

DIARY

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War Savings Bonds		
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June 29, 1942
12:35 p.m.

GROUP

Present: Mr. Gaston
Mr. Bell
Mr. Haas
Mr. Odegard
Mr. Schwarz
Mr. Thompson
Mr. Gamble
Mr. Graves
Mr. Sullivan
Mr. Blough
Mr. Kuhn
Mr. White
Mrs. Klotz

MR. GASTON: We have had two instances of people attacking the credit of the United States, spreading rumors. One Dan Bell sent in to me where a man circulated a card saying that the bankers were getting bonds free of charge and another one sent over by FBI where a doctor has been telling stories that the bonds are going to be worth nothing, and various things of that sort. They have all the aspects of pro-German propaganda, but they are especially attacking the credit of the United States.

I am having the General Counsel's Office look into the question of what we can do under the present law. We may need some additional law. It is very doubtful if we have the power to do anything about people who spread stories about the value of U.S. securities and generally the credit of the United States.

MR. BELL: There is another case, Herbert, a gentleman who is supposed to be employed by the SEC. What did you do with that one?

MR. GASTON: That is a third case.

H.M.JR: That was more serious than the others, I think.

MR. ODEGARD: Was that the same case, Dan? I had a letter from a man named Kennedy, who quoted someone whom he said was an employee of the Federal Trade Commission at Princeton, and I ran that down and I have had excerpts of the statement made. It was Huston Thompson who delivered himself of a speech at a reunion meeting of the class of '97 at Princeton, but I just sent that in to Miss Chauncey this morning.

MR. BELL: This was a case where a gentleman had spent an evening with an employee of the SEC, and he said that this man for two hours talked about nothing except the unsoundness of the credit of the United States Government.

MR. WHITE: It would be desirable if it could be handled under present legislation or if some man could visit these various individuals - the FBI - merely to question whether he isn't a fifth columnist, or something. I think there might be some mistake to put legislation in.

MR. GASTON: Why FBI?

MR. WHITE: Secret Service, something to scare them. I think legislation seeking to prevent people from questioning the credit of the United States might look as though we are scared, as though we are getting - they could make much of it, and I don't know whether it is worth the price we pay for it.

MR. GASTON: We had a law of that kind during the last war, a law broad enough to determine things of that sort, but we are doing now just exactly what you say.

H.M.JR: Anyway, you have got it in hand?

MR. GASTON: I think so.

H.M.JR: Gamble?

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MR. GAMBLE: I have nothing, sir.

H.M.JR: I wish you War Bond fellows would think of this. What I am proposing to do - this doesn't only affect you, Dan - I am going to start now, this week, and try as rapidly as possible to visit each Federal Reserve district myself. I am going to ask these people, in the case of New York, for instance, to have that bankers' committee come in, you know, for lunch.

In the morning what I wanted to do - this would be Wednesday - I wanted to meet with Madden. I notice by the paper that you are going to be there Tuesday night.

MR. GRAVES: No, that is postponed to a week from Tuesday night.

H.M.JR: Well, you think about this. And I thought I could get up there about ten o'clock Wednesday morning, go in and see Madden, sit down with him and go over this whole drive. You decide who, Harold, you think should go with me. See?

MR. GRAVES: Yes.

H.M.JR: Will you?

MR. GRAVES: Yes.

H.M.JR: And then - what was that thing I asked you about? Well, I want to talk with you people about the retailers. I want to talk to you about the coal-mining business. Tomorrow will be when we - Tickton isn't here - tomorrow will be the figures on pay-roll deduction.

Are you people ready this afternoon to tell me about the retailers?

MR. GRAVES: I think we are.

H.M.JR: Should Dan sit in on it?

MR. GRAVES: By all means.

H.M.JR: Has anybody got a meeting at three o'clock? Well, I would like you (Bell) here. I want to put bonds on sale over the counter in the retail stores and I want you fellows to have a plan by three o'clock. See? So, who besides yourself?

MR. BELL: I don't need anybody else. I will come.

H.M.JR: Tell Eddie Bartelt to come down here. I want to thank him anyway. Will he be in on this thing?

MR. BELL: No, Kilby would be the one if anybody came. It would be Kilby or Broughton.

H.M.JR: Well, bring somebody besides yourself. You need a little support, but have Eddie here a couple of minutes before three. I want to thank him for what he has done.

MR. BELL: We were going to have a letter.

H.M.JR: We will have a letter, and I will sign it and hand it to him.

MR. BELL: I was talking to Kuhn this morning, as long as you mentioned it, and we didn't get any publicity on the Treasury going over the top.

H.M.JR: Give it to me at four o'clock. I will do the best I can. Somebody give me a statement. I don't know what is the matter with these War Bond fellows. They don't have any publicity people. (Laughter) Anyway, Bell and Graves.

Now, Harold--

MR. GRAVES: Gamble.

H.M.JR: Who else?

MR. GRAVES: Odegard.

H.M.JR: All right, this is on the retail this afternoon, plus Bell, who will tell us how to do it.

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Who are you going to bring over from the place where they are supposed to do the work?

MR. GRAVES: I don't think we will bring anyone.

H.M.JR: How do they know what is going on?

MR. GRAVES: How do they know what is going on?

H.M.JR: Yes. Who tells them?

MR. GRAVES: Well, on this particular - I don't mind bringing Pulte; would you, Ted?

MR. GAMBLE: Sir?

MR. GRAVES: I wouldn't mind bringing Pulte. He is in charge of our retail--

H.M.JR: Bring him over. I am anxious to get a chance to get acquainted with these fellows.

MR. GRAVES: Is he here?

MR. GAMBLE: Yes.

H.M.JR: Remember the purpose of the meeting is to tell me how you are going to do it. (Laughter) I am in dead earnest, Dan. I don't want any meeting on how not to do it. (Laughter) We are going to let the retail stores have the bondsto sell over the counter.

MRS. KLOTZ: I believe you once talked about that.

MR. BELL: Once? Several times.

H.M.JR: All right. Well, anyway, three o'clock meeting.

MR. SULLIVAN: When do you want the how-do-not meeting? You telephoned Dan Saturday that you wanted.

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to see the Commissioner and myself.

H.M.JR: Yes, that is on--

MR. SULLIVAN: Monthly payments.

MR. BELL: That is on office equipment.

H.M.JR: Machinery involved, and so forth. When are you fellows ready?

MR. SULLIVAN: Now, sir. They were all in my office when I got word about this meeting. I knew you wouldn't have any time before lunch so I sent them back. The Commissioner and I are ready to see you any time you say.

H.M.JR: How much time do you - do you want me, Harry, this afternoon?

MR. WHITE: I don't think so. There is just one question.

H.M.JR: I can slip you in. Sullivan, three-thirty?

MR. SULLIVAN: Yes, sir.

H.M.JR: Is that all right?

MR. BELL: Yes.

H.M.JR: All right, John?

MR. SULLIVAN: The only thing I have is, you sent me a copy of a photostat of a letter from Sumner Welles stating that Costa Rica wanted to have one or two Treasury experts on taxes and general fiscal problems loaned to them for six months. Now, if we can get the men we will be very happy to do it. I have talked it over with Harry. I haven't been able to talk with Randolph about it, as you suggested, but Harry and I were in accord that wherever possible give the Central and South American countries all the aid of that kind.

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H.M.JR: What kind of a fellow do they want?

MR. SULLIVAN: They want two men on taxes and general fiscal problems.

H.M.JR: I have got a man.

MR. SULLIVAN: Good.

H.M.JR: He works over in the Budget. What is his name?

MR. BELL: Gearhard Colm.

MR. SULLIVAN: Oh, no, we are saving him for Baluchistan. (Laughter)

H.M.JR: Don't wait too long.

MR. SULLIVAN: This isn't very far, Costa Rica.

H.M.JR: How about Alexandria? That would be a good place to send him.

MR. SULLIVAN: If we could get him there in time. (Laughter)

H.M.JR: Well, anyway, think fast - work it out.

What else have you got? I heard Pearson and Allen last night. He said you are investigating income tax of the Ku Klux Klan. (Laughter) I am serious.

MRS. KLOTZ: That is what he said.

H.M.JR: Seriously. Would they be among the returns I am waiting to see?

MR. SULLIVAN: That is hardly a war industry.

H.M.JR: No, no.

MR. SULLIVAN: Oh, you mean - yes.

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H.M.JR: Are they among the list that the Attorney General asked for?

MR. SULLIVAN: I don't know. I will check and tell you at three-thirty.

H.M.JR: Because if they are, the best leaks - good leaks come out of the Attorney General's office, the best - the best leaks come from across the street.
(Laughter)

What else?

MR. SULLIVAN: Nothing.

H.M.JR: Harold?

MR. GRAVES: I have nothing except that I would like to see you after this meeting for about thirty seconds, if you would let me.

H.M.JR: Sure, because Dan is going to only need a minute or two.

MR. BELL: A minute or two?

H.M.JR: Well, to say how. I am going to listen.

MR. GRAVES: I meant after this meeting now.

H.M.JR: All right, surely.

Ferdie? Ferdie, I have got to be prepared for this afternoon. This is a letter signed by W. N. Thompson:

"My dear Mr. Secretary:

"It is is our understanding that the Navy Department now has under consideration a commission for Milburn McCarty, Jr. and that if the commission is granted he will be assigned to Admiral Conard's Division in the Office of the Secretary of the Navy."

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I guess that is incorrect, "Admiral Conard's Division in the Office of the Secretary."

MR. THOMPSON: Yes, he is.

H.M.JR: "At the request of the Secretary I am writing to ask if you will have the granting of this commission indefinitely postponed."

"As you know, with the approval of the President, we recently inaugurated a greatly intensified campaign for the voluntary sale of War Savings Bonds and Stamps. Mr. McCarty, as Chief of the Press Section of the War Savings Staff, is directing an important part of the campaign. His leaving at this time would seriously hinder our War Bond activities."

"Under these circumstances we believe it is necessary for Mr. McCarty to remain in the service of the Treasury Department. We hope you will agree to this. We hope, too, that this action will not reflect in any way upon Mr. McCarty's record with the Navy Department. He acted in good faith in applying for a commission. Changed circumstances, of recent development, are responsible for our present request."

"We will appreciate a reply as soon as possible."

Did you get a reply?

MR. THOMPSON: We received a reply.

H.M.JR: This is what I would like to say, but I can't say it without - Ferdie, inasmuch as you seem to be in on this thing--

MR. KUHN: I was only in on it when that woman reporter from The News came up with this anonymous document which went to Tydings. I told her the straight story, which was not as she wrote it. I told her it was not a draft deferment. I told her it was a request for

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a postponement of a commission and also told her about the Treasury's record in these matters. I saw her after consulting with Norman, who agreed with me that it would be best to be open and aboveboard with her. Then she went and twisted almost everything in the case.

H.M.JR: This is what I would like to do. You and Chick better collaborate on this thing. What I would like to do is - would be to give out Thompson's letter this afternoon to the Navy, and the Navy's answer. We would have to get Knox's permission and then point out that McCarty's consenting to my asking for a postponement of his commission left himself open to the draft, and if he was drafted tomorrow he would go in as a private and lose this chance for having the commission. So it is all to his credit. There has been no communication between the Treasury and the draft board. So he should get a pat on the back instead of this dirty story. Is that correct?

MR. THOMPSON: That is correct.

H.M.JR: And I think on behalf of the boy, if he would let me handle it, I would handle it just that way. He could have gone and taken this job and gotten his commission and have a nice safe job. Instead of that, he continues to work for us and may be drafted any day, so what is the hullabaloo about?

MR. KUHN: It was a very nasty story, and I knew it was going to be that kind of a story.

H.M.JR: Well, the woman who started it is a clerk in the War Bond section and she sent me the copy of a letter which she sent to Tydings, which I turned over to you and told Graves about. Is that right?

MR. GRAVES: That is right.

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H.M.JR: And for some reason or other - but since that case, I mean, our record - the Treasury's record is clear and the boy's record is clear, and I would like to say so. I would just like to say it and hit it hard. But before I can release Knox's letter you would have to get permission from Knox, and you would also have to get permission from McCarty, but I would like to handle it.

MR. KUHN: I will do that.

H.M.JR: Has anybody seen this? (Indicating clipping from The News)

MR. GASTON: I think that is perfect. I think that is the right way to handle it.

H.M.JR: Does anybody question my way of handling it?

MR. KUHN: How would you give it out?

H.M.JR: Verbally.

MR. KUHN: At press?

H.M.JR: Yes, at press at four o'clock.

MR. SCHWARZ: Just to make the record straight.

H.M.JR: Yes, to stop it. Anybody any question? Well, between you and Chick have it ready for me a little bit before.

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MR. KUHN: I just have some pictures of your father and the New York pledge campaign. They sold two billion dollars in bonds the day the war heroes were in Portland, and here it shows you the direct tie-up with the bonds in Salt Lake City. They are still becoming salesmen for the bonds, and Private Litton, the author of that winning song, has become an American citizen, thanks to you.

H.M.JR: Oh, did he? Did you let him know?

MR. KUHN: He has already been told by the Adjutant General.

H.M.JR: That is nice.

MR. KUHN: That is all.

H.M.JR: Mr. Paul?

MR. BLOUGH: Mr. Paul will be here about two twenty-five. He is on the train. I think he had trouble getting reservations last night. Things are extremely tight.

H.M.JR: Mr. Paul was extremely tight? (Laughter)

MR. BLOUGH: Reservations on the train are extremely tight.

H.M.JR: You know you give me this half information and I go spill it to the press, then you have got to come in the next day and tell me you gave me only half the story. (Laughter)

MR. BLOUGH: That is right.

H.M.JR: We had a wonderful time, though, Blough and - what is his name - and Tarleau and I had lunch together

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and they tell me this story, how the Committee decided only to have a five-percent deduction, and didn't go on to explain that the thing was in the process of being drafted. They only got about half way through and I don't know, they started to eat or I started to eat - anyway, it was half a story and I take--

MR. BLOUGH: Not that half, but half.

H.M.JR: Well, that was the impression that I got anyway. So I go out and start to talk about it and it seemed the minute I started to talk I was spilling the beans, so we went through it and had a wonderful time.

MR. BLOUGH: It is going to be all right, I think.

H.M.JR: What?

MR. BLOUGH: I think it is all right.

H.M.JR: I think - well, anyway, anything else?

MR. BLOUGH: Well, I have had mimeographed the action of the Committee on all the various things that have been before it, and copies have been sent to each of your offices. Plenty of copies are available in case you want them for distribution.

H.M.JR: I particularly would like to know what they have done on that refund. Will you make a note on that, the fourteen percent, how they are going to handle that? I have got a couple of things I would like you to do, please. Will you write them down? I want an explanation of the fourteen percent, because the last I heard they were going to give it to me.

Now, I would like to know why - we have heard so much about idle balances - why shouldn't idle balances be taxed? That is number one.

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MR. WHITE: We already had a report on that some time ago. If you would like to bring it up to date we can get up some kind of a joint--

H.M.JR: I would like to know what they are doing in England and Canada. Harold, if we taxed idle balances your troubles would be over.

MR. GRAVES: That is right.

MR. WHITE: It seems to me to be the wrong thing to do at this time.

H.M.JR: Well, I am just raising the question in the room here. I would like to know what England and Canada - and then another thing, also with Harold in mind, I would like to have, both of these fairly promptly - supposing we passed a law that if anybody had over a thousand dollars cash the Government would seize it.

MR. WHITE: It seems to me both of those moves are in the wrong direction.

H.M.JR: All right, you will get your chance.

MR. HAAS: The idea you have got, Mr. Secretary - I see that what you are driving at there is a proposal which borders on some of the rest of this on expenditure tax.

H.M.JR: Is anybody interested in getting together - Harry seemed interested, and you, but I got it sort of from the New York Times editorial. It didn't mean to be helpful, but if there is six billion dollars in hoarded cash and a man couldn't keep it - he couldn't put it in the bank, because it would be taxed - by Gawd, he would have to give it to Harold whether he liked it or not.

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MR. BELL: An expenditure tax is the same thing.

MR. WHITE: Let's see, you want them to invest in bonds to prevent inflation, and then take a measure which probably would do more to stimulate spending than anything else. Things must be getting pretty bad if we want to resort to those methods to sell bonds; maybe we ought to reexamine whether we ought to go for compulsory savings.

H.M.JR: Don't you threaten me, Harry.

MR. WHITE: Well, I see it is moving into that danger zone.

H.M.JR: No, I am looking forward--

MR. HAAS: He is looking for an inducement, that is what it amounts to, but it can be worked out.

H.M.JR: Why should there be six billion dollars, if that is the correct figure, of hoarded currency? I am not thinking - I say, Harold - I mean, why shouldn't they lend that to the Government?

MR. GASTON: How would you be able to reach the hoarded currency? It is not in the banks; you can't find it.

H.M.JR: Well, everything else is going to be seized, just like the gold certificates, if you announce--

MR. WHITE: There are several ways. I think we can easily think of enough ways to do that.

H.M.JR: Well, I am throwing it out. It is my weekend thoughts.

MR. BLOUGH: Why don't the three of us - it relates to all of our work--

H.M.JR: Sure. If you don't agree with the boss, don't postpone for three months giving me a report.

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MR. BLOUGH: Three hours.

MR. WHITE: We will have one for you next week, won't we? It won't be good. (Laughter)

H.M.JR: All right. I like to, you know, stir them up a little bit. I don't see why it would be inflationary, though, Harry.

MR. WHITE: It wouldn't be if it would go into bonds.

H.M.JR: It wouldn't be?

MR. WHITE: I say if it is compulsory savings it won't be; but if it is merely anti-hoarding, it might be; it depends on how it is worked out.

H.M.JR: Well, study it, gentlemen. George, are you feeling all right?

MR. HAAS: I feel much better, thank you.

H.M.JR: Got anything on your mind?

MR. HAAS: No. I am working with Dan on that year-end thing.

H.M.JR: Mr. Odegard?

MR. ODEGARD: Our education man declined.

H.M.JR: Oh, that is too bad. Well, there must be other people in education.

MR. ODEGARD: I have another man in mind.

H.M.JR: Anything else?

MR. ODEGARD: That is all.

H.M.JR: Schwarz?

MR. SCHWARZ: Nothing.

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MR. WHITE: If Mr. Foley were here he would report on this. Foley and I went to see Berle yesterday on the draft of the bill to allocate a hundred million dollars to be expended by the Secretary of the Treasury with the approval of the President. The chief change which is introduced was, "By the Secretary of the Treasury after consultation with the Secretary of State and with the approval of the President."

H.M.JR: For what?

MR. WHITE: A hundred million dollars to be spent, for reasons which shall not be stated - loans to foreign governments for war purposes. It gives the President practically a very free hand in utilization of up to a hundred million dollars. There are several loans which are in the offing and contemplated. It is connected with the war effort, with the conduct of the war. The original proposal came from the State Department. They sent you a letter.

H.M.JR: Why just such a pittance?

MR. WHITE: Up to a hundred million because they are afraid they won't get any more.

H.M.JR: Is it worth the time of the staff to bring up a hundred million dollars?

MR. WHITE: It is a long way from you. At this stage the next step is to draft the bill and see some of the men, the party leaders. They want to know how they would prefer it best to be handled, whether Mr. Hull and yourself should go, or whether they would like it handled some other way. That is the next step which would be done this week, but get your approval--

H.M.JR: When you want something for China, why not go ask for China; and if you want something for Russia, why not go for Russia.

MR. WHITE: These funds are supposed to be the kind they don't want to tell Congress exactly the use for which they are being made.

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H.M.JR: Is this something the President wants? I will have to know more about it.

MR. WHITE: That is my understanding. I will give you a few minutes whenever you are ready.

MR. BELL: Can't be done through Lend-Lease?

MR. WHITE: They feel that it cannot be.

H.M.JR: What else, Harry?

MR. WHITE: The British have raised the question of providing dollars for the Dutch East Indies, and they claimed that the Dutch East Indies dollars, assets, shall be different from those of the home government. It is a matter which I think you ought to make a decision on soon, and I am raising the question whether you want to see the British on that issue or whether you would prefer to have a committee meeting before you make a decision on that matter.

H.M.JR: I am all for a committee meeting when I don't have to attend.

MR. WHITE: I think this decision - I think you will have to make it because it involves the rather broad problem as to whether or not the Dutch assets shall be available for the conduct of the war.

H.M.JR: Have a committee meeting first.

MR. WHITE: All right.

H.M.JR: That will kill a little time.

MR. WHITE: You might be interested in knowing that the Export-Import has been asked to and is considering providing funds for the South American countries to take over Axis-dominated corporations in South America. They are going to make loans of that character if it can be worked out.

H.M.JR: I would like to go on record, for anybody that is interested, that I entirely disapprove of Government

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directors of International Tel. and Tel. I think it is terrible. That is something new. I mean, that is the way - that, plus two directors on American Bosch. I mean, that is the way the Nazi party works. They put their people in. Those are the plums that the political parties distribute. I think it is terrible.

MR. WHITE: That matter wasn't discussed; I don't think the situation would have been any different if it had been discussed.

H.M.JR: What else?

MR. WHITE: I don't know whether Mr. Gaston feels it is ready to tell you about, that alcohol case, but I might inform you that we are working on some censorship material.

MR. GASTON: You didn't get that - we didn't get that report yet, did we?

MR. WHITE: I thought you ought to let him know generally what it is. We ought to end up in getting some evidence, irrefutable evidence, on one of the important dollar-a-year men, that he has been engaging in practices which are questionable.

H.M.JR: I would love to have it.

MR. GASTON: I think we can get that report today. It indicates that they have a contract to sell alcohol at - what was it, thirty-eight cents, or something like that, and subsequently withdrew it and entered into a contract at sixty.

H.M.JR: How did you get in on it, Harry?

MR. WHITE: We started because - oh, it began with you, you remember, when the Cuban Finance Minister was here. You made the suggestion of the possibility of purchasing alcohol from them. That resulted in a series of conferences with various officials, which in turn raised the question as to whether or not that alcohol could come in without paying certain excise duties and

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and import duties. The legal division made some findings, then we had some other meetings, inter-departmental meetings, at which certain decisions were made.

The decision there was a decision made to purchase alcohol, which was supposed to be kept very confidential. Then we heard through an intercept of a telephone conversation between somebody here in Washington - we don't know whom - and somebody in Cuba to immediately buy a large amount of alcohol from somebody in Mexico. Well, on the basis of that we thought we might find something if we dug in because we didn't see why that timing occurred. That might have been accidental, but it didn't look that way to us. Mr. Gaston went to work, and with the cooperation of the censorship and the telephone companies, and everything else, I think they have recently found something that looks as though there is "gold in them thar hills."

MR. GASTON: There is a letter that has been turned over to Nelson, and by Nelson to FBI, and FBI is now working on the case.

H.M.JR: Good.

Anything else, Harry?

MR. WHITE: Mr. Hays was in to see me again. The status of that is that the British will practically - will agree to take care of the RKO as soon as they get a satisfactory letter indicating that it will not constitute a precedent.

MR. SULLIVAN: Wait a minute. We can't do that for one company and not do it for others.

MR. WHITE: They are two different things.

H.M.JR: The letter from Hays - his letter is to be from Hays, isn't it?

MR. WHITE: Yes, but I think John thought for a moment I was talking about the question of the tax of Paramount. This

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is not a question of releasing funds, taxes upon which have already been met and paid, but merely a question of unfreezing certain assets of the RKO. I don't think it would affect the tax.

MR. SULLIVAN: There are eight different companies that are in the same position, Harry, and the allocations, the amounts that could be drawn, were split up by the British Government among those eight companies. If anything is going to be done for one, the same thing should be done for the other seven.

MR. WHITE: I still don't think it touches on the tax business.

MR. SULLIVAN: I don't think so, either, now, but I mean--

H.M.JR: You had better talk it over. It is a long story.

MR. WHITE: I think he will agree with us.

H.M.JR: Am I not correct? As I understand the story - Hays told a cock-and-bull story - all the companies paid taxes on the English earnings except 20th Century-Fox.

MR. WHITE: Hays didn't say that their English--

H.M.JR: You told me that.

MR. WHITE: I said that is what we discovered.

H.M.JR: Hays said they hadn't paid.

MR. WHITE: He said if we made that money available to them, the Treasury would get half back in taxes.

MR. SULLIVAN: We get it anyway.

H.M.JR: The point is, just for my information, that all the companies paid their taxes on the English earnings except 20th Century-Fox?

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MR. SULLIVAN: That is my recollection.

H.M.JR: Would you mind looking it up, and let me know?

MR. SULLIVAN: I will.

H.M.JR: Come on, Dan.

MR. BELL: There is a donation made to the White House for twenty-three hundred by those two companies. The President knows that president very well, and thought you ought to sign the letter. (Letter addressed to Mr. S. R. Fuller, Jr., President, N. A. Rayon Company and American Bemberg Company signed by the Secretary.)

MR. GASTON: Marvin McIntyre asked that you sign it.

MR. BELL: Will you have an opportunity of reading that memorandum on the question of whether we issue the gold notes?

H.M.JR: I will read it, yes.

