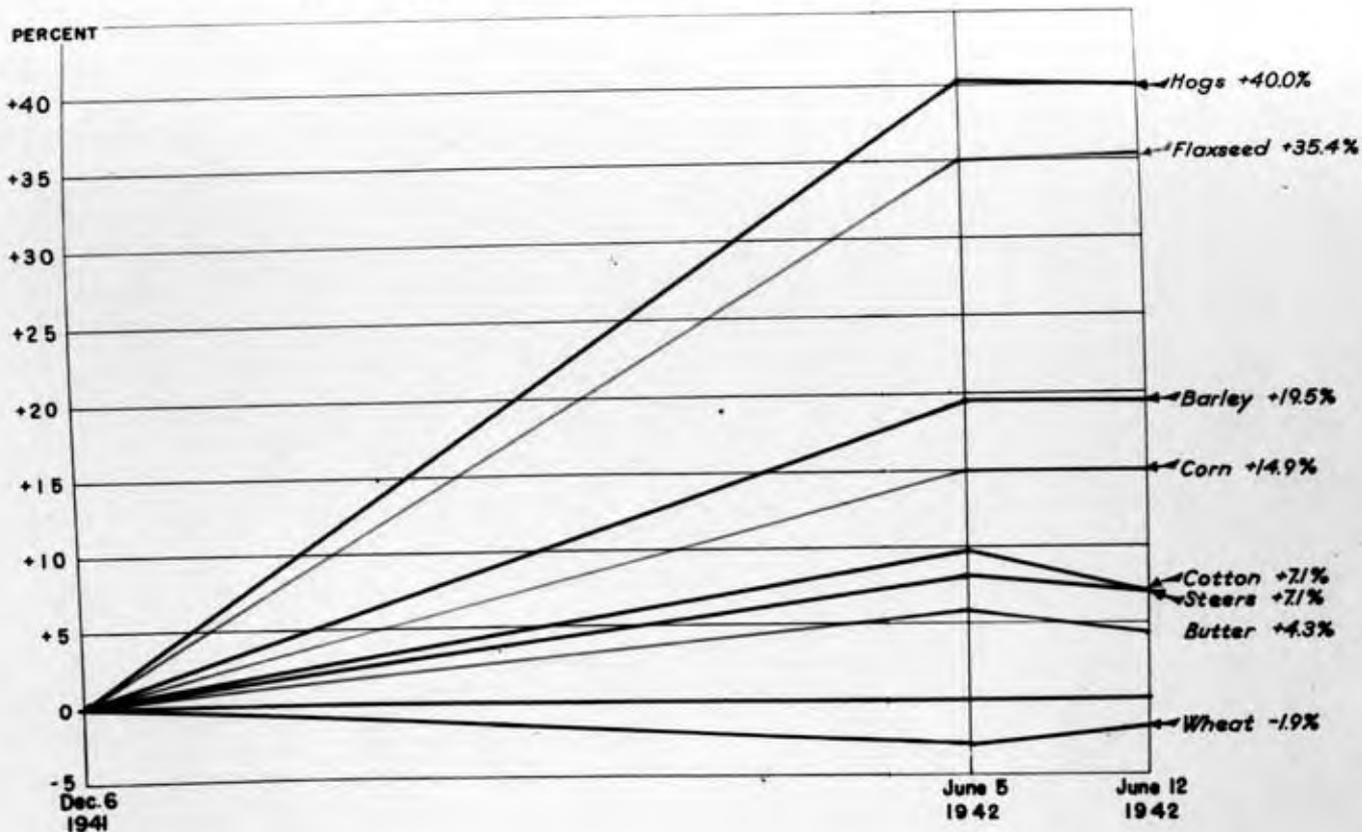
Office of the Secretary of the Treasury
Division of Research and Statistics

P-242

Chart 5
162

PRICES OF 8 UNCONTROLLED BASIC COMMODITIES

Percentage Change December 6, 1941 to June 5 and June 12 1942



Treasury Department
Division of Monetary Research

164

Date... June 15, 1942

To: Secretary Morgenthau

From: Mr. White

Original of this report appended
to prepared letter to the President.

June 15, 1942

**Exports to Russia, Free China, Burma and other
blocked countries, as reported to the Treasury
Department during the eleven-day period ending
May 31, 1942**

1. Exports to Russia

Exports to Russia as reported during the eleven-day period ending May 31, 1942 amounted to about \$26,180,000 for a total of \$72,832,000 during May as compared with \$169,562,000 during April. Military equipment exported during the period under review included twenty-eight light bombers, fifty-seven light tanks and seven medium tanks. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China during the eleven-day period ending May 31, 1942 amounted to about \$2,533,000, of which military equipment accounted for more than 90 percent. (See Appendix D.)

Exports to Burma amounted to less than \$500.

3. Exports to France

No exports to France were reported during the period under review.

4. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A. Most important were exports to Switzerland and Portugal amounting to \$249,000 and \$93,000, respectively.

ISF/efs
6/15/42

SUMMARY OF UNITED STATES
DOMESTIC EXPORTS TO SELECTED COUNTRIES
AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED
DURING THE PERIOD INDICATED 1/

July 28, 1941 to May 31, 1942.

(In thousands of dollars)

	July 28 to <u>April 30</u>	Period ended <u>May 20</u>	Period ended <u>May 31</u>	Total Domestic Exports
U. S. S. R.	\$477,341	\$17,977	\$26,180	\$521,498
Free China	73,989	1,872	2,533	78,394
Burma 2/	12,196	5	5/	12,201
France 3/	36	20	—	56
Spain	2,849	5/	5/	2,849
Switzerland	10,006	112	249	10,367
Sweden	17,731	5/	47	17,778
Portugal	8,795	124	93	9,012
French North Africa 4/	6,283	—	—	6,283

Treasury Department, Division of Monetary Research

June 11, 1942

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.

2/ From September 11, 1941 to date — it is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.

3/ Includes both Occupied and Unoccupied France — no breakdown is obtainable from Department of Commerce.

4/ Includes Morocco, Algeria, and Tunisia.

5/ Less than \$500.

DMW:rl 6/11/42

APPENDIX B

Exports from the U. S. to Free China, Burma and
U.S.S.R. as reported to the Treasury Department
July 28, 1942 - May 31, 1942
(Thousands of Dollars) 1/

	<u>Exports to Free China</u>	<u>Exports to Burma 3/</u>	<u>Exports to U.S.S.R.</u>
July 28 - Aug. 2	395		4,523
Aug. 4 - Aug. 9	-		551
Aug. 11 - Aug. 16	309		986
Aug. 18 - Aug. 23	2		2,735
Aug. 25 - Aug. 30	1		1,023
Sept. 2 - Sept. 6	204		4,280
Sept. 8 - Sept. 13	2,281 2/		5,217
Sept. 15 - Sept. 20	3,822 2/		752
Sept. 22 - Sept. 27	110	449	2,333
Sept. 29 - Oct. 4	1,225	684	323
Oct. 6 - Oct. 11	5,312	1,157	6,845
Oct. 13 - Oct. 18	5	35	1,924
Oct. 20 - Oct. 25	269	403	5,623
Oct. 27 - Nov. 1	4,772	58	4,484
Nov. 3 - Nov. 8	1,672	342	4,552
Nov. 10 - Nov. 15	2,851	88	2,677
Nov. 17 - Nov. 22	1,228	1,021	3,581
Nov. 24 - Nov. 29	3,239	1,364	2,436
Dec. 1 - Dec. 6	791	64	3,609
Dec. 8 - Dec. 13	2,337	18	12,040
Dec. 15 - Dec. 20	111	8	4,580
Dec. 22 - Dec. 27	1	196	1,829
Dec. 29 - Jan. 3	35	2	3,993
Jan. 5 - Jan. 10	91	1,073	8,247
Jan. 12 - Jan. 17	1,695	447	5,874
Jan. 19 - Jan. 24	-	-	3,885
Jan. 26 - Jan. 31	6,938	923	9,608
Feb. 1 - Feb. 10 4/	4,889	1,054	13,315
Feb. 10 - Feb. 20	4,853	583	26,174
Feb. 20 - Feb. 28 5/	2,921	-	28,119
Mar. 1 - Mar. 10	2,879	23	32,509
Mar. 10 - Mar. 20	8,058	3	28,556
Mar. 20 - Mar. 31 6/	2	2	42,435
Apr. 1 - Apr. 10	4,836	447	51,698
Apr. 11 - Apr. 20	5,335	639	66,906
Apr. 21 - Apr. 30	2,827	-	50,958
May 1 - May 10 7/	296	-	28,652
May 11 - May 20	1,872	5	18,000
May 21 - May 31 6/	2,533	-	26,180
Total	\$80,997	\$11,088	\$522,012

1. These figures are in part taken from copies of shipping manifests.

2. Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China.
3. It is presumed that a large percentage of exports to Burma are destined for Free China.
4. Beginning with February 1 figures will be given for 10-day period instead of week except where otherwise indicated.
5. 5-day period.
6. 11-day period.
7. Due to changes in reporting procedure by the Department of Commerce this report is incomplete for the period indicated.

APPENDIX G

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the eleven-day period ending
May 31, 1942

	Unit of Quantity	Quantity	Value (Thousands of dollars)
TOTAL EXPORTS			\$ 26,180
Principal Items:			
Landplanes - light bombers (2 engine)	No.	28	4,200
Sausage, canned	Lb.	9,526,385	3,060
Motor trucks	No.	1,323	2,626
Military tanks			2,111
Light tanks	No.	55	
Medium tanks	No.	7	
Linseed oil	Lb.	15,160,320	1,819
Sugar, refined	Lb.	26,439,108	1,332
Iron and steel sheets	Lb.	22,752,924	784
Dried egg products	Lb.	687,681	688
Ammunition			657
30 caliber balls	No.	4,264,500	
30 caliber tracers	No.	1,819,500	
30 caliber armor piercing	No.	582,000	
30 caliber incendiary	No.	250,000	
32, 38, and 45 caliber balls	No.	1,065,000	
Small arms components	-	-	
37 mm. tank and anti-tank armor piercing	No.	49,000	
Aircraft engine parts and accessories	-	-	602
Iron and steel strip	Lb.	8,202,455	592
Iron and steel pipe and pipe fittings	Lb.	11,314,019	484
Sole leather	Lb.	1,065,208	475
Copper wire, insulated	Lb.	1,282,955	458
Lathes	No.	77	417
Steel bars	Lb.	5,258,274	412

APPENDIX D

Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the eleven-day period ending
May 31, 1942

(Thousands of Dollars)

TOTAL EXPORTS

\$ 2,533

Principal Items:

Military equipment

2,363

Relief supplies - drugs and biologics

83

Relief supplies - surgical and hospital

76

Relief supplies - other

11

Treasury Department, Division of Monetary Research

June 15, 1942

ISF/efe
6/15/42

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 15, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: Shipment of Planes to British Forces

1. In the week ended June 9, 1942, a total of 108 planes of all types (100 combat planes) were shipped to British forces.

2. This week is chiefly notable for the large number of aircraft delivered by air. Out of the total of 89 planes going to the British Isles, 72 travelled by air and only 17 aboard ship.

Table A - Shipments by Area

	Week Ending <u>June 9, 1942</u>	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>to the United Kingdom</u>			
Light and medium bombers	65	340	1,501
Heavy bombers	8	69	173
Naval patrol bombers	0	8	110
Pursuit	16	759	1,070
Army Cooperation	0	71	102
Trainers	<u>0</u>	<u>0</u>	<u>24</u>
Total to the United Kingdom	89	1,247	2,980
<u>to the Middle East</u>			
Light and medium bombers	0	204	534
Heavy bombers	0	0	5
Pursuit	7	274	1,122
Army Cooperation	0	12	12
Trainers	<u>0</u>	<u>8</u>	<u>150</u>
Total to the Middle East	7	498	1,823
<u>to the Canadian Forces</u>			
Light and medium bombers	4	41	209
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	<u>8</u>	<u>418</u>	<u>1,659</u>
Total to Canadian Forces	12	513	1,972
<u>to the British Pacific Forces</u>			
Light and medium bombers	0	141	241
Naval patrol bombers	0	0	27
Pursuit	0	200	363
Trainers	<u>0</u>	<u>0</u>	<u>105</u>
Total to Pacific Forces	0	341	736
<u>to the British Indian Forces</u>			
Light and medium bombers	0	9	9
Pursuit	<u>0</u>	<u>40</u>	<u>40</u>
Total to Indian Forces	0	49	49
<u>Totals</u>			
Light and medium bombers	69	735	2,494
Heavy bombers	8	70	179
Naval patrol bombers	0	31	168
Pursuit	23	1,303	2,667
Army Cooperation	0	83	114
Trainers	<u>8</u>	<u>426</u>	<u>1,938</u>
Grand Total	108	2,648	7,560

Table B - Shipments by Types

	Week Ending <u>June 9, 1942</u>	Total Shipped in 1942 <u>to date</u>	Total Shipped since <u>Jan. 1, 1941</u>
11 Airacobra	0	314	468
eing B-17	0	12	32
Boston III	1	13	37
ewster Buffalo	0	0	168
ssna Crane I-A (AT-17)	0	65	65
T-50	0	86	700
onsolidated Catalina	0	31	168
Liberator	8	58	147
rtiss Kittyhawk	7	505	887
Tomahawk	0	0	544
uglas Boston I, II and III	0	0	492
irchild 24 R-9	0	73	95
lenn Martin Baltimore	0	207	275
Maryland	0	0	150
rumman Martlet II	0	46	87
ockheed Hudson	34	356	1,326
Lightning	0	3	3
Ventura I	0	12	12
Ventura Bomber	13	107	107
orth American B-25	21	30	30
Harvard II	0	52	949
Mustang	16	430	510
orthrop Vengeance	0	5	5
ltcairn Autogiro	0	0	5
tearman PT-27	8	223	224
ought-Sikorsky Chesapeake	0	0	50
ultee-Stinson O-49	0	10	14
ultee Vengeance	<u>0</u>	<u>9</u>	<u>9</u>
Grand Total - All Types	108	2,648	7,560

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	4	0	0	14	0	60	78
January 27, 1942	24	0	1	100	5	13	143
February 3, 1942	9	0	3	10	4	4	30
February 10, 1942	20	0	3	59	0	4	86
February 17, 1942	9	0	2	41	7	0	59
February 24, 1942	24	0	2	86	7	1	120
March 3, 1942	26	0	1	80	6	0	113
March 10, 1942	25	2	0	78	1	0	106
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	10	3	0	75	12	6	118
May 19, 1942	22	0	0	37	0	7	66
May 26, 1942	23	8	0	34	0	38	103
June 2, 1942	32	3	0	68	0	42	145
June 9, 1942	69	8	0	23	0	8	108
Total shipments since January 1, 1942 to date *	2,494	179	168	2,667	114	1,938	7,560

* Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, Buenos Aires.
TO : Secretary of State, Washington.
DATE: June 15, 1942, midnight.
NUMBER: 1145

STRICTLY PRIVATE

Reference 1073, June 8, 11 p.m. from Embassy.

An officer of the Embassy was called to the Central Bank this afternoon by Grumbach and Loure and the bank's proposed plan for dollar currency control was summarized to wit:

One. Bona fide holdings as of May 19 of banks and other institutions under the control of the Central Bank, amounting, it is understood, approximately to \$190,000, would be taken over by the Central Bank and sent to the United States. Sworn statements would be given by these institutions. The release of these amounts upon their entry into the United States would be expected of the Treasury Department;

Two. Other holders of dollar notes would be required within 15 days by the Central Bank to deposit them in commercial banks in blocked accounts or other designated institutions together with sworn declarations as to acquisition, which if their release should not be authorized, the amounts in the blocked accounts would be retained. Such plan contemplates that the declarations would be submitted to the Embassy for expression of objection, then to the Treasury Department would be submitted the applications and declarations — according to the Central Bank it has not particular interest in seeing the release of these amounts. The plan of review was not suggested by the Embassy but hesitated to discourage it today before obtaining the Department's instructions.

Three. If they depart from a foreign — non-American presumably — country within 10 days from the new measures' announcement, incoming travelers would be allowed to bring \$100, but sworn statements would have to be submitted by them and Argentine Consulates meanwhile would be instructed to discourage introduction of dollar notes by travelers promises by giving them notifications.

Four. Dollar notes' importation and exportation would be subjected to Central Bank control and

Five. Argentine banks and foreign exchange institutions at the time of the announcement of the measures would have their dollar note operations prohibited.

Although these proposals must be approved by the Finance Ministry the Central Bank states the belief that if our Government approves, the proposals could be adopted within 24 hours. Instructions as soon as possible would be welcome as to the Embassy's reply in as much as Grumbach, departing for Washington Monday, can be very helpful in specifying details of the measures' adoption.

ARMOUR

Copy:bj:6-18-42

C
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June 15th 1942.

C.F.I. No. 4/2/55.

A summary of figures reported to Coudert Bros., New York attorneys, by Yves de Boisanger, Governor of the Bank of France relates to a law suit instituted before the U.S.A. Courts in which the Bank of Belgium seeks to recover gold held by the Bank of France. The following operations are reported by the Bank of France upon instructions of the Bank of Belgium, May 28th 1940.

May 30/40	Withdrawal from earmarked deposit:	35,998 kilos	3,993 fine gold	1713,811,793.87
June 4/40	Two withdrawals from sealed cases:	404 "	7,110 " "	19,267,481.28
		6,298 "	9,627 " "	299,881,016.22
		<u>42,702 "</u>	<u>20,730 " "</u>	<u>-</u>
Total				2,032,960,291.37

On the basis of 7.22 French francs for 1 Belga, rate accepted for exchange operations for benefit of refugees, this represents 1,407,867,237.78 Belgian francs.

During the same period, the Bank of France claims to have exchanged against French notes and returned to Bank of Belgium, Belgian notes and coins representing 1,024,991,500. Belgian francs equivalent to 1,480,087,726. French francs.

Exchanges of Belgian against French notes, or inversely, for benefit of Belgian refugees in France, ended November 30, 1940 at which time the Bank of France claims to have held for return to Bank of Belgium, and still holds, Belgian notes representing 530,257,813 Belgian francs, the equivalent of 765,692,281.97 French francs.

The Bank of Belgium has also been credited on the books of the Bank of France with a sum of French francs 400,000,000. to be covered to the amount of F.200,000,000. by a withdrawal in favour of the Bank of France of Bank of Belgium gold. This in accordance with a letter from Governor Hanssen, June 18th. 1940.

The total of the sums to the debit of the National Bank of Belgium, already paid or to be paid, in gold as outlined above are as follows:

	1,480,087,726.00
	765,692,281.97
	200,000,000.00
	<u>2,445,780,007.97</u>
French francs	2,032,960,291.37
Deducting value of gold withdrawn	<u>412,819,716.60</u>
there remains an amount of	
to be settled in gold by withdrawal	
from cases of Belgian gold.	

On the basis of 47,608 French francs for 1 kilogram fine gold, as

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fixed by the Franco-Belgian protocol of June 7th, 1940, this would amount to 8,667 kilograms .0248 fine gold.

The Bank of France claims that the right to reimburse herself in gold, under such conditions, arises from a letter of the Bank of Belgium, June 9, 1940, authorizing the withdrawal of gold to the amount of one hundred million French francs, and from letter dated June 18, 1940, authorizing withdrawal of gold to the amount of one thousand million French francs. These two orders have remained unfulfilled owing to events.

The two withdrawals, June 4th 1940 of gold from the sealed cases, totalling 6,705 kilograms .6737 fine gold, amount to 319,148,497.50 French francs. This represents 135 sealed cases of gold, reducing the original deposit of 5,079 sealed cases to 4,944.

On the basis of 135 cases containing the quantity of gold, as outlined above, the remaining 4,944 sealed cases would contain 245,495 kilograms .9391 fine gold. The total value in French francs would therefore amount to 11,587,570,568.67.

It is from this amount that the Bank of France is claiming the unquestionable right of withdrawing gold to the equivalent of 412,819,716.60 French francs.

The Bank of France admits that the afore-specified operations have not, strictly speaking, bestowed upon her a right of pledge which would now confer the indisputable power to retain the whole deposit until full settlement, but that their undoubted right is to obtain this settlement by means of the litigious gold. To exercise such right, the Bank of France claims it is necessary to open and to recognize contradictorily a certain number of the claimed sealed cases. Such operations cannot be performed now as no representative of the National Bank of Belgium, having undisputed powers, would attend thereto. The Bank of France asks that the whole of the cases be assigned to a settlement of the credit in her favour until regular ascertainment of the contents of the specific cases which they will use to repay themselves.

(See C.F.I. No. 3.2.111.)

DEPARTMENT OF STATE

WASHINGTON

In reply refer to
FD 853.5151/52

June 15, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a paraphrase of telegram no. 699, dated June 11, 1942, from the American Embassy, Madrid, Spain, concerning heavy purchasing of peseta currency.

Enclosure:

From Embassy, Madrid,
no. 699, June 11, 1942.

eh:copy
6-15-42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Madrid, Spain

DATE: June 11, 1942, 6 p.m.

NO. : 699

Heavy local purchasing in Lisbon of peseta currency for Swiss account is reported by a reliable Madrid source. I am informing Bern and Lisbon.

HAYES.

eh:copy
6-15-42

C
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P
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June 15th 1942.

C.F.I. No. 4/2/62.

David Birnbaum, New York, advises Albert Nussbaumer, Swiss Bank Corp., Basle, that an American citizen having \$400,000 in U.S.A. bank-notes in Switzerland asks whether it is possible to buy U.S.A. bonds or shares in Switzerland with this money. The bonds are deposited in New York and have Swiss ownership. License will be applied for, but if impossible other suggestions are asked for.

Copy:lc:6/19/42

COPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 202

Information received up to 7 A.M., 15th June, 1942.

1. NAVAL

A convoy from GIBRALTAR to MALTA was attacked by aircraft on the morning of the 14th when about 80 miles southwest of CAPE SPARTIVENTO (SARDINIA). One of H.M. Cruisers was torpedoed and is returning in tow and an 8,000 ton merchant vessel was sunk. Six enemy aircraft were destroyed.

Another of H.M. Cruisers, part of the covering force for another convoy from ALEX. to MALTA was torpedoed 90 miles northwest of DERNA. She is in no danger of sinking.

Submarine Attacks: Two ships of a homeward bound convoy from GIBRALTAR were sunk during the night 14th/15th. A medium sized British ship was sunk by a raider 300 miles southwest of ASCENSION ISLAND on the 11th.

Correction: OPTEL No. 201. Third para. for "destroyers" read "submarines".

2. MILITARY

LIBYA. 13th. Severe fighting between the opposing armoured forces continued during the afternoon, the enemy gaining positions on the ridge north of the TRIGH CAPUZZO and astride the road ACROMA to BIR HAKEIM. During the night 13th/14th our garrison at KNIGHTSBRIDGE was withdrawn.

At 9 A.M. 14th the enemy started his expected thrust towards ACROMA with columns from the southwest, south and southeast. They were engaged by our armoured forces.

3. AIR OPERATIONS.

WESTERN FRONT. 14th/15th. A Hudson claims to have sunk off the Dutch coast one ship of 1,000 tons and another of 800.

LIBYA. Landing grounds at DERNA were bombed on the 13th, 13th/14th and 14th. Over the battle area on the 13th our fighters destroyed six enemy aircraft, probably destroyed one and damaged one. Four of them are missing.