MR. THOMPSON: The Appropriations Committee has reported supplemental appropriations for next year. They have given us exactly what the Budget approved in every instance, Paul, Expenses of Loans, forty-five million, Harold's staff--

H.M.JR: Wonderful. Has Harold got his million a day - million a month?

MR. THOMPSON: Million a month - twelve million.

H.M.JR: Isn't that nice.

MR. BELL: It is in the Committee report.

H.M.JR: Please note, Mr. White, this is a Committee report: "The Treasury Department is to be commended for making every possible effort to give the voluntary purchase

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plan full opportunity for success." Don't go against the spirit of Congress, please.

MR. WHITE: I haven't; in fact, I have contributed to the success.

MR. SULLIVAN: That is right.

MR. BELL: A girl that Miss Elliott spoke of is May Alexander, and she is reporting tomorrow morning.

H.M.JR: That is the girl that used to be over there?

MR. THOMPSON: That is right, and she will be here tomorrow morning.

H.M.JR: May Alexander?

MR. THOMPSON: Yes.

H.M.JR: Oh, grand. Were you able to fix up that nice young boy?

MR. THOMPSON: He went down to the Civil Service Commission and filed his papers. We expect to hear today or tomorrow. I don't know whether Kamarck told you or not, but he got his notice to report for duty on July 9.

H.M.JR: He did, and I asked him to ask Mr. White to recommend somebody.

MR. WHITE: I have some suggestions.

H.M.JR: I thank you.

The News

JUN 29 1942

Mr. McCarty Says Mr. McCarty Is Important:

Cog in War Bond Drive Up for Draft Deferment



TREASURY DEPARTMENT

WASHINGTON

DEFENSE SAVINGS STAFF

MILBURN MCCARTY, JR.

Data On

Publicity Experience

1. Treasury Department, Chief, Press Section, Defense Savings Staff
-- From May, 1941, to date

In this job McCarty is in direct charge of all newspaper and magazine publicity on the National Bond and Stamp campaign. Under the supervision of Vincent F. Callahan, Director of Press and Radio, he formulates policy, creates and passes on ideas, and is the administrative head of the paid publicity staff in Washington and hundreds of volunteer publicity workers over the country. He built up the department himself, and developed the Defense Bond promotion that has appeared in news stories, editorials, feature stories, cartoons, columns, pictures, elsewhere in newspapers and magazines.

Outstanding in this over-all operation have been: Consolidation of the country's cartoonists behind the Bond Campaign. Organization of the comic book field and the movie-fan and adventure magazine groups for Defense Savings publicity. Development of "Liberty Limericks," "Penny Wise," Defense Bond Quiz, and other special features. The general use of the Minute Man design, emblems, and boxes on newspaper front pages and magazine covers. He has launched special publicity activities through the Labor Press, College Press, Foreign Language Press, Religious Press, various other media.

Under his direction also has been the mobilization behind the Bond Campaign of the Nation's creative writing talent, and the use of Bond promotion on book jackets and covers.

2. Steve Hannagan Associates -- 1938-41

Principal work with Hannagan was directing the Coca-Cola account. Other accounts handled: Libbey Glass Company, Martini & Rossi, Vermont, Crown Watches, Sun Valley, the Island of Puerto Rico.

Although McCarty does both contacting and writing, his main work is formulating ideas for campaigns, then following up to direct their execution. His handling of a wide range of products -- everything from Bonds to a soft drink, from watches to a winter resort -- has taught him to find and conceive every sort of publicity idea. And he's learned that publicity can be obtained on practically anything, even that old wastebasket in the corner, if proper ideas can be developed.



The first page of Mr. McCarty's unusual autobiography.

Draft officials today were trying to decide whether Milburn McCarty Jr. should fight with a gun or from a Government draft-deferred desk, at which, according to a mimeographed description on Treasury Department stationery written



Mr. McCarty

The News

by Mr. McCarty about Mr. McCarty, he is one of the most important cogs in the War Bond drive.

Furthermore, apparently not even the Treasury or Mr. McCarty himself know a "necessary man" draft deferment for him is in the balance. All Ferdinand Kuhn, Secretary Morgenthau's assistant, knows is that the Navy begged him to accept a commission in a somewhat different field than publicity (the supply corps) and that

Secretary of the Treasury Morgenthau wouldn't let the armed force take him because the bond drive would suffer if he went.

THE NAME IS McCARTY

The Tydings Senate special committee is known to have Mr. McCarty's case before it.

Milburn McCarty Jr is just 30, unmarried, and lives at the University Club. And by his own admission he personally is responsible for the support given by the nation's cartoonists, writers and publishers to the bond program.

Many newspaper and magazine editors have been publishing bond publicity because they thought it their patriotic duty. But Mr. McCarty in his mimeographed three page self-advertisement of his life history and talents speaks of himself in the third person as the man "in direct charge of all newspaper and magazine publicity" who "formulates policy, creates and passes on ideas, and is the administrative head of the paid publicity staff in Washington and hundreds of volunteer publicity workers all over the country," who "built up the department himself, and developed the Defense Bond promotion that has appeared in news stories, editorials, feature stories, cartoons, columns, pictures, elsewhere in newspapers and magazines."

McCARTY IS THE NAME

He adds:

"Outstanding in this over-all operation have been: Consolidation of the country's cartoonists behind the Bond Campaign. Organizations of the comic book field and movie fan and adventure magazine groups for Defense Saving publicity. . . . The general use of the Minute Man design, emblems and boxes on newspaper front pages and magazine covers. . . . Under his direction also has been the mobilization behind the Bond Campaign of the nation's creative writing talent, and the use of Bond promotion on book jackets and covers. . . . "Altho McCarty (McCarty still speaking) does both contracting and writing, his main work is formulating ideas for campaigns, then following up to direct their execution. His handling of a wide range of products—everything from Bonds to a soft drink, from watches to a winter resort—has taught him to find and conceive every sort of publicity idea. And he's learned that publicity can be obtained for practically anything, even that old wastebasket in the corner, if the proper ideas can be developed."

DON'T FORGET—NAME'S McCARTY

Mr. McCarty worked his way thru college, was graduated seven years ago this month, and worked himself up the hard way—with no known sponsors except the late Sen. Joe Robinson, Democratic floor leader from Arkansas, and others he lists as "Washington references" at the end of his unusual autobiography, among them Sen. Tom Connally (D.), Texas, and Col. Edwin A. Halsey, Secretary of the Senate. Moreover, he advertises that he is "moderate in his indulgences; and likes and works hard at any good job he gets his hands on."

Thus, scarcely in his teens in his native San Angelo, Tex., he leaped from a Senate page's job at 15 to "assistant" at 16 to Col. Halsey at a Democratic National Convention; has since thoroly covered three continents developing "good contacts with local newspaper and radio outlets;" won "several golf, tennis and squash titles; worked his way thru Dartmouth as manager of a California ice cream parlor, New York stevedore, ordinary seaman, Texas oil driller, newspaper boy, sledge man on a highway gang, store clerk, truck driver, "etc., etc.," "wrote and edited a syndicated column—"It Happens in New York,"—which he says was "carried by more than 200 papers thruout the country," and to actually report, "at various times," for the Eastland, Texas, Telegram, the Ft. Worth Star Telegram and Dallas News.

He found time to be graduated from Dartmouth in 1935 and in the same year

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to handle a school-and-college sales promotion job for the New York Herald Tribune which "brought the Tribune ahead of the New York Times in this field for the first time in history."

From this Mr. McCarty says Mr. McCarty took a fast run thru the New Yorker Magazine, the Mutual Broadcasting System, and conceived and launched the idea to make Douglas Leigh the "Broadway Sign King." (The results speak for themselves: There are half a dozen sign companies . . . "but he is by far the best known man in the business," says McCarty). Then he worked for Steve Hannagan, New York publicity man whose job is to get free publicity for Coca Cola, Libbey Glass, J. M. Rossi & Rossi, Vermuth, Gruen watches, Sun Valley, Puerto Rico—and Mr. McCarty "handled" all of these, Mr. McCarty states, and directed the Coca Cola account.

YOU SPELL IT M-C-C-A-R-T-Y

Mr. Hannagan told The News he wouldn't go so far as to say Mr. McCarty had charge of the Coca Cola account, but did say that the Government asked the young man to join its bond staff about a year ago.

The Treasury, for some unknown reason, refused to verify a report that he draws \$6500 a year after recently having been raised from \$5800, despite that under the law, Federal salaries are supposed to be public knowledge and the Government lists a lot of them in a book which it publishes annually.

Also unusual was Mr. McCarty's statement to a News reporter: that altho he is a bachelor and only 30, he didn't know his draft number, his classification, or even the number of his draft board. He indicated he wasn't interested in them.

IT IS MR. McCARTY

Perhaps because Mr. McCarty's self-advertisement was worded similar to a job application biography with a list of "Washington references" attached including "any of the present or former employers named above," a report had reached the Tydings Committee that Mr. McCarty was circulating the document among the employers of the armed forces in the laudable effort to obtain a commission before he might have to become a draftee. The report continued, however, that when the commission in the Navy finally was offered him he didn't want it because he meanwhile had been deferred. This after farewell parties had been held and his successor introduced, only to be displaced by a signals-over decision.

Knowing that the report was widely circulated and that the only way to dispose of it was to ask Mr. McCarty himself, a reporter called on him.

ALL TOGETHER, M-C-C-A-R-T-Y

Was it true that he had been deferred or was going to be? Did he turn down the commission? What about the report? What about the self-advertisement with the "Washington references" at the end?

"Draft" laughed Mr. McCarty. "I registered in 1946 in New York, but I haven't even been in communication with my board. Of course no deferment is involved. I don't even know my board's number. I don't even know what my classification is. Oh yes, I did have a Navy commission, but Mr. Morgenthau asked to have it held up on account of my work here. That biography? Oh, that was just got up for some magazine that wanted to run a story about me. He did not indicate why the magazine needed so many copies that it was necessary to mimeograph it."

THAT SPELLS McCARTY

Verification on the military side came from Mr. Kuhn, assistant to Mr. Morgenthau.

"No draft deferment is involved," he emphasized. "It is true Mr. McCarty was going in the Navy. Oh, no, he didn't apply. They wanted to give a commission because of his valuable work here. But because the bond program is going into its biggest phase now and it would be hard to replace him immediately, Mr. Morgenthau asked that the commission be held up for the time."

The News found Mr. McCarty's draft board to ascertain Mr. McCarty's draft status from the official record. This is the reply:

"Milburn McCarty Jr., who formerly lived in the 306 number of E. 46th-st., applied for a commission in the Navy on April 30 last, according to a report he made to Local Board 14 on that date.

"According to the Selective Service headquarters, McCarty's file is now up before the Occupational Deferment Division, where it is being considered. This consideration usually takes two or three days, and no material is allowed to be released until the division makes its report."

In his mimeographed autobiography Mr. McCarty also took credit for "development of 'Liberty Limericks'" which are printed by newspapers to help sell bonds.

According to a Treasury employe, however, the Government buys these from Warwick & Legier, a New York advertising firm, at the rate of two a week and \$50 apiece.

Checked
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June 29, 1942.
2:51 p.m.

HMJr: Hello.

Operator: General Smith.

HMJr: Hello.

General Smith: Hello, Mr. Morgenthau.

HMJr: How are you?

S: I'm fine, thank you, sir.

HMJr: Good. Two things, have you heard anything about Henry?

S: No, I have not. I was just about to call up and try - ask about Henry.

HMJr: Well, we've talked to him a couple times on the phone. He's been out at Fort Riley for three weeks, and they're just going to start their training beginning with today.

S: Uh huh.

HMJr: And he seems to like it fine, and from all I can tell - he doesn't say much - seems to be getting along all right.

S: What I'm interested in knowing is when he makes his application for officers' candidate school?

HMJr: I see. Well, he said that they - he didn't know - that there's some talk that in view of their being there three weeks they might run them for eight weeks instead of thirteen.

S: Uh huh.

HMJr: But - but that's all he knows. They really haven't started yet. But I gather he's getting along all right.

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S: I'm anxious to get that more or less settled and arranged before I leave because - there won't be anybody to look after it when I'm gone, you see?

HMJr: Where you going?

S: Oh, I'm going across on the other side with Eisenhower.

HMJr: Oh, really?

S: Yes, sir.

HMJr: I didn't - well, of course I had no way of knowing it.

(Balance of conversation not recorded.)

June 29, 1942
3:00 p.m.

WAR BONDS

Present: Mr. Bell
Mr. Graves
Mr. Odegard
Mr. Gamble
Mr. Bartelt
Mr. Kilby
Mrs. Klotz

H.M.JR: Now, which one of these many people claim the responsibility for the retailers?

MR. GRAVES: I was just going to ask where Pulte is.

MR. GAMBLE: He is not in town.

H.M.JR: Is this your child?

MR. GAMBLE: You mean you are now talking about July 17th day?

H.M.JR: Yes.

MR. GAMBLE: Yes, sir.

H.M.JR: All right, now I go into a store on the 17th of July in Podunk. Will I be able to buy stamps in that store?

MR. GAMBLE: Yes, sir.

H.M.JR: Every store will have stamps?

MR. GAMBLE: Yes, sir.

H.M.JR: They will all be supplied?

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MR. GAMBLE: When I say every store, there will be upwards of a million stores that will have them, Mr. Secretary. The communities will expand those. There will be plenty of outlets for stamps.

H.M.JR: Will there be stock on hand in the post offices?

MR. GAMBLE: We checked the post offices and they tell us between sixty and seventy billions worth of stamps are available now.

H.M.JR: Is anybody particularly going to see that the stamps are in these particular towns?

MR. GAMBLE: Not only that, but we have made arrangements to keep the post offices in all those towns open until nine o'clock at night.

H.M.JR: You are satisfied as to the stamps?

MR. GAMBLE: Yes, sir.

H.M.JR: I am going in there and I want to buy an \$18.75 bond, what am I going to do?

MR. GAMBLE: You might have a little difficulty.

H.M.JR: What would happen to me? I have got the money and I want to buy a bond.

MR. GAMBLE: Well, the way we are set up at the present time, like here in Washington there are some four or five of the department stores that have bonds on sale--

MR. BELL: They are issuing agents.

MR. GAMBLE: Yes, they are issuing agents, and you can - for example, you can get three-minute delivery on a bond in the Hecht Company in this town; and that is true in a great many cities, but it is not universally true of all retail establishments.

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H.M.JR: How are we going to do it by the 17th of July? Is it unfair to ask you? Is it a fiscal matter?

MR. GAMBLE: In a sense, Yes.

H.M.JR: Have you got the stores?

MR. GRAVES: I would like to ask Mr. Gamble this, if he does know - I am sure I don't know. I know in Chicago there are, I think, twelve of the large stores qualified as issuing agents. I was going to ask if he knows what that situation is generally.

MR. GAMBLE: Total number, I can't answer that Mr. Graves.

MR. GRAVES: Total number of retail stores that have now qualified.

MR. GAMBLE: It is hoped the retailers - Mr. Bell requested the retail people in a letter to the Federal Reserve banks to survey that picture again to speed up these qualifications for issuing agencies before the start of the July "Retailers for Victory Month."

H.M.JR: At the rate they are going they will be lucky if they get them around Christmas Day.

MR. GAMBLE: I should say a thousand would be the maximum number.

MR. ODEGARD: The best evidence we could get the other day, when we were preparing that statement for Congressman Ludlow, was that there are about twenty-four hundred and fifty corporations qualified as issuing agents, and about two hundred and seventy-five others. That was the latest figure. Now it may be a good deal more than that.

MR. BELL: How big are these towns that you are going to carry this on in?

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MR. GAMBLE: All sizes. The large cities probably won't come in a hundred percent. It is the kind of an activity that will go better in smaller communities - I mean towns, cities of a hundred thousand and under, but there are some forty odd big cities we know already - for example, New York City.

MR. BELL: We haven't got so many department stores that are qualified as issuing agents. We have got a lot of them over the country - we haven't gotten so many. We have about fifteen thousand banks; we have sixteen thousand post offices. Now, in these towns, in many cases, your banks and your post offices could serve the public; we might even get some more department stores or other stores to come in as issuing agents.

MR. GAMBLE: Twelve hundred big stores are members of the retail dry goods stores.

MR. BELL: Big stores?

MR. GAMBLE: Yes, and there are four thousand so-called second line - take in the chain organizations, Penny's, Sears and Roebuck, Montgomery Ward. So I should say there are about five thousand possibilities of responsible merchants.

H.M.JR: Well now, there is no use going the regular way of the regular issuing agent because the Federal Reserve just won't get around between now and the 17th of July. Just let's use this figure five thousand, and what I have in mind - let's take J. C. Penny, for instance, see, and go to J. C. Penny and say, "You must--" Let's say they have five hundred stores. "Now, look, we would like you to give us an estimate on what you think you will sell on the 17th of July. Gentlemen, this is just for one day, and we would like to stock you up for one day with twenty-five dollar bonds, every store," and you make arrangements with the treasurer to make J.C.Penny corporation responsible.

MR. BELL: They are already, I think. They are called issuing agents, so right on that--

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H.M.JR: Well, I doubt - are they issuing agents?

MR. GAMBLE: I think they are in this way--

H.M.JR: The first thing we ought to do is take a list of the five thousand and check off which ones are, which ones aren't, but let's say your figure was right, a thousand - I just want to get the idea across - these four thousand stores - I doubt whether J. C. Penny - they must have five hundred stores. That leaves, let's say, four thousand stores - we may be all off in our figures. What is to keep me, the Secretary of the Treasury, from saying to J.C.Penny and all twelve hundred first-line stores and all the four thousand or five thousand second-line stores, "This day we will stock you up with as many bonds as you say that you think you will need, and if you run short during the day you can go to the bank and we will make arrangements with the bank to advance these to you."

MR. BELL: If they are good-sized towns and if there is a good-sized bank there, they would have a pretty good stock.

H.M.JR: I mean, I know enough about selling and I know a man's reaction to the thing, and if you can go in and you go to a counter and the bonds are there and you can buy them across the counter, there is all the difference in the world than going through this rigmarole of a slip of paper, then running two blocks down. When you go to buy a pair of shoes, you want a pair of shoes; you don't want a receipt, go through all of that. I mean, I have tried so hard to break down these obstacles for the people that we place in their way.

MR. GRAVES: Mr. Secretary, my own view about this - I have had no opportunity today to do more than discuss the thing briefly with Mr. Gamble, Mr. Odegard and Mr. Bell, but my own view is that what we ought to do is to try to interest retail stores in becoming permanent outlets for the sale of bonds on some such scale as

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indicated by Mr. Gamble, increase that as a permanent proposition rather than to try to interest them in doing something specially on that one day, the 17th.

H.M.JR: Well listen, Harold, the only way I can get you people to do something is to do it this way. I have talked about retail sales. My original suggestion was to use Western Union, Postal Telegraph, and everything else - that goes back to a year and a half ago. I don't make any progress. Now, I am going to do this thing if I have got to do it myself. See? I am going to have this thing sold. Now, I am not going to argue about it. I am going to have these things on sale in these principal stores. You fellows have just got to work it out.

MR. GRAVES: Yes, but you are interested, I take it, in having it all of the time.

H.M.JR: But you tell me - the 17th is passed, you lose all the benefit, and the way to get the stores to do it is to show them it can be done.

MR. GRAVES: I think we ought to try to get them to do it by the 17th as far as we can.

H.M.JR: You won't. I have talked about it for a year and a half and I have gotten nowhere. Now, it is the twenty-ninth, and the seventeenth is two weeks or two and a half weeks off, and I want the stuff on sale. Now, if you could do it on a permanent basis, swell, but I don't want to be told it will be the 17th of September because we have got to wait that long in order to have it permanent.

MR. GRAVES: You told me yesterday, you remember, over the phone, that what you wanted was to have this done in all the cities where we were going to have this Vineland--

H.M.JR: About three thousand cities.

MR. GRAVES: Well, I think the number--

MR. GAMBLE: There may not be that many.

H.M.JR: Well again, twenty-five hundred, two thousand, whatever it is.

MR. GRAVES: A very large number of cities.

MR. BELL: Pretty large cities, though.

MR. GRAVES: You get down into some very small cities, and that is the trouble. As I said to you over the phone yesterday, the difficulty of doing what you said literally, just that one day, of getting these stores in all the cities where we are to have this celebration on the 17th, is one of getting qualified people who can do this job of registering bonds for that one day's operation.

H.M.JR: All right, is that going to be your stumbling block?

MR. GRAVES: That is one of several stumbling blocks.

H.M.JR: Well, I got your answer on that. I've got your answer to that. I will order every collector in Internal Revenue, every man, every custom's man, every alcohol tax man, to report at a store with bonds in his pockets, devote that Saturday to that thing. He will be there in the store. He will be responsible for the bonds. We must have ten thousand people.

MR. GRAVES: I wasn't thinking of the responsibility for the funds or the bonds.

H.M.JR: If you want a Treasury man in each store, I will give you ten thousand men in these stores for that date. I will order ten thousand Treasury personnel to report to the stores on that date.

MR. BELL: The best people to issue bonds are the people that are now issuing them, which are your banks and

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your stores that are qualified and post offices that have had the experience.

H.M.JR: Dan, that is all lovely, but you are not getting the sales. Now, here is a plan which these fellows are working out. It is like this New York thing, I don't want these people to make it as difficult as possible for them to buy them.

Now, don't all sit there and tell me how it can't be done. I want somebody to tell me how it can be done. I mean, you have got your stores. I mean, you have got your post offices, who take no interest in the thing - I mean, they won't push the thing; and you have got your banks, which are doing fine. Now, we are working out a way that we have got something new, department stores, and I want the merchandise there, so when the people go--

MR. GRAVES: You want something more than department stores, if I understood what you said yesterday. You want it in every community where we have this Vineland celebration; that gets you down into the smaller communities where probably there are no department stores.

H.M.JR: But you take me to the place, the community of ten thousand or over - you take me to the community of ten thousand or over - there won't be less than ten thousand--

MR. GAMBLE: Oh, yes.

H.M.JR: Well, I am talking - where there isn't an Atlantic and Pacific or J.C.Penny.

MR. GRAVES: There will be stores of that kind.

H.M.JR: Well, then, those - that is something else again.

MR. BARTELT: Mr. Secretary, the county agent knows who are the issuing agents, doesn't he? Why don't you place that responsibility on him? Tell him what you want and let him go and see that the bonds are there.

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H.M.JR: You say the county agent, you mean--

MR. BARTELT: I mean the War Savings man, whoever he is.

MR. BELL: The State administrators.

MR. ODEGARD: Could I ask Mr. Bell how much of a relaxation would be necessary in the present requirements concerning fiscal agents to authorize the banks on their responsibilities to supply retail stores in the community with enough blank stock so that they could be issued right in the store and the store then return the stubs to the banks?

MR. BELL: You mean without qualifying the store as an agent?

MR. ODEGARD: Without qualifying the store as such.

MR. BELL: I think we could do that. That has been done in New York where the manufacturer has gone out and made sub-agents on its own. But I think we could work up an arrangement of that kind if the banks would be willing to do it.

MR. ODEGARD: Wouldn't that just about do what the Secretary wants done?

MR. BELL: It seems to me those are the people that we have got to work through. We have got to get the list of the cities, it seems to me, first, in which you are going to hold these celebrations, and then find out from our list who are the agents in those places. And then I should think we can wire them or write them direct and tell them we are going to have this celebration. We ask them to cooperate, either by making available the bonds in the stores or any place else that is going to be open there that day. I think we can get a letter right out.

MR. ODEGARD: I would assume that the banks, the

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local banks, would know who the responsible merchants are.

H.M.JR: What I was thinking of, if we have seven hundred national bank examiners, supposing - they are my men - I put them out to go to work. There are a thousand ways to do this thing. These people only think of each State bank superintendent helping, but I have got seven hundred bank examiners. All they do is look at books; one day they could help win the war.

MR. BELL: I think we could write to each one of our agents in those districts and get results.

H.M.JR: What agents?

MR. BELL: We have qualified issuing agents in each of these towns, I am sure.

MR. GRAVES: He means the banks.

H.M.JR: Have you got a list of the towns?

MR. GAMBLE: We won't have them, Mr. Secretary, probably, until the first part of next week - all of the towns.

H.M.JR: They are beginning to drift in?

MR. GAMBLE: Yes.

MR. BELL: Have you got part of them?

MR. GAMBLE: Just a few.

MR. BELL: We could get started.

MR. GAMBLE: The responsibility for this day, Mr. Secretary, the way it is set up, is on the retailers, and we are riding herd on them as best we can.

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H.M.JR: Supposing you told Ben Namm there is a chance of stocking up each of these stores.

MR. GAMBLE: There isn't any question in my mind. I am all for it. I think we should qualify - in some way put bonds in the hands of these fifty-two hundred merchants.

H.M.JR: After I have been in the Treasury another fifteen years I may get an idea.

MR. ODEGARD: I just raise the question again as to whether it is necessary to qualify these stores as issuing agents.

MR. GRAVES: You mean whether the banks can't distribute its stock around?

MR. ODEGARD: Yes, and rely upon the bank to be careful enough in knowing the local situation, knowing the responsible merchants.

H.M.JR: What about the Comptroller? Is he in?

MR. BELL: He has been sick for ten days.

H.M.JR: What about this idea of Peter Odegard's getting the banks?

MR. GRAVES: It is all right; if this is to be done, in my opinion that is a practical way. Otherwise you are up against the job of having each store qualified individually, Dan, and that is a matter of pre-paying these bonds or putting up collateral, which they probably are not in the position to do. But if you can arrange for the bank to send stock out on consignment, so to speak, and if the bank would take the responsibility for it, probably--

H.M.JR: Well, will they do that?

MR. BELL: I think so.

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MR. GRAVES: In some cases they will and in some cases they won't, that is about the answer to that question.

MR. BELL: You will get some that won't do it, but most banks have their contacts with these stores. They trust them.

MR. GRAVES: In other words, we would have a double-barreled selling job, have to sell the banks and the stores.

H.M.JR: Send for Stonier of the American Bankers, get Mr. White, superintendent of the banks in New York, who is president of the State Superintendents Association, and tell them what we want, and tell the seven hundred national bank examiners that they should call, in each town, on each national bank and tell them what we want. Gawd, we have got so many people in the Treasury that aren't working on this thing - well, throw them in.

MR. ODEGARD: You mean throw them in so that they could train the people to do it?

H.M.JR: No, I was thinking - take a national bank examiner called in on this thing, "Here is a letter from Mr. Morgenthau. He would like you on the 17th of July to start the following stores in this thing." The national bank examiner walks in; if he doesn't make a hit we send in an income tax fellow to follow him up. (Laughter) If he doesn't come, the Secret Service men - we've got all these people to throw in. I am serious.

MR. ODEGARD: I was thinking of the other problem, Mr. Secretary. By the 17th, I suppose you could get people qualified to make these bonds out in stores, the actual job of issuing the bonds.

MR. GRAVES: Dan is more familiar with that difficulty than I am, but I have always assumed that that is one of the problems, Dan, of having this registration put in the hands of people who are not--

(The Secretary held an unrecorded telephone conversation with Mr. Folger.)

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MR. GRAVES: There is a point, Dan, that I think is very important, and undoubtedly you think it is important, being careful enough about this that you can be sure of the accuracy and correctness of the registration of your bonds.

H.M.JR: Meaning what?

MR. BELL: You wouldn't want to pick up volunteers, I think, to handle public debt obligations; you would have to have somebody that is responsible for the supply of bonds.

H.M.JR: It would be the cashier in the store, wouldn't it?

MR. BELL: The treasurer, the comptroller, somebody like that that is responsible for the supply, and the proceeds that he takes in, that is just as important.

H.M.JR: If you don't do this it gets down just to a stamp sale, doesn't it?

MR. GAMBLE: No, it does not, Mr. Secretary. As they did in Vineland, you know, they arranged for the banks to stay open, they arranged for a number of the stores, qualified as issuing agents--

MR. BELL: The post offices.

MR. GAMBLE: A number of their smaller stores were qualified to sell the bonds - probably it would work forty percent, but I don't think it is good enough.

MR. GRAVES: I suppose the common operation, Ted, is for these stores to take money and applications, these to be forwarded to a bank which would issue the bond and mail it to the purchaser.

H.M.JR: Harold, has it been thought through? Have they, the banks, the applications? Have they

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been printed?

MR. BELL: That is exactly what Vineland did, took the applications and the banks issued the bonds the next day.

H.M.JR: I would like to see it.

MR. ODEGARD: Mr. Secretary, the booths in New York that we visited - that is the way they do it.

MR. GRAVES: You mean you would like to see the application, the thing you fill out if you go into a post office or a bank?

H.M.JR: I would like to see what these retailers are planning to do on the 17th when the people come in and want to buy a bond. What are they going to do, take a pledge?

MR. GAMBLE: They were anxious to learn - as a matter of fact, it was because of that problem we asked the post offices to stay open all day, so that they could direct people to the post offices.

H.M.JR: Well, now, what have we accomplished today? In the first place you are going to get for me, number one, a list of the towns as fast as they come in.

MR. GAMBLE: That is correct.

H.M.JR: That is number one. Number two, you are going to find out what the retailers have in mind as to how they are going to handle the customers.

MR. GAMBLE: Yes.

H.M.JR: Is that right?

MR. GAMBLE: Yes.

H.M.JR: Number three, I take it Bell here is going to - as fast as he gets the thing he will take it up.

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MR. BELL: We will find out how many agents we have in that town.

H.M.JR: In the first place, how many, and how many more you can get through the banks on consignment. Is that right?

MR. BELL: Yes, sir.

H.M.JR: Any bright ideas, Eddie Bartelt?

MR. BARTELT: I should think that in every one of these towns where there will be this celebration you would have, possibly, an issuing agent, and I suppose he could borrow bank personnel different places, to get help to inscribe these bonds. It seems to me that it is just a matter of designating somebody and putting the responsibility on him.

MR. BELL: You mean in the town?

MR. GAMBLE: The issuing agent isn't always somebody who can do it. You asked this question about Penny. He might be an issuing agency to sell bonds to his own employees; that doesn't mean they stock bonds in all their stores.

MR. BARTELT: But there will be a bank in that town, possibly, that has an issuing agent. Don't you think you will be able to borrow his help?

MR. GAMBLE: I don't think that is any problem at all. The problem is getting the blank bond stock to the stores.

H.M.JR: Look, Ted, this is what these - I still think this is something we oughtn't to overlook, that Mr. Helvering has a little over three thousand income tax examiners.

MR. GRAVES: Yes. The last I knew it was about thirty-five hundred, maybe more than that.

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H.M.JR: Thirty-five hundred.

MR. GRAVES: Internal Revenue Agents.

H.M.JR: They are all trained bookkeepers, aren't they?

MR. GRAVES: Auditors and tax people.

H.M.JR: Supposing you took those fellows and simply said, "Now, here are the towns where we would like you to spend three days, Wednesday, Thursday, and Friday before the 17th, making sure that these people - " and then be there Saturday to see that the supply - that the post office does stay open and that the bank cooperates. Get four days out of those men, Wednesday, Thursday, and Friday, three days getting ready, and Saturday, to be there in that town. Get by this hump, and then continue to work as hard as we can - get as many issuing agents in the department stores on a regular basis.

MR. GAMBLE: I wasn't resisting that idea, Mr. Secretary, I was just trying to maintain a point. I don't think we have solved anything simply because you say to a bank - you get the bank to say, "Yes, I will let the Smith Brothers Department Store have bonds, bond stocks." Maybe the Smith Brothers don't want to walk over to the bank and get this, and be under obligation to the bank for it.

H.M.JR: But, if you have a Treasury man there--

MR. GAMBLE: Irrespective of that, he may not want to walk over there and feel that he is placed under obligation to the bank. Maybe he is trying to negotiate a loan with the bank.

H.M.JR: I suggest--

MR. GAMBLE: I think so, that the Federal Reserve or the banks make this service available, not as a responsibility to the bank, but as a responsibility to the Federal Reserve and the Treasury.

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H.M.JR: That is the long view of it, but you can't do that between now and the 17th. The Federal Reserve, the entire Federal Reserve System for the United States - how many new ones do they do a week, a hundred and fifty, something like that?

MR. BELL: Something like that.

MR. GAMBLE: I mean just the responsibility - we will have to go through these same steps. There ought not to be any relationship between the bank and the merchant.

H.M.JR: I still say I would have a Treasury man in each town.

MR. GAMBLE: I am not opposing that.

MR. BELL: It seems to me after we get this list of towns we should find out the agents. We ought to write to each Federal Reserve Bank and give them the list and ask them to be sure that there is plenty of stock of bonds there on the 17th, first. Then we ought to have a letter going to the agents telling them of the celebration - they are liable to be swamped for bonds. We have asked the Federal Reserve to contact - be sure they have plenty of stock - ask them to cooperate with all of the local stores; and if necessary, consign to them bonds for sale in those stores and for them to urge them to accept that responsibility.

MR. ODEGARD: I would assume, too, that the consignment--

MR. BELL: Ninety percent would do it, I believe.

MR. ODEGARD: The consignment of the bonds to the stores by the banks would be done on application from the stores. There would be no effort on the part of the bank to tell anybody to do this, and that is the job of the retailers to get these people to cooperate.

H.M.JR: I oughtn't to have to bother with this stuff at all. I really oughtn't. I mean, this ought to be thought out by the fiscal agency of the Government, and I ought not to have it.

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MR. BELL: I haven't known anything about it.

H.M.JR: What?

MR. BELL: I don't know anything about this.

H.M.JR: That is Harold Graves' - I mean, I spend most of my time telling people in Harold Graves' shop one thing and another. I do, Harold.

MR. BELL: I don't suppose Harold feels he had to come and tell me what you were doing.

H.M.JR: I am not doing this. I passed this thing out - how old is this?

MR. GRAVES: A little over a month since you had Mr. Namm in.

H.M.JR: I got to worrying about it on Sunday, feeling that the thing wasn't right. I was worried on Sunday and called up Harold at nine-fifteen Sunday morning. Now, we spent thirty-five minutes going over stuff. Now, looking at you (Graves) I oughtn't to have to touch--

MR. GRAVES: Well, I have this--

H.M.JR: That I oughtn't to have to touch.

MR. GRAVES: I have this feeling, that if you want to get the most good out of this thing on the 17th--

H.M.JR: What the hell am I doing it for? I am not doing it to amuse myself.

MR. GRAVES: We ought to concentrate on this proposition of having as many stores as possible take checks and money and formal applications for bonds, which would be turned over to the bank to be executed. If you do that, instead of having a maximum of a few thousand stores that would be in this selling operation on the 17th you could have many stores in every one of these

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communities in that operation. Otherwise, in a typical case I suppose you would be apt to find just one store in a town on the day of this big celebration where you could go and pay your money and get delivery of the bond. But if you push this application proposition, you could have many stores in any one of these towns where you could deliver your application with your check or your money, the bond to be issued subsequently by our issuing agent in that town.

H.M.JR: Is this the first day you have heard about this?

MR. BELL: No, I heard about it a couple of days before, but I haven't been in on it at all.

MR. ODEGARD: The question of issuing agents in department stores and other retail places came up from the very first discussion of defense savings a year ago March or February, and we began with the job of trying to get a maximum number of post offices qualified and a maximum number of banks qualified. That job was not an easy one; it took some months before we even got rid of the collateral requirement in the banks. It isn't as though nothing had been done on the job of multiplying issuing agents.

H.M.JR: Peter--

MR. ODEGARD: We decided not--

H.M.JR: I sat in on that with one person after another, the last being this man from Oregon downstairs. I mean, I take each one of these things - the thing that I am complaining about is I oughtn't to have to touch this stuff.

MR. ODEGARD: I think that is right, but we had moved in the direction of the more familiar issuing agents, trying to get a maximum participation there before we moved into less responsible agents where the job is a little more difficult.

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MR. GRAVES: Well, the point that I am making is important, I think, that it would be a mistake to try now, between now and the 17th, to have a lot of stores put in the position where they could actually deliver bonds over the counter. I don't think you will get anything like the coverage that you ought to have.

I would like to see us go ahead, so far as the 17th is concerned, in trying in every one of these communities to get many stores interested in the proposition of selling bonds in the way that they are being sold now, in many, many places the operation being limited to the customer giving his application with the money, which is turned over to the issuing agent who issues the bond and mails it to the purchaser. That we can do on a big scale, Gamble, as I see it, between now and the 17th.

To do this other thing, to have stock on hand, I think would turn out to be a very limited thing, one place in a town perhaps, which would be very bad.

MR. ODEGARD: I think they are not mutually exclusive, are they?

MR. GRAVES: No, no, you would go as far as you could in getting stores qualified, by one formula or another, to actually issue the bonds; but I wouldn't stop at that. I don't think you need to stop at that. I think that most people are satisfied to file their application with their money and wait two or three days for delivery of their bonds. That is very successfully done in a great many places.

H.M.JR: Well, if it is so successful - well, anyway, I am exhausted. I keep going up against a stone wall. You run it - you do it your own way. I am just exhausted. Every time I try to bring in some new idea, you just wear me down. So you do it your own way, just the way you did in New York City, and so forth and so on. I mean, here sits Bell - this thing is a month old. It is his responsibility down there - they don't even know anything about it, and I have got to take all of this time. I mean, I just cannot - I have got too many other things - I

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can't - you fellows always just suck me dry. I pour out ten different ideas on how to do this thing, but you are just going to do it the same old way. Well, do it your way. I mean, you just wear me down, and I can't be bucking you fellows all the time. I mean you, Graves, I can't do it all the time. I mean, he is here, he knows the Treasury organization inside out. I offer you thirty-five hundred people; I offer you the national bank examiners, and all of these people, and you are just going to have a person go in the store and then wait, the way they do at the factories, five or six weeks until they get their bond, when you are supposed to sell the bond - no wonder we don't sell any bonds.

MR. ODEGARD: That wasn't what Mr. Graves was saying - that we ought to try to get as many people qualified to issue--

H.M.JR: Oh, Peter, for God's sake, why do we always have to wait until the gun is at our head, and I have got to sit here and argue and argue and argue on a plan that is a month old, with regular Treasury personnel, civil service, who know this business; and if they were told today that the thing was conceived, in a month's time they would have had a chance to work the thing out. Instead of that, here it is the twenty-ninth of June, and the regular Treasury organization people don't even know about it and haven't had a chance - I mean, it is inexcusable. The day it should have been brought in is the day we asked the retailers, "We are going to have the thing - here is Mr. Broughton and Mr. Kilby, please go ahead and work it out." It is at least a month old.

MR. BELL: I still feel, Harold, we can work out something along the lines--

H.M.JR: It is the same thing.

MR. GRAVES: I think so.

H.M.JR: Nothing new, nothing thought out, nothing in time, always wait until the last minute.

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MR. BARTELT: Dan, in a--

H.M.JR: As a result, I am not going to make any new suggestions, I am going to quit. I am not going to make any because every time I make a suggestion I have just got to wear myself out. I mean, I just got to wear myself out. I mean, hanging on to the telephone, and this thing, and that thing; and instead of saying, "Fine, this is a good suggestion, let's consider this thing, let's consider having a Treasury man in each town," you say, "No, no, it won't work." "Let's consider putting them on direct from the Treasury on consignment." No soap, but nobody else has got any suggestions.

MR. BELL: My worry about putting on the Treasury people at this time is I do think the time is too short.

H.M.JR: That isn't my fault, Dan. That isn't my fault. Mr. Namm came here - whatever the date was - he sat in this office, and we went over this whole thing. I had the man down from Vineland, and I asked Ted Gamble, "Have you got too much to do? Can you take on anything new?" I didn't want to give you anything new, and you said, "Yes, I can take on something new," so I gave you this thing to do. All I can do is to conceive the idea, but the Secretary of the Treasury - I have got to get to work on every two-by-four thing - I can't do it, I am not going to do it.

MR. BELL: I mean as to the Internal Revenue agents, they won't be much better off than a volunteer coming in and issuing a bond; they don't know anything about it at all.

MR. GAMBLE: Mr. Secretary,--

H.M.JR: Why don't you call the whole thing off?

MR. GAMBLE: I am just going to make a point.

MR. ODEGARD: No.

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MR. GAMBLE: I don't think it is necessary to call it off.

H.M.JR: Seems much better.

MR. GAMBLE: I think these people are much more resourceful than you think they are. I am all for expanding the issuing agencies, but if we weren't able to do a thing for them - after all, we didn't do anything for them in Vineland, New Jersey.

H.M.JR: No, because you had an exceptionally, unusually able fellow - "small town boy makes good," advertising manager of Macy's, and other things - comes back in a little town.

MR. GAMBLE: He didn't have as much to do with it as Mr. Bell had to do with it.

H.M.JR: That isn't what you told me when you brought him in.

MR. GRAVES: I brought Mr. Namm in here.

H.M.JR: I mean, to see me. Well, whoever it was, I asked to see the man - I asked somebody - to see the man who was responsible for Vineland, New Jersey, didn't I? Then why sit here and tell--

MR. GAMBLE: I said he had nothing more to do with the issuing of bonds, meaning in Vineland, New Jersey, or the creation of any plans to issue bonds than Mr. Bell had, and yet they sold six hundred thousand dollars worth of bonds in that day. These merchants are going to do a good job and pattern it all after Vineland, New Jersey, without any change; but I am for the change.

H.M.JR: If I sat here and always relied on others I would last as Secretary of the Treasury exactly one minute. I haven't stayed here for eight years as Secretary of the Treasury always leaning on somebody else as a crutch and hoping to God he is going to do my work for me.

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I mean, that isn't the way I sell my bonds and it isn't the way I work. I mean, I am going into this thing on my regular work; I have got this thing checked and triple checked and double checked, and I have relied on the civil service employees to see me through, and up to now they have. But I can't just sit here and say, "Mr. Benjamin Namm and the retail stores are going to do my work for me."

MR. GAMBLE: I wasn't going to do that. How do you suppose Mr. Bell happened to send this to the Federal Reserve Banks to go to work on the retailers for July? Because we wanted to qualify more retailers for July to speed up this job and to help this job on the 17th. We have a store right here now in Washington selling and delivering twenty-two hundred dollars worth of E Bonds every day - a department store, and we would, I think - I don't know the answer - I think we can, all fifty-two--

H.M.JR: But the main stores - you are going to sell less bonds in June than you did in May, and that is the answer. What I try to do when I get a little bit of energy stored up is to come down here and give you fellows some new ideas. Well, I am not going to - I mean, I have got so much energy to divide, and this thing has been taking three-quarters of my energy, and I can't get anywhere.

MR. GAMBLE: I would like to ask a simple question. Why can't the Federal Reserve, at the request of the Treasury, issue bonds to these fifty-two hundred important stores in this country on consignment?

H.M.JR: But, Ted, why ask me that on the 29th of June?

MR. GAMBLE: They don't need it before the 17th of July, Mr. Secretary.

H.M.JR: Oh, you have seen how they work. I don't know why.

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MR. BELL: You can do it by putting out a public debt obligation in the hands of the people. You haven't got any good security, but we can take a chance on it.

MR. GAMBLE: Those particular stores, twelve hundred of them--

H.M.JR: What was the suggestion?

MR. GAMBLE: Let the Federal Reserve, as a result of a request of the Treasury, deliver blank bond stock to these fifty-two hundred big stores in America, twelve hundred of them leading department stores.

H.M.JR: That was my suggestion in the first place.

MR. GAMBLE: That is why I said--

H.M.JR: But that is the suggestion in the first place, that I said this morning - I said to you yesterday, didn't I--

MR. GRAVES: Yes.

H.M.JR: ... that I wanted to make it directly from the Treasury? When I say the Treasury, I mean through our fiscal agent, who acts for me and is paid by me, the Federal Reserve, to stock these fellows up the way you would with any other merchandise.

MR. GAMBLE: These are pretty responsible merchants; the fifty-two hundred big ones are pretty responsible people.

MR. BELL: They all belong to this association.

MR. GAMBLE: Yes, sir, twelve hundred of them are big stores; four thousand of them are smaller organizations.

MR. BELL: Do we have to contact them to see if they would accept them?

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MR. GAMBLE: I think we can get the retailers to contact them all, Mr. Bell.

MR. ODEGARD: The retailers ought to do that; that is their job. You can't consign bonds to people who don't want them and won't handle them.

H.M.JR: The thing that I am talking about here - I made the suggestion - I can't remember who was in the room - to Mr. Namm the day he came in here. I said, "If you do that, the thing would be a great success - " to consign - do you remember?

MR. GAMBLE: I wasn't here.

H.M.JR: Were you here?

MR. GRAVES: I was here.

H.M.JR: Do you remember?

MR. GRAVES: I don't - I wouldn't necessarily remember.

H.M.JR: I did make it.

MR. BELL: We can try.

H.M.JR: What are you going to try?

MR. BELL: ... to put them in the hands of all the fifty-two hundred.

H.M.JR: From whom to whom?

MR. BELL: Federal Reserve Banks.

H.M.JR: To?

MR. BELL: The stores - big merchants.

H.M.JR: That was my suggestion. I didn't have the fifty-two hundred, but I had the stores.

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MR. GAMBLE: You would hit every important section of the country.

H.M.JR: Then send somebody around, teach them how to do it.

MR. BELL: There would be a bank in the community, an agent that could tell them how to do it.

MR. ODEGARD: Do we know how many of these fifty-two hundred agents are now selling bonds?

MR. GAMBLE: How many now selling?

H.M.JR: He said about a thousand.

MR. GAMBLE: That would be the top, that would be the outside figure. It may be only three hundred.

H.M.JR: If you are going to do it, you haven't got a day to lose. You know how long it takes.

MR. BELL: We will get it out tomorrow.

H.M.JR: What do you think, Kilby? You have been very quiet.

MR. KILBY: I think it can be done, Mr. Secretary.

H.M.JR: What Gamble suggests?

MR. KILBY: I think two things, that in consigning this stock to the stores we ought to have a pretty good working arrangement with the Federals, and for the actual issuance of the bonds I think that - my second point is that there should be someone to instruct these stores on exactly the form of registration for the bonds.

H.M.JR: Sure, but that takes time. Now, who are you going to use?

MR. KILBY: Probably, as Mr. Bell suggests, the local bank could take care of the stores.

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MR. GAMBLE: That would be much faster than if we used Treasury people.

H.M.JR: I should think from the bank standpoint they would be tickled to death to throw the business on the stores so they don't have this wealth of detail on them. The little it takes to instruct - if I were a bank and could get rid of the thing, knowing what was coming that day, and you told me that I had to do this thing, that the Treasury through the Federal Reserve System is going to assign them, I would say, "My God, if we don't have to go through that Saturday, thank heavens." So that, from the bank standpoint they ought to be tickled to death to take a little time to instruct somebody.

MR. BELL: We probably ought to write the banks at the same time.

H.M.JR: You mean to say I am actually having my own way?

MR. BELL: You are the senior partner. (Laughter)

H.M.JR: But why do I have to be so exhausted to get this agreeable?

MR. BELL: Well, I hope there aren't many losses. I hope there aren't many losses.

H.M.JR: I have still got my grievance, Mr. Graves. Have you got any come-back?

MR. GRAVES: No.

H.M.JR: You know what my grievance is?

MR. GRAVES: Yes, I think you expressed yourself. (Laughter)

MR. GAMBLE: May I say a word on that? You dumped this on my lap about two weeks ago, and I have spent two weeks trying to get the retailers organized. This

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is after the decision has been made to hold these, and our big problem has not been the part that we would normally have to play in an activity of this kind. Our big job is to see that they were properly organized to do the job themselves.

H.M.JR: Now, Ted, you are a very sweet fellow, and you are trying to - here the thing - granted your job is to do the retailers, but Harold is feeling fine - he had a good game of golf yesterday, so it is all right, but Harold is a civil servant, and he knows the Treasury, and he knows that an idea man like yourself, salesman like yourself, salesman like myself - we guys have the idea, but that somebody has got to do the mechanics, and therefore he has got Kilby here who has nothing to do, between financing, and he should say to you, "You have only been here a very short time. Now, before you go any further, be sure that brother Kilby knows all about it." Is that fair?

MR. GRAVES: That is fair.

H.M.JR: Is that fair?

MR. GRAVES: Yes.

H.M.JR: All right.

MR. ODEGARD: I think it is also fair - no, maybe I had better not say it.

H.M.JR: Go ahead.

MR. ODEGARD: I was going to say that I think it is also fair to say that when this proposition came up, and it is much over a month old, Mr. Secretary - you brought it up at least a year ago, or more - that when it was first proposed I remember Mr. Bell and Mr. Kilby saying, and I was inclined to agree with them, that we ought not to move ahead in this field in multiplying issuing agents in retail stores because of not only the risk involved, but I remember Mr. Bell saying, and I say

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again I am inclined to agree with him, that there is something different in issuing a Government security than selling a pair of socks. There is the integrity of the instrument itself to consider. That doesn't mean that we can't multiply issuing agents as fast as we can find responsible people to do it, and to do it right, but it does mean that the idea that you can sell Government bonds the same way that you sell cigarettes or something else - I don't think that that is right.

Now, maybe--

H.M.JR: You don't think we can do it?

MR. ODEGARD: I don't know whether we ought to do it.

MR. BELL: You mean you shouldn't sell a public debt obligation like we sell a piece of merchandise?

MR. ODEGARD: There is more responsibility in it than that.

MR. BELL: Yes, I think we have got to be a little careful; we have got to protect you, Mr. Secretary, as the Secretary of the Treasury, in this.

MR. ODEGARD: I think the Public Debt people resisted it. I just want that in the record.

H.M.JR: Which side are you on?

MR. ODEGARD: I am on your side - on your side.

H.M.JR: You are saying that these people resisted it?

MR. GRAVES: We all were very slow to accept the idea--

MR. BELL: I think that is fair. Let me tell you a little story that happened in the last war.

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H.M.JR: The fellow issued twice too many instead of half too many, I know.