4. NORWAY

Ten barges 10-16 with artillery left TROMSO northbound on the 13th. They are presumed to be with landing craft.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 15, 1942

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

Russo-German War

British Military Intelligence is of the opinion that Russian resistance at Sevastopol is again upsetting the Nazi time-table.

(U.K. Operations Report, June 14, 1942)

R.A.F. Activity

On June 13, Spitfires on a sweep over northern France obtained a number of hits on locomotives near Etaples. (The Royal Air Force is profiting by its knowledge of the Nazi weakness in locomotives. Locomotive losses in Russia were so high last winter that construction and repair of locomotives in Germany has been given the same priority as airplanes).

(U.K. Operations Report, June 14, 1942)

German Preparations

The Germans are moving tank landing craft up the north coast of Norway. (Probably an attempt to take Murmansk is in preparation).

(U.K. Operations Report, June 14, 1942)

India

The U.S. Grady-Johnson mission has recommended:

- (a) The immediate dispatch to India of cranes to speed unloading at Indian ports of certain types of machine tool equipment;

- (b) the supplying of India with ferro-alloys;
- (c) the transfer of a complete rifle manufacturing plant from the United States to India;
- (d) that India not attempt to manufacture tanks, planes, and ships.

The Viceroy's Council is expected to reject most of the recommendations. A statement has already been issued that mass production might throw India's economy out of balance.

(C.O.I., "The War This Week", June 4 - 11, 1942)

China

According to U.S. Military Intelligence, an agreement has been reached to provide American air force assistance to the Chinese Army.

June 16, 1942
9:30 a.m.

GROUP MEETING

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

H.M.JR: Mr. Paul, looking at his watch, reminded me of what I called this meeting for. He can have as long as he wants, from now until five minutes of, to tell me why I should or shouldn't, or anybody else get in on the discussion, say anything other than what I did at my press conference.

MR. GASTON: You had better look out. We had a meeting the other day on this thing, and everybody shouted at once.

H.M.JR: Paul, did you read the press conference?

MR. PAUL: Yes, I did. I thought you were fine, the best one I ever saw you do. They were awfully nasty about it. I thought it was fine, but I do think we have a problem which we have got to try to settle.

H.M.JR: I am seeing the President at eleven, so go ahead, the floor is yours. What do you want?

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MR. PAUL: Well, the question that is going to come up is which are we more interested in, the method or the money. Are we satisfied to take something considerably less, something at six billion two hundred fifty, or perhaps a little more, without a sales tax, or do we want the eight billion seven so much that we are willing to take it in the wrong form?

Now, it is all right to say we don't have to answer that question. We can say, "It is your responsibility, Mr. Congress, you go ahead and do what you want." We do want to leave our skirts clean so far as the Senate is concerned, and all that sort of thing, but we are not going to get any more in the Senate, so we have to decide now, if it is so important from the inflation standpoint that we ought to have this extra money. Then we have to make up our mind whether we want to take the wrong form.

Now, I don't know how the people felt the other day when we had this meeting. I had to leave before it was finished, but I think there is some division of opinion. What do you think about it, Roy? It is an economic question.

MR. BLOUGH: I think it is a close question, for this reason, that the situation is so bad with regard to the surplus of income that we may have to do something of a much more extreme character, like expenditure control, general rationing, or something of that kind.

If we should be forced into something of an extreme character, it wouldn't make very much difference whether this particular tax was in or wasn't in, and we might be in a stronger position if it were not in it. On the other hand, if we are not going into something of that strong or more or less extreme character, a little later on, not very much later on, I do think we are badly in need of the money.

H.M.JR: Well--

MR. PAUL: I would like to get the other views here.

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H.M.JR: John - before John talks, I have got to tell a good story on Chick Schwarz. Chick called me up from Chicago and told me how well you did - much better than Willkie.

MR. SULLIVAN: What do you think I carry him with me for?

H.M.JR: Well, I had a suspicion, and Chick said, "Now, if you would listen at seven-fifteen to WABC, you will hear the President and John Sullivan." I said, "Which comes first?" He said, "I don't know, but at seven-fifteen you listen", so I listened at seven-fifteen. They had some lovely music, then came the President, then came some more lovely music, then they said, "We will now take you to the Ohio State Prison." (Laughter) So help me, that is what the radio said. I listened, and I still didn't get John Sullivan.

MR. SULLIVAN: At least you know I wasn't in the pen.

H.M.JR: What happened to you?

MR. SULLIVAN: I don't know. As I was leaving for the stadium the Defense Bond crowd came up and said, "You are going on the chain right after Roosevelt gets through speaking," and I said, "Well, it is awfully nice of you to let me know about this thing." They said, "We just want you to use as much of the stuff you are using at Soldiers Field as you can," so I cut that on the way down to the Soldiers Field, and then when I got through there, I went back up to the radio station and went over to WBBM Station. I telephoned Priscilla this morning when I got in. She didn't get it down here.

H.M.JR: It wasn't on WABC.

MR. SCHWARZ: If they didn't sell it to the rest of the chain, he had almost as big an audience in Chicago as on the radio.

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H.M.JR: Well, anyway, I am glad you did so well, John. Thank you for going out.

MR. SULLIVAN: I enjoyed it very much. I got a great kick out of it.

H.M.JR: Go ahead on this thing. I thought that you would be amused - "We will now take you to the Ohio State Prison."

(Mr. Haas entered the conference.)

MR. SULLIVAN: Well, in this meeting we had Friday we all discussed this thing, and I feel you can't retreat from the position that you must have the eight billion seven. Neither do I feel that you can acknowledge a sales tax, which you condemned as bad on the third of March, as good today. The same things that made it bad then make it bad now.

I think it is pretty much a question of strategy here in not being maneuvered into a position where you have got to admit that there are only two alternatives, that the only way in which you can get the additional money you need is through a sales tax; and it may be very difficult to prevent yourself from being forced into that corner, but there are a lot of other ways of getting this money. I think that you can say that you feel the country has got to have this money; that the sales tax is bad; that you have indicated other ways in which that money can be raised, and that you made the recommendations and it is up to them to make the decision, but those are your recommendations, and you still stand by them.

MR. PAUL: Of course, what they are going to say then is, "Well, we know that you are for higher corporate taxes and higher individual taxes; we know you are against a sales tax. Our question is based on the assumption that those taxes can't be passed, won't be passed by this committee, and we want to know, assuming that you can't get what you want, do you want the money so much that you are willing to take this tax that you don't like?"

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If we say we refuse to answer, or if we say we don't want a sales tax, we won't get a sales tax, I don't believe, and we will get less money. So the real question we have to decide is, do we really want the money so much for the sake of preventing inflation. If we don't say something now, we won't get it.

H.M.JR: What is your position, Randolph?

MR. PAUL: I think - if we are driven to it, I think we should take less money. But I don't think Roy and some of the others quite agree with me. I think the problem has such magnitude that this two billion isn't going to be critical. We have got to do so much more anyway even if we got the eight, seven. I would like to get the other views. We called this meeting Friday in order that people might get a chance to reflect on it before.

MR. GASTON: I agree pretty much with John. It is too early to surrender; I wouldn't surrender on the sales tax now.

H.M.JR: Anybody see my press conference yesterday?

MR. SULLIVAN: No.

H.M.JR: Well, I said it in ten different ways, that the Administration's position was eight billion seven, and nothing has happened to make me change.

I said my position - I was invited to come up to tell Congress what the position of the Administration is; I have done it. Now, the rest of it is up to them, and I said - what did I say, that I am neither sweating--

MR. PAUL: Sitting tight.

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H.M.JR: Sitting tight, and I am not sweating. The implication was I was going to let Congress do the sweating.

Let me just say this. Last night at the dinner for the King of the Greeks, at which he was only forty-five minutes late, I had a chance to talk with the Speaker. The Speaker pulled a good one. He says, "I never care who goes into the dinner first. What I want to know is who goes home first."

So later - I didn't know they were having a reception - he said, "Henry, don't you and I have an important meeting with Bob Doughton? He is twenty minutes late; let's go." He goes up to the King and says, "Good night." Henry Wallace, for fear the Speaker should outrank the Vice President, almost knocked Sam Rayburn down to get out first, but we got out first because Henry Wallace couldn't find Mrs. Wallace.

I walked him home. We left first. They had had a talk with the President - this is very much in the room - and the President is very anxious to get Congress out and home and write a bill before the first of November. It may be, you know, some of these Republicans - they are not all dumb - would just as leave have the bill passed on the first of November. Sam said to me, "Henry, you can't send any more suggestions up, and that goes for the President." I says, "I know." I says, "What about this sales tax business?" Well, he says, "Of course the Chairman, Doughton, is just" - I don't know whether he used the word politician or diplomat, but he says that Jere Cooper is one thousand percent against the sales tax. He says, "Now, Henry, don't fight this thing." He says, "Supposing you get six billion dollars, let the thing go through." He says, "Let's get this bill out of the House, then let them go on over in the Senate. You have got another chance over there. Barkley says with a two weeks' hearing two weeks will pass it." I says, "My eye." He says, "My eye, too", but he said, "Don't fight too much about

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this extra revenue. If there is going to be a sales tax, let the Senate put it on."

The gist of it was his advice to me was, "Don't put up a fight for the extra two billion." He says, "The committee, I gather, is absolutely opposed to the sales tax. That is the impression." I think it is pretty good advice because the first thing you have got to know--

MR. PAUL: It fits in with my idea.

H.M.JR: The first thing you are going to hear is that it is Henry Morgenthau, Jr. who held up the sales tax. He talked with Doughton and Cooper; they talked about these administrative changes, how that is holding up the bill, see.

So the position I would take with the President, I thought, was the one that the Speaker has taken, this morning, namely, "Mr. President, I have said my ceiling orders are eight billion seven, the formula which we have presented. We have gone right down the line with your twenty-five thousand dollar salary, and everything else, and unless you tell me otherwise I am just going to keep saying eight billion seven. How do you want it? We have told you how we wanted it on March three, plus the letter on lowering the exemptions, and we here in the Treasury can only make recommendations. It is up to Congress to write the bill."

Now, who differs with that? I mean, that is for my talk with the President this morning.

MR. PAUL: I agree with it. The only possible point of doubt is whether we really do need the money. That is a question of economics.

H.M.JR: Well, Randolph--

MR. PAUL: I mean, need the money for inflation.

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H.M.JR: Oh, well, you are going to get - on a borrowing program of fifty-three billion dollars show me the man who can say whether two billion more or less is going to have any effect on inflation - a borrowing program of fifty-three billion dollars for the calendar year. I mean, you can sit around--

MR. PAUL: That is what I think. It has got such magnitude.

H.M.JR: But publicly, if anybody wants to know what I said they can read my press conference notes because I repeated myself ten times yesterday, that the President's budget message, plus my March 3 speech, plus my letter, is what the Administration wants. I gave myself an out by saying that of course Mr. Doughton can go across the street, but it is up to the Congress to write the bill.

When I said that to Sam, Sam says, "Henry, you are all right, stick to it." Rayburn over a number of years has never given me insincere advice. I mean, he has licked me on the Floor, so forth and so on, but he has never personally given me insincere advice.

Dan?

MR. BELL: I think you are right. I would put the word "minimum" before the eight, seven.

H.M.JR: I do that always.

MR. BELL: A minimum of eight, seven.

H.M.JR: I keep saying - I don't know that I stressed that yesterday.

MR. PAUL: Yes, you stressed that.

MR. GASTON: I think a sales tax on a scale necessary to raise two and a half billions would upset the economic picture a whole lot more than the lack of the two and a half billion in money would upset it.

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MR. PAUL: It is more, Herbert; once you yield to the slightest extent on the sales tax you will get that and they will reduce the individual tax.

MR. GASTON: That is right.

MR. SULLIVAN: You get over in the Senate, and although you have got a sales tax in you have got your eight, seven, then they will reduce your corporate rates and your individual surtax rates, and you will have your sales tax and you won't have your eight billion seven.

MR. PAUL: They may even do that in the House.

H.M.JR: Where I differ from Paul is, you see, - Paul told me Saturday I had to think this thing over. Well, I did, but then I had to make the decision. I don't think it is my decision. I think the decision is the Ways and Means Committee's.

MR. BELL: I think you have made a decision. That is the decision he wanted. I think you have made a decision.

MR. FOLEY: He has made recommendations; he doesn't have to make a decision. They have got to make the decision.

MR. PAUL: He has to make a decision in the sense that he has - just the one he has made.

MR. BELL: That is right, just the decision you made to stand by your recommendations that you have made, and that the responsibility for a tax bill is with the Congress. You have told them what you want in money and you have told them how you want it.

H.M.JR: That isn't a decision. That is just being consistent.

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MR. BLOUGH: You are more likely to get more money in the Senate if you get more in the House.

H.M.JR: I thought I was pretty smart yesterday.

MR. BLOUGH: You were very smart with the reporters.

H.M.JR: I haven't seen a newspaper. There aren't any.

MR. KUHN: The Baltimore Sun had the best on the whole tax picture this morning.

H.M.JR: What did they say?

MR. KUHN: Big front-page, column story, at the top of the page, on the twenty-five thousand dollar limit. I read it hurriedly, but it seemed like a very fair presentation of the Treasury position, and it included something of the loopholes. It included the tax-exempt business.

MR. PAUL: And today Donald Nelson's letter comes over, so they are going to have that twenty-five thousand limit on their hands at the same time as the post-war credit relief provisions for corporations. Now, they are in an awful nasty position.

H.M.JR: What do you want, a priority to speak, Harry?

MR. WHITE: No, I said so much at the meeting that I thought maybe I ought to keep quiet.

H.M.JR: Why not give me--

MR. WHITE: I felt just as you said, just as John stated. I took the same position you agreed--

H.M.JR: You have? You mean--

MR. WHITE: The agreement - the position that you have taken, as John announced. I think that it might be repeated. The position that both Randolph and Roy took

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is that if you are going before this committee that they are not going to be satisfied with that kind of an answer and that there is going to be a lot of pushing you, forcing you into a position of making a decision between the two. The rest of us felt that your merely repeating the statement that you are making in a half a dozen different ways would continue very nicely to say the same thing over and over again.

H.M.JR: If you have got the time, any of you, I wish you would read my press conference notes yesterday because they pushed me around for a half an hour. I repeated the same thing twelve times: I have made my recommendation and it is up to Congress to write the bill.

MR. WHITE: Without losing your temper.

H.M.JR: I don't lose my temper, Harry.

MR. WHITE: Well, I mean, they brought out, and I think the rest of us felt that many of the Congressmen are not going to like that kind of an answer and they are going--

H.M.JR: I don't lose my temper except in the ninety-three meetings; that is the only time.

MR. PAUL: I would like to make this clear. It isn't a question of getting pushed. We don't mind that, but we want to regard the fact when we give that answer that it means only six billion two hundred fifty.

MR. WHITE: I don't accept that conclusion, but - I don't think that decision is necessary at that time, because, again you are making it appear that there are one or two alternatives, and I think the position that some of the rest of us took is that there are not one or two alternatives. They are only offering two alternatives but this is a third, which is the one the Secretary has stood on and stands on.

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MR. BLOUGH: It isn't a question of what it ought to be, but it seems to me Randolph is right, that the question is how much will the committee give you, and will it give a sales tax.

MR. WHITE: The committee isn't Congress.

MR. KUHN: If you stand your ground now, doesn't it leave you in a much better position to resume the attack on the loopholes and all the things which are part of your statement of March 3?

MR. PAUL: But the point I want to make very clear is that when we make this decision we have just made, the chances are all that we will get is six billion two hundred fifty. Now, the only question is whether it is more important to get more money than to stand by our principles. I think we should stand by our principles, but I don't want to make that decision unintelligently.

MR. GASTON: But add to that the fact, as you just said a few minutes ago, that if you should concede the sales tax to add to the six and a quarter, when it gets over to the Senate they will cut the income taxes and leave the sales tax so you will come out with six and a quarter.

H.M.JR: We have got a man who used to teach taxes at Ohio State University. What has he got to say?

MR. ODEGARD: Mr. Secretary, it seems to me that either the Treasury stands by its study of the sales tax or doesn't. I have read those studies in the last week, and I am perfectly satisfied that you simply cannot and save anything, any face at all, retreat from that position; either that or it makes monkeys of the whole thing.

H.M.JR: Were you impressed with the studies as to their intelligence?

MR. ODEGARD: I was.

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H.M.JR: And conclusions?

MR. ODEGARD: Yes, I was, and I think, too, that the point that Herbert raised a minute ago ought to be emphasized more, namely, that the collateral economic and administrative effects or disadvantages of a sales tax may outweigh, even, the additional two billion dollars that you might get from a sales tax. So you are in a stronger position if you put it on that ground than if you simply say, "We are going to stand against a sales tax because of our concern for the lower income groups," or something like that.

MR. WHITE: I am a little bit fearful of that position. Mr. Secretary, once you get in the situation of arguing the respective merits of more money or a sales tax, you will find, in the first place, there is a large difference of opinion, and, in the second place, they have got you right on the ground they want you, which is to make you choose between two alternatives which, above all costs, you ought to avoid, as selecting between those. You stand on the position just as you have taken it. The rest is up to them.

MR. ODEGARD: I was merely suggesting, Harry, that we repeat - the Secretary repeat what he has already said about the sales tax, and these collateral aspects ought not to be lost sight of.

MR. WHITE: But again I say I thought there was implied in your recommendation, and that seems to be the fundamental thing, that there may be more to be lost by taking the sales tax than by taking the six billion, and I say that I hope we never get on that discussion.

MR. SULLIVAN: When this bill started you were only after seven billion seven.

MR. GASTON: That is the reason for reaching the decision - not a thing to be argued before the committee.

MR. FOLEY: I agree very much with what Harry and

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John have said. We talked the thing out last Friday. It seemed to me that the position you have taken is a sound position, and what is presented to you now is just a practical problem of political strategy; and as hard as the committee is going to try to drive you from the position you have already taken and choose between two alternatives, it seems to me it becomes so much more important for you to stick to the position you have already taken, and I think you can.

If they put up to you whether or not you recommend a veto on the sales tax, that is something that you don't pass on at this time. You will have to consider that in the light of the situation as it unfolds. You have stated your position as being opposed to the sales tax. If Congress passes the sales tax what you will recommend to the President is a matter between you and the President, to be determined by you at that time in the light of the circumstances as you see them then, and you can't tell what you are going to do about that.

MR. PAUL: You do take the position - when you say that, you can't help taking the position.

MR. FOLEY: You stay in the same position you are in now, that is my point.

MR. GASTON: The decision is not to be pushed out on this particular limb.

MR. PAUL: And not to get more than six billion two hundred and fifty.

MR. FOLEY: That I don't follow. I don't think that is the inevitable conclusion.

MR. BLOUGH: It surely is.

H.M.JR: May I read an account of what - may I read a paragraph in Haas' weekly report. Mr. Blough, I would like

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to read you this, so I think before you talk more about inflation you ought to look into this. It is very short.

"Commodity prices show clearer evidence of stabilization under the ceiling order. The BLS all-commodity index has held within a narrow range for the 7th consecutive week. The BLS cost-of-living index of 117.5 on June 2 was 0.1 point lower than on May 15, according to confidential data."

In other words, it seems to be leveling out.

MR. BLOUGH: Of course that is exactly what we should expect.

H.M.JR: Oh, now Roy, listen, please.

MR. GASTON: We hope.

H.M.JR: Tell me anybody that has publicly said, as I am working very confidentially with field organizations and everything to check this thing, but I have yet to see - you just made a speech at the beginning about inflation and everything else.

MR. BLOUGH: Absolutely, and I stick by everything I have said: This is the time when you can expect prices to remain stable.

H.M.JR: For how long?

MR. BLOUGH: Six months from now is the time when you can expect the pressures of the farm bloc, which has broken loose, and the labor situation, which is certainly not in very good control, and the extra money which is being paid out - that is the time when those pressures are going to begin to make themselves felt.

H.M.JR: Those aren't monetary pressures, though.

MR. BLOUGH: Yes, they are, purchasing power in the hands of farmers, purchasing power in the hands of workers, and purchasing power in everybody's hands.

H.M.JR: Well, I want to talk to you some time and

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have a talk with George some time. I don't think you and I understand each other on that.

MR. HAAS: I am inclined to agree that the real pressure is coming a little later.

H.M.JR: Well then, I want to be talked to - at. Well, anyway, to end this thing, because I need five minutes on another subject which doesn't concern you fellows, I am going over to the President of the United States and say that my recommendation to him is that we stay put and that as to my speech of March 3, plus the additional letter, that is the Administration's position. If they don't want to give us the eight billion seven, that is their responsibility, but we are not going to make any additional recommendations or do anything else. If they don't want to give it to us, all right, we will go right back and appear before the Senate and make my same speech all over again for eight, seven or more. O.K.?

MR. PAUL: All right.

(Mr. Paul and Mr. Blough left the conference.)

H.M.JR: This is something the President - I sent copies around. This is a memorandum for the Secretary of the Treasury and Archibald MacLeish. This is important, first, because it comes from the President; second, what he says.

"I am told we should stage a special campaign among the organized miners. You can get a list from Phil Murray. I am told they hear nothing of the war except on occasional local radios. The theme of the special campaign should be about the war and also about buying bonds."

Ferdie Kuhn came to see me - I think it was Kuhn - a month or so ago and said in these little isolated valleys of John L. Lewis we were going to put on something. I said, "Wonderful, go to it." What happened?

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MR. KUHN: I had the Pennsylvania administrator, Mr. Ludlow, down here. I had quite a talk with him about this situation. At that time it was described as a condition existing only in the Pennsylvania coal valleys where John L. Lewis was getting in a lot of isolationist anti-war propoganda to the miners because of the miners isolation from the rest of the world. I thought of it in terms of rallies that we might hold.

H.M.JR: What has been done?

MR. KUHN: Mr. Ludlow then investigated. He said that he had looked into all of those communities that were on a list that I had given him, and he did not find that situation to exist which had been described to us.

H.M.JR: The answer is nothing has been done?

MR. KUHN: Nothing more than the usual thing, which includes some rallies in that area.

H.M.JR: But nothing has been done?

MR. KUHN: That is right, and OCD has also been in on it. I don't know what they have been doing.

H.M.JR: I have here, three o'clock, Senator McCarran, Bell, White and Foley. Where is that meeting?

MR. BELL: That wasn't settled. You remember you said, "I will settle that when I get back, as to whether it is here or up there"?

H.M.JR: Is it on?

MR. BELL: Yes, it is on.

H.M.JR: Oh, Gawd, do I have to go through that tripe?

MR. BELL: I think they would be willing to postpone it until Thursday if you wanted to.

H.M.JR: I wonder, in view of the financing, whether

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that thing couldn't be postponed to the first - I could come up early Thursday morning.

MR. BELL: I think they would do that.

H.M.JR: All right, I will tell you what you do. Mrs. Klotz, get Philip Murray - I can be here at three this afternoon - and tell him about this, the President's memorandum. I will talk to him, see what he has in his mind, but I want to talk to him and see - evidently Murray has been talking to the President about it - if he is prepared to tell us where he wants us to do these things. Now, I am going to handle this myself just the way I did the Negro rallies, you see, and the other thing - what we will do is we will bring our friend Skouras in. We will do it through the local theaters once we find out where the thing is. See, Ted?

MR. GAMBLE: I think you ought to know, Mr. Secretary, that we checked these coal-mining areas yesterday after getting this memorandum, and in Virginia of the twenty-five largest coal companies all of them have pay-roll deduction savings plans installed.

H.M.JR: Ted, you are missing - that isn't what the President is talking about.