MR. BELL: Almost a near scandal.

H.M.JR: But the Government got too much money instead of too little.

MR. BELL: We got a dollar for every security. It looked on the record like we had issued a lot of duplicate bonds.

H.M.JR: Name was Collins, was it?

MR. BELL: No, sir, Brewer. He had a nice time for a while.

H.M.JR: He had issued twice too many.

MR. BELL: Five years with the investigating committees of Congress - I don't think you want to be put in that position.

H.M.JR: But the Government got the money and didn't lose a cent.

MR. BELL: That is right.

H.M.JR: You told me that one before.

MR. GRAVES: The most dangerous thing to me is that the poor fellow who buys the bond may be in trouble unless it is accurately registered and recorded.

H.M.JR: Well, I am willing to sign the piece of paper to anybody that wants - I will take full responsibility for this myself.

Now that we are through, do you want any more ideas another time? (Laughter)

MR. GRAVES: Sure, we would love to have them.

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H.M.JR: I would love to give them to you.

MR. BELL: Love to have them, but won't accept them all. (Laughter)

H.M.JR: Now, who is going to pick this up?

MR. GRAVES: We will go into a huddle with Dan right away.

H.M.JR: All right.

June 29, 1942.
5:12 p.m.

Randolph
Paul: Hello.

HMJr: Hello.

P: Yeah.

HMJr: Randolph?

P: Yeah.

HMJr: They said you wanted to talk to me.

P: Well, that was before the press conference.

HMJr: Oh. Well, I said nothing on taxes.

P: Yeah. Well, here's what I wanted to talk to you about, they - I thought it might come up. We filed a debt memorandum - a memorandum - an informal memorandum with the Committee at their request in response to a lot of - of questions about what we - what relief we give for debt.

HMJr: Yeah.

P: It was just an informal memorandum, and I agreed with the Committee that it shouldn't be given to the press.

HMJr: Yeah.

P: We did not give it to the press, but the Wall - but I was advised today that the Wall Street Journal had a full copy of it.

HMJr: Yeah.

P: In fact, a little bit of it appeared in this morning's paper - discussing the spendings tax.

HMJr: Yeah.

- 2 -

P: So I was talking with Chic Schwarz and he thought and I thought too that since the Wall Street Journal had it I didn't think it was fair not to give it to all the press.

HMJr: Yeah.

P: So I called ~~my~~ Doughton and Cooper both, and they agreed with that.

HMJr: Yeah.

P: But I was just afraid something would come up in the conference before you knew about it. That's the reason I called you and - not getting you I got Chic right outside your door.

HMJr: Okay. I'll be seeing you in the morning.

P: Okay. Fine.

HMJr: Thank you.

Checked
of 63

June 29, 1942.
5:29 p.m.

HMJr: Hello.
Operator: Mr. McCarty's not in his office. I'm trying to locate him.
HMJr: Thank you.

5:30 p.m.

HMJr: Hello.
Operator: Mr. McCarty. Go ahead.
HMJr: Hello, Mr. McCarty.
Milburn McCarty: Oh yes, sir, Mr. Secretary.
HMJr: Well, I've had about a half an hour battle in your defense.
M: I know that. I heard about it, sir. And I certainly appreciate the way you're backing me on this.
HMJr: Well....
M: I'm only concerned that you and - bother you or anyone else over there with it at all.
HMJr: Well, it's my concern because after all I am the boss.
M: Yes, sir.
HMJr: Let me ask you a question or two.
M: All right.
HMJr: Have you had any communication with your draft board?
M: We sent them, after I talked with Mr. Graves and after I - I told Mr. Graves I would remain here rather than to take the Navy commission, why then Mr. Thompson filled out the draft deferment blank and sent it to the draft board. I've heard nothing from them since then at all.

- 2 -

HMJr: Mr. Thompson sent it in?

M: Yes, sir. You know, it was one of the regular blanks which explained that I was ready to take a Navy commission, that they wanted me over there, but that in place of doing that, that you wanted - or that the Treasury wanted me to remain here, and that - that's what I wanted to do.

HMJr: Now will you wait a minute, because Mr. Thompson's here. Let me ask him a minute.

M: All right, sir.

HMJr: (Talks aside)

Mr. Thompson says he has no recollection of that.

M: Oh, well that was the regular blank which is filled out to send - Mr. Graves took it in to you, as I remember, and you o.k.'d it. I know - Mr. Callahan I think sent it over to you or sent it over to Mr. Graves along with the letter which was to go to Secretary Knox from Mr. Thompson, and they were both, I believe, signed at the same time and went on in. Mr. Thompson handled both of them.

HMJr: What does this blank ask for?

M: Maybe I have a copy of it here.

HMJr: Do you think....

M: It asked, as I remember - it filled out what I was doing, and the fact that I was ready to go into the Navy but that I was at a job here which I was familiar with and a job which involved publicity and advertising experience which took a certain number of years to acquire and that I'd built up my own department and that we were moving into an intensified part of the campaign, and that in place of going to the Navy you wanted - or the Treasury wanted me to stay here, and whether that was supposed to be a deferment or not I forget.

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HMJr: Do you know how long it asked for deferment?

M: Oh yes, I think six months. Because I think that is the rule in cases like that. But Mr. Thompson, I'm sure, would have a record of it, because he was the one who handled it.

HMJr: Have you any copy of it?

M: I believe I do, sir.

HMJr: How long will it take you to find it?

M: It will take me about two minutes.

HMJr: Well, supposing you find it and bring it over here, will you?

M: All right, sir, I'll do that and I'll come right over with it.

HMJr: Over to my office.

M: All right, surely. Bye-bye.

June 29, 1942
5:35 p.m.

DEFERMENTS (Milburn McCarty, Jr.)

Present: Mr. Graves
Mr. Kuhn
Mr. Gaston
Mr. Thompson
Mr. McCarty
Mr. Schwarz
Mrs. Klotz
Miss Cullen
Miss Austin

H.M.JR: I was just working on the McCarty case.

MR. GRAVES: Ferdie was just saying--

MR. KUHN: ... what has happened since I first saw him.

MR. THOMPSON: My records here, Mr. Secretary, show that on McCarty. (File handed to the Secretary.)

H.M.JR: This is what he says. I just called him up. I decided I wouldn't be stupid about this thing, and I asked him this question - I said, "Have you had any communication with your draft board?" He hesitated a minute. He says, "Only this - " he said, "Mr. Graves asked Mr. Thompson to send in for a six months' deferment, which you did, and you O.K.'d it," which, if true, is a pretty kettle of fish.

MR. GRAVES: I think that is right.

MR. GASTON: He said that along with the request of Knox there went a request to the draft board on the regular form for six months' deferment.

MR. GRAVES: I think it was the other fellow, Barrett.

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MR. KUHN: Barrett was in on this thing, and Barrett was classified as 3-A. My understanding was that you had asked for a postponement of a commission in the case of McCarty.

MR. GRAVES: Also in the case of Barrett.

MR. KUHN: Barrett later turned out to be not involved in the draft.

MR. GRAVES: I think that is right. I think we did ask for a deferment.

MR. GASTON: From the draft?

MR. KUHN: From the Navy.

MR. GASTON: The question is on the draft board.

H.M.JR: The story here - the story that has been told me and the story I told the press was that we asked the draft board, knowing the reason - he was such a wonderful boy that he was willing to give up his commission--

MR. GRAVES: That would be so even if we asked for the six months' deferment.

H.M.JR: Yes, but I said I never asked for any deferment - I never asked for anybody in 1-A that I can remember.

MR. KUHN: The only thing I knew about from Norman and from McCarty was the postponement of the commission.

MR. THOMPSON: That is all my record shows there. I don't have any record here of any--

H.M.JR: Who does these for you - I mean, what girl does these for you?

MR. THOMPSON: Miss Cullen.

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H.M.JR: Has she gone?

MR. THOMPSON: No. She is my secretary.

H.M.JR: Do you mind if I ask her in?

MR. THOMPSON: No.

MR. KUHN: Norman, wasn't there a letter a long time ago sent over by Callahan requesting a deferment for McCarty and Barrett, which was torn up because the Secretary wouldn't approve it? It was long before this case came up.

MR. THOMPSON: I don't recall that.

MR. KUHN: I sent it in to you, and you brought it back.

H.M.JR: Well, let's get - when I ask for a deferment, isn't there a record?

MR. THOMPSON: Yes, I have a complete record here by offices. All I have here is this Melcher case that you rejected the other day, and then the copies in the Barrett, and in the--

(Miss Cullen entered the conference.)

H.M.JR: Miss Cullen, just sit down a minute. We are trying to check your memory against the records. What is your recollection - we are all puzzled here in regard to Mr. McCarty and his draft, and so forth - just from memory?

MISS CULLEN: That was the day I was away, and Miss Austin was the one that handled that.

H.M.JR: Miss Austin? Is she in?

MR. THOMPSON: I had a substitute girl.

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H.M.JR: Has she left?

MISS CULLEN: No, she is still here.

H.M.JR: Would you send her in?

MISS CULLEN: I was in New York that week end.

H.M.JR: So she handled it?

MISS CULLEN: Yes. There were two cases, McCarty and the Ross case.

MR. KUHN: Ross Barrett.

MISS CULLEN: Yes, Ross Barrett.

H.M.JR: And she handled those?

MISS CULLEN: Both of those.

H.M.JR: Send her in. Tell her not to be frightened - I am just trying to get her memory. He says he has a copy of the request for the deferment. Do you think it went through?

(Miss Cullen left the conference.)

MR. GRAVES: I think--

MR. THOMPSON: I don't keep copies of those requests. You see, they are on these forms; and if they go forward they are executed and sent forward, and then I have them put on a record like that. That is the form; that is the one we have for Melcher, which was disapproved. If I executed that form, then it would be listed there.

H.M.JR: Doesn't the administrative man over in War Bonds - doesn't he get in on this at all?

MR. GRAVES: He might. Shall I call him and ask what he knows?

H.M.JR: Do it right from here. Do you mind if I listen?

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MR. GRAVES: No.

(Mr. Graves held a telephone conversation with Mr. Charles Adams, as follows:

June 29, 1942.
5:42 p.m.

Operator: Mr. Adams.

Harold Graves: Hello, Charlie.

Charles Adams: Yes, sir. How are you, sir?

G: Fine, thank you. How are you?

A: Very good, thanks.

G: Charlie, do you remember whether we asked Mr. McCarty's draft board for a six months' deferment?

A: No, sir, we didn't.

G: We did not? Are you positive, Charlie?

A: Yes, sir, as far as anything official is concerned, Mr. Graves, I am absolutely positive on that unless it happened while I was away, and I've checked on that and I understand no.

G: You checked with Mr. McDonald, I assume.

A: That's right.

G: Check again with Mr. McDonald and Mr. Sloan....

A: I will.

G:and call me back as quick as you can.

A: I'll call you back in just a minute.

G: Thank you, Charlie.

A: Okay, sir.

G: Goodbye.

A: Goodbye.

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MR. KUHN: I don't think it ever went out.

H.M.JR: This would be a nice kettle of fish.

(Miss Austin entered the conference.)

H.M.JR: Can you remember what happened when Mr. McCarty's application came in in connection with his draft? They said you handled it on that day. We are all kind of confused; did you handle it?

MISS AUSTIN: I know there was a letter prepared for Mr. Thompson's signature for a Mr. McCarty and somebody else.

H.M.JR: Ross Barrett?

MISS AUSTIN: That is right, and Mr. Thompson was in here, I think; he came back and gave me a note to mark "approved by the Secretary" and to send the letter.

H.M.JR: Do you recall who the letter was to?

MISS AUSTIN: I think it was to Secretary Knox.

H.M.JR: Right. Now, did we do anything about the draft board in connection with him?

MISS AUSTIN: We had a form forty-two, or forty-two-A, I think it was. I know I helped fill that out for Mr. Thompson's signature, and the back of that, I believe--

H.M.JR: That went--

MISS AUSTIN: That went - I don't know what happened there.

MR. THOMPSON: The procedure is, if I execute it, it goes back to the originating office, which would be Defense Savings.

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MR. GASTON: There was such a one in the case of McCarty, or the case of Barrett?

MISS AUSTIN: It was McCarty, I believe.

MR. THOMPSON: There are so many of these things floating through.

MISS AUSTIN: I haven't seen the file.

MR. THOMPSON: I couldn't say whether I did or didn't sign it.

H.M.JR: Look at the file. Wouldn't there be some record in Mr. Thompson's office?

MISS AUSTIN: This is our file that we keep.

H.M.JR: What happens - supposing you had made one out, what would be the procedure, Norman?

MR. THOMPSON: It would go to Miss Cullen, and they make a record here and put it under the particular fellow concerned.

H.M.JR: Would it go back to War Savings?

MR. GRAVES: You mean, leave no record here?

MR. THOMPSON: No record other than just a type-written record that I had executed that.

H.M.JR: I mean, would it go back to War Savings?

MR. THOMPSON: It would go back to War Savings.

H.M.JR: And from War Savings where?

MR. THOMPSON: It would go to the individual, Mr. McCarty, and he would mail it in.

H.M.JR: Wouldn't the chances be that Mr. Adams over there would have some record?

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MR. THOMPSON: Yes, it would go from us to him.

MR. GRAVES: Normally he would, I think. There is a chance these might have been - I remember it was a matter of hours almost.

MR. THOMPSON: Remember, you came in with the papers to me.

MR. GRAVES: Those were the letters to the Secretary of War and the Secretary of Navy?

MR. THOMPSON: To sign two letters and the form. I can't swear to it; I may have signed it, or I may not.

MISS AUSTIN: There was a form in one of those cases to go in to Mr. Graves' office. I don't know whether it was McCarty's or Barrett's.

MR. GRAVES: Let me ask my people if they have a record of it. Do you have the date or approximate date?

MR. THOMPSON: May 1st.

(Mr. Graves left the conference temporarily.)

(The Secretary held a telephone conversation with Mr. Charles Adams as follows:)

Charles
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75

June 29, 1942.
5:46 p.m.

HMJr: Hello.

Operator: Mr. Adams.

HMJr: Hello.

Charles Adams: Mr. Secretary?

HMJr: Yes.

A: Mr. Graves asked me to call....

HMJr: I know, he's just - I'd like to know - but he just stepped out. What have you found out?

A: No, sir, we did not.

HMJr: Did not?

A: I've - I've checked with Mr. McDonald in the personnel division. Mr. Sloan has gone, but I am positive, Mr. Secretary, that we did not.

HMJr: Well now, here's the thing. I don't know if you know about all this mix-up about this man.

A: Yes, sir, I do.

HMJr: Well, he just made a statement to me a few minutes ago - McCarty - that we did ask for six months' deferment.

A: We did?

HMJr: That's what he claims.

A: Well, Mr. Secretary, there must be some mistake on it. I'll certainly check it down further, but....

HMJr: Well, this - this woman reporter is coming in at ten-thirty tomorrow morning, and I've told her that she could face McCarty and me.

A: Yes, sir.

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HMJr: Now McCarty claims we asked for six months' deferment.

A: Well, Mr. Secretary, I think there must be some mistake on that, but of course it would have come through my office or Mr. Sloan's. Now he's not here. As I said, I haven't been able to see him. But there's nothing that was ever in my file except that letter that was written to the Secretary of the Navy.

HMJr: Well, that's the position I took at my press conference today, and she and I had it hot and heavy for twenty minutes.

A: I see.

HMJr: And I took the position that we didn't ask the draft board for anything for this boy.

A: Well, I think you're absolutely right, Mr. Secretary, and as I said, I will certainly check this in detail and I will call Mr. Graves and let him know the first thing in the morning.

HMJr: Now just a minute. I want you to tell what you told me to Mr. Graves. I'll have you switched.

A: All right, sir.

HMJr: But what time does Sloan come down in the morning?

A: Well, I thought that what I would do - I don't - imagine he's on the way home now but I would call him tonight and check this again with him.

HMJr: Yeah.

A: If I don't I'll get him the first thing in the morning. He comes down early, Mr. Secretary.

HMJr: Just a moment, please.

A: All right, sir.

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Operator: Operator.

HMJr: Will you give Mr. Adams to Mr. Graves, who's
in his own office?

Operator: Yes, indeed.

HMJr: Thank you.

Operator: All right.

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(Mr. McCarty entered the conference.)

H.M.JR: Now what have you got, McCarty, on this thing?

MR. McCARTY: I looked this up. I am glad we have a good filing system over there.

(Mr. McCarty handed copy of draft deferment request to the Secretary.)

MR. McCARTY: Here it is, sir.

MR. THOMPSON: I remember Harold brought the papers in to sign.

H.M.JR: We have got it here, Harold.

MR. GRAVES: Have you?

H.M.JR: Yes. Look-- (Examining deferment request)

MR. GRAVES: All of us are on there.

H.M.JR: Yes. Isn't that Norman?

MR. GRAVES: That is Norman.

H.M.JR: And there is me.

MR. GRAVES: There is me.

MR. McCARTY: I particularly read the initials of yours (The Secretary) because it was the first time I had ever seen them.

MR. THOMPSON: My office, due to Miss Cullen being away--

MR. GRAVES: I recollect the discussions that we had about it, and that was part of our understanding, that that would be done.

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MR. McCARTY: Our main concern at the time, I remember - mine was letting the Navy down. I had told them I would come, I had put in my papers, and I had said, "Yes, I am ready to go," and they had to have a slip which released me from here. I got my superior, Mr. Callahan, to sign that, and so that was my concern at the time - what the Navy would think, would I be completely on the black list, and all, and this was just a part of it which was routine.

MR. GRAVES: Do you remember whether you brought that to me personally, or did somebody bring it?

MR. McCARTY: Mr. Callahan might have brought it to you or even sent it to you, because, remember, in that office that morning we talked about this, and then you asked me if I would stay, and I said, "Yes, I will." You said, "We need to do two things, one with the Navy and the other is to find out what these blanks are." Someone had seen them around. Someone got that for me and gave it to me.

H.M.JR: Can you tell how long we asked for?

MR. THOMPSON: We asked for six months.

MR. GRAVES: Where was this document?

MR. McCARTY: It was in my files. This is a rough, of course. Now Mr. Callahan may have changed that, or Mr. Graves might have, I don't know. Mr. Callahan put it together, though, and we kept a rough draft of it.

MR. GASTON: The original went to the draft board, didn't it?

MR. McCARTY: Yes, sir, the original which was--

MR. GASTON: Who sent it, Mr. Adams?

MR. McCARTY: No, it was sent back to me, and I mailed it.

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MR. GASTON: You mailed it yourself?

MR. McCARTY: I mailed it myself; it was sent back to me with the seal on, with the signature and all.

MR. GASTON: It wouldn't go to Adams in Personnel in War Savings at all?

MR. McCARTY: No, it was sent to me.

H.M.JR: I don't know how it ever got by me. This is the only 1-A I have ever done. Do you mind waiting outside a minute, please?

(Mr. McCarty left the conference.)

H.M.JR: I don't see how it ever got by me. Somebody must have high-pressured me. I never would ask for a deferment on this thing.

MR. THOMPSON: It was probably on the basis of having asked for the postponement of the commission, that this would go along with that.

MR. GRAVES: The two things hung together. Here was this boy on the verge of having two things happen to him. He had a commission almost in his pocket; I think it was delivered to him, wasn't it, the next day? He also was within a short time of being reached in the draft, and he wanted to stay on our work. There would certainly have been no point in killing that commission and letting the draft thing go because he would have been reached within a few days. If one thing was to be done, they both would have had to be done, in order to--

H.M.JR: Yes, but it is unfortunate. Well now, Ferdie, you talked to the boy - did he tell you this had happened?

MR. KUHN: All I had heard was that this was not a question of draft deferment; it was a question of

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the deferment of a commission. That was Norman's understanding, too, wasn't it? You remember I came in to see you.

MR. THOMPSON: Unfortunately Miss Cullen was away.

H.M.JR: Yes, but before you saw this reporter, didn't you interview McCarty?

MR. KUHN: Sure, I talked to him, and he talked in terms of this commission.

H.M.JR: Did he tell you he had had a deferment?

MR. KUHN: No, or I wouldn't have said that it was not a draft deferment matter at all.

H.M.JR: I called him up myself and asked him. I called him up myself.

MR. KUHN: I don't think he was trying to conceal - we were discussing the Naval commission at that time.

H.M.JR: Yes, but--

MRS. KLOTZ: You didn't have the files.

H.M.JR: ... in preparing this stuff and everything else, you didn't do a very good repertorial job in interviewing him.

MR. KUHN: Well, I took it from what had been said to me that this was not a draft deferment matter.

H.M.JR: But where did you get that, Ferdie?

MR. KUHN: I went to Norman about it.

MR. THOMPSON: I talked to McCarty yesterday.

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MR. KUHN: We looked up the record, what you had in your files.

MR. THOMPSON: I had a girl from the pool that day, and it just--

H.M.JR: Well, don't feel sick about it; we are all human. I mean, don't let it upset you.

MR. THOMPSON: It is the one case that shouldn't have happened.

H.M.JR: Don't let it upset you; we all make mistakes, so relax. After all, you have got to make a mistake, too; otherwise you would be having wings.

MR. THOMPSON: It is the worst case to have it happen on.

H.M.JR: Don't take it too hard.

What made you come back?

MRS. KLOTZ: Well, I came back - I passed through, and they said you were still here, so I came in. I felt something went wrong or you wouldn't be here.

H.M.JR: I just thought - I was going to ask this boy, because this woman--

MR. THOMPSON: I talked to McCarty yesterday and asked him what his draft status was. He said he had an original A-1 and he hadn't heard anything further from the board.

MR. KUHN: He didn't say anything about it?

MR. THOMPSON: So far as he was concerned, he was subject to draft. He had no notice from the board;

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apparently he has had no word from the board that he has been deferred.

MRS. KLOTZ: Is this an indefinite deferment?

MR. THOMPSON: No, six months.

H.M.JR: To show you - we just spoke to Adams, who is the administrative man over at War Savings, and he said that there was no request - there was none.

MRS. KLOTZ: I don't understand how you O.K.'d it.

H.M.JR: I don't either; it is the only one that I have ever done.

MR. GASTON: It didn't go back to the man - it should have gone to the man in Personnel in Savings. It went directly to McCarty.

H.M.JR: It is unbelievable.

MR. GASTON: You had better catch up with that press conference as quick as you can.

MRS. KLOTZ: I bet - that is April--

H.M.JR: 4/30.

MR. GASTON: I think we had better catch up with that press conference - the people who were at the press conference, and tell them that.

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H.M.JR: Tell Chick Schwarz to come down. I hope he is still there.

MR. KUHN: When was the letter written to Knox?

MR. GRAVES: About that day that--

H.M.JR: Have you got that letter? It is April 29.

I think in decency to that woman I ought to call her up myself.

MR. GASTON: Yes, I think so.

H.M.JR: What is her name?

MR. GASTON: Before she writes anything tonight for tomorrow, you know.

MR. KUHN: Martha Strayer.

H.M.JR: We are in a nice pickle if we find we have asked for a deferment on this McCarty.

MR. GASTON: Better catch up with the rest of them, too, if you can.

H.M.JR: When did you see this woman?

MR. KUHN: Last week, about Thursday.

H.M.JR: I can't understand why somebody didn't ask the boy himself. I called him up. I said, "Any communication between you?" He said, "Yes, there was a deferment."

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

June 29, 1942.
6:00 p.m.

HMJr: Hello.

Operator: Miss Strayer.

HMJr: Hello.

Operator: Go ahead.

HMJr: Miss Strayer.

Martha Strayer: Yes, Mr. Secretary.

HMJr: This is Henry Morgenthau.

S: Yes.

HMJr: Miss Strayer, I find that I was misinformed and, therefore, I've misinformed you. Hello.

S: Yes.

HMJr: The Treasury did ask for a six months - I - we - I can't find out in the records, but at least we did ask for a deferment for McCarty. I don't know whether it was three months or six months. I've been unable to find out.

S: Uh huh.

HMJr: But we did ask for a deferment, and I wanted to tell you that personally.

S: Uh huh. Well, I appreciate your calling, Mr. Morgenthau.

HMJr: And I've just found it out this second....

S: Uh huh.

HMJr:and....

S: Well, as I told you, Mr. Morgenthau, we have nothing against Mr. McCarty; we feel very strongly about the draft; we are - we were certainly misled, and by Mr. McCarty himself, as to the situation.

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HMJr: Well, I've just begun to go into it myself. I mean up to the time that I saw you, I - I did not, and I've been going into it and I now find that we did ask for it, and as far as feeling strong about the draft is concerned, I don't think anybody feels any stronger about it than I do.

S: Well, so I've heard about you, Mr. Morgenthau.

HMJr: Pardon?

S: So I have always heard about you.

HMJr: And - our records show that in the whole time since we've had the draft we've had thirteen cases - fifteen cases. Hello.

S: Yes.

HMJr: And how many are there out now? (Talks aside) Seven of the fifteen are outstanding. Hello.

S: Yes.

HMJr: So that's for the whole 80,000 employees. But none of them have been asked for beyond six months.

S: Well, we were told positively that no - there was no question of deferment involved, and we were told that - both sources of information - although it did not - and as I happened to know how the draft functions, I've followed it right from the first, I know that when a case comes up for occupational deferment, somebody has requested it and the - the request has been supported by the employer because....

HMJr: Well....

S:if it's otherwise, it's not considered.

HMJr: Well, the Treasury did ask for it, and as - the minute I found out I wanted to let you know myself, but....

S: Well, of course....

HMJr: You're not....

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S: Well, of course it doesn't quite overcome the things you said about our paper at that press conference.

HMJr: Pardon?

S: It does not make up for the things you said about our paper at that press conference.

HMJr: That's true. I think I owe you an apology. Do you want me to write one?

S: Well, I really do think you owe us an apology, Mr. Morgenthau. We are not, as I have tried to make it plain - Mr. McCarty - McCarty means nothing to us....

HMJr: Yeah.

S: and we - in the one case when we thought it was supported by facts, we simply abandoned it and dropped it. But we do feel that this thing needs some policing. We have felt right along, and when we hear of a case which we think is not justified, we are quite willing to go to battle on it and we do not....

HMJr: Well, would it....

S:make statements of the kind that Mr. McCarty laid to us.

HMJr: Yeah, well would it be agreeable to you if I - if I do it at my next press conference?

S: Yes, it would be very nice if you did it at the next press conference.

HMJr: Well, I'll be very glad to do it because I'm only human and I've got to depend upon other people, and as soon as I went into it myself I found that I had been misinformed. But if you'll come to the next press conference, I assure you I'll make you a graceful apology.

S: And that will be when, Mr. Morgenthau?

HMJr: Thursday morning at ten-thirty.

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S: And in the meanwhile is the thing tomorrow with Mr. McCarty off?

HMJr: Ah....

S: I assure you that every statement I have made was made to me.

HMJr: Yes - I haven't finished going into this, but I just - just learned it this second so I wanted to call you, and I'm going to tell the other newspaper men who were here....

S: Uh huh.

HMJr: Hello.

S: Yes.

HMJr:that I was wrong.

S: Well, I shall certainly appreciate that, Mr. Secretary.

HMJr: And I tell you, would you mind doing this, calling up at ten tomorrow morning?

S: Yes, I'll be glad to.

HMJr: And I'll let you know whether it's on or off.

S: Okay.

HMJr: Thank you.

S: And thank you.

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H.M.JR: You had better get busy and tell them that I was misinformed, and that we did ask for a - we might as well go out on the end of a limb and say six months. We certainly didn't ask for more than six months.

MR. THOMPSON: You can't ask for more.

MR. SCHWARZ: Do the records show the date? If it was very recent that might ameliorate the situation.

MR. KUHN: April.

H.M.JR: No, I would say what I said to her, that I was misinformed, and I find that we did ask for a deferment at the same time we wrote to Secretary Knox, and I was misinformed.

MRS. KLOTZ: Why did he turn down the commission? That is what I don't understand.

H.M.JR: The thing takes on an entirely different light. He would only postpone the commission if we would ask for a deferment, which makes the thing entirely different, and how I ever happened to fall into this trap I don't know.

MR. SCHWARZ: If you will excuse me, I think I ought to catch those boys.

H.M.JR: Go on. But somebody - as I say, I must have been weak-minded that day, soft-brained.

MRS.KLOTZ: That must have been, Mr. Morgenthau, in the very beginning.

H.M.JR: No, this is--

MRS. KLOTZ: April.

MR. GASTON: You probably signed that thinking it was a part of the same thing, that is, completing the deal with the Navy.

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H.M.JR: Graves is on here, Norman is on here. Why we didn't have a meeting - why you (Gaston) weren't here I don't know. Was there a rush about it or something?

MR. GRAVES: There was.

MR. THOMPSON: Yes, Mr. Graves came in to me with papers on Barrett's and McCarty's cases.

MR. GRAVES: The boys had their commissions. I think actually they were delivered to them the next day - it was that close a thing - from the War and Navy Departments, that is, Barrett in the War Department and McCarty in the Navy. They both were to be assigned to work much less important in those departments than they were doing here, but of the same kind.

MR. KUHN: War Savings work?

MR. GRAVES: I think so, and it seemed--

H.M.JR: Well, the fact remains that a thirty-year-old boy, 1-A, shouldn't be here in War Bonds. Now, what are we going to do about it? He should be in the Army. I mean, that is the long and the short of it.

MR. GRAVES: He probably ought to be in the Army with a gun and not with a pen.

H.M.JR: That I can't help, but I would like to write a letter to the draft board and simply say to Local Board Number 14, 331 Madison Avenue - I would like to get a letter off and simply say that inadvertently, or something or other, this request was made. I would like to withdraw it.

MR. GRAVES: If we do this, in my opinion we ought also to go to the Secretary of the Navy.

MR. GASTON: Yes, you would have to do that.

MR. GRAVES: And explain to him just what has happened, because this boy, I am convinced, has acted in perfectly good faith throughout, and certainly we did deprive him

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of an opportunity to get a commission, that he gave up.

H.M.JR: Well, Harold, in my whole life - on the draft I have never made a bargain with anybody. Gawd, I have been through this thing - I don't want to mention any names - with a lot of other people, who have told me again and again, "If you will ask for a deferment, I will stay here" - holding a pistol to my head - "And if you won't I am going to take a commission." I have said, "Go ahead and take a commission." You have heard me rant on this thing over and over again.

MR. GRAVES: Well, I agree with that. All I was saying, to be fair, if we write to the draft board we ought to go to the Navy Department.

H.M.JR: There is another way to handle it. Let him go over tomorrow morning and try to get into the Navy; then I don't have to do anything.

MR. GRAVES: Well, it was we who asked the Navy to withhold his commission.

H.M.JR: I got that thing - Gawd, look at my - I haven't had such an argument at my press conference in my whole history. I was going on the assumption that - what a grand boy, he should be complimented, here he was willing to take his chances of being drafted and voluntarily gave up his commission and he may be drafted tomorrow, and I said he should be complimented instead of being censured.

MR. GRAVES: I think that is true, except that he will be drafted four months from now instead of tomorrow.

H.M.JR: Except that he drove a bargain and I have refused to bargain with anybody.

MR. GRAVES: No, I don't think he drove a bargain.

H.M.JR: Well, anyway, Harold, this is the only case of its kind that exists, unless there are some

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others that I don't know about.

MR. GRAVES: No, the boy didn't drive a bargain.

H.M.JR: Again, Norman, I don't want to be - when this anonymous letter came in I gave it to you, you see, and I told Harold about it, and somebody over in War Bonds knows that this boy has been deferred.

MR. GRAVES: Callahan, probably.

H.M.JR: But I mean this woman who is writing these anonymous letters to Tydings and me, she knew. But in getting the thing ready for me a poor job was done. Norman's secretary wasn't there the day it happened, you see, so he has had no record about how I ever signed that.

MRS. KLOTZ: I remember it sort of vaguely, that it was one of the first ones that he did.

(The Secretary left the conference temporarily.)

MRS. KLOTZ: Now, I don't know, you look back on your record and you will find it was in the very, very beginning.

MR. KUHN: Mrs. Klotz, it was done very soon after the interdepartmental agreement was made, about six months - before that the Secretary had done none at all.

MRS. KLOTZ: That is right. I remember the name as being one of the first ones. After that he became more hard-boiled as time went on. We didn't give any.

MR. KUHN: I didn't remember this as a draft thing. I thought it was a commission thing.

MRS. KLOTZ: At that time--

MR. KUHN: I didn't remember there was a request to any draft board.

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MRS. KLOTZ: Yes, we wouldn't have done it for a commission at the time.

MR. KUHN: The letter is there asking for a postponement.

MRS. KLOTZ: Yes, to the Secretary of the Navy,

MR. KUHN: I remember that Callahan and all the rest of us were very anxious to keep McCarty at the time, but I thought of it as a commission - that the Navy was about to grab this boy.

MR. GRAVES: Of course that is the way it was, Ferdie, the draft thing was secondary and in the background. If we hadn't done anything the boy would now be in the Navy.

MR. KUHN: McCarty got this notification from his draft board saying he must be ready at such and such a time. He didn't then come around and ask for a deferment. It was the Navy thing that prompted it.

MRS. KLOTZ: He really didn't do anything.

MR. KUHN: No.

H.M.JR: Would this be fair to this boy, because he has got lousy publicity - could I suggest to him that tomorrow morning he walk over to the Navy and try to get his commission and go in?

MR. GASTON: I would give him a letter.

MRS. KLOTZ: Why do you have to do it?

H.M.JR: Well, but then I don't have to write his draft board or anything else.

MR. GASTON: You would have to withdraw your request to Knox for his deferment of his accepting a commission, wouldn't you?

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MR. GRAVES: I think that some official in the Treasury ought to explain to whoever it is over there what happened in this case, exactly what has happened, so that - I mean, because if McCarty goes over there on his own he may be told, "Apparently something is wrong about this and we don't want you."

H.M.JR: Well, would you and Norman be willing, the two of you, to go over?

MR. THOMPSON: I think we ought to see Commander Hayes over there in Knox's office.

H.M.JR: Norman handled it. If you and Norman will go over there, provided that he is willing--

MR. GRAVES: Yes, of course.

H.M.JR: Because the thing I am afraid of now is the Navy won't take him.

MR. GRAVES: So am I. I would hate to have that happen.

H.M.JR: Well, I think that that is the first thing to do, if he is willing, but then if that is the case we don't have to do anything about it.

MR. GRAVES: That is right.

MR. THOMPSON: I think that is the thing to do; we could see Commander Hayes the first thing in the morning.

H.M.JR: You have got to ask his permission.

MRS. KLOTZ: I don't know what else he would want - he would be thrilled to death.

H.M.JR: Gosh, this was handled badly.

MR. GRAVES: I can take this up, if you would like

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me to, with Mr. McCarty.

H.M.JR: No, no. Listen, papa is going to handle it. It has been messed badly now, and I had better handle it.

You see, this is what you said, Ferdie.

MR. KUHN: About not being--

H.M.JR: "Verification on the military side came from Mr. Kuhn, assistant to Mr. Morgenthau.

"'No draft deferment is involved,' he emphasized. 'It is true Mr. McCarty was going in the Navy. Oh, no, he didn't apply. They wanted to give a commission because of his valuable work here. But because the bond program is going into its biggest phase now and it would be hard to replace him immediately, Mr. Morgenthau asked that the commission be held up for the time.'

"The News found Mr. McCarty's draft board to ascertain Mr. McCarty's draft status from the official record. This is the reply:

"Milburn McCarty," and so forth.

"According to the Selective Service headquarters, McCarty's file is now up before the Occupational Deferment Division, where it is being considered. This consideration usually takes two or three days, and no material is allowed to be released until the division makes its report."

I will have him in.

(Discussion off the record)

(Mr. McCarty entered the conference.)

H.M.JR: Sit down, McCarty. I called up this woman reporter and told her that I had been misinformed and

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that the Treasury had asked for a deferment for you.

MR. McCARTY: You told her this afternoon?

H.M.JR: I just told her before--

MR. KUHN: We told her before that no question of draft deferment was involved, that this was a commission affair, as I told you on the phone.

MR. McCARTY: I didn't know that.

H.M.JR: What didn't you know?

MR. McCARTY: I didn't know what you - I was a little - when you (Kuhn) talked to me this afternoon and I asked you what I should say tomorrow morning when we met, and all, I realized that we weren't quite getting together. I didn't understand. You said there wouldn't be any problem, that there wasn't anything in the draft about it, and I was puzzled about it. You didn't know at all, sir, that the deferment had been O.K.'d?

H.M.JR: Well, Norman, you talk up.

MR. THOMPSON: No. My records, unfortunately, didn't show the picture. This thing had gone back to your office and you got it instead of it being in my files. I keep all these approvals in my file.

MR. McCARTY: Because I was sure the other day, when you, Mr. Kuhn - when I talked to you and you had just seen Mr. Thompson and you said you had all the papers, you had checked up on it and all, so I thought you had the whole story then.

H.M.JR: Well, I can't tell the press an untruth.

MR. McCARTY: No, certainly not.

H.M.JR: So, therefore, I called her up and told

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her that I was in error and that the Treasury had asked for a deferment. Schwarz went to tell the other people, because the only paper we have got is the paper which you have just given me.

MR. McCARTY: That is the only one you have?

MR. THOMPSON: That is the only record.

MR. McCARTY: I thought all of you knew all of the time that that other had gone through because of course it came over and was O.K.'d.

H.M.JR: The initials are all on it. We all should have known it.

MR. McCARTY: And someone gave it back to me and told me to hold it, so I put this in the file with those other letters, the one that went to the Secretary of the Navy and the one that came back. When you asked me this afternoon about this I had it looked up and pulled it out.

H.M.JR: Even Mr. Adams over in War Bonds swore up and down to me two minutes ago that we had not asked for a deferment - swore up and down.

MR. McCARTY: I thought all of you knew it all the time.

MR. THOMPSON: It seems to me when those letters were signed you came back to me with this other paper, which had been O.K.'d, to get this signed, and this was part of it and I signed it.

MR. GRAVES: I think it was a subsequent transaction. That is my reaction, Norman, that the two letters weren't done at one time. The draft deferment was a little later.

H.M.JR: This is my suggestion to you, and you sleep over it. You see - come in tomorrow morning and talk with Mr. Graves about it the first thing in the morning. My suggestion to you, in view of this very unfortunate

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publicity, for your sake, is that you let Mr. Thompson and Mr. Graves go over tomorrow morning to the office of the Secretary of the Navy and suggest that they swear you in on this commission.

MR. McCARTY: Lay me in on it?

H.M.JR: Swear you in, take you into the Navy.

MR. McCARTY: I don't like to be looking for a commission - if it comes up after this publicity - when I finished reading the article today I was so mad and I said, "I wish I had taken the commission before if I am going to have something like this now," and I was saying to myself, "Well, if this is going to happen again, if it will be recurring at all I am going out and enlist. I don't want a commission. I don't want to be here where the Treasury has to bother about it and has to worry about things like this." But I said then, "I have got to realize I am in the Government here and I am in a fish bowl and people are going to be taking cracks at me once in a while, and I am going to be tough-skinned about it and just not let it bother me any more than I can help."

H.M.JR: You see, when I got this anonymous letter from somebody in War Bonds, a copy of what--

MR. McCARTY: You got one too?

H.M.JR: She sent me a copy of what she sent to Tydings and I turned it over to Norman Thompson that day, and I felt right straight along - she sent me what she sent to Senator Tydings, then this man Riley ran something about it, and I have felt right straight along that the situation was that you postponed taking your commission and was taking your chances with the draft board. There was no one around here, connected with me, that knew there had been this deferment until I called you on the phone a few minutes ago.

MR. McCARTY: I thought every one of you knew it because that was one of the things that had to be done, and when you told me, Ferdie, you had just seen

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Mr. Thompson and gotten all the papers and you had the information, I thought it was O.K.

Then I knew Mr. Kuhn came to see you. I thought, "The Secretary is reminded of it so they have all the papers and know what the situation is." I had no idea you were going to tell the press there was no deferment.

MR. KUHN: Mac, remember that I also consulted with you immediately after seeing Martha Strayer the first time. I told you what I had told her and I also consulted you this morning about what was going to be said at the press conference, and then again afterwards I told you what the Secretary had said, and you never told me that a draft deferment had been requested.

MR. McCARTY: I thought you knew it all the time, and I realized there were one or two things said - you said, "You needn't worry about that." Well, I wondered why because of course my commission was all ready, I was ready to go over, and it was just - it was telling the draft board, and that. I wasn't going to take it because the Treasury wanted me to stay here, and I didn't know that all of you didn't know that.

H.M.JR: You see, Kuhn - in this article she quotes Kuhn, in which she says that--

MR. KUHN: There was no draft deferment involved.

H.M.JR: Yes.

MR. THOMPSON: That is what I had told you. I checked my records and had Charlie Adams over and went over the Tydings letter with him. He told me there was no deferment, which confirmed what my records showed.

MR. McCARTY: It was at the time that the draft deferment wasn't an important part of it. It was either the Navy or the Treasury for me.

H.M.JR: Did you read this article?

MR. McCARTY: I read it, yes, sir.

H.M.JR: When it said no draft deferment was involved, quoting Kuhn, you see--

MR. McCARTY: She mixed up so many things in it. She said I was given a going-away party, which was one thing I was disappointed at, too, because I never got one. But she twisted my remarks around.

H.M.JR: I can see, knowing that you had the deferment you would have a perfect right to think everybody knew it.

MR. McCARTY: I mean with O.K.'s, your initials, and when Mr. Kuhn went in to talk to Mr. Thompson and said, "I have all your papers." - because the draft deferment at the time was something that was just a routine; it was either the Navy or the Treasury for me. I was ready to go to the Navy and Mr. Graves asked me if, in place of accepting this commission - I was going to be due within a week - if I wouldn't, in place of that, take my chances, because after you - this was only for six months and I could have gone right into the Navy and it was a very fine commission and all. He said, "Would you, in place of that, remain here?" I said, "Yes, sir."

H.M.JR: Well, what has happened is this - we have the responsibility because these men asked you to stay.

MR. GRAVES: That is right.

H.M.JR: So we all have a responsibility towards you. Certainly the last thing I want to do is be a part of any plot or any program which would hurt you, but I think what you should do is to sleep on the thing, you see, and then in the morning come in and have a talk with Mr. Graves and Mr. Thompson and then let them advise you. If you want to see me, talk to me. In the meantime I don't see any sense in our seeing this Miss Strayer.

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MR. GASTON: There is no point to that conference now.

H.M.JR: I don't see any point in that but you had better sleep on the thing, see any friend you have to talk to about it - but we have a responsibility toward McCarty.

MR. GRAVES: That is right.

H.M.JR: And we have got to see it through. The War Bonds people asked him to stay on, and he could have gone through and taken this commission.

MR. GRAVES: I think that I may have specifically asked Mr. McCarty myself if he would stay on the conditions that are involved.

H.M.JR: You did what?

MR. GRAVES: I think I may have asked Mr. McCarty to remain on the conditions of the arrangement that we actually worked out, requesting six months' deferment and asking the Navy Department to withhold the commission. Mr. McCarty then was to take his chances on the draft at the expiration of that six months. I assumed that it meant at the end of six months he would be drafted. I assumed he would be.

H.M.JR: Well, you sleep on it, and you talk with Mr. Graves, and if you want to see me tomorrow I am available, if you want to ask my advice.

MR. McCARTY: All right, sir, because the way I feel right now I wouldn't want to run to the Navy and look for a commission. I don't like to run from this publicity either - I mean, people are taking cracks at people in Washington all the time and it is unfortunate, and I am unlucky to have gotten this this afternoon.

H.M.JR: Well, you got it in the newspapers, you see, and I thought - when I saw it I went to bat the way I haven't any time before - I never had such a row as

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I had here in the Treasury. You read my press conference notes. And I kept saying that you should be complimented, because there had been no deferment, that this story was untrue, and God knows what else I said.

Now, she demands an apology from me to the newspapers, which I have got to give her. I have got to apologize to her publicly - no joy, but that is very unimportant. Your life is at stake, and we have got to help you on this thing. We have got you into this.

MR. McCARTY: Well, it is a so important to the Treasury, too, that I cause as little disruption in the War Bond effort as possible because things like these aren't good.

H.M.JR: Well, it is your own life. You sleep on it and you talk with Graves, and any time tomorrow you would like to talk to me you let me know. I am available.

MR. McCARTY: Thank you very much, Mr. Secretary.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, June 29, 1942.

Press Service
No. 32-22

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 5/8 percent Treasury Certificates of Indebtedness of Series A-1943.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received</u>	<u>Total Subscriptions Allotted</u>
Boston	\$ 176,940,000	\$ 90,177,000
New York	1,456,264,000	731,525,000
Philadelphia	120,489,000	61,832,000
Cleveland	168,022,000	86,448,000
Richmond	82,255,000	43,124,000
Atlanta	111,939,000	57,601,000
Chicago	477,261,000	246,067,000
St. Louis	96,925,000	51,435,000
Minneapolis	49,819,000	27,992,000
Kansas City	81,697,000	43,218,000
Dallas	89,884,000	46,612,000
San Francisco	202,434,000	102,189,000
Treasury	550,000	275,000
TOTAL	\$3,114,479,000	\$1,588,495,000

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TREASURY BILLS

	<u>July 1</u>	<u>June 24</u>	<u>June 17</u>	<u>June 10</u>
Amount offered	\$ 300M	\$ 300 M	\$ 300 M	\$ 300 M
Bids tendered	671 ✓	710	801	690
Low rate	0 2/	.275%	0 1/	.297%
High rate368%	.368	.368%	.372
Average rate360 ✓	.362	.365	.367
Amount in New York	\$ 200M	\$ 157 M	\$ 151 M	\$ 144 M
Amount in Chicago	34	79	23	55
Amount in San Francisco ...	12	13	16	20
Amount in balance of country	54	51	110	81

1/ \$10,000 bid at 99.975; next low rate 0.277%
 2/ \$1,000,000 bid at 99.991; next low rate 0.237%

swB

June 29, 1942

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Treasury Department
Office of the Under Secretary

Date: 6/30/42

To: The Secretary

From:

The information you
asked Mr. Folger to get
up for you. I take it that
it is not required now.

DWB

June 29, 1942

<u>District</u>	<u>Headquarters</u>	<u>No. of Examiners</u>	<u>No. of Assistants</u>	<u>No. of Clerks</u>
1	Boston	713	37	13
2	New York	35	77	18
3	Philadelphia	20	47	13
4	Cleveland	16	31	9
5	Richmond	14	22	12
6	Atlanta	12	31	4
7	Chicago	25	66	14
8	St. Louis	13	23	9
9	Minneapolis	11	19	8
10	Kansas City	16	28	10
11	Dallas	13	30	7
12	San Francisco	<u>34</u>	<u>49</u>	<u>12</u>
		<u>222</u>	<u>460</u>	<u>129</u>

S U M M A R Y

National Bank Examiners	222
Assistant National Bank Examiners	<u>460</u> 682
Clerks	<u>129</u>
	<u>811</u>

Number of State Bank Examiners in each State as of March, 1942.

* * * * *

Alabama	5	Nebraska	11
Arizona	2	Nevada	1
Arkansas	8	New Hampshire	7
California	13	New Jersey	27
Colorado	5	New Mexico	1
Connecticut	29	New York	155
Delaware	2	North Carolina	8
Florida	8	North Dakota	10
Georgia	6	Ohio	36
Idaho	2	Oklahoma	8
Illinois	26	Oregon	3
Indiana	19	Pennsylvania	63
Iowa	16	Rhode Island	4
Kansas	13	South Carolina	7
Kentucky	10	South Dakota	4
Louisiana	8	Tennessee	6
Maine	12	Texas	15
Maryland	20	Utah	5
Massachusetts	80	Vermont	3
Michigan	25	Virginia	13
Minnesota	16	Washington	4
Mississippi	7	West Virginia	5
Missouri	14	Wisconsin	18
Montana	3	Wyoming	2

765

<u>First Federal Reserve District</u> Boston, Massachusetts	Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island
<u>Second Federal Reserve District</u> New York, N. Y.	New York
<u>Third Federal Reserve District</u> Philadelphia, Pennsylvania	Pennsylvania, New Jersey, Delaware
<u>Fourth Federal Reserve District</u> Cleveland, Ohio	Ohio
<u>Fifth Federal Reserve District</u> Richmond, Virginia	North Carolina, South Carolina, Maryland, Virginia, West Virginia, District of Columbia
<u>Sixth Federal Reserve District</u> Atlanta, Georgia	Georgia, Tennessee, Alabama, Florida, Mississippi, Louisiana
<u>Seventh Federal Reserve District</u> Chicago, Illinois	Illinois, Iowa, Wisconsin, Michigan, Indiana
<u>Eighth Federal Reserve District</u> St. Louis, Missouri	Missouri, Kentucky, Arkansas
<u>Ninth Federal Reserve District</u> Minneapolis, Minnesota	Minnesota, North Dakota, South Dakota, Montana
<u>Tenth Federal Reserve District</u> Kansas City, Missouri	Kansas, Nebraska, Colorado, Wyoming
<u>Eleventh Federal Reserve District</u> Dallas, Texas	Texas, New Mexico, Oklahoma
<u>Twelfth Federal Reserve District</u> San Francisco, California	California, Oregon, Washington, Idaho, Utah, Arizona, Nevada

June 29, 1942

I telephoned Harold Graves on Sunday, June 28th, a.m. Suggested on July 17th that \$25.00 bonds actually be on sale in stores. In the small stores, put in our own Treasury personnel. Asked for report Monday.

As an afterthought, maybe better send a man into the retail stores.

111

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 29, 1942

TO Secretary Morgenthau's files
FROM Ferdinand Kuhn, Jr.

Private Richard Litton, who wrote the winning verses of our song contest, is now an American citizen as a result of your intervention. This clears his way to becoming an officer.