MR. GAMBLE: I know, when they said the miners have heard nothing - three of these companies are a hundred percent, so they certainly have heard something about the war.

H.M.JR: Well, the President says - evidently Murray is worried, and it is - I mean, let's call a spade a spade in the room - it is that Murray wants help against John L. Lewis and his isolationism. Now, this is a grand chance to show what we - what I, through War Bonds, can do to help him on the morale issue.

MR. KUHN: The real trouble before when Mr. Ludlow was here, was money. These are small communities, and he didn't feel that he in Pennsylvania had any money that he could put to that use, and we had none for him.

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H.M.JR: I will get a list at three o'clock. I sent the thing to you, Peter, didn't I, too?

MR. ODEGARD: Yes.

H.M.JR: And I will find out what Murray has in mind. Now, my only thought was to do it through the theater people and through Skouras, if he will take this on for me, knowing that it is something that the President wants. What do you think of that?

MR. GAMBLE: I think he has his hands full for the next thirty days, and I think we ought to have another man. It is no problem, just a question of making a decision to do it.

H.M.JR: I will make the decision. The decision is the Commander in Chief asks me to do it and I am in hearty sympathy, so the answer is we want to do it. I don't have to be hit on the head with a sledge hammer to know that this is important in the fight against John L. Lewis.

I mean, Roy says about the thing from the miners, and so forth - well, if we can do a good show and come around - I mean, it is a marvelous chance to show the President what we can do.

Now, why don't the three of you get together between now and three o'clock and tell me, if Skouras is too busy, who can do it, but I need some fresh blood, I need somebody that is fresh and enthusiastic. I mean, I don't want anybody - I need an outsider, I don't want any - I need somebody from the outside. I mean, there is nobody in the Treasury can do what I want done. I mean, I am not talking about you three people, but I mean down the line. You fellows - I mean, you are both young and fresh.

Well, I would like to see you gentlemen at quarter of three with an answer.

Who is handling McCarran?

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MR. FOLEY: I can talk to him, or Dan can. It doesn't make any difference.

H.M.JR: Tell him any time between nine and ten.

MR. FOLEY: On Thursday?

H.M.JR: Yes.

MR. FOLEY: All right.

June 16, 1942
10:10 a.m.

FINANCING

Present: Mr. Eccles
Mr. Bell
Mr. Buffington
Mr. Haas
Mr. Rouse
Mr. Goldenweiser
Mr. Draper
Mr. Kennedy
Mr. Murphy
Mr. Szymczak
Mr. Sproul
Mr. Williams

H.M.JR: Well, as you gentlemen know, we have got to borrow about a billion and a half dollars on Thursday, and I would like a little advice as to the cheapest and most effective way to borrow it. I don't know whether you would like Bell to run through what the expenditures will be, as far as he can guess--

MR. BELL: It certainly has been a guess in the last two weeks, but you might be interested in bills, Mr. Secretary. Maybe that is a good way to borrow the money. We got eight hundred and one million dollars in tenders last night, which is a hundred and ten million dollars above last week, and I understand there was no artificiality in the bids we got yesterday. The high rate was point thirty-six, eight, which is four points under last week, and the average rate was thirty-six, five, which is two points under last week, and the distribution is excellent.

H.M.JR: I was shocked and mortified to hear that suggestions are made by the Federal Reserve Board that people should buy bills.

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MR. ECCLES: Why, we told you when we increased the bills that--

MR. SPROUL: Don't let him kid you.

MR. BELL: I checked up on it.

MR. ECCLES: It is the first time they have done it, however.

MR. BELL: There were only two banks that were called, I believe.

MR. ECCLES: What we did on it - we did a lot of work here when we first decided to instruct the banks to buy bills offered at three-eighths. That was, I guess, nearly a couple of months ago. The Reserve Bank presidents were all asked to make an effort over the telephone and by sending out a circular to the banks that had reserves and try to explain to them what the program was, and they did that, and then week before last they followed it up again, and it is amazing, the results they have been getting. What were those figures we got from Minneapolis this morning?

MR. DRAPK: They had eight times as many requests.

MR. ECCLES: Well, tenders this week as they have ever had.

H.M.JR: The only thing that I don't understand, and I am being very serious, is a complaint - I mean, I just get this - that I had to increase the bills, the amount of bills, because the poor Fed couldn't buy any.

MR. ECCLES: We still haven't increased them enough yet.

H.M.JR: On the other hand, I get worried that these telephone calls go out to the banks, you see, "Buy them, or else."

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MR. ECCLES: No, we didn't tell them, "or else."

MR. SZYM CZAK: Or else we buy them. You didn't go far enough. (Laughter)

H.M.JR: Well, as they say around here, nobody ever tells me anything.

MR. SZYM CZAK: You have to read the newspapers.

H.M.JR: Well, go ahead, Dan, you have got me side-tracked here.

MR. BELL: Well, these estimates are based on the assumption that we go ahead with the present bill program and that we will raise a billion and a half dollars in June, a billion seven hundred fifty million in July, and two billion two hundred fifty million in August. The fact that we increased our Treasury bills to fifty million brought down that four and a half billion for two months to about four billion. We will go out of June with about a billion nine hundred million. We will go out of July with a billion eight hundred million, and out of August with a billion six hundred million. We have got to go out of these months hereafter with substantial balances, because the first ten days of the month hit us very hard. We spend from one hundred fifty to two hundred million dollars a day over our receipts in the first ten days. We have got to go out with large balances. We have to have new money on July 15 and again on August 15 in order to maintain our balances.

H.M.JR: I would like to compliment the Federal Reserve System on the way they have handled the bill thing. I think it has worked out very fine, and I am very much pleased, Mariner.

MR. ECCLES: Well, we are pretty well satisfied ourselves, also, the way it worked out.

H.M.JR: I think the way they have taken hold of certificates and the way they are sold back and forth freely is good.

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MR. ECCLES: We would like to see another fifty millions put out in the course of another week or so.

H.M.JR: Well, you won't have much trouble with me. I don't think you would do it this week, would you?

MR. ECCLES: No, not until after your certificates are out.

MR. BELL: After the certificates are out - the first one would be on July 1.

MR. ECCLES: That is right.

H.M.JR: Give us a day or two to think it over, but I don't think you will have much argument over here.

I told Dan I wanted to see the way it went. I mean, I wanted to watch this extra fifty, and if they took it in their stride, which evidently they have, we would add another fifty.

MR. BELL: They have gone very well. The rate hasn't changed.

H.M.JR: Marriner, I realize you fellows didn't have a chance to get together early, but could I, starting with you or whoever you suggest, go around the room. Do you want me to start with you, or with New York?

MR. ECCLES: Well, we got together this morning for about a half hour.

H.M.JR: You understood why I had - I am supposed to go to the White House at eleven.

MR. ECCLES: That is all right, we got together. Al Williams couldn't come down; he was ill yesterday. He had some lumbago, he said, and was feeling quite miserable; and he said if he felt better this morning he would come down on the early train, but apparently he didn't feel like getting around.

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We were unanimous in feeling that one issue of certificates was the thing to put out. Our feeling is that February 1 to February 15 maturity, which would be priced at around about five-eighths - there has been some discussion, we know, that - some thought of having two issues. We don't feel that that is justified at all. We feel that with the large amount of financing to be done that when we begin splitting up issues of a billion and a half, or even two billion, it is hardly justified. If we only had to get money here every two or three months, and get a billion or a billion and a half at a time, it may be advisable to split up issues; but we just don't feel with the amount of financing to be done that it is good practice to split up a small issue of a billion and a half dollars. We don't think it is justified - don't think it is necessary.

H.M.JR: Well, I am inclined to agree with you. Is there any feeling by these boys that have the pencils - are you substituting for Mr. Piser?

MR. KENNEDY: I am.

H.M.JR: There is some feeling in our place that this five-eighths to February is a little doubtful. How about you people in touch with the market in New York?

MR. ROUSE: We haven't any doubts about it, Mr. Secretary. The dating can be February 1 or February 15, and the thing would be accepted and go very well.

H.M.JR: Either one?

MR. ROUSE: Whichever suits best. I think generally it would be preferred the first of the month, particularly because the dating of November 1 on the first issue is giving the people reason to think they will be able to count on certificate dates being the first of the month hereafter.

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MR. ECCLES: I think an eight-month certificate is a little better than eight and a half. I would personally feel that February 1 would be better than February 15.

H.M.JR: The way some of our boys feel here, I don't think, George, you would want to go to February 15.

MR. HAAS: I prefer the first.

MR. BELL: It is much better in the schedule, because if we put out four of these, we ought to put them November 1, February 1, May 1, and August 1, and there isn't any difference in the price between February 1, January 1, and February 15.

H.M.JR: Sproul?

MR. SPROUL: I have no question, on the basis of the present market, but that the thing to do is put out a billion and a half in certificates at five-eighths February 1. I don't see any advantage or necessity for a split issue at this time. I think we want to get some additional certificates out of the market as money-market instruments, and they can be sold at this price and that maturity, and the multiplication of issues in these circumstances seems to me undesirable and unnecessary.

MR. DRAPER: Yes, I agree.

MR. GOLDENWEISER: I am entirely in agreement with what Mr. Sproul said.

H.M.JR: Well, let me ask you this, have you men thought at all - let's see, how much will we need next month?

MR. BELL: A billion seven hundred fifty million new money.

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H.M.JR: How much in two months?

MR. BELL: Four billion, minimum.

H.M.JR: Minimum?

MR. BELL: Yes.

MR. SZYMCAK: It figures around four and a half billion.

MR. GOLDENWEISER: Four billion is for June, July, and August?

MR. BELL: July and August.

MR. BELL: And assumes the Treasury bill program, too.

MR. ECCLES: That is a three hundred million Treasury program, so if you increase the fifty million, that will give you four hundred million less, which doesn't amount to - three and a half to four billion is what you have got to get, no matter what you do on bills.

H.M.JR: How much?

MR. ECCLES: Three and a half to four billion in July and August.

MR. BELL: Over the present program, I would say four billion is the minimum increase in bills. You can cut down, maybe, on the offering.

MR. ECCLES: That means - in that case, it would mean a billion seven hundred fifty in July, a billion seven hundred fifty in August, and four hundred fifty million of bills, which gives you the four billion, seven hundred fifty million open market, or some other type of financing in those two months.

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Now, that is assuming - as I get it, that is basing it on a billion dollars on E, F, and G's for July and August.

MR. BELL: That is right.

H.M.JR: That is assuming a billion for those two months. That doesn't take into account any other financing. I mean, there is that much financing to be done, whether done by market issues or open end issues, or that--

MR. BELL: That long two and a half.

MR. ECCLES: What I mean is, you need four billion exclusive of Defense Savings.

MR. BELL: That is right, and tax notes.

MR. ECCLES: And bills.

H.M.JR: The men in the War Savings Staff, they don't seem to be worried so much about July and August, making the quota. They are a little bit worried about making the June quota. I think we will make the E Bond thing all right, but they are doubtful if we make the F and G. I mean, we will do all right on the E's, which is, of course, the important thing, but it looks as though we are going to slip a little bit on the F and G unless somebody pulls something out of the hat, which I don't think they will. The E's are running right about on schedule, but the F and G's are not. The payroll-allotment thing is coming along beautifully. I mean, that is growing.

MR. SPROUL: That still has some upward lift to it.

H.M.JR: The payroll - oh, well, according to the men who are working on it, they think it will grow by three or four times, the payroll allotment, in dollars. They even go more than that, but I say they think it will grow in magnitude, in volume, three or four times.

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MR. ECCLES: What part of the total is likely to come out of the payroll, of the billion, would you say?

H.M.JR: Well, according to the War Savings Staff fellows, about half.

MR. ECCLES: Half of the total out of the payroll-deduction plan?

H.M.JR: Yes, through the payroll-deduction plan.

MR. ECCLES: That will be five hundred million.

H.M.JR: That is what they are aiming at.

MR. ECCLES: That is pretty good. If they can double that, they will really begin--

H.M.JR: No, that is their goal.

MR. ECCLES: Oh, that is the ultimate - what you mean is that ultimately they can get up to five hundred million.

H.M.JR: Yes, but the thing - every day, I mean, there are more and more people reaching the goal. For instance, here in the Treasury, to use as an example, we put on a drive for four days and we went over ten percent on our allotment, and this is the first department where there has been a drive. We may go how high, Bell?

MR. BELL: We will probably go between twelve and thirteen percent.

H.M.JR: And this is the first Government department there has been a drive in. It is slow, hard work.

MR. ECCLES: Say, there was a drive in the Fed long ago.

H.M.JR: What did you get?

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MR. ECCLES: I don't know.

MR. DRAPER: We got ten percent, total figures, I think.

MR. ECCLES: We got - I don't think--

MR. SPROUL: I am afraid not.

MR. DRAPER: I mean the Board of Governors.

H.M.JR: This is the Treasury employees.

MR. ECCLES: It is how much?

H.M.JR: It is over ten in four days.

MR. DRAPER: You mean not only in Washington?

H.M.JR: All over the country. We are talking about - it is over ten percent of the total payroll of all employees in the Treasury, and they think it will maybe go up to thirteen. We wanted to try it out on ourselves first. We will be glad to come over.

MR. ECCLES: Well, they have had, I imagine, over ninety percent, haven't they, of the employees who signed up?

MR. SZYMCAK: You mean the Fed or the Board? In the Board we have a hundred-percent sign-up, but I don't know what it relates to--

MR. SPROUL: I would say more than a hundred percent.

MR. SZYMCAK: The New York bank could bring it above a hundred percent. (Laughter)

H.M.JR: We are not talking about number of employees, total payroll. It is awfully, awfully hard

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work, and the thing which particularly pleases me is the very low percentage of redemptions. Now, what was it, how much outstanding, six billion?

MR. BELL: There were eight billion of current redemption value.

H.M.JR: And how much was redeemed in May?

MR. BELL: About twenty million.

H.M.JR: Twenty million out of a total of eight billion.

MR. BELL: It is running at the rate of about a million dollars a day this month.

H.M.JR: Marriner, I think it is pretty good, you know.

MR. ECCLES: That is fine. The only thing that worries me about it is the right of redemption if they get under pressure with taxes and other sources.

H.M.JR: But, with all the stuff coming out of Washington, we don't get any good news out of Washington as far as we are concerned.

MR. DRAPER: There is something in that.

H.M.JR: Now in Canada, for instance, where they put on some very high-pressure methods in some of the factories, their redemptions are tremendous. They come out with the announcement that this factory or that factory is signed up, and they are, but then the redemptions have been very stiff.

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MR. BELL: Here is an interesting thing, Mr. Secretary, last year up to this date, we sold a billion four hundred fifteen million dollars in United States Savings Bonds.

H.M.JR: How much?

MR. BELL: A billion four hundred fifteen million. And we redeemed up to that date a hundred forty-one million, which is ten percent. This year up to this date we sold five billion seven hundred forty-three million dollars, and the redemptions have been a hundred ninety-eight million, which is less than four percent.

MR. GOLDENWEISER: And no difficulties made about redemptions, are there, Mr. Secretary?

H.M.JR: Oh, no.

MR. GOLDENWEISER: I think it is awfully important that there shouldn't be because I have been getting some rumors to that effect and I think it is awfully important.

(Mr. Williams entered the conference.)

MR. BELL: There is one little quirk in it. You had May and June drives last year. Nevertheless, it is a good showing.

H.M.JR: Now will you remember to give it to me?

MR. BELL: I will give you a memo.

H.M.JR: Let me come back. I want to ask two things. Some people suggested that either before this financing on Thursday or next Monday I should announce that during July and August the Treasury will borrow approximately four billion dollars, part of which will be in long-term securities. I would like some advice on that. One, should I do it before this financing or after; and two, if I do it is that about what I should say?

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MR. ECCLES: Well, I would think it is desirable to say something to the market, indicating that the Treasury - I don't think I would say four billion. I would say, "The Treasury is going to need between three and four" - I mean, leave some leeway there, and I would cut it for both July and August so you could put more in July. If you cover the two months it gives you some leeway there. I think likewise that some of this financing - I think it is perfectly all right to say that there will be some long.

MR. SZYMCAK: And intermediate.

MR. ECCLES: Yes, you need both. It is a question; you don't know what you are going to need.

MR. SZYMCAK: I think those are the two that would be affected by this certificate until you make some sort of an announcement.

MR. ECCLES: You could say that some bonds would be offered.

Now, I mean, as to saying whether they are short or long, the fact that they are bonds as against certificates and notes, why not say that bonds would be offered during that month. Now, that leaves it where it could be anywhere from the longest bonds to the intermediate bonds.

H.M.JR: Well, I am, personally, not so worried but some of these people thought that if we don't say something like that the bond market might go up.

MR. BELL: I am the one that raised the question. This was a situation - in April when we offered the certificate the long two and a halves were selling at twenty-three, twenty-four, thirty-seconds premium, and when we announced this certificate they went up, as I recall, six thirty-seconds in that day. Today they are selling for one, nine thirty-seconds premium, which is up a full half point, which seems to me to be too much in the period that has gone by. I just thought, to put a little damper

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on the long market and hold it at least where it is, that maybe we had better announce a program two months ahead, at least the amount of financing to be done, to indicate to the financial districts that there would be bonds some place.

MR. ECCLES: We could sell some long bonds in the market, Dan, and hold them down, and then later on when you put the new ones out when the market needs support we could buy them.

MR. SPROUL: I think there will be some advantage in making an announcement, say, when you close up on this offering, assuming it is certificates and say that during July and August you are going to do approximately so much borrowing and it would include bonds. Surprising as it may seem, the market ought to know and does know that your financing job during July and August is about so much, but if you don't say it they go ahead for a few days or a week as if you had nothing more to do after you had sold the certificates. That was the situation.

H.M.JR: You would say it Thursday night?

MR. SPROUL: When you close up this offering of certificates.

H.M.JR: You wouldn't do it before?

MR. SPROUL: No.

MR. ECCLES: You said at the time - you mean the time of announcement?

MR. SPROUL: No, time of closing.

I don't think it is necessary to confuse the announcement of this offering with the announcement of what you are going to do in July and August, but when you close a successful offering then to say what you are going to do in July and August I think would be helpful.

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H.M.JR: I leave it to you because I don't see - it is like hurdle races and I don't see why we have to race these, make it a little extra difficult for our financing by announcing this thing two days before a financing, that we are going - before we borrow a billion and a half that we are going to need four million more. It looks like you are putting ten pounds on the runner's back. (Laughter) I mean, I lean towards you. I don't think Dan agrees with me, but my thought is, "This is over, and it has been a successful financing. Now we are looking forward to July and August. We are going to need three and a half to four and a half billion."

MR. ECCLES: How long would you expect to keep this open?

H.M.JR: One day.

MR. BELL: One day won't make so much difference.

H.M.JR: It looks like you are adding ten pounds to my back. I am kind of short of breath now. (Laughter)

MR. BELL: Overweight? (Laughter)

H.M.JR: I am not overweight, thank you, not the last six months - the last six years, yes.

MR. DRAPER: Don't you think, Mr. Secretary, you ought to say some time, say it at the end of the--

H.M.JR: Yes, "Now this is over, this was successful. Now, the next one will be so and so." Is that all right?

MR. DRAPER: It sounds all right to me.

H.M.JR: Is that all right, Marriner?

MR. ECCLES: I think it is all right. I don't mean to imply that you should say it at the time you make the announcement. I was merely asking the question. If

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the market should show a substantial strength when you make this announcement of the certificate, I would think that the Fed ought to possibly sell a little until such time as you do make the announcement.

MR. SPROUL: That would be a matter of a day or two.

MR. ECCLES: That is right, but I mean, if the market should show particular strength as soon as this announcement is out, I think you can hold it down.

H.M.JR: Well then, I have got two other groups. I have got a group coming down tomorrow morning. You arranged that?

MR. ROUSE: Yes.

H.M.JR: Are you going to stay over?

MR. ROUSE: I think not.

H.M.JR: And then I have got this special group that I brought in and they have asked when you gentlemen were through - they were here last time - have you got a half an hour you could talk with them?

MR. ECCLES: Tomorrow?

H.M.JR: Right now.

MR. ECCLES: Oh, sure. What group is it?

H.M.JR: Well, it is the same group as last time.

MR. ECCLES: You mean the banking group?

H.M.JR: Harrison, Parkinson - they just sent in a note they would like to talk to you because they are in disagreement with the rest of us.

MR. SPROUL: Looking ahead to your July financing

there is another reason in my mind for not--

H.M.JR: Excuse me, would you have time?

MR. ECCLES: I would be glad to talk to them.

MR. SPROUL: Absolutely. Looking ahead to your July financing, there is another reason in my mind for keeping this June financing as a single issue of certificates, simple offering. I think in July you probably will want to have a split offering to attract one or two other groups of investors, perhaps open the long-term two and a half's and have a bank bond, and perhaps a note, and in that situation you will be meeting various types of investor and bank demands. To confuse this simple operation with a split offering doesn't seem to me to be necessary.

H.M.JR: I am in accord with you, but this other group, I guess they want a chance to talk.

MR. ECCLES: well, I don't know. It has been a long while since I agreed with that group. (Laughter)

H.M.JR: It is almost universal disagreement.

MR. DRAPER: Make that unanimous.

H.M.JR: They represent an important segment of our customers.

MR. ECCLES: That is right, but they also represent - they are engaged in a private business, too.

H.M.JR: That is all right.

MR. ECCLES: It is a good thing to get their point of view, but I can't agree with it.

MR. GOLDENWEISER: One segment of your enemies, too.

H.M.JR: You think so?

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MR. SPROUL: They have now become customers and we supply the funds with which they become customers.

MR. ECCLES: I am glad you mentioned that. You talk about being your customers - the point is that they are really the customers of the Fed. They have got to depend upon the Fed more and more for the supply of funds, either through open-market operations or through changing the reserve requirement situation or through loaning them funds through the discount, so that really the funds, in the final analysis, pretty largely, from now out don't come from them. The funds are going to come from Fed through them, so that they are our customers, too.

MR. BELL: Haven't you got their money? (Laughter)

MR. ECCLES: No, sir.

MR. SPROUL: That is all in use. (Laughter)

H.M.JR: When I spoke of our customers, I was speaking of the Fed and the Treasury as one.

MR. ECCLES: Well, of course these bankers have got the idea that the Fed has got their money, but, as a matter of fact, the Fed creates the money that they need to function. Some of them don't know that yet but--

H.M.JR: Well, Marriner, what I would like to do is if you will see these people, then I will see these people Rouse has arranged for. I will get in touch with you on the phone between eleven and twelve tomorrow morning.

MR. ECCLES: O.K.

H.M.JR: On your letter I only made one suggestion of lifting a paragraph, but that was just a suggestion - the paragraph where you suggested that they buy less consumers' goods. The only reason I suggested it was I

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think you are putting two thoughts in there.

MR. SZYMCAK: That is on the inventory?

H.M.JR: Yes. I mean, I thought that it weakens the letter by putting an additional thought, but I mean, if the Board thinks it should go in, all right. But if they just get the thing on the inventory, that is that; but then you send them something about buying less. I felt it kind of distracted them. I may be wrong, but that was my suggestion.

MR. ECCLES: I sent the letter to Don Nelson and I think Don is out of town, but I think Weinberg has got authority to act on it. And Jesse was out of town so I don't like to get it - it is an awful job clearing a letter through fifteen or twenty people, but - well, I am glad to get that.

H.M.JR: That was my idea - the letter had two thoughts and I was just raising the question.

MR. ECCLES: Otherwise you think it meets the thing? We tried to make it short and to the point.

H.M.JR: It is good. I just raised the point you are maybe confusing them a little bit.

MR. ECCLES: I don't just recall the way that fits into the letter.

H.M.JR: Well, you put the one thing first, "I hope you will tell your friends and customers to buy less consumers' goods," and the next sentence about the inventory, and I just think it weakens it a little bit.

MR. ECCLES: Well, yes. Used in that way it would seem to.

H.M.JR: I mean, all in the same paragraph."

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Well, thank you all.

MR. ECCLES: There is one other matter I would like to mention here. Henry, this is the week we have been meeting to discuss the future - you know, we are trying to meet every other week with Stewart and the group. Now, it isn't convenient for Allan and Al to come down again tomorrow, which was our scheduled day. Stewart, Dan says, has to come down Friday, so what we are going to do is we are going to have an open-market meeting. We have got to have another one so we are going to have one next Monday.

We thought on Tuesday, if Stewart can come, or even if he can't, we can meet with Dan and the staff to try to lay out a little longer range program, try to keep ahead of this and right now to figure July and August and to try to look at this whole thing from open end issues and bills because this thing is going to come along; and if we could get it so we could get it a little more automatic where we are going to have to get a couple or three billion a month, just like you get your Defense Savings. You get that rolling fully, get a billion a month on that thing, it is right there. If we could devise some other way of getting something dependable so that the open-market issues can be kept to the minimum, it is going to make the financing job much easier, isn't it?

We are going to discuss that next Tuesday.

H.M.JR: It sounds good.

June 16, 1942
12:38 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Oscar
Cox: Hello.

HMJr: How's the great Oscar?

C: Pretty good. How are you?

HMJr: In what capacity are you calling me?

C: Friend.

HMJr: What?

C: Friend.

HMJr: Proceed.

C: I conveyed your message to Francis. He didn't say anything.

HMJr: Yeah.

C: All I wanted to tell you that I always have been and always will be two hundred per cent for you, and I've tried to

HMJr: Is this you talking or Francis?

C: This is me.

HMJr: You?

C: Yeah.

HMJr: Yeah.

C: I talked to the A. P. C. about this thing in terms of trying to convince them. Markham asked me if I'd go see Crowley this afternoon and work on him.

HMJr: Yeah.

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C: So I am going over. I don't know with what results. I thought we ought to get this thing cleaned up before Sam gets back, if possible.

HMJr: Yeah.

C: And see if we can't get everybody agreeing so we can just move on.

HMJr: Well, as I said the other day, I was - had a very strong impression right along what the President wanted, because he told me again and again, but I never got a chance to tell the people who drew the Executive Order what he did want.

C: Yeah.

HMJr: And, then since then, he's told Sam about three times, word for word, what he told me.

C: Yeah.

HMJr: That ought to be enough.

C: It certainly should.

HMJr: What?

C: It certainly should. I always think of the Russians when they say when Joe Stalin says something, it goes.

HMJr: Well, we need a little more of that in this country. I mean, the President tells people things, but they don't always carry out his orders.

C: Right.

HMJr: But, the Attorney General had no comment?

C: No.

HMJr: Well, the next move is up to him as far as our personal relations are concerned.

C: Well, so I indicated to him.

HMJr: Yeah.

C: What are you doing out with the Greek King? Do you only travel in Royalty these days?

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HMJr: Say, we were there last night forty-five minutes waiting for the King...

C: Uh - huh.

HMJr: ... and personally, I'd give them a ten per-cent bonus on Lend-Lease if they'd stay in England ...

C: (Laughs)

HMJr: ... and cut them fifty per-cent if they come over here.

C: Right.

HMJr: What?

C: That's the - that's the proper sanction.

HMJr: Well, Oscar, I think this - I think that you can be very helpful in doing what the President wants done. Hello?

C: Yeah.

HMJr: And second, also be helpful to the Treasury and to me.

C: Right.

HMJr: But the first instance is what the President wants.

C: Well, I agree there.

HMJr: And, as I said to you the other day, I just can't understand why Francis Biddle is really so excited about this, when it doesn't - I don't see that he's got anything to do with it, other than to say that this is a properly, legally drawn paper.

C: Yeah.

HMJr: A legally, properly drawn paper.

C: Well, there's only one question on the legal thing...

HMJr: Yeah.

C: ... that's to put it up to the policy people, and that is why shouldn't Treasury have the power to tax the property of a foreign, non-enemy national

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which isn't a business enterprise, if you want to do it.

HMJr: Well, as far as I'm concerned, the way Sam passed on it is good enough for me.

C: I think it's all right.

HMJr: And I wouldn't change a letter as far as I'm concerned.

C: Right.

HMJr: See?

C: Yes.

HMJr: The Judge - I mean - and he's been very judicial about it.

C: Oh, sure.

HMJr: And he's heard the hearings, and he said this comes within what the President wants.

C: Yeah.

HMJr: Well, that's good enough for me.

C: It is for me, too.

HMJr: Well.....

C: Well, I'll let you know what happens.

HMJr: Will you?

C: I hate to be in this kind of a position, but I can't do anything about it except help.

HMJr: Right.

C: Thanks.

HMJr: Well, I'll count on you.

C: All right.

HMJr: Thank you.

C: Good-bye.

June 16, 1942
2:10 p.m.

HMJr: Hello.

Randolph Paul: Yeah.

HMJr: You sound as though you were sleepy.

P: No, I'm not sleepy. I just had my lunch, that's all.

HMJr: Oh. Well, you're full of lunch. I saw Mr. Roosevelt today.

P: Yeah.

HMJr: Told him what I had done yesterday, and it met with his one hundred per cent approval, and he - I told him that I said I was "sittin' and not sweatin'" and he said, "Keep on sittin', and no sweatin' and no talkin'." He said, "Just stay put."

P: Uh huh.

HMJr: And he said if they don't want to give us eight seven, that's all right. That's their responsibility. But he said, "Just keep quiet, and don't say anything," other than what I did yesterday.

P: All right.

HMJr: That ought to please you.

P: Yeah. Well, of course, that was my decision. My only point was there this morning - some of the boys didn't seem to get my point. I thought you and Herb Gaston and Peter did, but I was afraid some of them didn't understand what I was saying.

HMJr: Well.....

P: But I'm sure you did. The point is, we may not get it if we act that way. I'm for doing it.

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HMJr: Yeah.

P: Well, all right, then. We've got a clear field on that.

HMJr: Yeah, that's one less worry.

P: Yeah. Doughton was just telling me a few minutes ago about Rayburn and what he said about getting the tax bill through and so on.

HMJr: Yeah. Well, when you come down off the Hill and I'm still here, I'd like to talk to you. Otherwise, we'll get together in the morning.

P: All right, fine.

HMJr: Now, look.

P: Yeah.

HMJr: Of course, the President told us this, and this is - tell it to Roy and your other man up there, but - hello.

P: Yeah.

HMJr: You better not tell it to anybody. That's the safest way.

P: Okay.

HMJr: I'd just keep - it's between you and me. That's the safest way.

P: All right.

HMJr: Thank you.

June 16, 1942
2:25 p.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Harrison
Mr. Smith
Mr. Brown
Mr. Parkinson
Mr. Burgess

H.M.JR: Well, did you have an interesting meeting with the Fed?

MR. BURGESS: We had a very harmonious and nice discussion with them, as a matter of fact, which was a good thing to do.

H.M.JR: Good.

MR. BURGESS: George is the spokesman.

H.M.JR: Again? Has he got notes?

MR. HARRISON: Those are the notes of what I had planned to say.

H.M.JR: I see.

MR. HARRISON: We have thought it over yesterday and this morning by ourselves for some while, and I think up until the time we met with the people from the Federal we were still definitely of the opinion that there was a preference for a dual issue, an optional issue, that is, the certificate and a two-year one-percent note. But we were anxious to talk with the Federal to

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get some point of view about the condition of the market, which we didn't have, and certainly not quite up to date, and learned not only that the market is not saturated with short-time money market stuff, but that the Federal is even having difficulty at times getting such stuff in order to offset the amount of increase in currency.

Furthermore, we learned what we had not heard, that the tenders for the bills yesterday was eight hundred millions which is a very big increase, and quite indicative of the success in spreading the interest in short-time money. That being so, I think we are all in agreement that while we have a preference for a two-year one-percent note at some early date, there is no need to split this particular issue in view of the fact that the market can no doubt take it, according to the report that we got this morning. We would like to think that perhaps next time, or shortly, some note of that maturity would be tried in an effort to see whether it might not enter some of the smaller country banks, some individuals and perhaps even some corporations. It is a good maturity, and it is a fairly good rate, and it touches a field that we haven't yet tried to tap.

I think that summarizes the long morning's talk. Is there anything else anybody else wants to say?

MR. BURGESS: The question of a shorter or longer certificate.

MR. HARRISON: Oh, yes. Assuming that you should decide not to put out the two percent, but to confine your issue to certificates, the question was whether it would be a February, say five-eighths, or a May, three-quarters. While we didn't feel very strongly one way or another, I think the preference of each one of us would probably be for the longer one at three-quarters, as a compromise in the demand between the shortest one and the two-year one that we suggested yesterday.

MR. SMITH: No particular feeling about it, though, would you say? We don't lean that way.

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MR. HARRISON: Yes. It would fit in; if you are going to follow a quarterly program of issuing certificates, the May issue would fit into your quarterly period just as well as your February one would.

MR. BURGESS: That is, our feeling would be that on this certificate program the Treasury shouldn't necessarily be thinking in terms of six months' certificates but anything up to a year, and play around in that whole area, and there are some fellows who would be interested in a longer certificate of a little higher coupon that wouldn't be interested in the shorter, and vice versa, so that you need to vary. I think there is much to be said, you having issued a six months' certificate, now to try a ten months and then go back again to a shorter one. I mean--

H.M.JR: We are too conservative here. We don't like to try new things. (Laughter)

MR. HARRISON: We had quite a long talk with the Federal about the possibility at some future date of the issue of what they call a tap issue but what I call a non-negotiable registered redeemable bond, on tap. (Laughter)

MR. BURGESS: They just mentioned it. (Laughter)

MR. BELL: Just mentioned that in passing.

H.M.JR: I was afraid you would have nothing to do this morning, but I find you were well occupied.

MR. HARRISON: We had over an hour with them.

MR. BURGESS: As a matter of fact, I think it is a terribly good idea for us when we come down to have some discussion with them because otherwise you are bound to get a little irritation.

MR. SMITH: I think they feel the same way about it.

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MR. BURGESS: I think so, I think they liked it.

H.M.JR: Have we got any further - I have got one serious question I would like to ask. Who paid for lunch today? (Laughter)

MR. HARRISON: I did, and I haven't collected anything yet.

MR. PARKINSON: That is the reason he is spokesman.

H.M.JR: The honor goes with the job. I was just curious.

MR. BURGESS: We discussed--

MR. HARRISON: As Mr. Brown said, we were ostentatiously not invited to lunch with the Federal Reserve Board.

H.M.JR: Ostentatiously?

MR. BURGESS: We had some discussion with the Board people.

H.M.JR: The next time you come you get a free lunch at the Treasury.

MR. BURGESS: Good.

We had some discussion with them about certain of these points that the New York City banks had raised in their memorandum. You remember that memorandum now?

(Memorandum handed to Secretary.)

H.M.JR: Now don't be unkind. Don't ask me if I have done my homework.

MR. HARRISON: I was wondering, Mr. Secretary, even before you are confused by the opinions of the New York bankers, whether we could finish up one or two things on the other question that Mr. Bell had asked us.

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H.M.JR: Yes.

MR. HARRISON: We think it is very important.

H.M.JR: I have this. You had better keep it. I definitely have it.

(Memorandum returned to Mr. Burgess.)

MR. HARRISON: We think that if the program is to be just an issue of certificates that it is even more important than we felt yesterday that some such comment as you mentioned be made about longer issues later on.

H.M.JR: That was agreed on.

MR. HARRISON: Yes. On the question of two and a half issues, such as we had in May, we felt some doubt as to whether it should be in July and August, but that in view of the fact that the sixty-day limit on transfers expires in July, and while we don't expect many offerings, nevertheless, it might be well to let the market have a little play there to see whether or not, or to what extent there may be some offerings before forcing a new issue right on top of that. Now, it would depend upon when your July financing comes, because I think that limit is up in three weeks from now.

MR. BELL: It comes right at the time when that limitation goes off.

MR. HARRISON: That is what I thought.

MR. BELL: So you would not have any market experience on that issue at all at that time.

H.M.JR: A good point.

MR. HARRISON: If that is true, I think it would be better to put it off until August. I personally feel that in addition to that there is an advantage

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in allowing the investment moneys to accumulate for three months anyway and make a good showing rather than to take too much accumulation and make a poorer showing.

H.M.JR: Let me ask you insurance presidents, how long does it take the well to fill up?

MR. PARKINSON: Well, it is pretty well filled up now. We have about ninety to a hundred million dollars that we would like to put to work, and we have a lot of short-term discount notes, CIT and like institutions, that will be coming due within the next sixty days, so we are ready again. But I agree with what George Harrison has said, that it would be better, if you want to have a good showing on that issue when you open it again, to let it run until August.

MR. HARRISON: Our situation is about the same. We have about a hundred million in cash and some short bills and some of those certificates, so we accumulate free money for investment at the rate of about thirty or thirty-five millions, I guess it is, a month.

MR. BELL: You don't think we might get a half a billion dollars there every other month?

MR. HARRISON: Every other month?

MR. BELL: Yes. For instance, if we had it in August it would come out again in October. Do you think we--

MR. PARKINSON: You would for the next six months.

MR. BELL: Would?

MR. PARKINSON: Would, but after that I should doubt it. That is, I should doubt your getting more than two billions a year.

MR. BURGESS: From insurance companies alone. Now there will be something additional.

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MR. BELL: There are other funds there.

MR. HARRISON: You can get two billions a year from the insurance companies, I think, as a whole.

MR. BELL: Is there a billion or a billion and a half other funds, trusts, in that area?

MR. BURGESS: There again, there is more in the first year than there is the second. You eat into a backlog.

H.M.JR: Do any of you gentlemen in this room have a research organization, for instance, that could tell me, just offhand, I mean, how many States and municipalities it has been customary for new money each year in refundings - I mean, what has been the practice for the last three or four years?

MR. BURGESS: We rely on the Treasury figures for those. They are excellent.

H.M.JR: Have you got them, George?

MR. BELL: They are running about a billion a year.

MR. HAAS: I am not sure just what you are talking about.

H.M.JR: For instance, if I asked you how much new money do the States and the counties and the cities - how much new money they have been, a month--

MR. HAAS: Yes.

H.M.JR: Do we publish those?

MR. HAAS: We publish estimates of the securities issued by the States and municipalities once a year.

H.M.JR: We only publish them once a year?

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MR. HAAS: Once a year, but there are public sources more current, the Bond Buyer and the Financial Chronicle.

H.M.JR: I am wondering how much, if any, that group has been to the market, you see - I mean, how much has it fallen off, has it stayed steady; in other words, what has happened?

MR. HAAS: We keep a chart of that.

H.M.JR: I mean, I would like to know, George, next time you see me, what are the States and counties and municipalities doing about new money financing, how has it been running the first five months of this year compared with the first five months of last year, say. It is new money, not refunding. I can't see but what they around Dutchess County - I haven't traveled anywhere else - are doing just as much work on the roads as they ever did.

MR. HARRISON: Some of them are not. You take Westchester County, which has been most exorbitant, it is just letting the Bronx River Parkway go, no repairs on it at all.

H.M.JR: None at all?

MR. HARRISON: No.

H.M.JR: Well, anyway, I would be curious, you know, just as a check. I haven't seen anybody write anything about it. There has been nothing in the papers recently that I have seen.

MR. SMITH: Of course road improvements wouldn't be based on the bond issue. Most of the road improvements have been done out of Federal aid, and road improvements are done out of gasoline tax and license tax.

H.M.JR: Well, I didn't - I didn't necessarily put the two and two together, but what I am interested

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in is how much of these non-Federal Governmental units have been going to the market for money.

MR. PARKINSON: You mean, what is the competition?

H.M.JR: Yes, I am considering it in terms of competition.

MR. SMITH. Of course, you know the Bond Buyer has that.

MR. HAAS: Yes, we keep charts. I just hadn't been showing it to the Secretary.

MR. SMITH: It is much less; general municipal issues are down.

H.M.JR: I should have seen it.

(The Secretary left the conference temporarily.)

MR. HARRISON: There was just one other question that Mr. Bell asked us in his memorandum, and that was whether it would be wise to start now to increase the bill issue from three hundred million to three hundred and fifty million. Our feeling is that it might be better not to do it right away, especially if you are going to put out the big issue and the certificates all at once. Furthermore, we thought it might have some advantage if you delay the issue, or the increase in the issue, until your first two hundred and fifty million dollar bills come around for maturity. In other words, you are, thirteen weeks after you began the two hundred and fifty million and I am not sure what that date was, Mr. Bell--

MR. BELL: About the middle of July I think, the fifteenth of July.

MR. HARRISON: So it would be around the middle of July. We think there is some advantage in doing that,

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not necessarily, but some advantage because then you are not increasing the total new money taken out of the market to the same extent that you would if you increase the issue to three hundred and fifty millions before the earlier issue begins to mature.

H.M.JR: Brown, have you got anything? You have been very quiet.

MR. BROWN: No. I think George has covered it. I think that July or August when you come out with an intermediate term issue of five to ten years, or if you come out with a longer issue, it would be highly desirable to have something like the two-year note which we discussed as a complement to the other, because I think that they are entirely different fields of money. But after talking with Rouse and Sproul this morning, I certainly felt that there was no need of the two-year note at this time and that putting the entire billion and a half in certificates wouldn't create any danger of choking your short-term money market, which I think we all feared somewhat yesterday.

H.M.JR: Mr. Parkinson?

MR. PARKINSON: The only thought that is in my mind to add is that I have been greatly impressed by the discussion here with the desirability of getting smaller banks out through the country interested in some kind of short-term paper more than they have been in the past. That doesn't add anything to our decision on this particular matter.

MR. SMITH: And they are accomplishing a great deal in that respect.

MR. BELL: There is a good distribution.

H.M.JR: Well, on this thing this seems to be working very well.

MR. BELL: Twenty-two million of that issue yesterday.

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went to Dallas.

MR. SMITH: Do you know what St. Louis took?

MR. BELL: I think it was about twelve.

MR. BURGESS: While you were out, Henry, we asked Bell whether it wouldn't be possible to leave this certificate issue open for two days instead of one and give more chances for the corporations to come in. He seemed to think it would. I think there is an advantage.

H.M.JR: That is a good idea.

MR. BURGESS: I don't see any danger in it.

MR. BELL: We agreed if you did that you ought to announce it beforehand so that they wouldn't say it was a failure, if you announced it that evening.

H.M.JR: That is right. People are so suspicious.
(Laughter)

MR. BELL: They are.

H.M.JR: Of Washington. When we talk of Washington now, I mean, it is a question of American business being in Washington and few Government people left.

MR. BURGESS: A little leaven in the lump.

H.M.JR: I don't know which does the leavening and which is the lump. Nowadays if you want to find anybody they are here. What's-his-name from the Mutual Life, young Ecker - I can't call him young as he is my age--

MR. BURGESS: He was with Metropolitan Life.

H.M.JR: He came in with Lend-Lease. I said, "My Gawd, who is going to buy my bonds if you are down here Lend-Leasing?" He says, "Oh, I have got somebody home

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looking after it." He is here with McCabe.

MR. PARKINSON: Stettinius.

H.M.JR: Stettinius is sick.

What is McCabe's position up there?

MR. BURGESS: He is president of the Scott paper Company. He is also chairman of the Philadelphia Reserve Bank.

H.M.JR: A good man.

MR. BURGESS: Very good man.

H.M.JR: Gentlemen; I thank you very much.

MR. BURGESS: Could I just take a second? There are two points in this New York City memorandum that we didn't--

H.M.JR: Gawd, Bell, will you please read that?

MR. BELL: I am going to tonight.

MR. BRUGESS: The New York City Bank worked pretty hard.

H.M.JR: There must be something phony about it.
(Laughter)

MR. BURGESS: It is a damned good memorandum.

H.M.JR: I wonder who wrote it.

MR. SMITH: Did you see the names signed to it?

MR. BURGESS: Well, there were a couple of things we discussed this morning with the Board there that I think are worth mentioning. One is tax anticipation notes. It has been a year since those were first put out.

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Since then you have had experience with them, and the money rates have changed quite a lot. We think that needs revamping and you can sell a good deal more with some raising of the limit on the A note, perhaps some adjustment of the rate of the B note. The memorandum has suggestions on that, and we think they are really worth thinking about.

Another suggestion there was that the long-term tap bond, the two and a half bond, be made eligible for the payment of inheritance taxes, with the idea that that would attract some buying that wouldn't otherwise come into it. The bond fellows both were in general agreement on that. We disagreed a little on details about the tax anticipation, but on both points they were agreeable.

We also mentioned, as the memorandum does, the question of FDIC insurance on Government deposits. We mentioned that the other day.

H.M.JR: I am with you on that.

MR. BURGESS: It would be very helpful if that could be done.

H.M.JR: Anything else? That is all in that memorandum?

MR. BURGESS: There is a lot more stuff in it, but those are just the high points.

Changes in the Yields of Short-term Direct Government
 Securities Since the Last Offering of
 Certificates of Indebtedness

	April 4, 1942	June 16, 1942	Net Change
Treasury Bills (average rate last issue).....	.221	.365	+.144
Notes:			
2's due 9/15/42.....	5/32*	1/32*	-4/32*
1-3/4's due 12/15/42.....	1/32*	.11	-3/32*
3/4's due 3/15/43 (T).....	.42	.50	+.08
1-1/8's due 6/15/43.....	.26	.34	+.08
1's due 9/15/43.....	.28	.37	+.09
1-1/8's due 12/15/43.....	.31	.37	+.06
1's due 3/15/44.....	.37	.46	+.09
3/4's due 6/15/44.....	.41	.53	+.12
Bonds:			
3-3/8's due 6/15/43-47.....	.43	.60	+.17
3-1/4's due 10/15/43-45.....	.55	.74	+.19
3-1/4's due 4/15/44-46.....	.70	.88	+.18

June 16, 1942

Treasury Department,
 Division of Research and Statistics.

* Excess of price over zero yield.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 16, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Current non-Federal expenditures for highways and public buildings.

In response to your request of June 11, I am submitting the following report on non-Federal expenditures for highways and public buildings.

Highway construction

While complete data are not available on current expenditures by States, counties, municipalities, etc., the available figures show an appreciable decline in new non-Federal highway projects, as compared with the previous year, since our entry into the war. The curtailment has in part been forced by shortages of structural steel and other strategic materials, and in part perhaps by a prospective decline in gasoline tax revenues. On the other hand, the war program has in certain respects increased the demand for highway construction and improvement. Access roads must be built to new war plants and military establishments, the strategic highway network must be built up to War Department standards, and greater expenditures for maintenance of present highways are likely to be necessary where new projects have been postponed.

The current trend of highway expenditures by States is indicated by data on Federal-aid projects compiled by the Public Roads Administration. According to this agency, the Federal-aid projects include the great bulk of highway construction by the States. Since last December, all such projects must be certified by the War or Navy Department.

According to data as of April 30, new Federal-aid project authorizations for (1) highways, (2) roads, and (3) grade crossings have been reduced to about one-half of last year's total. The total cost value of projects approved for construction but not yet started on that date amounted to \$51,189,000, as compared with \$100,583,000 on that date last year. It is of interest that new projects approved during the 5 months December to April, inclusive, totalled only \$13,568,000.