J.K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 29, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

I think you will be interested in this telegram from Palmer Hoyt in Portland, Oregon, regarding the visit of our war heroes.

"War heroes of greatest help to us here in Bond drive. We credit their arrival with sale of \$1,905,000 worth of Bonds of all types. Parade staged here generally conceded to be most spectacular in history of city drew crowd of 250,000 to 350,000. More than 15,000 people turned out for night event despite unseasonable weather believe cumulative value in direct sales will run into additional millions. Our staff places highest value on entire enterprise which was capably handled your end."

Mr. Gilchrest, our Treasury man with the tour, tells me that Ensign Mason inducted a thousand Navy recruits at the rally in Portland and aroused terrific enthusiasm.

The attached pages of the Salt Lake Tribune will show you how the heroes are making themselves Bond salesmen. A direct selling job is done at all rallies, and in Denver a corps of girls sold stamps and took applications for bonds among the audience during the rally.

F.K.

For Salt Lake City and vicinity:
Light, change, no temperature
change. Maximum 60, minimum
40. In Salt Lake City Tuesday,
60 degrees, minimum temperature,
40 degrees. Maximum 60, minimum
40. In other parts of the
territory see forecasts of
military authorities.

Throngs Hail War Heroes in S. L. Visit

Parade, Stadium Crowds Cheer 15 Fighting Men

Salt Lake Tuesday afternoon witnessed a rousing welcome for 15 American and British war heroes in a mammoth downtown parade and in the evening staged themselves on a big war bond and stamp rally in the University Utah stadium.

Doughty Fighting Men Draw Wave of Applause



These 15 fighting heroes in the area of the western sector Monday after a period of quiet in the struggle for the vital industrial center and one of the keys to the Caucasian. Detailed information was lacking, but it was possible that Hitler might be starting one phase of a grand assault on the western sector.

Warriors Urge Utah to Buy Bonds, Stamps

Give to the Arms And We'll Win, Say Fighting Men

Fifty soldiers and sailors who have learned that "war is a home war" in their respective theaters, were the center of a parade Tuesday night at the University of Utah stadium by the American and British fighting men in the western theater of the war.



Salt Lake City and Utah turned out Tuesday to welcome 15 American and British heroes with the biggest parade and celebration since World War I. A part of the crowd at the stadium of the University of Utah is shown in the next photo frame, a section of the parade through downtown streets which were lined with thousands of spectators.

Nazis Force Russ Back At Kharkov

Reds Stiffen Sevastopol Defense Lines

— Russian (Official)
By Associated Press
MOSCOW, Wednesday, June 24.—A powerful new German offensive in the Kharkov front has forced Marshal Timoshenko's forces to fall back to new positions while Timoshenko's defense continues to hold off numerically superior Axis forces after smashing German lines in their breakthroughs by the sea, the Russians announced early Wednesday.

U. S. Raids Leave Axis' Libyan Stronghold Afire

Reinforcements Reach British Army in Egypt as Big American Bombers Deal Damage to Bengasi

— Allies (Official) By Associated Press
Fresh and continuing reinforcements were reaching the British eighth army on the frontier of Egypt Tuesday night, and four-engine "Liberal" bombers of the U. S. army air force already had started the battle of the desert.

Foes Prepare Motion to Oust Churchill

Prime Minister Facing Cabinet Crisis on Return

By Her Middle East
LONDON, June 23 (AP)—A motion of censure against Winston Churchill's government was introduced in the House of Commons Tuesday night to challenge the prime minister's leadership.

Third Blasting By Britons Wrecks Emden

— British (Official)
By Associated Press
LONDON, June 23.—The real prize of the war was captured by the British navy in the Emden, a German pocket battleship, on Tuesday night.

House Approves Vast Bill For U. S. Army Equipment

WASHINGTON, June 23 (UP)—The House today approved a \$242,000,000 bill to give the United States the best equipped and lightest army night and day in the world.

OPA Imposes Ceilings on Service Prices

WASHINGTON, June 23 (AP)—The Office of Price Administration today announced a \$242,000,000 bill to give the United States the best equipped and lightest army night and day in the world.

Cattlemen Ask Price Relief

WASHINGTON, June 23 (AP)—Cattle raisers today asked the government to ease the price of cattle in the United States.

Bullitt Takes Over Navy Post As Special Assistant to Knox

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Bus Chief Asks Cut in Travel

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Camera Catches Highlights of City's Welcome to Warriors



American and British heroes give war spirit a lift in Salt Lake City. Front row, left to right, Knight Donald F. Mason, Knight Francis Plater, 2nd Lt. Officer A. F. Taylor, Flight Sergeant Maxwell Alexander, 1st Lt. Hadden, Wing Commander M. Leaden, Sergeant D. N. Bentley, second

row, Lieutenant Carroll Warren McCulpin, Lieutenant J. Michael Hall, Lieutenant George S. Welch, Lieutenant Elliott Vandevanter Jr., Squadron Leader John Daring Hamilton, Lieutenant William M. Carothers, Captain Charles, Chief Artillery Henry Howard, Sergeant K. Greig,

Herbert and Miss Louise Taylor, airlines hostess and "house mother" for the group. Lieutenant Thomas William Boyd was absent when picture was taken. The group will leave town tomorrow, continuing their tour of duty American allies to further the war bond drive.



Knight Donald F. Mason greets cheering crowds from Mayor Al Beckel's famous "Maroon Mitoor" in parade of American and British war heroes.



The "war heroes" visit made the day anything but dull for the well-timed operation at Hotel Utah. Numerous such calls from smiling Salt Lake girls and "good luck" wishes for the American and British fighting men were left to right, Mrs. Lorraine Green, Mrs. Nellie Harwood and Mrs. Gladys Hayward.



Suavety girls serve as chauffeurs for war heroes in Salt Lake City parade. Seating clockwise, Miss Lu Wynn Baker, Miss Marjorie Johnson, Miss Polly Jean Fisher, Miss Betty

Schramm, Miss Virginia Hutchinson, Miss Darlene Kimball, Miss Marge Nilson. In car seat, Miss Gloria Baumgart, MFI, and Miss Dorothy Cunningham.



Open entrance depot pulls along down Main street in parade honoring young men whose heroism on fighting fronts

urgently calls for more bond buying on some front. This was one of the parade's highlights.



A home front army lines Salt Lake City streets in gay tributes to some shining examples of a fighting front army.

Parade Puts Funds Into War Coffers

Citizens Flock To Booths To Get Stamps

More than a parade of citizens immediately after the war, was the success of the parade in that representative groups of the war bonds campaign were signing the new Treasury stamps and about \$100,000 worth of the stamps were necessary to finance the war bonds campaign.

Thousands of citizens gathered in the parade grounds to see the parade which was held on Monday afternoon. The parade was held on Monday afternoon and was the first of its kind in the city since the war began. The parade was held on Monday afternoon and was the first of its kind in the city since the war began.

P. Old Timers Suit Outing

More than 100 old timers of the city were invited to a suit and dinner at the city hall on Tuesday evening. The suit was held at the city hall and was a very successful one.

HEAR with the Starion HEARING AID

STATION OF SALT LAKE 311 West 1st St. Salt Lake City, Utah. Phone 2-1111.

Get First Hand News of Fighting Son



Mr. and Mrs. E. Peterson of Bountiful, Utah, are seen with their son, Flight Lieutenant Charles E. Peterson, who is being decorated for his service in the war.

Heroes Dodge Well-Wishers

Heroes of the war are being decorated for their service. The decorations are being given to them by the government. The decorations are being given to them by the government.

Parents of Noted Flier Praise Visiting Heroes

Parents of the noted flier are praising the visiting heroes. The parents are praising the visiting heroes for their service in the war.

15 War Heroes Get Rousing Ovation in S. L.

Parade and Stadium Throughs Acclaim Allied Warriors

Fifteen war heroes were given a rousing ovation in Salt Lake City. The heroes were given a rousing ovation in Salt Lake City.

The heroes were given a rousing ovation in Salt Lake City. The heroes were given a rousing ovation in Salt Lake City.

Visiting Warriors Accept S. L. Plaudits With Cryptic 'All in Line of Duty'

Visiting warriors accepted Salt Lake City plaudits with cryptic remarks. The warriors accepted Salt Lake City plaudits with cryptic remarks.

S. L. Beauties Win Hero's Praise

Salt Lake beauties won the praise of a visiting hero. The beauties won the praise of a visiting hero.

The beauties won the praise of a visiting hero. The beauties won the praise of a visiting hero.

Heroes Dodge Well-Wishers

Heroes of the war are being decorated for their service. The decorations are being given to them by the government.

Warriors Urge Bond Buying

Warriors are urging citizens to buy war bonds. The warriors are urging citizens to buy war bonds.

Drowning Victim's Rites Set Today

Rites will be held for a drowning victim today. The rites will be held for a drowning victim today.

Blaze on Hay Ranch Causes \$300 Loss

A fire on a hay ranch caused a loss of \$300. The fire on a hay ranch caused a loss of \$300.

Spur THE COLA DRINK

Spur is a cola drink. It is a cola drink.

MEET THE PEOPLE WHO MUST NOT MISS THE BUS!

MEET
THE SOLDIERS, SAILORS AND MARINES HOME ON LEAVE—The Soldier's Right to Home is a right that is being fought for. It is a right that is being fought for.

MEET
THE MEMBERS OF VITAL AUXILIARY ARMS, RED CROSS WORKERS AND OTHERS—Dependable transportation is of utmost importance to all America. It is of utmost importance to all America.

MEET
THE SPENCER ARMY, GREAT, EAT IN THE WORLD—The Spencer Army is a great army. It is a great army.

See Your Agent about important time changes

SANTA FE BUS DEPOT

1200 N. 1st St. Phone 2-1111

1200 N. 1st St. Phone 2-1111

HISTORY MAKING SALE

Men's Quality WORK SHOES 387

Regularly \$4.35

VUL-CORK SAFETY SOLES

- Will Not Mar or Scratch Floors
- Will Not Slip on Oily Surfaces!

Where can you buy the best... in comfort and wear, at such a low price? Check these features then you'll know why thousands of men choose Work work shoes. The uppers are of top grain leather. Elk-tanned for strength... pliability genuine Goodyear welts; heavy leather; (and); split gum tongue; all this plus heavy Vul-cork soles and heels that will not slip on wet or oily surfaces! No matter what your job. Work shoes the work shoe for you! Excellent for garages, machine shops, etc. because they can take it! Available in either shoe or oxford... and at these prices they're a real buy!

Regular \$3.98

BLUCHER OXFORD 347

BUY WAR SAVINGS STAMPS . . . ON SALE AT

MONTGOMERY WARD

BUY NOW . . . PAY MONTHLY CATALOG ORDER SERVICE

First South of Main Salt Lake City

Parade Puts Funds Into War Coffers Citizens Flock to Booths to Get Stamps

...dotted to a parade of ... immediately after the ... was known ... to the ... thought ... their responsibilities ... to the war ...

... of the ... total sales ... of a year ... \$1,000,000 ... to be ... of the ... of the ...

P. Old Times Wait Outing

... for ... the ... of the ... of the ...

HEAR with the Hearing Aid

... of the ... of the ... of the ...

Get First Hand News of Fighting Son



... was in one to be ... of the ... of the ...

Heroes Dodge Well-Wishers

... of the ... of the ... of the ...

Parents of Noted Flier Praise Visiting Heroes

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Parade and Stadium Throngs Acclaim Allied Warriors

(Continued from Page One) ... of the ... of the ...

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S. L. Beauties Win Hero's Praise

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HISTORY MAKING SALE



VUL-CORK SAFETY SOLES

Will Not Mar or Scratch Floors! Will Not Slip on Oily Surfaces!

Where can you buy the best... in comfort and wear, at such a low price? Check these features then you'll know why thousands of men choose Wards work shoes. The uppers are of top grain leather, Elk-tanned for strength... pliability; genuine Goodyear welts; heavy leather insoles; split gusset tongue; all this plus heavy Vul-cork soles and heels that will not slip on wet or oily surfaces. No mats; what your job. Wards have the work shoe for you! Excellent for garages, machine shops, etc., because they can take it! Available in either size or oxford... and at these prices they're a real buy!

Regular \$3.98 BLUCHER OXFORD 3.47 BUY WAR SAVINGS STAMPS . . . ON SALE AT MONTGOMERY WARD BUY NOW . . . PAY MONTHLY CATALOG ORDER SERVICE

MEET THE PEOPLE WHO MUST NOT MISS THE BUS!

MEET THE MEMBERS OF VITAL AUXILIARY ARMS, RED CROSS WORKERS AND OTHERS—Dependable transportation is of utmost importance in all America. If you're a public, plan your business or pleasure trips with us in advance—when you need us, we're right in line.

See Your Agent about important time changes SANTA FE BUS DEPOT 1200 N. 1ST ST. TRAILWAY BUS DEPOT 1200 N. 1ST ST.

Warriors Urge Bond Buying

(Continued from Page 1) ... of the ... of the ...

Blaze on Hay Ranch Causes \$300 Loss ... of the ... of the ...

Drowning Victim's Rites Set Today

MEMPHIS, Wis. — Funeral services for Robert Gentry, 21-year-old son of Mr. and Mrs. Herman Gentry of La Barge, will be conducted Wednesday at 10 a. m. in the Montgomery L. D. Church, Bernal will be the family pastor.

Spur THE COLA DRINK CANADA BRY QUALITY First Sault at Male Salt Lake Regraded Unclassified

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
16	3,564	112,279	114,129	111,829	98.4
17	7,470	119,749	123,534	116,374	96.9
18	6,299	126,048	127,724	120,625	98.7
19	8,014	134,062	138,908	131,852	96.5
20	3,367	137,429	149,502	136,532	91.9
22	10,269	147,698	156,587	145,250	94.3
23	5,834	153,532	161,404	152,983	95.1
24	9,242	162,774	171,335	160,398	95.0
25	7,773	170,547	179,208	166,278	95.2
26	5,863	176,410	189,271	176,561	93.2
27	7,024	183,433	196,192	184,279	93.5

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

June 29, 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 - 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
15	23,984	225,684	208,939	154,623		108.0
16	7,535	233,218	223,242	168,103		104.5
17	15,815	249,033	247,532	178,870		100.6
18	12,288	261,321	257,374	189,156		101.5
19	19,421	280,742	271,079	207,742		103.6
20	10,987	291,729	290,485	217,104		100.4
22	29,386	321,114	309,584	229,140		103.7
23	10,692	331,806	323,705	241,644		102.5
24	15,866	347,673	347,494	256,076		100.1
25	14,877	362,550	360,564	267,396		100.6
26	15,956	378,505	375,702	288,434		100.7
27	13,719	392,224	392,627	300,188		99.9

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

June 29, 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	
16	11,099	345,497	337,371	279,933	102.4	
17	23,285	368,782	371,066	295,244	99.4	
18	18,587	387,369	385,098	309,780	100.6	
19	27,435	414,804	409,987	339,594	101.2	
20	14,354	429,158	439,987	353,636	97.5	
22	39,655	468,812	466,171	374,391	100.6	
23	16,526	485,338	485,109	394,628	100.0	
24	25,108	510,446	518,829	416,474	98.4	
25	22,650	533,097	539,771	433,674	98.8	
26	21,818	554,915	564,973	464,995	98.2	
27	20,742	575,657	588,819	484,467	97.8	

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

June 29, 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 27, 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	to	June 1	to Date	June 1	to	June 1	to Date	June 1	to	June 1	to Date
	Daily	Date	Date	as % of Quota	Daily	Date	Date*	as % of Quota	Daily	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	55.0	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	92.5
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	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	7.5	233.2	251.1	92.9	3.6	112.3	137.3	81.8	11.1	345.5	388.4	89.0
17	15.8	249.0	271.3	91.8	7.5	119.7	147.8	81.0	23.3	368.8	419.1	88.0
18	12.3	261.3	295.2	88.5	6.3	126.0	157.0	80.3	18.6	387.4	452.2	85.7
19	19.4	280.7	317.4	88.4	8.0	134.1	164.6	81.5	27.4	414.8	482.0	86.1
20	11.0	291.7	336.9	86.6	3.4	137.4	170.6	80.5	14.4	429.2	507.5	84.6
22	29.4	321.1	373.0	86.1	10.3	147.7	181.9	81.2	39.7	468.8	554.9	84.5
23	10.7	331.8	390.0	85.1	5.8	153.5	189.2	81.1	16.5	485.3	579.2	83.8
24	15.9	347.7	413.5	84.1	9.2	162.8	201.3	80.9	25.1	510.4	614.8	83.0
25	14.9	362.5	441.1	82.2	7.8	170.5	212.0	80.4	22.7	533.1	653.1	81.6
26	16.0	378.5	466.8	81.1	5.9	176.4	221.0	79.8	21.8	554.9	687.8	80.7
27	13.7	392.2	489.2	80.2	7.0	183.4	228.0	80.4	20.7	575.7	717.2	80.3
29			530.6				241.4				772.0	
30			550.0				250.0				800.0	

June 29, 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.



UNITED STATES GOVERNMENT
~~SECRET~~
~~COORDINATOR OF INFORMATION~~

WASHINGTON, D. C.

OFFICE OF STRATEGIC SERVICES

June 29, 1942

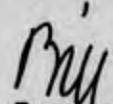
The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

My dear Henry:

I have just returned and find your letter. I think you will understand that any way that I can meet your wishes I will do so. I am quite sure that we will be able to get to you the British reports and analyses, as under the direction of the Joint Chiefs of Staff I have been made Chairman of the Psychological Warfare Committee and I arranged with Eden that we should have intimate liaison with the British Political Warfare Committee.

I hope to see you one of these days soon and check up with you on the progress of the war.

Sincerely,


William J. Donovan
Director

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 29, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending June 27, 1942.

Summary

(1) The general price level has receded slightly for the third consecutive week. In the week ended June 20 the BLS all-commodity index declined 0.3 percent to 98.1, the lowest point since the week ended April 11, making a total reduction of 0.7 percent in three weeks. The index, however, still stands nearly 31 percent above the pre-war level of August 1939.

(2) Due chiefly to a sharp rise in the price of rosin, the BLS index of 28 basic commodities rose last week for the third consecutive week. Rosin prices rose 13 percent as the result of the announcement of a Government purchasing program to accumulate a stock pile of gum rosin and turpentine.

(3) Department store sales in the first 3 weeks in June averaged about 4 percent higher than year-earlier levels, thus indicating an actual decline in unit volume since the intervening price rise was around 18 percent. Preliminary reports reveal a continued lull in retail trade during the past week.

(4) Production of war materials has attained such heavy volume that the WPB is now more concerned over raw material supplies than manufacturing facilities. The munitions production program is reported in the press to be undergoing review, with a possible view to downward revision where objectives now seem too high.

(5) A shortage of steel plates continues to be one of the serious bottlenecks of the war program. Despite the attainment of a new monthly shipment record of more than 1 million tons in May, the supply is still insufficient. Press reports last week indicated that West Coast shipbuilders may have to curtail operations due to a lack of steel plates.

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Wholesale price level slightly lower

During June, wholesale prices of commodities have continued to move within the narrow range of their fluctuations in April and May. In the week ended June 20, the BLS all-commodity index declined 0.3 percent to 98.1, which was the lowest level since the week ended April 11. In the past three weeks the index has decreased 0.7 percent, but it still stands 30.8 percent above the pre-war level of August 1939.

Chart 1 shows the percentage changes in the major groups of the all-commodity index from the week ended December 6 to May 9 (previous to the effective date of the ceiling order) and to June 20. The sharp rise in wholesale prices which began after the Pearl Harbor attack was halted after application of the general maximum price regulation. Since that date the combined index has declined 0.5 percent, and most of the component indexes have remained essentially unchanged or have declined. The index for foods has declined 0.9 percent, although the index for farm products has increased 0.5 percent. The index for hides and leather products has declined 1.1 percent.

In the week ended June 20, food prices dropped 1.1 percent, accounting for the entire decline in the combined index. The other components were relatively steady.

A comparison of wholesale prices of all commodities and of foods in the present war and in the first World War is shown in Chart 2. The distinct levelling out of the general price index in 1942, as compared with prices in the first half of 1917, is significant. The wide margin between the present price rise and the corresponding rise in 1917 is particularly noticeable. While food prices in the first quarter of 1942 closely approached their sharp increase of the first World War, they also have levelled out in recent weeks.

Basic commodity prices rising

The BLS price index of 28 basic commodities last week increased for the third consecutive week. The rise in this index was due to a sharp increase of 13 percent in the price of rosin, resulting from announcement last week of a Government purchasing program to accumulate a stock pile of gum rosin and turpentine. (See Chart 3.)

The index of 20 controlled commodities rose also for the third successive week, and again the index of 8 uncontrolled commodities declined. The changes in the two indexes doubtless would have been reversed if rosin had been grouped as

- 3 -

an uncontrolled commodity, in accordance with the OPA amendment (effective June 19) exempting gum naval stores from the general maximum price regulation. However, the ceiling on wood rosin prices doubtless has some stabilizing influence on prices of gum rosin.

All of the other controlled commodities were unchanged, except for a slight decline in the price of cottonseed oil and a slight rise in the price of wool. The quotations for wool tops used by the Bureau of Labor Statistics, however, apparently are not representative of wool prices generally, which have increased since December 6.

The decline in the index of the uncontrolled commodities was due to weakness in grains. Prices of wheat, barley, corn, and flaxseed declined on reports of favorable weather for harvesting. Hog prices touched the highest level in twenty-five years. According to press reports, packers were forced to pay higher prices because marketable receipts were too light to meet Government buying demand for pork cuts. Prices of butter and cotton rose slightly.

Record 1942 and 1943 pork supplies assured

An increase of 24 percent in the combined spring and fall pig crops of 1942 over those of 1941 is estimated by the Department of Agriculture. By far the largest on record, the 1942 production may total 105.5 million head as compared with 85 million in 1941. Commenting on the report, Secretary Wickard warned, however, that this year's record production will not create supplies for civilian consumption as large as production figures might indicate, although total meat and poultry supplies will be sufficient. Earlier he indicated that he believed rationing of pork could be avoided.

The Government's program for purchases of pork and lard for lend-lease and military uses calls for a large proportion of this year's output. In accordance with the announcement in April, the Government will take a minimum of 40 percent of pork production and two-thirds of lard production in the period April through September, from packers operating under Federal inspection. In the first third of this period the Government's purchases of lard have reached the goal, but pork purchases have been lagging. This may be due in part to the fact that heavy receipts may yet have to come on the market.

The Department estimates consumer requirements for all meats to be 20 percent greater than a year earlier, and indicates that this, together with the smaller supplies available for civilians, will prevent any reduction in hog prices during the next few months.

The lack of a ceiling on hog prices, while pork prices are controlled, is resulting in a severe squeeze on packers' margins, particularly for those not operating under Federal inspection and therefore not eligible to sell to the Government at the higher prices offered for lend-lease purchases. The declining trend in packers' gross margins in recent weeks is shown by Department of Agriculture data in Chart 4.

Hog prices, according to the Department of Agriculture as of June 24, are 50 cents higher than normally would be expected at the current level of pork and lard prices. The press, commenting on the sharp upturn in hog prices last week, expressed the opinion that packers paying such prices are facing certain losses. In this connection, the chairman of the newly-formed emergency conference of meat packers stated that OPA action in placing price ceilings on pork products, without ceilings on hog prices, is endangering the existence of the independent meat packing industry. A conference of this group with Assistant Secretary of Agriculture Hill is scheduled for Wednesday of this week.

Gains in farm income and rural sales narrow moderately

Benefiting from the rise in prices during the past year, farm income in May continued to run substantially above year-earlier levels, although the gain was not as great as in the previous month. Thus, on the basis of preliminary and confidential estimates, cash farm income in May was 33 percent above May 1941, while the corresponding gain in April was 46 percent. (See Chart 5.)

Rural sales of general merchandise in May were 11 percent above year-earlier levels, as compared with 16 percent in the previous month. (Refer to Chart 5.) Although this was the narrowest monthly sales gain shown thus far this year, it was a larger gain than that shown by department stores in that period. Moreover, sales of Montgomery Ward and Sears Roebuck in May actually dropped 16 percent and 19 percent, respectively, below the same month in 1941.

Unit volume of department store sales below June 1941

Department store sales during the first 3 weeks in June showed an average gain of around 4 percent over the corresponding period a year ago, although the sales gain in the week ended June 20 widened to 9 percent. (See Chart 6.) However, even this gain was only about one-half as great as the price rise since June 1941, so the physical volume of goods sold has been running behind year-earlier levels.

- 5 -

On the basis of preliminary reports from Dun and Bradstreet, as well as New York City department stores, retail trade last week again fell moderately below the corresponding period of last year in dollar volume, thus indicating an even more noticeable drop in the quantity of physical units sold.

Referring to Chart 6, it will be noted that department store sales are at the beginning of the summer slack period. The chart indicates that the greatest pressure on prices of department store items will come during the Christmas buying season.