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The value of projects under construction on April 30, however, was nearly equal to last year's figure, totalling \$266,642,000 as compared with \$279,789,000 on that date in 1941. The bulk of this represented projects started before our entry into the war. During the 5-month period December to April, inclusive, new construction was started on projects totalling \$56,966,000. Projects completed during the fiscal year to date are also approximately equal to last year's total.

Details for these three classifications of projects are given in Table 1, which also shows the amount of Federal aid involved. Figures by States are given in Tables 2, 3 and 4.

State highway projects planned for 1942 had apparently already been curtailed before Pearl Harbor. Data compiled early in the year by the Engineering News Record, covering 46 States (Iowa and Utah missing), showed total highway expenditures budgeted for 1942 at \$570,785,000, which compared with \$701,547,000 expended in 1941. Of the expenditures planned for 1942, 67 percent was intended for new construction and 33 percent for maintenance and equipment.

State and municipal building construction

Current data are not available for public building expenditures by States and municipalities. The trend of such expenditures, however, may be indicated by non-Federal public works construction awards reported by the Engineering News Record. (See Table 5.) These figures, however, include highway construction awards, and they do not cover all construction projects since only those above certain minimum values are included. These contract awards show roughly the same reduction since last December in the year-to-year comparisons as is shown by the new highway projects authorized but not yet started on April 30.

Table
 Status of Federal-aid highway, secondary road and
 grade crossing projects as of April 30, 1941 and 1942
 (Thousands of dollars)

	Highways		Secondary roads		Grade crossings		Total	
	<u>1941</u>	<u>1942</u>	<u>1941</u>	<u>1942</u>	<u>1941</u>	<u>1942</u>	<u>1941</u>	<u>1942</u>
<u>Completed during</u>								
<u>fiscal year to date:</u>								
Estimated total cost	184,221	179,989	29,312	30,047	23,487	23,366	237,020	233,402
Federal aid	89,730	94,195	14,317	14,932	22,985	22,566	127,032	131,693
<u>Under construction</u>								
<u>April 30:</u>								
Estimated total cost	218,900	204,495	24,782	26,583	36,107	35,564	279,789	266,642
Federal aid	111,542	113,158	12,655	13,501	34,690	33,216	158,887	159,875
<u>Approved for</u>								
<u>construction:</u>								
Estimated total cost	74,375	36,551	13,268	6,581	12,940	8,057	100,583	51,189
Federal aid	35,901	19,922	6,281	4,072	12,419	7,360	54,601	31,354
<u>Balance available</u>								
<u>for programmed</u>								
<u>projects:</u>								
	141,048	145,025	27,821	29,835	48,564	47,608	217,433	222,468

Source: Public Roads Administration.

STATUS OF FEDERAL-AID HIGHWAY PROJECTS

AS OF APRIL 30, 1942

STATE	COMPLETED DURING CURRENT FISCAL YEAR			LINEAR CONTRIBUTION			APPROVED FOR CONSTRUCTION			BALANCE OF FEDERAL AID AVAILABLE FOR OBLIGATION THROUGH MAY 31, 1942
	Federal Total Cost	Federal Aid	State	Federal Total Cost	Federal Aid	State	Federal Total Cost	Federal Aid	State	
Alabama	86,496,126	83,296,172	228.2	84,278,809	82,325,129	115.2	8198,900	899,490	0.2	82,493,120
Arizona	1,683,999	1,241,721	66.1	1,283,798	1,048,608	87.3	238,615	188,908	1.7	1,821,867
Arkansas	3,680,940	1,662,291	57.4	1,173,178	595,470	60.1	192,792	118,191	1.7	1,706,968
California	8,996,533	4,864,799	190.1	4,900,828	3,268,188	95.5	473,300	996,638	20.7	4,187,284
Colorado	2,377,987	1,327,638	195.2	3,579,276	2,302,210	195.1	1,169,960	692,490	41.7	2,095,717
Connecticut	1,413,229	996,181	17.1	1,085,847	887,191	23.1	208,178	104,067	4.7	1,208,870
Delaware	95,396	331,381	17.1	461,010	216,399	9.0	268,040	19,020	4.4	1,462,962
Florida	1,342,189	698,497	66.7	3,130,037	1,821,323	84.2	512,242	319,028	4.6	2,415,473
Georgia	1,007,820	1,480,438	111.7	1,119,185	3,796,161	286.1	3,213,389	1,099,825	122.1	6,732,493
Iaia	1,916,219	1,294,905	95.4	1,144,696	4,170,992	121.7	1,361,200	680,600	6.2	1,988,293
Illinois	4,119,397	2,001,308	89.5	1,377,291	3,609,880	107.1				6,514,422
Indiana	4,626,009	2,182,000	72.1	1,217,039	1,609,695	136.5	407,151	86,490	6.8	2,895,294
Iowa	3,909,378	1,887,029	170.5	4,479,098	1,800,695	136.5	407,151	86,490	6.8	2,895,294
Kansas	4,723,956	2,399,067	261.2	6,187,277	3,230,841	298.3	893,366	416,787	43.0	4,799,198
Kentucky	4,071,626	2,009,401	146.8	6,182,798	2,928,807	118.8	2,546,980	1,341,638	27.1	1,953,622
Louisiana	1,309,665	789,434	33.4	1,382,924	914,401	28.5	3,008,481	1,504,690	60.4	1,130,435
Maine	946,081	470,251	26.8	2,068,492	1,059,796	27.7	78,610	39,305	1.8	1,388,782
Maryland	2,162,267	1,381,529	29.6	1,846,309	1,483,696	15.0	110,000	202,500	3.2	1,888,703
Massachusetts	2,381,882	1,178,572	17.3	2,239,903	1,199,262	14.9	1,273,400	694,473	9.3	3,817,721
Michigan	4,513,375	4,188,577	174.2	2,967,748	1,935,999	51.6	1,325,800	828,590	11.5	3,011,867
Minnesota	4,621,194	2,286,267	348.8	9,251,361	4,732,162	211.6	113,720	26,890	10.0	3,223,278
Mississippi	5,330,967	2,602,918	283.3	3,790,524	1,482,462	218.1	21,400	13,700	25.4	3,957,130
Missouri	5,218,792	2,699,696	165.0	10,694,415	6,097,449	192.4	1,930,391	669,462	26.6	4,401,366
Montana	2,170,862	1,298,436	117.1	4,201,667	2,521,273	202.9	210,738	119,823	14.2	4,414,999
Nebraska	3,062,166	1,513,744	291.7	5,092,749	2,961,349	496.7	174,888	109,530	24.6	4,127,399
Nevada	2,217,826	1,893,244	110.6	883,388	770,680	26.0	817,668	737,447	24.6	818,606
New Hampshire	343,779	211,123	6.0	1,800,599	1,022,813	89.2				1,051,981
New Jersey	2,998,818	1,460,264	26.6	2,988,902	1,494,371	16.2				2,733,730
New Mexico	1,874,157	1,221,453	129.0	905,551	64,791	61.1				5,184,137
New York	4,538,881	4,786,928	129.7	8,183,891	3,261,808	89.0	429,000	193,900	6.4	3,667,799
North Carolina	4,638,434	2,495,290	187.3	2,782,464	1,213,364	94.0	961,796	283,902	6.8	4,018,917
North Dakota	3,229,343	1,875,878	287.6	1,468,295	1,468,013	203.9	2,986,390	1,297,134	205.2	2,921,226
Ohio	3,283,010	4,462,688	319.8	15,619,362	1,609,744	81.8	1,070,140	870,818	19.2	6,194,092
Oklahoma	2,093,951	1,183,899	122.3	2,593,322	1,900,534	64.9	1,960,930	739,857	38.3	1,110,688
Oregon	2,783,897	1,644,626	75.0	3,200,744	1,699,318	71.4	1,061,993	807,010	17.6	4,311,716
Pennsylvania	10,476,235	5,315,717	126.2	5,313,880	5,031,119	72.1	1,300,626	831,617	9.7	171,296
Rhode Island	1,194,495	678,165	10.0	1,046,898	669,630	5.0	242,894	121,132	1.8	1,437,989
South Carolina	2,401,104	1,211,729	101.0	1,982,298	2,506,202	92.0	524,640	281,300	11.0	2,883,139
South Dakota	2,380,869	1,298,927	281.3	4,793,133	3,118,405	533.3	595,112	325,580	32.4	3,975,818
Tennessee	4,543,199	2,940,192	109.9	1,962,862	2,627,570	99.7	700,824	118,090	1.5	4,405,618
Texas	12,767,078	6,294,887	617.9	11,080,522	5,295,251	593.1	1,100,430	361,945	29.5	1,294,463
Utah	1,252,200	941,940	53.0	1,836,587	1,293,120	46.1				18,453
Vermont	803,276	662,297	24.8	1,193,326	715,241	20.7	36,406	17,765	.4	2,714,946
Virginia	4,146,660	1,971,269	74.9	3,402,348	1,893,243	97.2				2,164,136
Washington	1,816,560	387,092	26.5	2,514,690	1,362,843	30.5	43,688	21,400	1.0	1,601,136
West Virginia	2,998,443	1,442,332	53.1	2,621,338	1,387,124	24.0	472,790	444,930	9.7	3,767,879
Wisconsin	2,202,064	1,144,704	92.7	5,618,446	3,967,843	163.9	644,483	487,100	11.8	1,272,921
Wyoming	1,433,453	1,027,099	148.4	1,713,023	1,317,527	123.5				184,168
District of Columbia	1,076,468	442,138	1.5	196,302	127,460	.9	944,456	464,688	1.5	1,424,204
Hawaii	141,835	75,057	2.8	1,298,684	813,327	10.9	499,587	480,115	5.7	1,386,323
Puerto Rico	699,945	238,435	3.9	2,295,515	1,123,760	18.0				
TOTALS	179,948,812	84,195,118	6,129.8	204,445,464	111,157,730	3,981.3	16,991,281	19,929,479	99.2	144,029,081

TABLE 2

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STATUS OF FEDERAL-AID SECONDARY OR FEEDER ROAD PROJECTS

AS OF APRIL 30, 1942

STATE	COMPLETED DURING CURRENT FISCAL YEAR			UNDER CONSTRUCTION			APPROVED FOR CONSTRUCTION			BALANCE OF FUND FOR PROJECTS COMPLETED BY 1942
	Estimated Total Cost	Federal Aid	Miles	Estimated Total Cost	Federal Aid	Miles	Estimated Total Cost	Federal Aid	Miles	
Alabama	\$1,392,972	\$695,108	62.5	\$685,882	\$362,410	31.1	\$40,801	\$19,550	0.1	\$581,490
Arizona	292,110	184,247	14.1	138,065	101,042	6.8				513,118
Arkansas	629,977	257,235	33.1	483,854	261,861	26.5	70,060	34,701	2.4	301,121
California	1,041,242	641,734	18.3	743,299	567,493	7.5	152,386	35,323	5.0	1,031,499
Colorado	209,672	117,570	20.9	131,800	73,914	3.2				302,702
Connecticut	288,035	136,331	6.1	266,287	118,937	6.8				199,604
Delaware	1,042,471	519,885	11.6	181,864	70,382	11.9	102,473	37,614	3.9	286,037
Florida	266,666	257,833	43.4	1,202,213	626,236	74.9	400,257	200,129	41.7	1,126,812
Georgia	293,347	172,516	26.2	226,270	157,021	7.7	34,149	23,587	2.8	269,992
Idaho	1,081,408	515,800	29.4	1,168,364	584,192	24.5	96,200	46,250	10.6	864,198
Illinois	986,368	285,029	32.8	1,279,755	606,721	31.0	88,800	36,800	3.2	822,073
Indiana	640,297	295,716	169.0	560,916	253,056	73.4	141,325	64,325	35.1	589,961
Iowa	486,435	427,446	111.7	1,806,645	905,910	92.4	238,353	119,176	29.7	1,035,351
Kentucky	1,157,854	571,329	83.2	1,249,010	617,668	37.2	78,213	26,400	5.6	264,331
Louisiana	539,462	269,678	20.6	7,700	3,490		289,360	138,761	21.5	666,690
Maine	78,522	39,261	3.6	235,218	117,609	10.6	16,850	2,714	.4	162,925
Maryland	579,666	282,808	20.7	226,810	113,205	1.8				363,568
Massachusetts	179,789	93,969	4.1	668,233	377,663	10.1				547,304
Michigan	1,290,526	636,337	79.4	710,798	396,399	21.7	307,470	153,935	11.2	644,404
Minnesota	1,961,866	790,632	217.1	1,029,187	520,337	91.8	279,666	139,344	26.8	386,600
Mississippi	829,715	414,858	46.5	1,494,546	709,614	29.0				1,045,532
Missouri	436,434	214,924	50.9	932,442	448,633	24.0	186,244	63,193	32.4	801,003
Montana	175,564	211,817	28.5	282,724	170,722	31.0	13,968	7,715	4.5	386,494
Nebraska	361,564	178,543	49.4	493,954	249,991	64.6				234,872
Nevada	331,931	266,129	26.6	92,429	60,188	4.6				133,681
New Hampshire	156,022	95,133	4.7	318,311	138,813	3.6				573,787
New Jersey	447,496	239,246	9.6	864,135	296,110	13.9				250,178
New Mexico	566,935	377,245	47.7	196,149	126,792	15.2	66,176	42,419	4.4	1,082,172
New York	956,980	468,290	28.8	1,180,340	621,808	14.9	245,600	122,800	9	1,082,172
North Carolina	330,711	170,040	34.9	522,407	278,748	36.3	69,800	20,000	5.0	655,703
North Dakota	29,802	15,664	2.4	7,382	7,382		808,030	753,860	42.7	795,177
Ohio	1,782,889	888,281	57.5	901,610	498,775	14.8	75,000	38,000	2.0	1,372,489
Oklahoma	402,166	210,674	27.6	27,672	14,715	4.0	1,260,706	665,682	75.9	494,906
Oregon	499,181	244,030	41.8	487,564	284,564	24.5	30,462	18,000	1.3	322,918
Pennsylvania	2,015,130	986,906	37.6	513,989	256,581	10.4	73,588	36,298	1.8	771,950
Rhode Island	227,579	118,127	2.6	15,494	11,497					130,911
South Carolina	787,356	307,866	24.6	221,700	79,445	.5				37,780
South Dakota	314,222	22,152	14.1	4,136	4,136		1,143,430	1,042,600	114.5	762,018
Tennessee	466,207	232,400	14.1	1,357,954	684,577	46.0	158,042	79,021	4.6	790,249
Texas	1,534,041	749,810	154.3	527,939	297,947	41.7				2,249,798
Utah	204,014	136,160	20.2	1,364,811	86,738	3.5				337,043
Vermont	40,104	18,109	1.2	222,515	117,328	8.9				53,580
Virginia	403,187	189,037	16.2	344,516	156,180	4.2	23,400	11,700	3.8	679,170
Washington	311,635	228,446	23.8	369,818	147,362	7.8				409,302
West Virginia	412,849	207,432	19.8	301,364	130,069	6.4				510,286
Wisconsin	246,341	475,307	42.7	1,411,616	644,981	46.0	88,199	38,880	1.1	382,353
Wyoming	362,617	160,629	18.8	508,323	218,112	24.3				218,046
District of Columbia	79,178	39,035	.9	1,279	1,279					165,600
Hawaii	1,158	1,094								334,875
Puerto Rico	120,027	71,561	7.5	73,682	38,810	3.1				217,966
TOTALS	30,046,611	14,931,975	1,965.7	26,982,779	13,301,420	1,224.4	6,580,603	4,071,887	446.9	29,434,741

Table 3

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STATUS OF FEDERAL-AID GRADE CROSSING PROJECTS

AS OF APRIL 30, 1942

STATE	COMPLETED DURING CURRENT FISCAL YEAR						UNDER CONSTRUCTION						APPROVED FOR CONSTRUCTION						BALANCE OF FUNDS AT DIS-POSABLE END OF FISCAL YEAR PROJECTS
	Estimated Total Cost	Federal Aid	NUMBER			Estimated Total Cost	Federal Aid	NUMBER			Estimated Total Cost	Federal Aid	NUMBER						
			Grades	Structures	Other			Grades	Structures	Other			Grades	Structures	Other				
Alabama	\$151,770	\$151,770	2	4	2	\$390,025	\$386,803	5	2	2	\$181,625	\$181,235	4		5	\$917,199			
Arkansas	169,378	169,361	1	1		138,529	129,438	1	1	2	4,095	4,095			1	230,684			
California	474,307	471,932	5		9	166,826	166,116	1		2	7,354	7,354			2	687,407			
Colorado	838,839	849,267	2	1	6	870,516	866,797	7			7,529	7,529			2	2,319,499			
Connecticut	5,685	5,646				670,460	670,460	8		3	14,914	14,914			7	745,747			
Delaware	166,222	165,415	2			61,712	60,676	1	1		271,374	222,780	1		1	940,633			
Florida	89,725	89,725	1		1	151,997	149,867	1	1	6	504,406	321,785	2		14	179,504			
Georgia	120,961	120,961	1		20	48,507	48,487	8			82,492	82,432			14	871,382			
Illinois	668,629	668,629	7	2	6	1,002,915	1,002,915	6	6	15	790,188	790,188	2	4	10	1,505,777			
Indiana	27,850	27,603	3			122,773	113,602	4	1		4,190	4,190			2	427,671			
Iowa	831,050	828,683	2		95	1,048,238	1,065,041	8	1	2	385,449	385,749	1	1	31	2,946,795			
Kansas	611,831	611,831	6		28	478,802	469,093	2	1	17	76,703	76,703			21	1,165,432			
Kentucky	375,128	365,422	3	1	33	1,432,874	1,180,896	10	2	11	212,237	204,790			86	621,957			
Louisiana	85,965	80,557	2		7	745,377	745,377	9	7		141,011	141,011	3		6	1,304,511			
Maine	1,129,873	1,127,502	9		1	441,711	441,711	4	1							511,382			
Massachusetts	6,945	6,945				586,220	586,220	4			481,835	480,667	4		4	924,798			
Michigan	14,383	10,383				363,086	363,086	2			1,861	1,861			1	265,059			
Minnesota	504,850	469,057	2	2	12	876,458	730,660	4		4	30,175	30,175			6	399,872			
Missouri	346,270	335,829	1		1	791,642	790,770	5	2		763,430	763,430	2	1	9	1,250,259			
Montana	1,333,563	1,322,460	3	4	26	240,766	240,766	1		6	752,425	752,425			1	306,426			
Nebraska	643,147	642,783	5	4	2	377,175	377,175	5	4	6	4,585	4,585			1	1,236,380			
Nevada	253,874	253,874	2		10	843,130	843,130	10			25,804	25,804			2	646,344			
New Hampshire	120,732	120,732	2		2	2,192,793	2,192,793	8	2		203,965	203,965			2	1,440,369			
New Jersey	144,025	144,025	2			99,178	99,178	1								733,051			
New Mexico	797,242	796,134	4		21	1,023,081	1,023,081	19	1	1	13,020	13,020			3	475,292			
New York	120,817	116,466	2		1	63,435	63,435	2		2	22,635	22,635			7	196,823			
North Carolina	265,368	265,068	4	1	1	99,262	99,262	2	1	2						111,961			
North Dakota	852,812	850,349	4	1	2	622,904	627,354	3	1		354,985	355,360	1	2	1	941,341			
Ohio	2,422,733	2,420,650	2	11		1,082,136	1,081,007	1	8		299,103	292,068	3	1	1	519,348			
Oklahoma	619,537	616,799	2	6	31	176,292	176,292	1	1	1	51,795	51,795			13	1,407,381			
Oregon	289,022	287,819	5			470,895	470,895	5								872,117			
Pennsylvania	1,551,247	1,542,230	8	1	12	2,732,033	2,708,333	16		1	352,872	348,750	1		2	1,725,482			
Rhode Island	294,454	245,573	2		39	480,329	478,439	4		3	372,420	374,781	3		4	1,458,240			
South Carolina	419,535	395,255	4		3	281,502	228,715	2			13,433	13,433			4	403,396			
South Dakota	1,307,614	1,310,305	14	1		3,026,511	3,026,511	14			399,074	399,074	2		2	2,326,668			
Tennessee	205,241	205,241	1			3,695	3,695									273,921			
Texas	341,099	334,334	6		23	299,152	281,713	3	3	1	234,585	99,452	2	2	7	952,489			
Utah	511,858	511,751	13		9	515,821	498,871	8			61,800	61,800	2		1	828,275			
Vermont	301,580	289,646	3	3		1,325,647	1,325,647	7	1	4	102,106	102,106	2	1	2	1,005,367			
Virginia	1,574,036	1,579,617	16			1,359,773	1,356,641	13		4	4,350	4,350			1	2,368,086			
Washington	64,276	67,534	2		22	29,888	29,888	1		6	60,140	60,140			23	198,427			
West Virginia	17,469	16,742				327,466	293,090	2								114,613			
Wisconsin	562,165	562,165	4	4	1	341,127	327,167	1	1	1	4,015	4,015			1	969,069			
Wyoming	352,281	362,044	3	2	3	1,041,232	964,028	5	1	1	5,182	4,182			2	418,063			
Dist. of Columbia	293,145	247,512	3		6	694,510	694,510	6	1	2	348,830	344,420	1		1	450,273			
Port of Spain	464,947	461,283	2		39	570,431	570,431	3	2	7	12,647	12,647			2	1,674,169			
Virgin Islands	481,187	466,531	6		1	1,074	1,074				8,316	8,316			6	8,316			
TOTALS	23,365,998	22,566,777	169	53	484	35,963,605	33,216,435	290	45	103	8,096,996	7,360,195	54	15	249	47,608,074			

Table 4

Table 5

Public works construction contract awards ^{1/},
excluding Federal

Month	Awards, fiscal year		Percent decline
	1941 (Thousands of dollars)	1942	
November	96,738	58,977	39.0
December	80,581	54,087	32.9
January	135,011	80,559	40.3
February	92,389	39,352	57.4
March	95,174	45,788	51.9
April	102,608	66,036	35.6
May	121,321	55,847	54.0

^{1/} Includes: waterworks, sewerage, bridges, earthwork and waterways, streets and roads, public buildings and unclassified public works.

Engineering News Record reports projects of the following minimum costs: waterworks, excavation, drainage and irrigation, \$15,000; other public works, \$25,000.

Source: Engineering News Record.

The federal gov and various states cut

1. 1942

highway money, new roads

Total War

are we building

JUST YOU WAIT 'TIL WE GET OUR INDUSTRIAL PRODUCTION GOIN' FULL TILT. WE'LL SHOW OL' MAN BITLER WHERE HE GETS OFF 'YU BETCHA!



are states doing much public building?

June 16, 1942

TO THE SECRETARY:

For your information there is set out below a table showing, by fiscal years, the issues of United States Savings bonds, redemptions during each of the years, and the total amount outstanding (current redemption value) at the end of each of the fiscal years up to June 13, 1942, the latest date for which a report is available.

(In millions of dollars)

Fiscal year	Issued during year	Redemptions during year	Outstanding at end of each year
June 30, 1935 (4 months)	63	1	62
June 30, 1936	265	11	316
June 30, 1937	520	36	800
June 30, 1938	505	67	1,238
June 30, 1939	712	82	1,868
June 30, 1940	1,151	114	2,905
June 30, 1941	1,557	148	4,314
June 13, 1942	5,743	198	9,859
	<u>10,516</u>	<u>657</u>	

The above figure of \$10,516,000,000 includes accrued interest up to the date to which it is accumulated under the regulations, but during this period we have raised about ten billion dollars in cash through the sale of United States Savings bonds and we have paid

- 2 -

out in redemptions \$657,000,000, or about 6-1/2%.

It is interesting to compare the results of the current fiscal year up to June 13 with the results for the same period in the last fiscal year. According to the Daily Statement of June 13, we have sold during this fiscal year \$5,743,000,000 of Savings bonds and have redeemed during that same period only \$198,000,000, about 3-1/2%; whereas in the same period of the previous fiscal year we sold \$1,415,000,000 and redeemed \$141,000,000, or about 10%.

DWB:NLE

June 16, 1942

Dear Mr. Anderson:

James L. Houghteling, who is in charge of labor relations in our War Savings program, tells me that Walter Reuther has been expressing dissatisfaction to him about the workings of the General Motors Corporation payroll savings plan.

In particular, Mr. Reuther said that he has had no communication from you on the subject of the payroll savings plan since his meeting with you in my office on April 16th, and that the General Motors Corporation has not emphasized the interest and cooperation of its employee labor organizations in any of the many public statements it has made about War Savings. Mr. Reuther feels that the participation of the United Automobile Workers in your plants has been sidetracked, with seriously detrimental results to his Union's efforts to have its members invest twenty percent of their current earnings in War Bonds.

If this were true, it would give me real concern. As you remember, you assured me on April 16th that the General Motors payroll savings plan would be truly a joint plan in which Government, management and labor would be partners. Since the money invested through payroll savings plans comes from the workers themselves, I have always felt it would be advisable to promote this plan through the workers' own organizations as far as possible.

You will agree with me, I am sure, that the best possible results can be obtained only by recognizing the joint nature of the payroll savings operation. It should be all the easier for the General Motors Corporation to do this since the United Automobile Workers are so eager to

reach the high goal which they have set for themselves in the purchase of War Bonds and since they intend to do everything they can to promote the General Motors payroll savings plan.

I write you in this vein more for my own information than in any spirit of criticism of the splendid work that you are doing. I shall appreciate hearing from you at your early convenience.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. H. W. Anderson,
Vice-President,
General Motors Corporation,
Detroit, Michigan.

FK/cgk

AIR MAIL
SPECIAL DELIVERY

*H. M. C.
Episto Simpson
Taken to Air Post - Simmons 5:25
cc - Houghton
7. Butler Hotel
Detroit, Mich.*

June 16, 1948

Dear Mr. Neal:

I was very glad to prepare a statement, in accordance with your request, that Mrs. Neal might use in connection with the campaign being carried on by the Wisconsin State Journal.

I am sending you the signed message herewith and ask that you turn it over to Mrs. Neal with my compliments.

Sincerely,

(Signed) H. Wergentzen, JR.

Mr. Fred W. Neal,
1301 Vermont Avenue, Northwest,
Washington, D. C.

GXF:ms

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 4, 1942

TO Mr. Kuhn

FROM Mr. Callahan *MC*

The WISCONSIN STATE JOURNAL at Madison is getting out a special edition in connection with the Pledge Campaign in Wisconsin and is desirous of having a letter from the Secretary which it can reprint. We are attaching copy for a proposed letter which, if approved and signed by the Secretary, should be returned to us for forwarding to the newspaper.

TO THE PEOPLE OF MADISON

It is imperative that the War Savings campaign be a success, and I am very glad, therefore, to learn that a special War Bond drive is being held in Madison.

Our boys on the fighting fronts must have ships, tanks and planes in ever increasing numbers to defeat our Axis enemies. This calls for billions of dollars from all the people through the voluntary purchase of War Bonds. I know that the people of Madison will do their share by investing at least ten percent of their earnings in War Bonds every pay day, not only during the present drive but until our victory is won.

THE SECRETARY OF THE NAVY
WASHINGTON

June 16, 1942

My dear Henry:

Thank you for your note of June 8 enclosing a copy of the Minute Man.

I congratulate you on the high quality of this publicity.

Sincerely yours,

Frank Knox

The Honorable Henry Morgenthau
Secretary of the Treasury

Rec'd 6/29
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TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

JUN 16 1942

Memorandum for
Secretary Morgenthau:

In re: Effect under section 102
of the Internal Revenue Code,
relating to the unreasonable
accumulation of surplus, of
the purchase of War Bonds by
corporations.

The effect on a corporation's liability under section 102 of the Internal Revenue Code of the investment of its earnings or profits in Defense Bonds or War Bonds is no different than the effect of the investment of such earnings or profits in other securities. In either case, whether or not the investment would result in liability under section 102, would depend upon whether or not the accumulation of surplus is required for the reasonable needs of the business and whether or not such accumulation is for the purpose of preventing the imposition of the surtax on the shareholders through the medium of permitting earnings or profits to accumulate instead of distributing them as dividends.

Congress added a strengthening provision to section 102 of the Revenue Act of 1938 which provides that "the fact that the earnings or profits of a corporation are permitted to accumulate beyond the reasonable needs of the business shall be determinative of the purpose to avoid surtax upon shareholders unless the corporation by the clear preponderance of the evidence shall prove to the contrary."

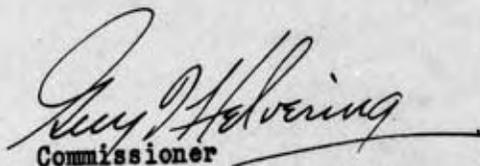
To clarify Bureau policy in connection with the strengthened section 102 provisions and its application to corporate returns indicating unreasonable accumulations for the purpose of surtax avoidance, Treasury Decision 4914 was issued so that taxpayers would have notice and could govern themselves accordingly.

Section 19.102-3 of Regulations 103 provides that "Undistributed income is properly accumulated if retained for working capital needed by the business; or if invested

-2-

in additions to plant reasonably required by the business; or if in accordance with contract obligations placed to the credit of a sinking fund for the purpose of retiring bonds issued by the corporation."

A corporation may invest a part of its depreciation reserve in F. & G Bonds without incurring liability under section 102, and I cannot understand why a statement should be made that "the boys over at internal revenue" have refused to say that a corporation could not so invest a part of its depreciation reserve.


Commissioner

JHS

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of June sales to date with sales during the same number of business days in April and May 1942

(At issue price in thousands of dollars)

Date	June daily sales	Cumulative sales by business days				June as percent of May
		June	May	April		
June 1942						
1	\$ 9,705	\$ 9,705	\$ 7,302	\$ 11,987		132.9%
2	7,895	17,601	15,168	21,677		116.0
3	8,634	26,235	25,516	29,097		102.8
4	13,774	40,009	33,145	35,818		120.7
5	9,344	49,353	48,751	46,174		101.2
6	6,535	55,888	60,817	55,991		91.9
8	11,526	67,414	67,213	63,695		100.3
9	4,952	72,366	72,794	70,364		99.4
10	9,945	82,310	80,845	77,197		101.8
11	7,542	89,852	85,410	80,586		105.2
12	5,402	95,254	94,391	91,623		100.9
13	6,210	101,464	102,106	96,031		99.4
15	7,251	108,715	108,923	102,657		99.8

June 16, 1942

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

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

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

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of June sales to date with sales during the
same number of business days in April and May 1942

(At issue price in thousands of dollars)

Date	June daily sales	Cumulative sales by business days				June as percent of May
		June	May	April	June as percent of May	
June 1942						
1	\$ 19,834	\$ 19,834	\$ 12,679	\$ 12,993	156.4%	
2	8,008	27,841	24,263	24,256	114.7	
3	12,970	40,811	46,532	35,050	87.7	
4	17,388	58,199	55,460	47,119	104.9	
5	24,789	82,988	73,824	65,115	112.4	
6	15,209	98,197	97,049	73,795	101.2	
8	27,048	125,245	114,218	85,714	109.7	
9	8,912	134,157	128,670	97,925	104.3	
10	20,085	154,242	151,956	108,707	101.5	
11	15,678	169,920	161,346	116,081	105.3	
12	16,550	186,470	177,133	138,272	105.3	
13	15,230	201,700	194,047	146,937	103.9	
15	23,984	225,684	208,939	154,623	108.0	

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

June 16, 1942.

Source: All figures are deposits with the Treasurer of the United States on
account of proceeds of sales of United States savings bonds.
Note: Figures have been rounded to nearest thousand and will not necessarily
add to totals.

UNITED STATES SAVINGS BONDS - TOTAL

Comparison of June sales to date with sales during the
same number of business days in April and May 1942

(At issue price in thousands of dollars)

Date	June daily sales	Cumulative sales by business days				June as percent of May
		June	May	April	June as percent of May	
June 1942						
1	\$ 29,539	\$ 29,539	\$ 19,981	\$ 24,980		147.8%
2	15,903	45,442	39,430	45,933		115.2
3	21,604	67,046	72,048	64,147		93.1
4	31,162	98,208	88,605	82,937		110.8
5	34,132	132,341	122,575	111,289		108.0
6	21,744	154,085	157,866	129,786		97.6
8	38,574	192,659	181,431	149,409		106.2
9	13,863	206,523	201,464	168,289		102.5
10	30,029	236,552	232,801	185,904		101.6
11	23,220	259,772	246,756	196,667		105.3
12	21,952	281,724	271,525	229,895		103.8
13	21,439	303,163	296,152	242,969		102.4
15	31,235	334,398	317,861	257,280		105.2

June 16, 1942.

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

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

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

Sales of United States Savings Bonds
From June 1 through June 15, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

Date	Series E				Series F and G				Total			
	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales
	June 1	June 1	June 1	to Date	June 1	June 1	June 1	to Date	June 1	June 1	June 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	\$ 19.8	\$ 19.8	\$ 21.7	91.2%	\$ 9.7	\$ 9.7	\$ 14.0	69.3%	\$ 29.5	\$ 29.5	\$ 35.7	82.6%
2	8.0	27.8	32.0	86.9	7.9	17.6	23.0	76.5	15.9	45.4	55.0	82.5
3	13.0	40.8	46.4	87.9	8.6	26.2	37.9	69.1	21.6	67.0	84.3	79.5
4	17.4	58.2	63.6	91.5	13.8	40.0	51.0	78.4	31.2	98.2	114.6	85.7
5	24.8	83.0	79.6	104.3	9.3	49.4	61.7	80.1	34.1	132.3	141.3	93.6
6	15.2	98.2	93.7	104.8	6.5	55.9	69.4	80.5	21.7	154.1	163.1	94.5
8	27.0	125.2	120.0	104.3	11.5	67.4	82.2	82.0	38.6	192.7	202.2	95.3
9	8.9	134.2	132.4	101.4	5.0	72.4	89.2	81.2	13.9	206.5	221.6	93.2
10	20.1	154.2	149.6	103.1	9.9	82.3	99.6	82.6	30.0	236.6	249.2	94.9
11	15.7	169.9	170.0	99.9	7.5	89.9	108.4	82.9	23.2	259.8	278.4	93.3
12	16.5	186.5	189.0	98.7	5.4	95.3	115.4	82.6	22.0	281.7	304.4	92.9
13	15.2	201.7	205.6	98.1	6.2	101.5	120.8	84.0	21.4	303.2	326.4	92.9
15	24.0	225.7	236.5	95.4	7.3	108.7	130.9	83.0	31.2	334.4	367.4	91.0
16			251.1				137.3				388.4	
17			271.3				147.8				419.1	
18			295.2				157.0				452.2	
19			317.4				164.6				482.0	
20			336.9				170.6				507.5	
22			373.0				181.9				554.9	
23			390.0				189.2				579.2	
24			413.5				201.3				614.8	
25			441.1				212.0				653.1	
26			466.8				221.0				687.8	
27			489.2				228.0				717.2	
29			530.6				241.4				772.0	
30			550.0				250.0				800.0	

June 16, 1942.

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

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.

June 16, 1942

Dear Eleanor:

In accordance with Miss Thompson's note of June 11, 1942, I enclose our comments on the "Analysis of Compulsory Joint Income Tax Proposal," submitted to you by the National Federation of Business and Professional Women's Clubs.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House.

Enclosure

*File N.M.C.
Copies to Stanton*

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**Comments on the Analysis of the Compulsory Joint Income
Tax Proposal, Submitted by the National Federation of
Business and Professional Women's Clubs**

The National Federation of Business and Professional Women's Clubs' statement on mandatory joint returns contains a reasonable presentation of the important issues involved in the Treasury's proposal.

The statement does not indicate the revenue importance of mandatory joint returns. Under the tax rates proposed by the Treasury to the Ways and Means Committee on March 3, 1942, mandatory joint returns would increase the annual yield of the individual income tax by \$300 million. This is approximately half of the present yield of all Federal and State inheritance, estate and gift taxes.

The statement makes no mention of the Treasury's recommendation that a special tax credit be allowed where a wife earns an income. In recognition of the fact that where a wife works outside the home, additional household expenses may be incurred which are not present where the wife is able to devote her full time to the maintenance of her home, the Treasury has suggested that there should be allowed as a credit against the tax upon the family an amount equal to 10 percent of the wife's earnings, such credit not to exceed \$100.

Under the rates and personal exemptions tentatively approved by the Ways and Means Committee, the point at which joint net incomes will be directly affected by the proposal is \$3,800 for

- 2 -

married persons without dependents, \$3,600 for married persons with one dependent, and \$4,000 for married persons with two dependents.

The advantage accorded residents of community property States when separate returns are permitted is indicated by the fact that although in 1959 average individual incomes in community property States were above those in the other States, the average income tax paid by residents of community property States was approximately 25 percent less than that paid by the residents of the other States.

The statement contains the suggestion that in order to remove the disparity between community and non-community property States, the community property system be generalized. Such procedure would require a fundamental revision in the tax structure. Moreover, since all family incomes would be split, substantially higher tax rates would have to be imposed in such a manner as to increase the tax burden on married people in the lower income groups and on all single individuals.

Since the proposal, with the suggested special tax credit for working wives, will affect only families with incomes well above \$3,000, it will have little effect on marriage or on the willingness of married women to accept employment. In the relatively high income levels affected, neither marriage nor employment

- 3 -

on the part of wives is determined primarily by financial considerations. The desire for business and professional careers and the desire to contribute directly to the war effort are probably the principal reasons why married women in the middle and upper income groups seek gainful employment at present.

June 15, 1942
E-R:GLH:eb

THE WHITE HOUSE
WASHINGTON

June 11, 1942

Memorandum for the Treasury Department

Mrs. Roosevelt would appreciate the Treasury Department's comment on the enclosed Analysis of Compulsory Joint Income Tax Proposal, submitted to her by the National Federation of Business and Professional Women's Clubs.

Malvina O. Thompson
Secretary to
Mrs. Roosevelt

SOME ARGUMENTS AGAINST JOINT INCOME TAX RETURNS

Carrie Chapman Catt, suffragist leader - "Of course all sensible women oppose mandatory Joint Income Tax Returns for married persons. I sincerely hope that you will let all Congress know this fact."

Rose Schneiderman, President of the National Women's Trade Union League, - "This proposal is not a 'soak the rich' measure, but would bear down heavily on the low income group from which industrial workers were being sought."

Fannie Hurst, writer - "Mandatory joint income taxes represent a step backward in a world which can ill afford further retrogressions. War is at best a period of backsliding, unless the breakers are firmly applied.

"This joint income measure is unhealthy. Not only is it realistically unsound, but it destroys by dangerous implication great social advancements achieved within the last decade which must be maintained, come war, come peace."

Mary H. Donlon, lawyer - "Business and professional women opposed legislation that denied married women the right to work. They will oppose legislation that would tax a married woman's income at a higher rate than if she were single. Women have worked many years to break down the old common law doctrine that husband and wife are one, and that one the husband. Women are individuals, even when married, and their separate property should be recognized. This proposal for joint income tax returns is a step backward. The measure discriminates against married women. It is in the low and middle income brackets that the tax burden of the mandatory joint return would fall most heavily."

Judge Dorothy Kenyon, lawyer - "The bill is a throwback into Blackstone days when a marriage made two people one and that one the husband. This is a Hitlerian concept but it is an entering wedge to further discrimination against women."

ANALYSIS OF COMPULSORY JOINT INCOME TAX PROPOSAL

Problem

According to Secretary Morgenthau, "loopholes in the Federal tax laws cause an annual loss to the government of almost \$1,000,000,000 a year -- about one eighth of the entire receipts from income taxes." One of these loopholes is the permission to file separate income tax returns by husband and wife.

The reason why permission to file separate returns is a loophole is because when husband and wife file separately, the family unit pays less income tax (if their income is above \$4,000) than the family would pay if the same income were all received by one spouse. This, of course, is because of the steeply progressive tax rates. The higher the income, the higher the percentage of tax paid. (Under the 1941 schedule of deductions, joint incomes above \$4,000 would be affected -- and under the new schedules, joint incomes of \$3,000 would be affected.)

The table below indicates the different taxes that would have to be paid on different incomes under the 1941 tax scale, when filed separately and jointly.

<u>Income Level</u>	<u>Under Separate Returns</u> (If half is received by each)	<u>Under Joint Returns</u> (If half is received by each)
\$2,500	\$38.50	\$38.50
3,000	85.80	85.80
4,000	180.40	180.40
5,000	275.00	302.00
6,000	369.60	435.60
7,000	497.20	596.20
8,000	624.80	756.80
9,000	752.40	961.40
10,000	880.00	1,166.00
15,000	1,727.00	2,545.40
25,000	2,838.00	4,338.40
35,000	5,728.80	8,936.40
40,000	18,884.80	26,206.40
100,000	41,192.80	53,310.40
500,000	319,251.20	346,805.60

Furthermore, the permission to file separate returns is sometimes used to intentionally evade taxes. Property is often transferred from one spouse to another just so that the income can be reported as separately received.

And finally, in the nine community property states -- Louisiana, Texas, New Mexico, Arizona, Nevada, California, Idaho, Washington, and Oklahoma -- the state law permits the division of all income between husband and wife and the filing of separate returns -- even though the income is actually earned or received entirely by one of the spouses. As this division of earned income is not permitted in the 39 non-community property states, it is claimed that taxpayers in these nine states have an unfair advantage over those in other states. It is furthermore pointed out that in the community property states although all property and income is jointly owned by husband and wife in theory, the "sole ownership and control" of the jointly owned property is in the hands of the husband.

To fill in these loopholes the Treasury Department proposed to require the filing of joint income tax returns by husband and wife in all states. This proposal, however, was defeated last August in the House, although approved by the House Committee considering it. As the attached "Pros and Cons" indicate, there are some important

Arguments against the solution proposed by the Treasury Department.

In the Senate, the Treasury proposal was amended in Committee. This amendment provided that income earned by either spouse would be exempt from the requirement and could be filed separately. Even the amended proposal, however, was defeated on the floor of the Senate.

There are two questions that we must decide therefore.

- 1) Should we oppose all proposals requiring the filing of joint income tax returns?
- 2) Should we oppose such a proposal even if the wife's earned income is exempted?

ARGUMENTS PRO AND CON

Compulsory Joint Income Tax Returns

PRO

1. Only families with joint incomes over \$4,000 will be adversely affected by the joint income tax return. These families amounted to less than 6% of all families filing income tax returns in 1938. In other words, 94% of the families chose voluntarily to file joint returns, which means that they would not have been adversely affected by this proposal. The proposal would only affect the upper income brackets who should be able to bear the extra tax.
2. The proposal does not invade the rights of a married woman. It treats her exactly in the same manner as her husband for federal tax purposes. It merely regards the marital community as a taxable unit instead of the individuals who make it up.
3. Families where there is a joint income either earned or from property are better off than families where there is only one breadwinner. Consequently, those families, especially when the joint income is above \$4,000 should be able to afford to pay the additional tax.

CON

1. To say that only 6% of the families would be affected is the same as saying that since only a minority of the electorate is affected, we shouldn't bother about their rights. Furthermore, as the Revenue Act of 1941 has reduced personal exemptions families with net incomes of over \$3,000 will be affected now. This greatly widens the application of the mandatory joint return.
2. Women have worked for many years to break down the old common law doctrine that husband and wife are one and that the husband. Women are individuals, even when married, and their separate property should be recognized. It took many years of struggle to secure laws which recognize the separate property of husband and wife, and this proposal is a step backward.

PRO

CON

4. The real discrimination lies in the fact that under the present law husbands and wives in nine community property states may divide the family income in half, and thus lower the total taxed income, while families in other states do not have this privilege under the state law.

And in the community property states it is not as if the income were in fact jointly owned and controlled, inasmuch as the husband is recognized as the sole controller of the community property. The treasury believes that its proposal would make amends for this unfair situation whereby families in non-community property states pay more than families in community property states.

5. The proposal levies the tax according to ability to pay. The taxable capacity is made to depend upon the total income and not upon the way that income happens to be owned or earned by members of the union.

3. The measure discriminates against married couples with incomes over \$4,000 as against other family units with the same income. For example, mother and son living together with joint incomes above \$4,000 would file separate returns, whereas husband and wives would be compelled to file jointly and thus be subject to higher taxes.

Instead of penalizing the community property system, Congress should encourage its spread. By its recognition of the wife as an equal in the marital partnership, community property states are far in advance of any common law state. Recognition is given to the fact that the wife is entitled to something more than food and clothing and a place to sleep, and it ought to be the law everywhere. The management of the husband is merely a recognition of what is in substance a partnership. Whether the husband or the wife is managing partner is unimportant as long as the real partnership exists. If this partnership is terminated by divorce, the community property is equally divided regardless of guilt, or if by death the husband or wife has full disposition of his half (or her half) of the community property.

Furthermore, it is not fair to create additional discriminations in order to avoid a disparity that already exists. If it is unfair for community property states to permit halving the family income for tax purposes when other states do not permit such a division, why not have a law permitting the division of incomes in all states and then raise the tax to make up for the decrease in revenue? Such a law would catch the tax evaders.

5. It is obviously unfair to treat married persons as a single entity for income tax purposes, while at the same time they are treated separately for purposes of the gift tax, the estate tax, and the tax on capital gains. The federal government, in essence, is saying to married persons that their separate

PRO

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individuality will be recognized or ignored whichever will, in a given situation, yield the maximum number of tax dollars.

6. The argument declaring the proposal to be a danger to the marriage relationship and an encourager of divorce and illegitimacy is completely hysterical and unfounded.

If marriage is postponed because of an increase in the tax rate, there would seem to be very little basis for real marital happiness. Does this not put marriage on a very mercenary basis?

7. In answer to the argument that the measure would increase the divorce rate, it is pointed out that in Great Britain where compulsory joint returns have been required since 1914, the divorce rate is much lower than it is in the United States. In the United States the rate of divorces for each 1,000 of the population in 1935 was 1.71 as against .10 in England and Wales. The number of divorces for each 1,000 marriages was in the United States 194, while in England and Wales there were only 12 divorces to each 1,000 marriages.

8. Proponents of the measure claim it is constitutional and cite many cases in substantiation of this claim. (For details see report of Ways and Means Committee on the Revenue Bill of 1941, July 24th.)

Under the constitutional amendment, giving Congress the right to impose an income tax it has been recognized since 1933 that marriage is a reasonable classification and, therefore, is in conformity with the fifth amendment to the Constitution. Furthermore, ability to pay has always been recognized as a just classification. Under the present proposal, there is no creation of a liability upon one person for the taxes payable by another; there is only an increase in tax of the individual income of each spouse due to the fact that their ability to pay is increased because they are living together.