Raw materials problems posed by high production rate

With the FRB adjusted index of industrial production rising to 176 in May, and output of war goods attaining such high levels that nearly 4,000 planes and over 1,500 tanks were produced in the month, the supply of raw materials has become the dominant concern of the WPB. In view of this situation, munitions production programs are said to be undergoing review, with a possible view to effecting downward revisions where objectives have been set too high.

In order to cope with the situation, the WPB is expected, among other steps, to extend scrap collection drives and make further cuts in civilian consumption of such items as steel. In view of the difficulties encountered in meeting the heavy demand for copper, the WPB is even reported to be planning to melt down name plates, statues, bronze bank doors, etc., in an effort to increase the metal supply.

Steel plate shortage still troublesome

A shortage of steel plates has been one of the worst bottlenecks of the whole war effort, and despite the attainment of new production records, the shortage has not been overcome. During May, steel plate production rose above 1 million tons for the first time on record. The progress made in expanding steel plate output since our entry into the war is evidenced by the following monthly shipment figures:

December 1941	654,000 tons
January 1942	755,000 tons
February 1942	759,000 tons
March 1942	879,000 tons
April 1942	896,000 tons
May 1942	1,012,000 tons

Some further slight increase in plate production is expected during June, and by July it is hoped that production will be approximately 1,100,000 tons.

Shipbuilding affected by plate shortage

Despite the steady increase in plate production, it was reported in the press during the past week that shipyards on the West Coast might have to curtail operations due to a shortage of plates. Deliveries of plates to shipyards for Maritime Commission orders in May ran above 300,000 tons. Recently Rear Admiral Vickery of the Maritime Commission stated that shipbuilders in July would need 425,000 tons of plates, or about 100,000 tons more than they expect to get.

In spite of difficulties, merchant ship completions stepped up noticeably in May, according to data summarized by Standard Statistics, with the total for the month rising to 58 from only 36 in April. As a result, ship completions for the first 5 months of 1942 rose to 164, as compared with 103 in the entire year 1941. However, in view of the large number of sinkings since the beginning of the year, a very critical ocean shipping situation remains to further complicate the problem of procuring the heavy volume of raw materials needed for the war program.

Railroads unable to get estimated steel requirements

During the past week the President of the Association of American Railroads reported that the railroads this year will not be able to obtain more than about two-thirds of their estimated steel requirements for 1942. In addition to the limitations imposed by materials shortages, conflicting requirements of the Army and Navy are expected to slow up deliveries of railroad equipment. On June 1 the railroads had 950 locomotives on order, but due to Navy requirements for Diesel engines, material shortages and other factors, probably not more than 425 will be produced before the end of the year. Moreover, it was indicated that Army needs for locomotives in overseas operations and Navy demand for Diesel engines for small boats might further cut into the reduced figure mentioned.

Despite difficulties in obtaining additional equipment, and the substantial increase in ton-miles of freight handled, the freight car surplus of the railroads in mid-June was more than 5,000 cars above that of last year. Due to increased efficiency in handling, heavier loading, etc., the railroads have been handling an increased volume of freight with fewer

carloadings. Thus, in the week ended June 20, total freight carloadings were 41,000 cars, or nearly 5 percent below year-earlier levels.

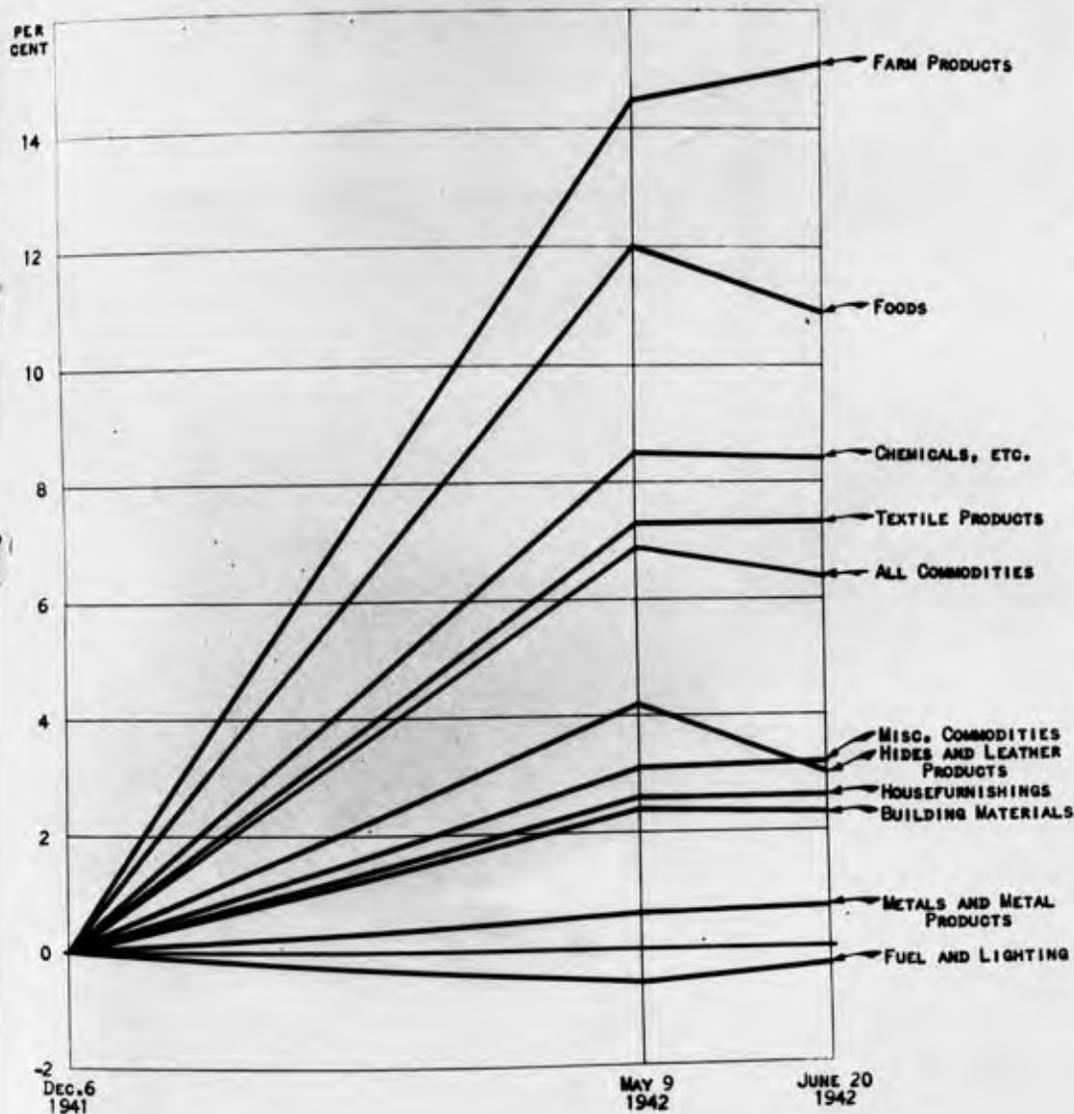
Steel operations decline moderately

After rising to 99.6 percent of capacity in the last week in May, steel operations declined gradually to 98.0 percent of capacity in the last week in June, the lowest since April. (See Chart 7.) Trade reports are somewhat conflicting as to the reasons for the moderate decline, with shut-downs for repairs and scrap shortages being variously cited. During the current week, however, which contains the traditional Fourth of July holiday, operations are scheduled at a decline of only 1.5 points to 96.5 percent of capacity.

During May the consumption of both iron ore and steel scrap reached the highest levels on record. However, steel ingot output during the month was a trifle under the record set in March. Concern over the longer outlook for steel scrap supplies is again being shown by some trade circles. It is pointed out that large exports of ingots and semi-finished steel under lend-lease arrangements means that discards from this material will not be available for the home scrap supply, thus adding to the pinch expected next winter.

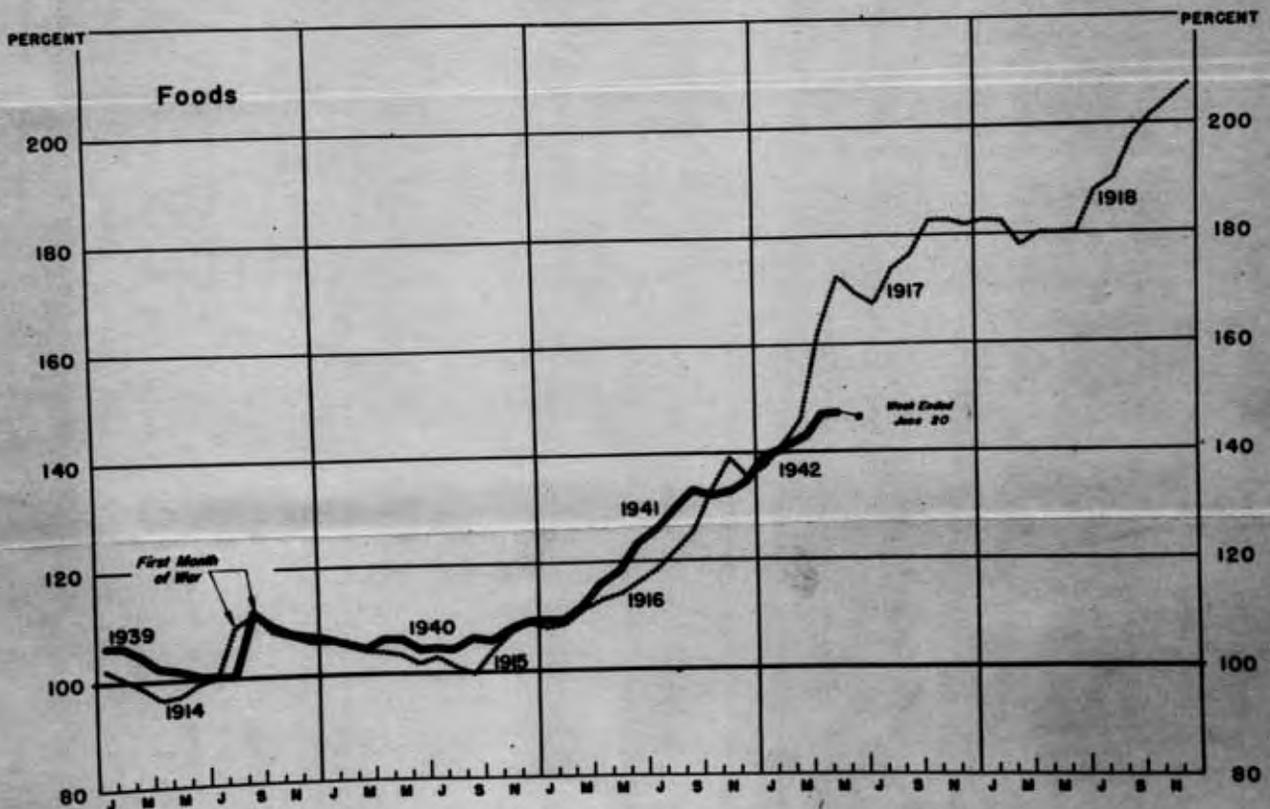
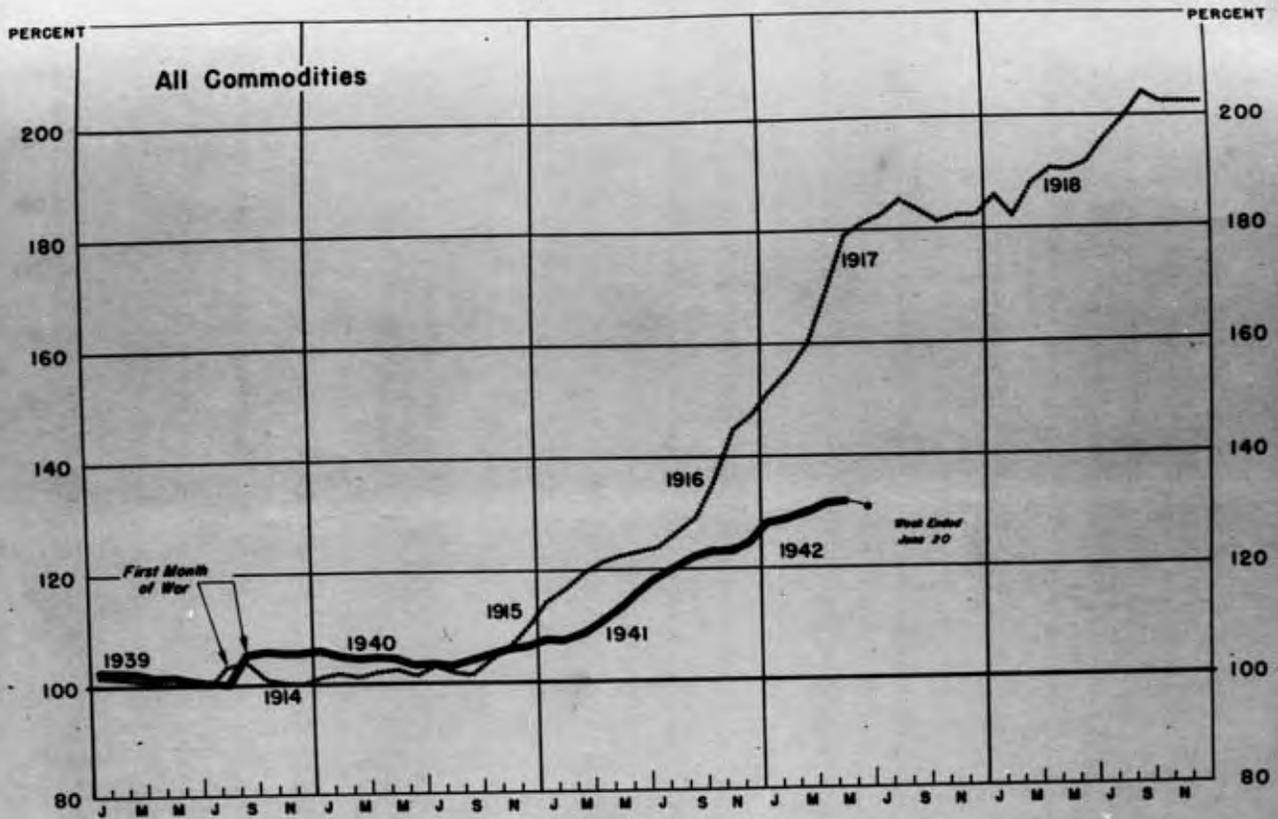
WHOLESALE COMMODITY PRICES

Percentage Changes in Major Groups of B.L.S. All Commodity Index
Week Ended Dec. 6, 1941 to Week Ended May 9 and June 20, 1942



PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1918

July 1914 = 100 World War Period; Aug. 1939 = 100 Present Period

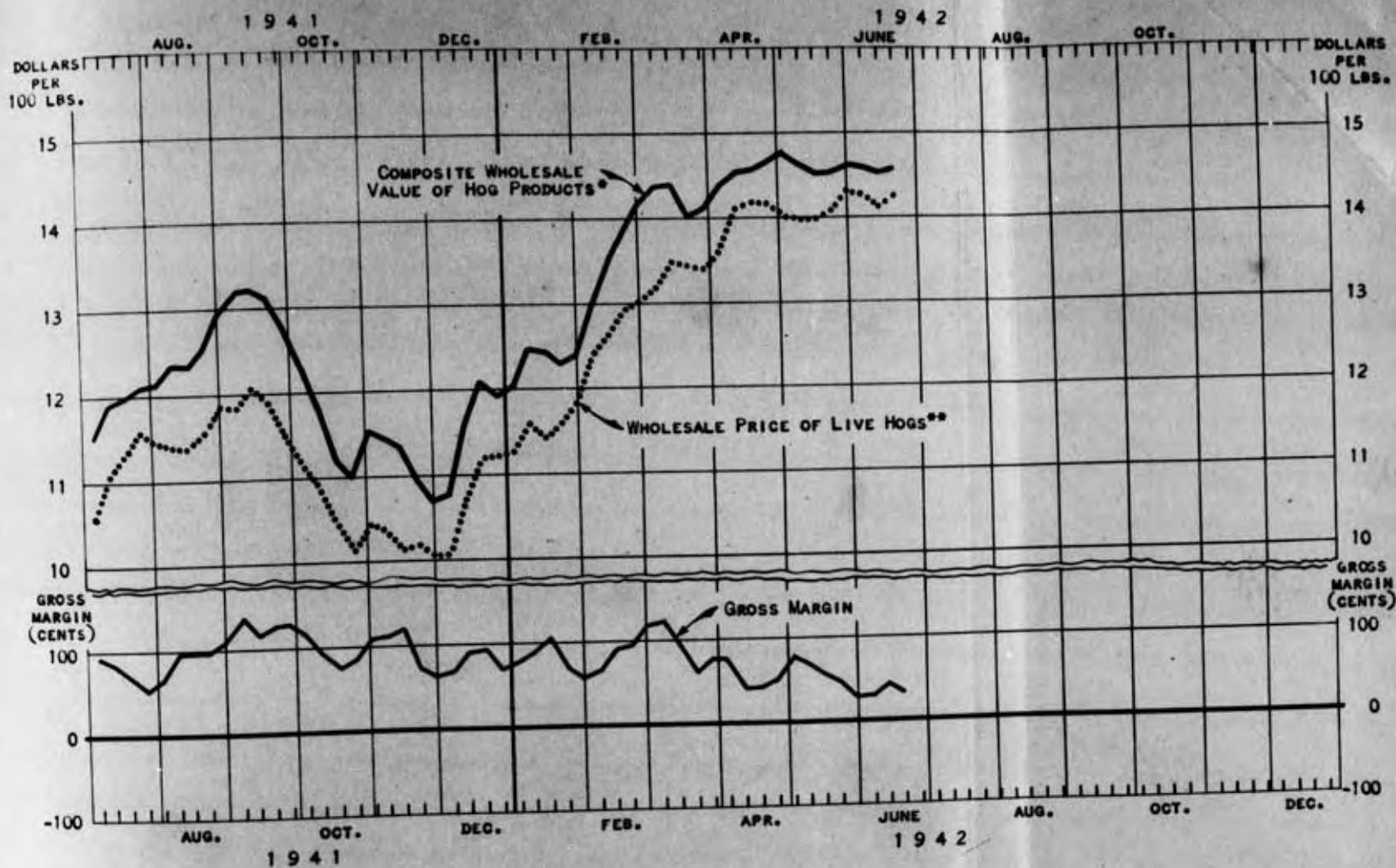


Source: B.L.S.

HOG PRICES, VALUE OF PORK PRODUCTS, AND GROSS MARGINS

Weekly, July 1941 to date

131
Chart 4



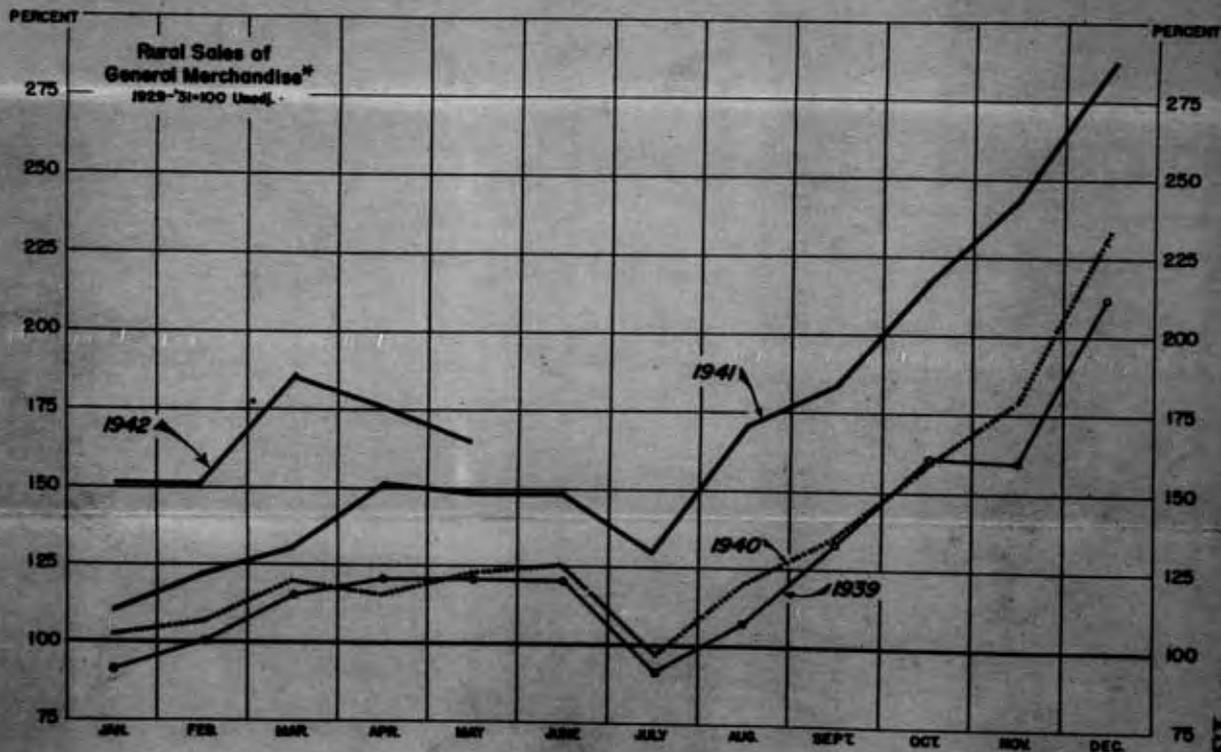
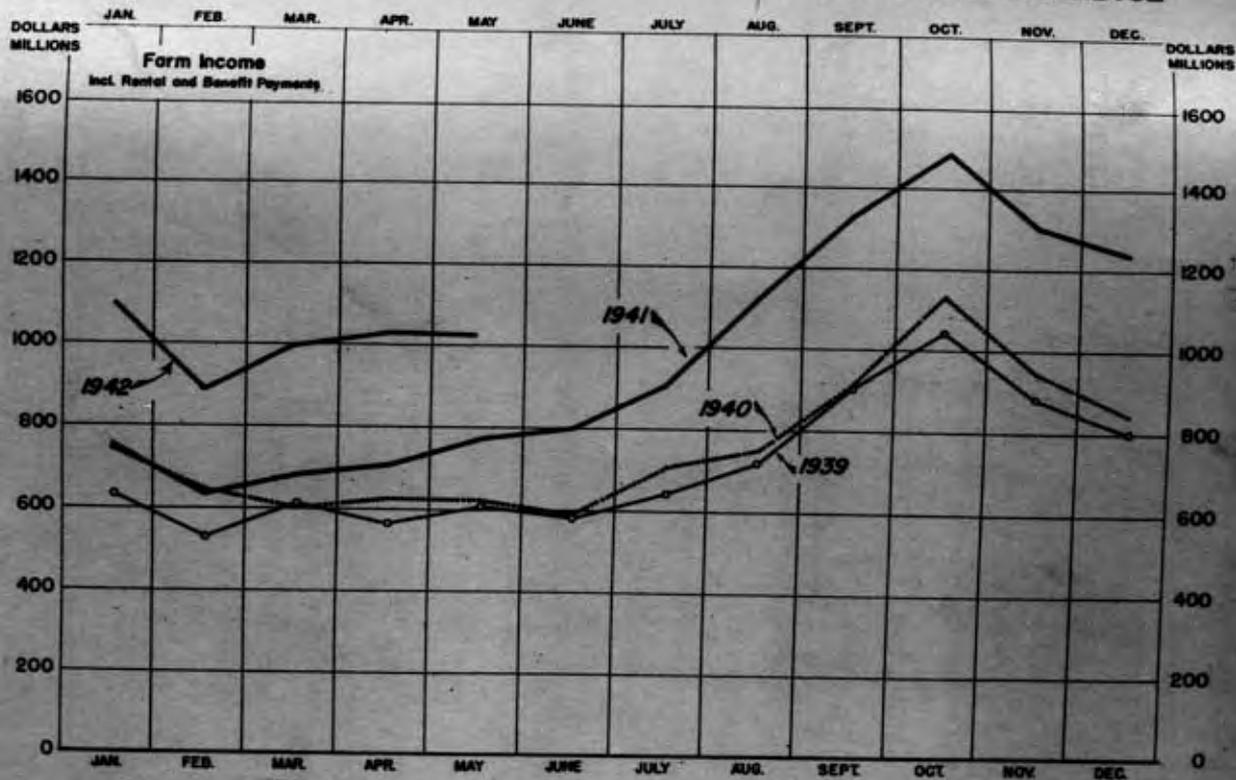
* WHOLESALE VALUE OF ALL EDIBLE PRODUCTS IN 100 LB. OF LIVE HOGS.
 ** GOOD CHOICE, 180-200 LBS.

SOURCE: U.S.D.A.