6. The proposal will discourage marriage and encourage illegitimacy. Husbands and wives in the higher income brackets certainly will think twice before getting married when perhaps the cost of marriage in income taxes would amount to \$12,000 (if the joint income is \$100,000), \$27,000 (if the joint income is \$500,000) and much more as the scale goes up.

7. Two wrongs do not make a right. Because Great Britain varied from the previously universal practice of all civilized countries by taxing the marital relationship, there is no reason why the Congress of the United States should do so. Furthermore, in the United States divorce is much easier and less expensive than it is in Great Britain. The difference in the divorce rates, consequently cannot be attributed to the difference in the tax laws.

8. Opponents claim that the measure would be unconstitutional. The question is whether or not Congress has the constitutional power to put a penalty on marriage.

There is a Wisconsin case wherein a Wisconsin law was declared unconstitutional which required joint income tax returns and made each spouse liable for the entire tax. The supreme court held that this legislation was unconstitutional on the ground that each person was liable for the total tax. There is no essential difference in these cases, it is claimed.

OFFICE GUESTS OF THE SECRETARY, FILM PROGRAM, JUNE 16 8:45 PM

Mr. and Mrs. D. W. Bell

Miss Kathleen Bell

Mr. Edward H. Foley

Dr. and Mrs. Harry D. White

Mr. and Mrs. George Buffington

Mr. T. R. Gamble

Mr. and Mrs. Klotz

E. J. FitzGerald

SECRET

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

June 16, 1942

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

Dear Mr. Secretary:

I am sending you herewith, by special messenger, a copy of the secret report on the status of the Soviet aid program as of May 31, 1942.

A copy of the letter of transmittal to the President is attached.

Sincerely yours,

Thomas B. McCabe

Thomas B. McCabe
Acting Administrator

Attachments

SECRET
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June 17, 1942

Dear Mr. President,

In compliance with your letter of March 17, 1942 requesting that you be kept advised as to the status of the Soviet aid program, we are transmitting herewith the report as of May 31, 1942.

The report shows the amount of each class of material that has been made available under the terms of the protocol and the proportion that has actually been shipped, subdivided according to that which has arrived, been sunk or is still en route.

Total exports to U.S.S.R. fell off sharply in May, as indicated by the first page of charts, due principally to convey difficulties. Only 32 ships sailed during the month as compared with 78 sailings in April.

The prospect for improvement in the situation during June does not appear bright. From present indications, the number of sailings in June will not be much greater than in May.

Sincerely yours,

Thomas B. McCabe
Acting Administrator

The Honorable

The President of the United States

SECRET
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STATUS OF THE SOVIET AID PROGRAM

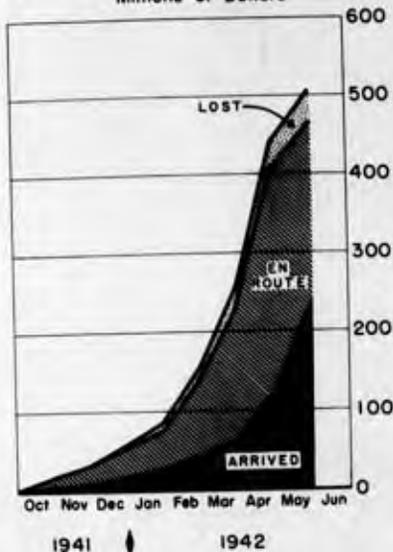
AS OF MAY 31, 1942

Office of Lend-Lease Administration

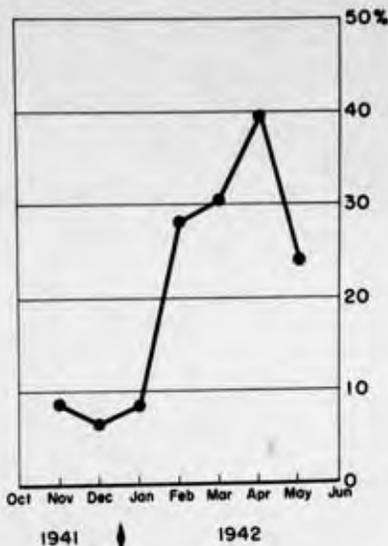
STATUS OF THE SOVIET AID PROGRAM
As of May 31, 1942

OFFICE OF LEND-LEASE ADMINISTRATION
Washington
June 16, 1942

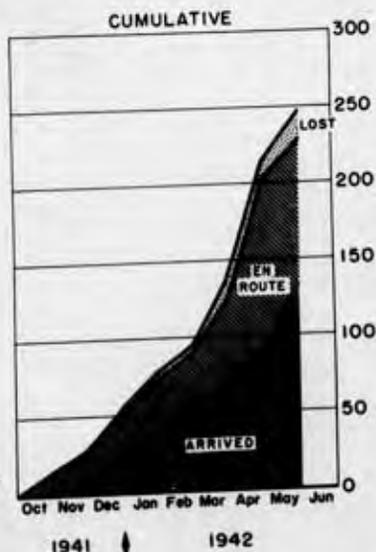
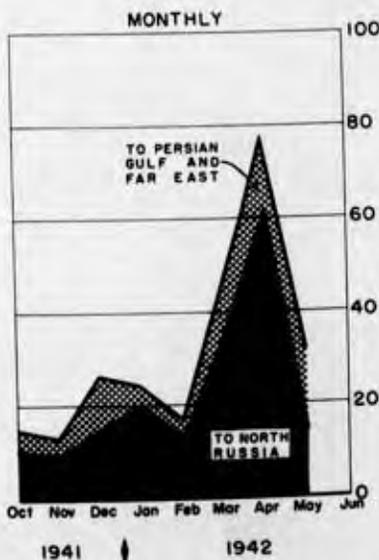
EXPORTS TO U.S.S.R.
 CUMULATIVE SINCE OCTOBER 1, 1941
 Millions of Dollars



MONTHLY LEND-LEASE EXPORTS TO U.S.S.R.
 IN % OF TOTAL LEND-LEASE EXPORTS



NUMBER OF SHIPS SAILING FOR U.S.S.R.



EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL
October 1, 1941 to June 30, 1942

Protocol Item and Number	Exports Oct. 1 to May 31	Arrived to May 31	Lost to May 31	Made Available to May 31	To be Made Available in June	Estimated Availability to June 30	Protocol Commitment
1A Planes - Medium Bombers B-25	53	36	2	77	0	77	900
1A Planes - Light Bombers A-20	431	304	0	485	196	681	
1B Planes - Pursuit P-40	492	254	95	689	148	837	
2A Tanks - Medium	672	376	114	948	160	1,108	1,125
2B Tanks - Light	891	420	76	996	148	1,144	1,125
3 Anti-Aircraft Guns	4	4	0	4	0	4	152
4 Anti-Tank Guns	63	0	0	63	0	63	756
6A Jeeps (1/4 Ton 4x4)	5,639	2,906	200	7,001	0	7,001	5,000
6B Trucks	35,067	16,636	3,953	63,569	23,431	87,000	85,600
7 Field Telephones	44,173	15,330	4,960	72,500	35,500	108,000	108,000
8 Field Tel. Cable (miles)	367,304	155,767	38,051	436,917	90,000	526,917	562,500
9 Underwater Cable (km)	0	0	0	0	318	318	450
10 Submarine Cable (km)	405	6	0	547	396	943	900
11A Aluminum (tons)	9,043	4,451	1,433	11,708	4,049	15,757	15,580*
11B Duralumin (tons)	5,331	1,914	779	5,936	1,000	6,936	7,716*
14 Nickel (tons)	1,344	519	659	1,454	14	1,468	1,200
15 Molybdenum (tons)	3,920	2,185	1,101	4,261	0	4,261	2,700
18 Rolled Brass (tons)	34,866	21,228	4,902	44,671	6,862	51,533	45,000
20 Zinc (tons)	6,049	2,698	1,281	6,750	0	6,750	6,750
22 Copper Products (tons)	2,792	1,670	669	3,187	766	3,953	2,700
23 Ferrosilicon (tons)	2,525	558	133	2,525	379	2,904	2,700
24 Ferrochrome (tons)	1,049	186	102	1,349	203	1,552	1,800
25 Armor Plate (tons)	5,689	1,361	0	8,946	0	8,946	9,000
26 Hard Alloys & Cutting Tools (\$1,000)	1	0	0	-	-	-	900
28 High Speed Steel (tons)	491	223	3	749	815	1,564	900
29 Tool Steel (tons)	968	72	0	1,491	1,247	2,738	4,500
30 Calibrated Steel (tons)	5,808	1,899	43	24,112	21,549	45,661	0
31 Hot Rolled Steel (tons)	25,635	1,695	227	52,331	18,403	70,734	63,000
32 Steel Billots (tons)	12,901	4,643	76	30,124	32,560	62,684	72,000
33 Cold Rolled Steel Strip (tons)	21,823	4,475	1,317	44,850	14,945	59,795	72,000
34 Cold Rolled Steel Sheet (tons)	56,474	9,524	3,794	61,329	2,466	63,795	72,000
35 Tin Plate (tons)	31,824	16,373	4,447	31,824	604	32,428	36,000
36 Steel Wire (tons)	7,343	1,140	57	21,843	22,923	44,766	63,000
37 Steel Wire Rope (tons)	5	0	0	1,628	8,904	10,532	10,800
38 Steel Alloy Tubes (tons)	37	0	0	1,250	486	1,737	1,800
39 Stainless Steel Wire (tons)	0	0	0	11	27	38	140

* As modified

SECRET

Sheet 2

EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL
October 1, 1941 to June 30, 1942

Protocol Item and Number	Exports Oct. 1 to May 31	Arrived to May 31	Lost to May 31	Made Available to May 31	To Be Made Available In June	Estimated Availability to June 30	Protocol Commitment
40 Nickel Chrome Wire (tons)	163	115	8	175	20	195	180
41 Barbed Wire (tons)	35,791	17,926	4,805	35,791	574	36,365	36,000
42A Toluol (tons)	11,851	2,885	0	14,983	3,278	18,261	18,000
42B T.N.T. (tons)	6,528	2,868	869	9,377	4,264	13,641	10,000
44 Phenol (tons)	3,305	1,602	645	4,331	104	4,435	4,900
45 Petroleum Products (tons)	183,035	118,519	5,581	183,035	20,000	203,035	180,000
46 Ethylene Glycol (tons)	1,019	456	145	1,019	0	1,019	1,080
47 Sodium Bromide (tons)	652	289	115	812	139	951	900
48 Phosphorus (tons)	1,312	738	266	1,500	0	1,500	900
49 Dibutyl Phthalate (tons)	1,115	193	16	1,981	254	2,235	2,200
50 Dimethylaniline (tons)	616	127	181	940	279	1,219	1,200
51 Diphenylamine (tons)	539	342	27	858	102	960	900
52 Colloxylin (dry wt. tons)	1,954	989	132	2,636	167	2,803	2,700
53 Machine Tools (pieces)	2,604	1,412	312	2,920	732	3,652	140
54 Electric Furnaces (pieces)	92	43	2	-	-	-	627
55 Forging & Press Equip. (pieces)	114	68	17	-	-	-	2,700
56 Misc. Ind. Equip. (\$1,000)	6,400	3,914	710	-	-	-	-
58 Abrasives (\$1,000)	1,084	554	122	-	-	-	2,700
59 Graphite Electrodes (tons)	1,543	582	18	1,543	152	1,695	3,600
60 Graphite Crucibles (tons)	626	313	68	626	0	626	0
64 Sole Leather (tons)	8,731	3,766	1,424	11,156	1,500	12,656	13,500
66 Army Boots (1,000 prs.)	1,421	846	60	1,700	111	1,811	1,600
67 Army Cloth (1,000 yds)	1,406	993	160	1,698	197	1,895	1,000
68A Wheat (tons)	27,330	26,830	0	27,330	0	27,330	0
68B Wheat Flour (tons)	40,629	33,901	499	40,629	15,500	56,129	0
69 Sugar (tons)	60,375	34,820	362	60,375	25,000	85,375	0
71 Navy Items:							
Arming of U.S.S.R. Merchant Ships	14			14			13
Armament for Ice-Breakers	4			4			3
Diesel Engines for Mine- Sweepers	0			0	0	0	60
Diesel Engines for Small Boats	0			23	14	37	40
Engines for Torpedo Boats	126	76	0	270	20	290	50
Diesel Generators	0			2	56	58	150
72 Medical Items (\$1,000)	2,460	1,754	324	4,460	2,000	6,460	

Regraded Unclassified

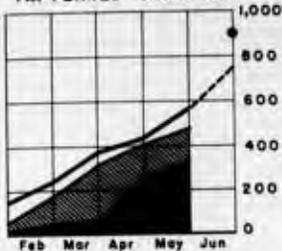
EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL

CUMULATIVE SINCE OCTOBER 1, 1941

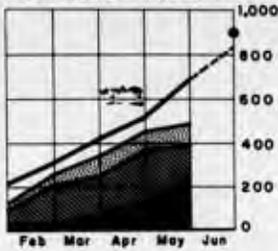
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Lost
En Route
Arrived

● Protocol Commitment
— Quantity made available
- - - Scheduled to be available by June 30

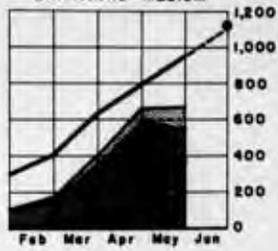
1A. PLANES - BOMBERS



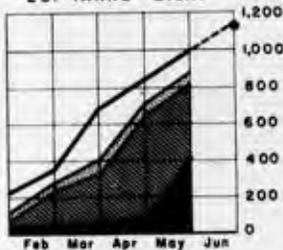
1B. PLANES - PURSUIT



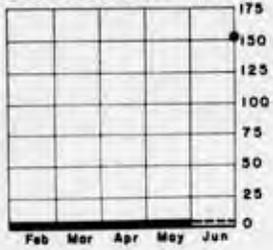
2A. TANKS - MEDIUM



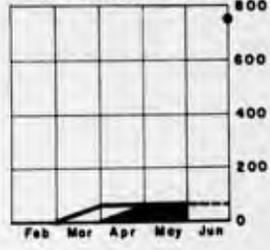
2B. TANKS - LIGHT



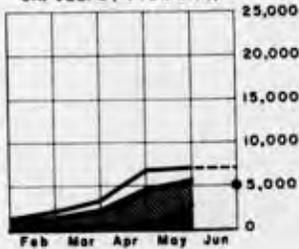
3. ANTI-AIRCRAFT GUNS



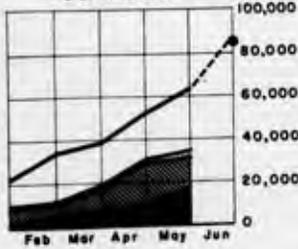
4. ANTI-TANK GUNS



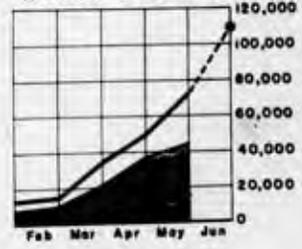
6A. JEEPS (1/4 TON 4X4)



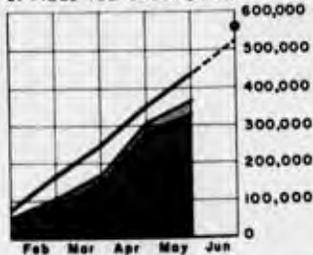
6B. TRUCKS



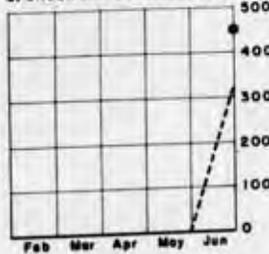
7. FIELD TELEPHONES



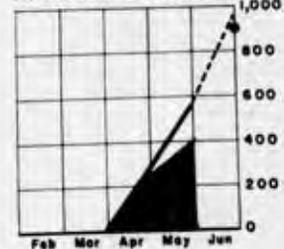
8. FIELD TEL CABLE (Miles)



9. UNDERWATER CABLE (km)



10. SUBMARINE CABLE (km)



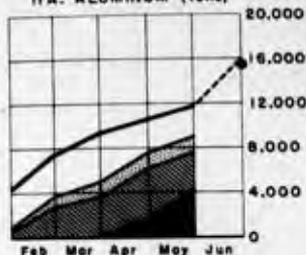
EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL

CUMULATIVE SINCE OCTOBER 1, 1941

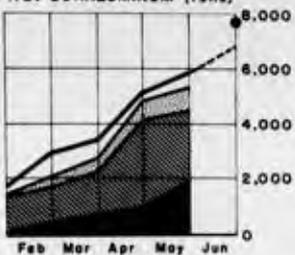
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Lost En Route
Arrived

● Protocol Commitment
— Quantity made available
- - - Scheduled to be available by June 30

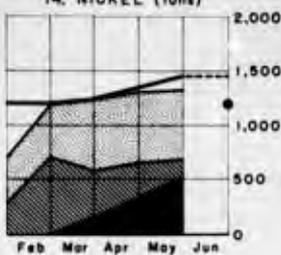
11A. ALUMINUM (tons)



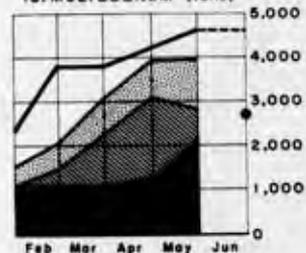
11B. DURALUMINUM (tons)



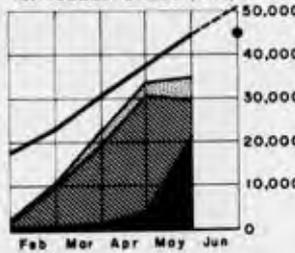
14. NICKEL (tons)



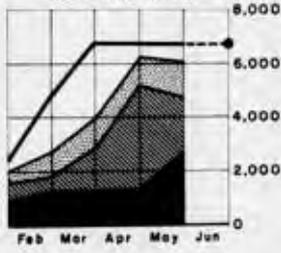
15. MOLYBDENUM (tons)



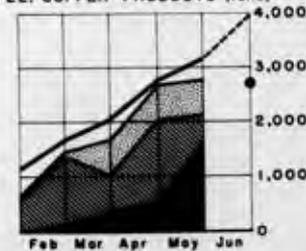
18. ROLLED BRASS (tons)



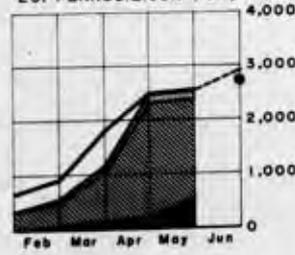
20. ZINC (tons)



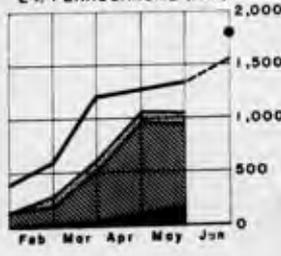
22. COPPER PRODUCTS (tons)



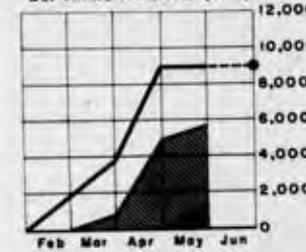
23. FERROSILICON (tons)



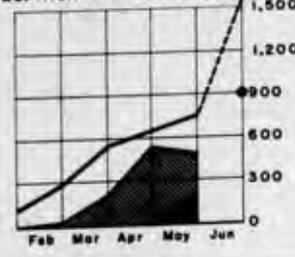
24. FERROCHROME (tons)



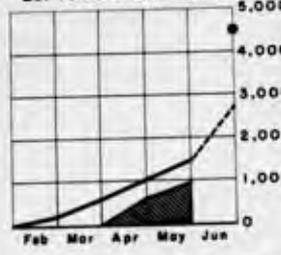
25. ARMOR PLATE (tons)



28. HIGH SPEED STEEL (tons)



29. TOOL STEEL (tons)



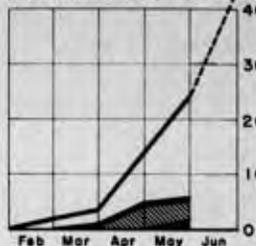
EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL

CUMULATIVE SINCE OCTOBER 1, 1941

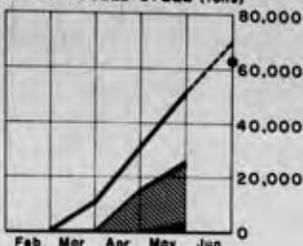
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Lost
En Route
Arrived

● Protocol Commitment
— Quantity made available
- - - Scheduled to be available by June 30

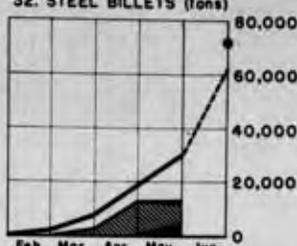
30. GALIBRATED STEEL (tons)



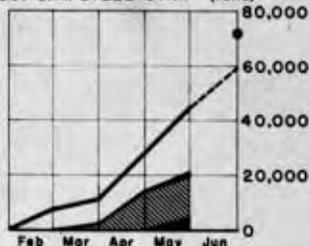
31. HOT ROLLED STEEL (tons)



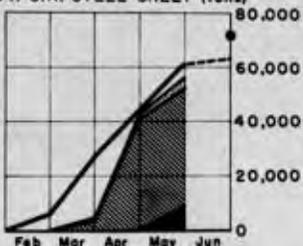
32. STEEL BILLETS (tons)



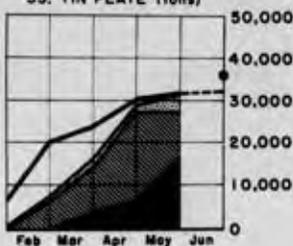
33. C.R. STEEL STRIP (tons)



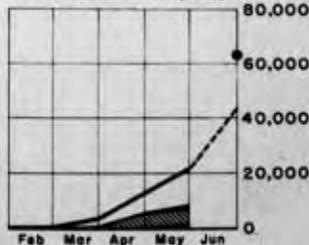
34. C.R. STEEL SHEET (tons)



35. TIN PLATE (tons)



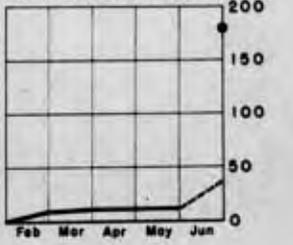
36. STEEL WIRE (tons)



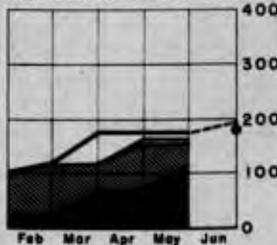
37. STEEL WIRE ROPE (tons)



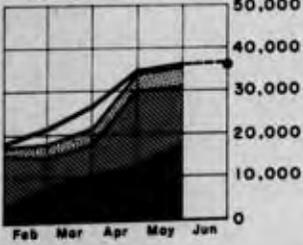
39. STAINLESS STEEL WIRE (tons)



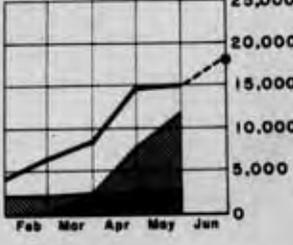
40. NICKEL CHROME WIRE (tons)



41. BARBED WIRE (tons)



42 A. TOLUOL (tons)

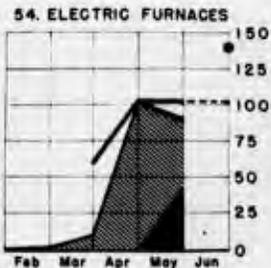
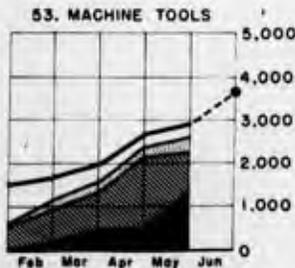
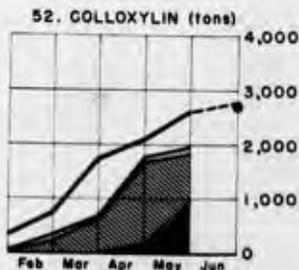
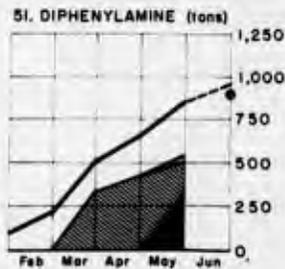
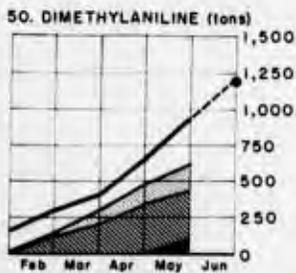
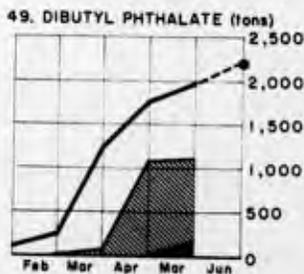
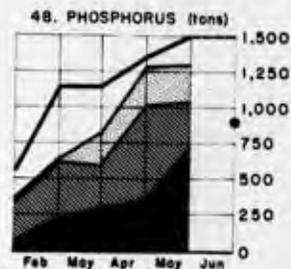
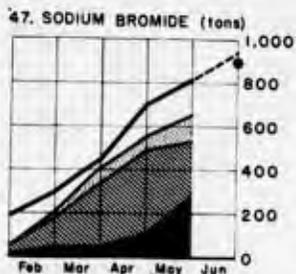
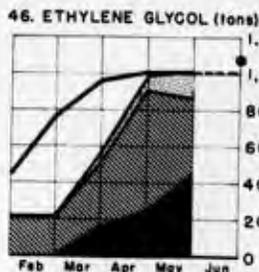
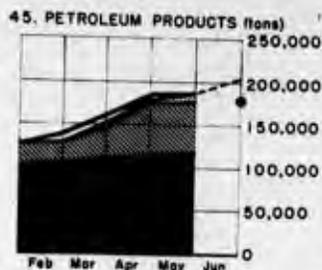
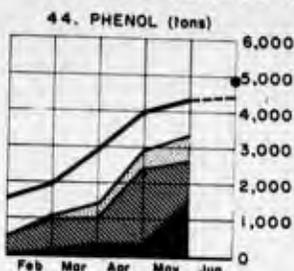
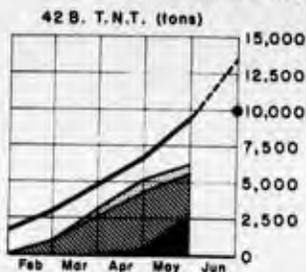


EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL

CUMULATIVE SINCE OCTOBER 1, 1941

Exported
Lost En Route
Arrived

● Protocol Commitment
— Quantity made available
- - - Scheduled to be available by June 30



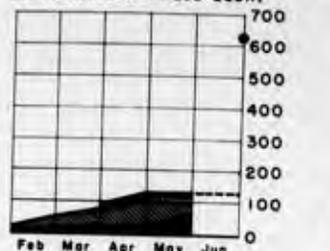
EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL

CUMULATIVE SINCE OCTOBER 1, 1942

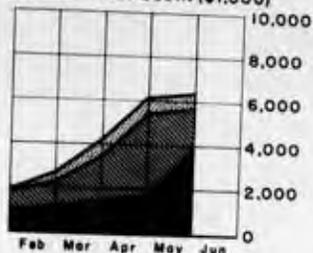
Exported
Lost
En Route
Arrived

● Protocol Commitment
— Quantity made available
- - - Scheduled to be available by June 30

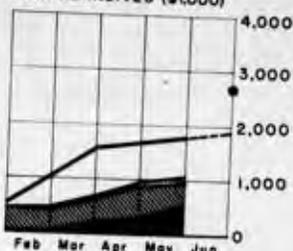
55. FORGING & PRESS EQUIP.



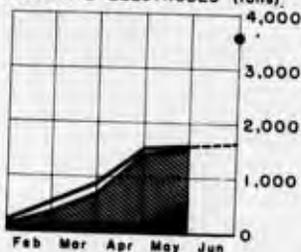
56. MISC. IND. EQUIP. (\$1,000)



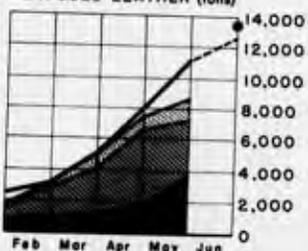
58. ABRASIVES (\$1,000)



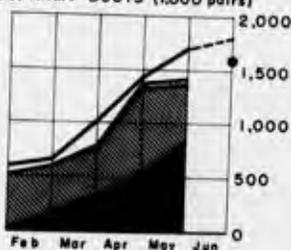
59. GRAPHITE ELECTRODES (tons)



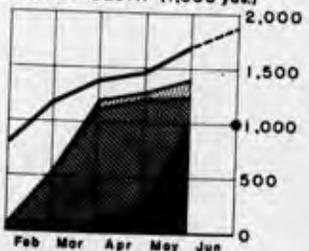
64. SOLE LEATHER (tons)



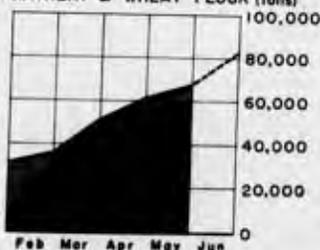
66. ARMY BOOTS (1,000 pairs)



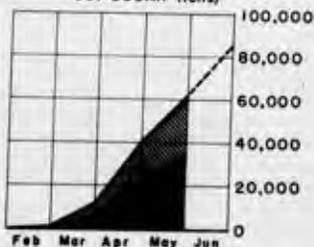
67. ARMY CLOTH (1,000 yds.)



68. WHEAT & WHEAT FLOUR (tons)



69. SUGAR (tons)



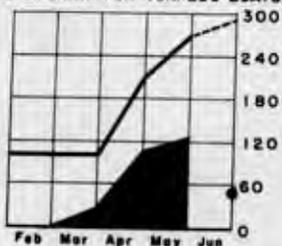
71A. ARMAMENT FOR MER. VESSELS



71B. ARMAMENT FOR ICE BREAKERS



71C. ENGINES FOR TORPEDO BOATS



SECRET

EXPORTS OF NON-PROTOCOL ITEMS TO THE U.S.S.R.
October 1, 1941 to May 31, 1942

Item	Quantity	Value
Military Items: (number)		
Ammunition	-	\$18,956,510
Observation Planes O-52	30	1,359,949
Personnel Carriers - 1/2 track	8	42,668
Tractors	-	-
Scout Cars M-3A1	-	-
Motorcycles, solo	-	-
Rubber Floats	-	-
81 mm Mortars	30	24,226
.45 Cal. Sub-Machine Guns	23,000	2,282,725
Army Equipment Webbing	-	297,022
Waterproof Duck	-	125,375
Other Steel*: (metric tons)		
R. R. Pails and Equipment	26,941	1,639,656
Oil Well Drilling Equipment	27,221	2,955,244
Other Steel Items	-	635,578
Foodstuffs: (metric tons)		
Canned Meats	31,113	23,937,130
Dry Salt Fat Backs	5,842	2,550,021
Lard	27,965	8,354,068
Other Pork Products	1,938	1,261,029
Dried Eggs	7,295	17,824,753
Dried Beans	11,812	1,540,440
Butter	1,354	1,034,974
Other Foods	4,942	1,374,300
Linseed Oil	16,033	4,244,674
Chemicals:		
Ethyl Fluid (gallons)	287,370	1,422,063
Metallic Sodium (metric tons)	986	286,365
Methanol (metric tons)	7,280	857,492
Other Chemicals and Oils	-	1,038,108
Tires and Tubes (number)	124,996	2,545,361
Miscellaneous	-	2,322,530
Total	-	\$98,912,261

* Steel not applicable to any particular Protocol category.

Regraded Unclassified

SECRET

STATEMENT OF RUSSIAN SHIPPING
As of June 8, 1942

Month	Number of Ships Sailing					Arrived	En Route as of June 8	Cargo Disch. En Route	Lost
	For North Russia	For Persian Gulf	For Soviet Arctic	For Soviet Far East	Total				
October 1941	10			5	15	14			1
November	9	1		3	13	12			1
December	14	7		4	25	22	1		2
January 1942	20			4	24	19	1		4
February	13	2		3	18	14	1		3
March	31	6		6	43	27	4	7	5
April	62	6		10	78	25	44	8	1
May	15	10		7	32		27	4	1
June 1 - 8	2			2	4		4		
Total Oct. 1-June 8	176	32		44	252	133	82	19	18
Est. Sailings June 9-30	10	11	14	12	47				

Of the 252 ships which sailed from October 1 to June 8, 61 were Russian (42 from the West Coast and 19 from the East Coast), 14 were British, 1 Swedish, and 176 American. In addition to the 252 sailings, there were 25 ships carrying cargoes primarily for other countries which carried partial cargoes for Russia. The 252 sailings were made by 233 ships, 19 ships having sailed twice.

As noted above, 19 ships are being discharged en route, with portions of their cargoes forwarded in other vessels, portions restowed in a smaller number of American vessels, and the remainder placed in storage for forwarding in the future.

Regraded Unclassified

June 16, 1948

Mr. Liversy

Mr. Dietrich

Will you please send the following cable to the American Embassy, Chungking, China, "For Fox from the Secretary of the Treasury".

FD:bj:6-16-48

June 15, 1942

American Embassy,
Chungking (China).

Per Fax from the Secretary of the Treasury.

Reference your cable dated June 3, 1942.

The Treasury appreciates the difficulties of the Board in obtaining sterling and therefore, as indicated in our cable of May 2, 1942, the Treasury has no objection to the Stabilization Board using its dollar assets to purchase sterling. Of course, the Treasury assumes that the Board will not use its dollar funds for the purchase of sterling until its sterling assets have been exhausted. Again would like to repeat that Treasury is anxious that Board do all possible to assist China in its war effort.

EEB/s
6/15/42

TELEGRAM SENT

MDS

June 16, 1942

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

4 p.m.

AMEMBASSY,

CHUNGKING (CHINA).

525

FOR FOX FROM THE SECRETARY OF THE TREASURY.

Reference your cable dated June 3, 1942.

The Treasury appreciates the difficulties of the Board in obtaining sterling and therefore, as indicated in our cable of May 2, 1942, the Treasury has no objection to the Stabilization Board using its dollar assets to purchase sterling. Of course, the Treasury assumes that the Board will not use its dollar funds for the purchase of sterling until its sterling assets have been exhausted. Again would like to repeat that Treasury is anxious that Board do all possible to assist China in its war effort.

HULL
(FL)

FD:FL:BM

C
O
P
YBRITISH EMBASSY,
WASHINGTON, D. C.

16th June, 1942

SAFE HANDTF. 183

With the Compliments of

R. V. Palin

Copy letter, reference TF. 182, of 16th
June, 1942 to Mr. J. W. Pehle, Foreign
Funds Control, regarding the efficacy of
anti-Axis financial control measures in
Guatemala and Venezuela.

Mr. Frank Dietrich,
U.S. Treasury Department,
Stabilization Office, Room 279,
Washington, D. C.

Copy:lc:6/18/42

C
O
P
YBRITISH EMBASSY
WASHINGTON, D.C.

16th June, 1942

SAFE HANDFor the Personal Attention
of Mr. PehleTF. 182

Dear Mr. Pehle,

You may be interested to read some comments made by our Legations in Guatemala and Caracas on the efficacy of the anti-Axis control measures in those countries. In both cases it seems clear that while external transactions are fairly well controlled, there is a lot still to be done towards tightening up the control of internal activities.

GUATEMALA

The letter of the various measures is being adhered to though perhaps not with great enthusiasm. While it must certainly be extremely difficult for a listed firm to carry on external trade of any sort or for an enemy national, even though not listed, to indulge in foreign financial transactions, some traffic undoubtedly continues through cloaks, particularly via Mexico. This is smiled on by certain Government officials though others do their utmost to cooperate.

With regard to the internal activities of enemy nationals, two factors prevent the measures being really effective. These are:

- (1) The very large stocks of merchandise held by enemy firms before Guatemala entered the war. As the danger of the United States participation into the war became more imminent, German merchants purchased goods in quantities sufficient to render them independent of further imported supplies for a considerable period.
- (2) The very small amount of enemy funds which it was actually possible to freeze. The total of these amounts to less than 150,000 quetzales, a figure which obviously represents an extremely small proportion of the valuable German and Italian wealth in Guatemala.

Mr. J. W. Pehle,
U. S. Treasury Department,
Washington, D. C.
RVP:CSB

Mr. J. W. Pehle

-2-

16th June, 1942

As a result of the above two factors, enemy businesses, with a few exceptions, are carrying on with little apparent difficulty. The exceptions are the German coffee estates, sales from which are entirely controlled by the Central Bank, and certain other firms (such as Diestel, Hastedt and Gerlach) whose export trade has now been completely stopped. I understand that the Guatemalan Government is not prepared at present to accept in its entirety the scheme recently submitted by the U.S. Legation under which certain specified enemy firms will be forced to liquidate within a given period while others will be adequately controlled, but they have expressed their willingness in principle to appoint a Custodian of Alien Property and to adopt such other features of U.S. war legislation as may be applicable to Guatemala.

VENEZUELA

The financial control measures have accomplished very little apart from the prohibition of the export of goods or the transfer of funds to enemy or enemy-occupied territory. The control of the internal movements of funds appears to be relatively ineffective, although the Government has appointed officials to each firm on the list who are supposed to give their approval to every transaction, and banks must obtain a permit from the Central Bank before operating any accounts held by "enemy" persons and firms. In general, the Venezuelan Government seems to be content to adhere simply to the letter of the Rio conference and to be unwilling to go very far towards implementing them in any real and effective way.

I am sending a copy of this letter to Mr. Dietrich.

Yours sincerely,

(Sgd) R. V. Palin

Copy:lc:6/16/42

DEPARTMENT OF STATE

Washington

In reply refer to
FD 862.5151/2380

June 16, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and with further reference to telegram 519, June 1, 1942, from the American Embassy, Ankara, Turkey, transmits herewith paraphrases of the Department's telegram 257 of June 6 and the Embassy's telegram 589 of June 13, concerning the export to Turkey of gold purchased in Switzerland.

Enclosures:

To Embassy, Ankara,
no. 257, June 6, 1942.

From Embassy, Ankara,
no. 589, June 13, 1942.

eh:copy
6-17-42

FROM: American Embassy, Ankara, Turkey,

DATED: June 13, 1942, 10 a.m.

NUMBER: 589

Reference is made to 257, June 6, 5 p.m., from the Department.

An intensive investigation with reference to the report contained in its telegram 519, 3 p.m., June 1, the Embassy reveals that the rather large-scale imports during the last few months of Swiss gold into Turkey are the result of the three kinds of operations which are outlined below.

A. Free foreign exchange such as dollars are used to purchase from the Central Bank of Turkey Swiss francs which it holds in Switzerland. These Swiss francs are then used to purchase gold in Switzerland and this gold is exported to Turkey. It is the foregoing type of transaction which has been most widely used, and it has been utilized primarily by diplomats and other foreigners who are resident in Turkey. Although nationals of Turkey who possess balances in free foreign exchange abroad may theoretically engage in such transactions, such persons are usually unwilling to disclose their foreign exchange balances. The foregoing type of transaction has usually been carried out in the following way: The foreign resident of Turkey would instruct his bank in the United States by telegraph to make a transfer to his credit in his bank in Turkey. This transfer would be sold by the bank in Turkey for the account of the customer to the Central Bank of Turkey in exchange for Swiss francs from the Central Bank's Swiss franc balance. Gold would be purchased in Switzerland with the Swiss francs thus acquired and this gold would then be sent to Turkey by insured post. In a transaction of this kind, it should be noted, the dollars would never leave the United States but would simply be transferred to the account of the Central Bank of Turkey from the individual's bank account. Recently the Turkish Central Bank decided not to deplete further its Swiss balances for purposes of this character and accordingly operations of this type ceased about two weeks ago. It is the opinion of the Embassy that the Central Bank's decision resulted from the recent coming into force of the new Turkish-Swiss trade agreement and the desire of the Central Bank of Turkey to reserve for possible purchases of merchandise its holdings of Swiss francs.

B. Operations based on the Swiss bank accounts of individuals. Operations of this character are in theory open to any person who has credits in banks in Switzerland, but in view of the reluctance of nationals of Turkey to disclose their foreign balances Turkish nationals who have imported gold into Turkey in operations of this type have usually done so in the name of foreigners residing in Turkey. There is ground for the belief that nationals of the Axis countries have used their accounts in banks in Switzerland to effect imports of gold into Turkey.

C. Operations based on the sale of dollar currency in Switzerland. Well-informed persons here believe that a considerable amount of the gold purchased in Switzerland for export to Turkey has been purchased by the sale of dollar currency in Switzerland. It is probable that some of the gold imported into Turkey by Axis interests has been purchased in transactions of this character. In spite of the fall in the value of the dollar in Switzerland, it is our understanding that a premium of something like 200% may be realized when dollars are converted into gold in Switzerland and the gold subsequently sold in Turkey.

Although Swiss gold has been imported into Turkey through operations described in (B) and (C) by Axis interests, the Embassy believes that the Turkish pounds which have been acquired by selling in Turkey gold imported from Switzerland have been used for the personal expenditures of diplomats of the Axis countries and also for financing Nazi activities throughout Turkey and the Middle East in such fields as espionage, propaganda, and the like. In view of the existing German-Turkish trade agreement, the Embassy does not see how the Turkish pounds so acquired could be used to pay for German imports from Turkey.

With respect to the question in paragraph (C) of the Department's 257, the Embassy does not know how the United States could in any practical way stop the Germans from using such funds in Turkey with the exception of trying to induce the Turkish Government to forbid the importation of gold and the Swiss Government to forbid its export.

With respect to the question in paragraph (D) of the Department's 257, it is not the belief of the Embassy that the purchase of Swiss francs by the Federal Reserve Bank of New York from the Central Bank of Turkey has benefited or will benefit the Germans in any way.

TO: AMEMBASSY, Ankara, (Turkey).

DATED: June 6, 1942, 5 p.m.

NUMBER: 257.

Reference is made to your telegram dated June 1, 3 p.m., no. 519.

A. Inquiry is made as to whether the Department's understanding is accurate that Germany is buying Swiss paper money in Turkey and that the large gain obtained from sending this currency to Switzerland against import of gold sovereigns is the result of the discrepancy between the price of gold in Turkey and the rate at which Swiss currency is selling there.

B. The Department does not understand why banks or individuals in Turkey cannot obtain for themselves the sizable profit from these transactions.

C. Does the Embassy wish to make any recommendations with reference to steps that this Government might take or suggest to the Turkish Government to render it impossible for Germany to make payments to Turkey through the means you have discussed?

D. Recently one million Swiss francs held in Switzerland by the Central Bank of Turkey were bought by the New York Federal Reserve Bank from the Central Bank of Turkey for account of our Stabilization Fund. These Swiss francs are intended for use in Switzerland in paying representation costs or other governmental expenditures. Is the Embassy aware of any manner in which Germany might benefit by these purchases of Swiss francs?

E. Can you define more clearly the "Controlled rate" mentioned in your telegram? Do you believe it would be practicable for us to employ a rate of this kind for buying Swiss franc currency which might be exported then to Switzerland for payment of representational or other obligations?

HULL
(DA)

eh:copy
6-17-42

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 203

Information received up to 7 A.M., 16th June, 1942.

1. NAVAL

MEDITERRANEAN. 15th. The Convoy from GIBRALTAR was subjected to continuous attack by torpedo and bomber aircraft and also by an enemy force of Cruisers and Destroyers throughout the day. The enemy force was attacked by torpedo aircraft from MALTA and hits were claimed. One of H.M. Destroyers and three ships in the convoy (including a tanker) were sunk and a Cruiser and Destroyer were damaged. One of H.M. fast Minelayers arrived at MALTA ahead of the convoy and left later to reinforce the convoy escort. On approaching MALTA a Polish Destroyer was mined and sunk and one of H.M. Destroyers damaged by mine. At one A.M. today the remainder of the convoy (two ships) arrived off GRAND HARBOUR. At 1:35 A.M. on 15th an enemy Battle Fleet of two Battleships, four Cruisers and eight Destroyers was 60 miles southwest of ARPOSTOLI and shortly afterwards the convoy from ALEXANDRIA was ordered to turn back. Throughout the day our forces were subjected to heavy air attack. Two of H.M. destroyers were sunk and a Cruiser, Minesweeper and ship of the convoy were damaged.

The enemy was attacked by our submarines and by our aircraft from MALTA and the MIDDLE EAST. Beauforts claim torpedo hits on both Battleships. One of H.M. submarines claims one and possibly more torpedo hits on one Battleship and also reports that she sank a Cruiser of the TRENTO Class (eight inch) which had previously been set on fire by bombing. The enemy force was subsequently reported in the afternoon steering Northwards.

Submarine Attacks: As a result of two attacks on the homeward bound GIBRALTAR Convoy mentioned yesterday 4 British ships and 1 Norwegian tanker totalling about 15,000 tons were sunk.

2. MILITARY

LIBYA. Our Garrison at GAZALA has been successfully withdrawn. Main body first South African Division reached TOBRUK early 15th.

14th. Very severe fighting continued West and Southwest of ACROMA. Our defended localities at ACROMA and 8 miles West held but a defended locality 5 miles to Southwest was overrun. Our mobile columns attacked the enemy's rear from the Southeast and cleared the area South of the TRIGH CAPUZZO between EL ADEM and HARMAT. About noon on 15th an enemy attack supported by tanks and artillery on our

- 2 -

defended locality at EL ADEM was broken up, but a further attack was developing from the Southwest early in afternoon. 20 of our men recaptured from the Germans on the 14th in the area South of EL ADEM had been released as the enemy themselves had received no water for 36 hours.

3. AIR OPERATIONS

WESTERN FRONT. 15th. Spitfires sank an armed minesweeper and a motor launch off the French and Belgian Coasts.

15th/16th. About fifty enemy aircraft operated off the South and Southwest Coasts and carried out some scattered bombing along the South Cornish Coast. One was probably destroyed by a Beaufighter.

LIBYA. On the 14th and 15th our aircraft made successful attacks on enemy ground forces near ACROMA and EL ADEM. In the course of patrols over shipping and the battle area our fighters destroyed 5 enemy aircraft, probably destroyed 2 and damaged 5. 13 of our Fighters are missing but two Pilots are safe.

ITALY. 13th/14th. TARANTO. Our aircraft bombed the Naval Docks area and a Battleship.

4. Since last July it is estimated that 12 ships have arrived in enemy occupied BISCAY Ports from JAPAN, 8 of them during the last two months. This probably represents 70/100,000 tons of cargo which, although few details are available, almost certainly included rubber of which large quantities are reported to have arrived recently in GERMANY (20,000 tons) and ITALY. In the same period seven ships have left European ports for the FAR EAST.