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

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FARM INCOME AND RURAL SALES OF GENERAL MERCHANDISE



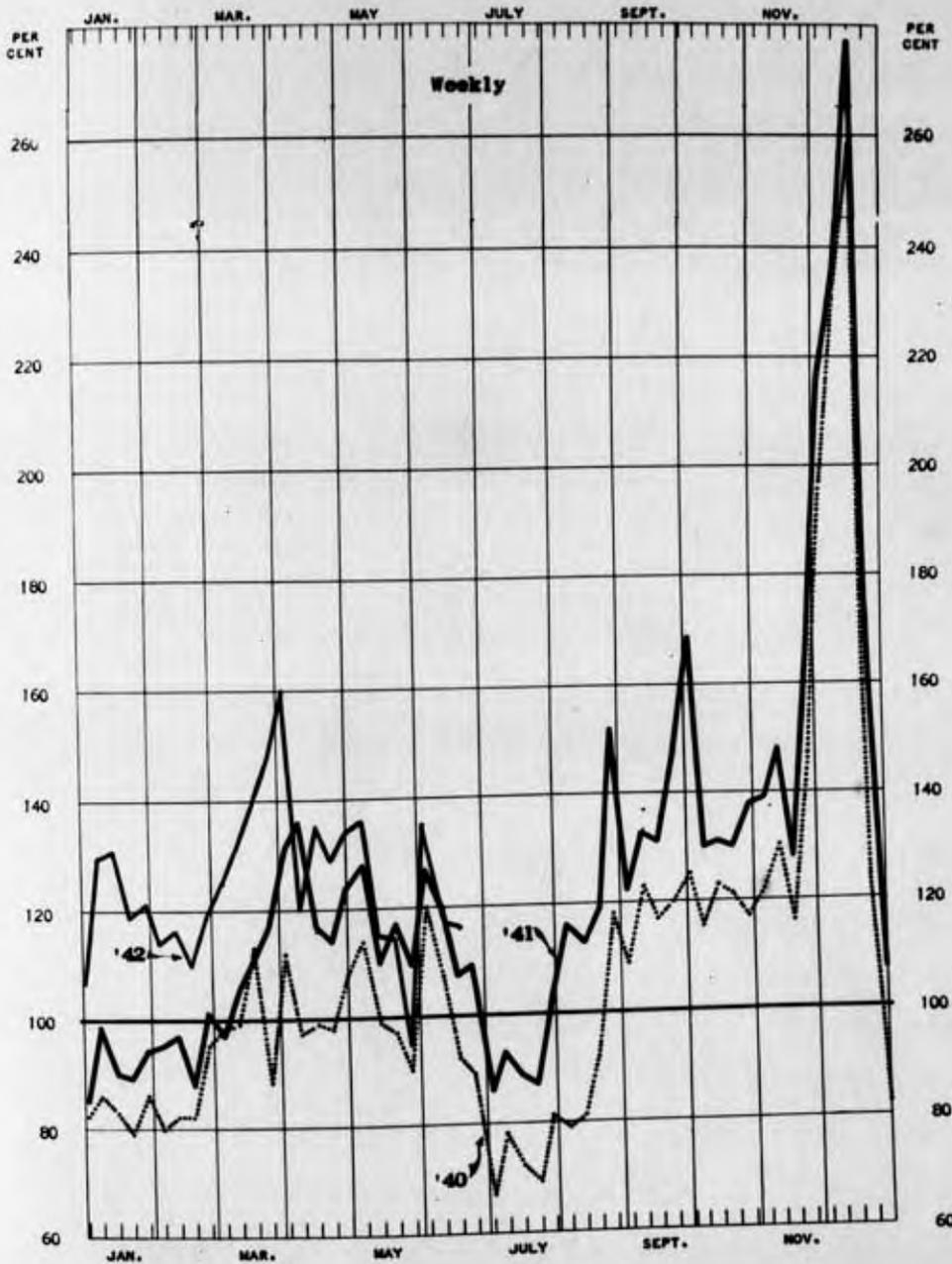
*Dept. of Commerce index of dollar sales of general merchandise in small towns and rural areas.

Office of the Secretary of the Treasury
Bureau of Economic and Statistics

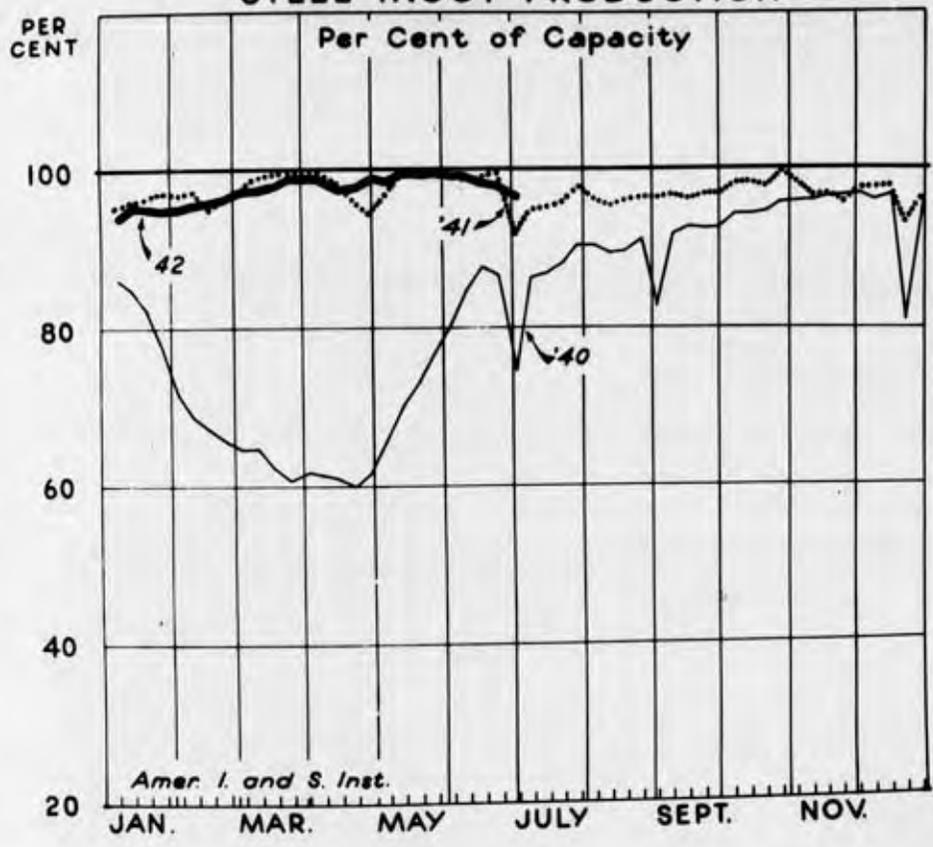
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Chart 6

DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED



STEEL INGOT PRODUCTION



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

C-419

June 29, 1942.

Dear Cordell:

Mr. Chester A. Allen has written me that he is assisting in settling the estate of the late A. Manuel Fox, who died, as you doubtless know, in China recently, while serving as a representative of the Treasury Department.

Mr. Allen asks that I call your attention to his request for a number of letters which will aid him in the collection of the life insurance policies, and in settling other matters in connection with this estate. Anything that you can do to assist Mrs. Fox by expediting letters of certification, in accordance with Mr. Allen's request, will be much appreciated by me. The death of her husband was a real loss, not only to us personally in the Treasury, but to the cause for which we are all working, and I feel justified, therefore, in asking your cooperation in this manner.

Sincerely,

(Signed) Henry

Honorable Cordell Hall,
Secretary of State,
Washington, D. C.

GEY/abs

H.M.C.

By Messenger 5:40

June 29, 1942.

Dear Mr. Allen:

I have your letter of June 25, and the enclosed carbon of one you have written to the Secretary of State.

I have been glad to write to Mr. Hall today, asking his prompt cooperation in the request you make of him. I feel sure that you will hear from his office very shortly, and it is a pleasure to do anything I can to expedite the matter for you and for Mrs. Fox.

Sincerely,

[Signed] H. Morgenthau. FWJ

Mr. Chester A. Allen,
Vice President, Kings County Trust
Company,
342 Fulton Street,
Brooklyn, New York.

N.M.C.

GEF/dbs

Kings County Trust Company
— 342 Fulton Street —
Brooklyn, N.Y.

CHESTER A. ALLEN
VICE PRESIDENT

June 25, 1942

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

Sir:

Enclosed is copy of letter we have just sent to Secretary of State Hull. Because of the tremendous pressure under which the State Department is working now in connection with the so important matters of the war, I venture to send you this copy of my letter in the hope that you could find the time to remind the Secretary of the needs on behalf of Mrs. Fox. As I write this I realize that your Department too is more than busy with the tax bill before the House, but perhaps you will excuse my importunity on the ground that it is for one who willingly gave of his services for his country and most particularly with the thought in his mind that he was pleasing you in giving this service.

Very truly yours,

Chester A. Allen

CAA/GCH
enclosure

June 25, 1942

Hon. Cordell Hull,
Secretary of State,
Washington, D. C.

Re: A. Manuel Fox, Esq., Late American Member
of Chinese Currency Stabilization Board

Sir:

I am endeavoring to assist Mrs. Dora C. Fox, widow of my good friend, A. Manuel Fox, in the collection of assets for his estate and some life insurance policies. It will be of invaluable assistance to me if I may have a certificate from the State Department as to the fact that A. Manuel Fox did die in Chungking, China, just as reported in public prints, and the date of his death. If the State Department will assist Mrs. Fox in this manner, will you please address such letter of certificate to -

Equitable Life Assurance Society,
293 - 7th Avenue, New York City,

New York Life Insurance Company,
51 Madison Avenue, New York City,

Shenandoah Life Insurance Company
Washington, D. C.

Sun Life Insurance Company of Canada
Washington, D. C.

and

To Whom It May Concern.

It would be better for us to have five separate letters, one addressed to each of the five sub-divisions above, but if that is not conveniently possible, one letter addressed to all and with some extra copies may meet our needs.

Your very prompt help in this matter would be of real assistance to Mrs. Fox and would be greatly appreciated by me.

Very truly yours,

Chester A. Allen

CAA/GCH

June 29, 1942

MEMORANDUM FOR THE SECRETARY

Post-war credit for corporations

The post-war credit plan for corporations adopted by the Ways and Means Committee, contains the following specifications:

1. The amount returned be 14 percent of the adjusted excess-profits net income--the base upon which the excess-profits tax is computed. (Giving effect to the proposed refund, therefore, the net excess-profits tax rate will be 80 percent.)
2. The refund be effected by the redemption of bonds issued to the taxpayer.
3. The bonds be issued within 3 months after the payment of the related tax, or the final quarterly installment thereof, for any taxable year.
4. The bonds mature, subject to prior call, as follows: One-third at the end of the second calendar year following the cessation of hostilities; one-third at the end of the third such year; and one-third at the end of the fourth such year.
5. The bonds shall be callable, upon 3 months' notice, at any time prior to maturity date.
6. The maturity date of all the bonds be advertised within 30 days after the cessation of hostilities, and in such a way that the maturity date of any bond shall be readily ascertainable.
7. The bonds be issued under the provisions of the Second Liberty Bond Act, thus payable without the necessity of a special appropriation.
8. The bonds be nonnegotiable and non-interest-bearing.

- 2 -

9. The bonds be assignable after the end of the war.

10. The amount of bonds issuable to any taxpayer in consideration of the tax paid for any taxable year be adjusted for any overage or shortage in the aggregate amount issued to such taxpayer for the prior year or years, any overage finally remaining to be adjusted by cancellation or, at the election of the taxpayer, by purchase at face value.

11. No amount be included in gross income for any year by reason of the receipt of bonds or of amounts paid for their redemption.

12. No amount be available, by reason of the issue of bonds or their redemption, for any of the following purposes:

- (1) The payment of dividends in cash or stock.
- (2) The payment of bonuses or salary increases to executives.
- (3) The increase of cash reserves unless employed in the business.
- (4) The purchase of securities.

13. The amounts refunded to be subject to a "capital gains" tax of 15 percent.

Roy Blough

FROM THE DESK OF
LEON HENDERSON, ADMINISTRATOR
OFFICE OF PRICE ADMINISTRATION
AND CIVILIAN SUPPLY

140

Hon. Henry
Morgenthau

41

The Honorable
The Secretary of Agriculture

Dear Mr. Secretary:

I am greatly concerned about certain proposals now before the Congress which would have the effect of preventing sales of the basic agricultural commodities below parity, and about which we talked briefly yesterday. If certain of these commodities are thereby forced to move into the trade at parity levels, it will be impossible to hold the present ceiling prices on some of the products into which the basic commodities enter as raw materials, without further and somewhat costly measures. The situation is particularly serious with respect to wheat and corn.

The May 15 farm price of wheat was about \$1 per bushel, with a parity price of \$1.34 per bushel. If the price of wheat going into flour were raised to this level, I find it would mean a rise of at least one-half cent in the baker's cost of a loaf of bread. The baking industry is already under a definite squeeze in selling under its March ceilings, and this increase in flour costs would necessarily lead either to a puncturing of the bread ceiling or to subsidies to the flour-milling or baking industries. The same general considerations apply to the breakfast cereals and other products derived from wheat. It is imperative, therefore, that wheat for human consumption be available to the trade at or about present levels and that there be appropriate provision to this end.

In the case of corn, the maintenance of parity prices would upset present feed ratios and make it impossible to hold present ceiling prices on meats and fluid milk unless the Department is prepared, at substantial cost, to provide for resale of corn at or below present prices. I understand, however, that you are insisting on such provisions in the case of corn.

The 100-percent provision would also appreciably increase the pressure on the price ceilings of tobacco and peanut products.

-2-

In view of these considerations and of the President's clear directive, both to my office and to your Department, that living costs be stabilized at March levels, I cannot urge too strongly that every effort be made to prevent any further increase in the costs of these commodities to the food processing industries.

Sincerely yours,

Leon Henderson

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 29, 1942

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

I want to bring you up to date on the progress which we have been making in connection with the Conference of the freezing control authorities of the American Republics, the formal sessions of which begin tomorrow, June 30.

Pursuant to your recommendation, in addition to my designation as the Delegate of the United States, the Treasury will also have four advisers, namely, Harry D. White, John Pehle, Bernard Bernstein and Werner Knoke (of the Federal Reserve Bank of New York). The three advisers from the State Department are Emilio Collado, Donald Hiss and Edward G. Miller, Jr. There is attached a copy of the agenda for the Conference and Regulations governing the conduct of the Conference, as well as a list of the delegates and advisers of the other American Republics.

A considerable amount of excellent work has been done in preparation for this Conference through the closest cooperation among the members of my staff, the staff of Monetary Research and the Administrative Division of Foreign Funds Control. The whole group worked as a very effective unit.

Attached are a number of resolutions which have been drafted for submission at the Conference. In general, they are designed to get the Latin American countries to take appropriate steps, including enactment of appropriate legislation and adoption of appropriate administrative procedures, so that such countries will follow in general the strict policies which have been followed by this Government in the administration of its wartime financial and property controls. For example, we will attempt to get these countries to cut off all financial, trade and commercial relationships with the enemy countries and the countries dominated by the enemy. We will also attempt to get the Latin American Republics to take appropriate steps by way of liquidation, reorganization or vesting so as to wipe out all

- 2 -

Axis influence in business enterprises in the American Republics which are acting for the benefit of the Axis. Arrangements are being made to have these resolutions introduced by representatives of the Latin American Republics rather than by representatives of the United States. All of the attached resolutions have been cleared with the working group at the State Department and are now being cleared with Welles, Acheson and Duggan.

In addition, we have prepared a handbook on the administration of the wartime financial and property controls of this Government, which is being printed in both English and Spanish. We are also getting up a pamphlet which will contain all of our public documents, including legislation, orders, regulations, rulings, licenses, etc., and which will also contain a short summary in English and Spanish of these documents. I will give you copies of the documents as soon as I receive them from the printer. *filed 10/20/42*

There was a preliminary organization meeting at the Pan-American building this morning at which time the agenda, previously drafted by State and Treasury, was agreed to. The closing date for the conference was set for July 10. The procedure to be followed by the conference committees was agreed upon. The delegate from Brazil will be the Vice Chairman of the conference. The American delegate is automatically Chairman.

We have been working hard in preparation for this conference and we are very hopeful that our efforts will be reflected in the accomplishments of the conference.

S. H. F. L.

LIST OF PROPOSED RESOLUTIONS
(NUMBERS ARE UNOFFICIAL AND FOR INTEROFFICE USE ONLY)

1. General Resolution.
2. Standard for Selection of Control of Real and Juridical Persons Within the American Republics.
3. Resolution on Control of Real Persons.
4. Draft of Resolution on Business Enterprises.
5. Standards of Effective Blocking.
6. Financial and Commercial Transactions with Aggressor Nations and Nations Dominated by Them.
7. Financial and Commercial Transactions with Countries Outside the Western Hemisphere.
8. Transactions Among the American Republics.
9. Transactions Outside the Western Hemisphere Involving Another American Republic or the Monetary Unit of Another American Republic.
10. Controls of Currency Movements and Transfers.
11. Control of Security Movements and Transfers.

GENERAL RESOLUTION

WHEREAS:

1. The aggressor nations and other nations dominated by them are engaged in carrying out a program of aggression for the purpose of dominating and controlling all of the world including the Western Hemisphere; and

2. The nations of the Western Hemisphere are united against this program because it threatens their political and economic freedom; and

3. This conference has recommended that the governments of the American Republics proceed immediately with measures designed to implement and to intensify a common program of economic defense;

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

1. That the government of each of the American Republics cooperate freely with all governments of nations of the Western Hemisphere in the formulation of plans and in the actual administration of the program, feeling free to call upon such other nations for the mutual exchange of information and consultation.

Standard for Selection of Control of Real and Juridical Persons
Within the American Republics.

RESOLUTION

WHEREAS:

(1) The Second Meeting of the Ministers of Foreign Affairs of the American Republics held at Habana in July, 1940, resolved that each of the Governments of the American Republics should adopt within its territory all the necessary measures to control and suppress activities directed, assisted or abetted by foreign governments or foreign groups or individuals which tend to subvert their democratic institutions or to foment disorder in their internal political life;

(2) The Third Meeting of the Ministers of Foreign Affairs of the American Republics held at Rio de Janeiro in January, 1942, confirmed those resolutions adopted at Habana and resolved that the Governments of the American Republics take the necessary measures to prevent or punish as crimes acts against the democratic institutions of the States of the Continent in the same manner as attempts against the integrity, independence or sovereignty of any one of them;

(3) The Third Meeting of the Ministers of Foreign Affairs of the American Republics held at Rio de Janeiro in January, 1942, recommended that the Governments of the American Republics take the necessary measures to prevent within the American Republics all commercial and financial transactions inimical to the security of the Western Hemisphere which are entered into directly or indirectly by, or for the benefit of, the members of the Tripartite Pact and the territories dominated by them;

- 2 -

(4) It is recognized that the members of the Tripartite Pact, more commonly referred to as the Axis, through persons, real or juridical, resident and situated within the American Republics, have attempted to effect financial and commercial transactions of a nature inimical to the security of the Western Hemisphere as a part of their program to subvert the democratic institutions within the Western Hemisphere and foment disorder in the internal political life of the American Republics;

(5) Most of the Governments of the American Republics have instituted financial and economic control measures for the purpose of effectuating Resolution V, adopted at the Third Meeting of Ministers of Foreign Affairs of the American Republics held in Rio de Janeiro in January, 1942, and of combatting subversive activities within the Western Hemisphere;

(6) It is recognized that there are residing within the American Republics persons who are not citizens of the Axis nations who are engaged in activities, tending to subvert the democratic institutions within the Western Hemisphere, inimical to the security of the Republics in which they reside and the Western Hemisphere, and for the benefit of the Axis;

(7) It is recognized that there are residing in the American Republics citizens of the Axis nations, who are not engaged in activities inimical to the security of the Republic in which they reside or the Western Hemisphere, and whose loyalty to the Government of the American Republic in which they reside is unquestioned,

- 3 -

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

(1) That the administration of the wartime economic and financial controls of the Governments of each of the American Republics should have as one of its objectives the control of all persons, real or juridical, residing or situated within the American Republics, regardless of nationality, who by their conduct are known to be, or to have been, engaging in activities inimical to the security of the Western Hemisphere and for the benefit of the Axis;

(2) That each of the Governments of the American Republics, through its wartime economic, financial, and other controls eliminate, insofar as possible, from the economic, social and political life of its nation the influence and activities of those persons, real or juridical, residing or situated within the American Republics, who are known to be, or to have been, engaging in activities inimical to the security of the Western Hemisphere and for the benefit of the Axis.

RESOLUTION ON CONTROL OF REAL PERSONS

WHEREAS:

1. The Third Meeting of the Ministers of Foreign Affairs of the American Republics held in Rio de Janeiro in January, 1942, indicated the desire of the Governments of the American Republics to take the necessary measures to supervise and control all commercial and financial transactions in any American Republic, engaged in by real persons resident within the American Republics, whose activities are deemed inimical to the security of the Western Hemisphere; and

2. It is the purpose of any financial control laws relating to real persons resident within the American Republics, whose activities are deemed inimical to the security of the Hemisphere, to eliminate the activities and influence of such real persons insofar as possible.

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

1. That the Governments of the American Republics take the necessary measures, including legislative or executive action, where necessary, as well as administrative action, to carry out the following purposes:

(a) The effective blocking of all the assets, including funds and accounts of all real persons deemed friendly to, or acting for the benefit of, the Axis interests and who are actually or potentially dangerous to the common interests of the American Republics.

- 2 -

(b) The objectives of the effective blocking of the assets of such real persons shall be the following:

(i) Insofar as possible, all cash, securities, or other assets, as well as all current sources of income derived from any source including wages, rentals, profits, commissions, and proceeds from the liquidation of assets, shall be deposited in a blocked account in the central bank or in an approved bank and shall not be subject to use except with the permission of the appropriate governmental authority.

(ii) The governmental authorities shall not permit the release of funds from such blocked accounts except insofar as such release shall be consistent with the fundamental objective of eliminating or greatly restricting all phases of influence and activity of such real persons in the economic, social, and political life of such American Republic.

(iii) Any funds which are released for living expenses of such real persons shall be curtailed to a minimum and the release of funds for any other purpose shall only be allowed where it is clear that the release will not permit such real person to maintain his position of influence and to carry on his inimical activities within the Hemisphere. No blocked funds shall in any event be used for effecting any foreign exchange or import or export transaction unless the blocked real person proves to

- 3 -

the satisfaction of the governmental authority that the transaction will not in any way benefit, directly or indirectly, Axis interests in the country of origin of the transaction or in any other country that may be involved in the transaction.

(iv) In the formulation of plans and in the actual administration of the program each country shall be privileged to call upon any of the other American Republics for assistance, information and cooperation which is desired to assure the success of the program and each country shall cooperate with the other American Republics upon request and shall, within the means and resources available, furnish such assistance and information.

DRAFT OF RESOLUTION ON BUSINESS ENTERPRISES

WHEREAS:

1. At the Third Meeting of Ministers of Foreign Affairs of the American Republics held at Rio de Janeiro in January 1942, it was recommended that the governments of the American republics adopt immediately measures -

"(i) To prevent, within the American Republics, all commercial and financial transactions inimical to the security of the Western Hemisphere, which are entered into directly or indirectly, by or for the benefit of the members of the Tripartite Pact, the territories dominated by them, as well as the nationals of any of them, whether real or juridical persons, it being understood that real persons may be excepted if they are resident within an American Republic and on condition that they are controlled according to the following paragraph;

"(ii) To supervise and control all commercial and financial transactions within the American Republics by nationals of the states signatory to the Tripartite Pact, or of the territories dominated by them, who are resident within the American Republics, and to prevent all transactions of whatsoever nature which are inimical to the security of the Western Hemisphere.

"Whenever a government of an American Republic considers it desirable and in accordance with its national interest and its own legislation, and especially if any of the aforesaid measures, when applied to concrete cases, should be prejudicial to its national economy, the properties, interests, and enterprises of such states and nationals which exist within its jurisdiction, may be placed in trust or subjected to permanent administrative intervention for purposes of control; moreover, such government of an American Republic may resort to sales to its nationals, provided that the proceeds thereof be subject to the same control and to similar regulations as those applicable to the funds of the above-mentioned aliens."

- 2 -

2. The Axis nations have implanted business enterprises throughout the Western Hemisphere in anticipation of the present conflict in the hope that such enterprises would be of use to them in their program of world conquest;

3. The Axis nations have utilized business enterprises owned or controlled by their nationals as instruments of policy for military, economic and political aggression throughout the world;

4. Business enterprises owned or controlled by Axis nationals have been a source of foreign exchange to finance the purchase of supplies and materials to support the aggressive acts of these nations;

5. Business enterprises owned or controlled by nationals of the Axis countries have been a source of funds to finance propaganda, espionage, sabotage, and other subversive activities directed against the nations of the Western Hemisphere; and

6. Business enterprises owned or controlled by Axis nationals by providing seemingly innocent employment have enabled the Axis nations to place agents in the countries of the Western Hemisphere who have engaged in subversive activities and have attempted to subvert the political institutions of the countries of the Western Hemisphere.

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

1. That the governments of the American Republics adopt immediately measures necessary to implement the following program, which has as its

- 3 -

objective the elimination from the commercial, agricultural, industrial and financial life of the Western Hemisphere of all influence of the aggressor nations which is inimical to the interests of the nations of the Western Hemisphere.

(a) All business enterprises owned, controlled or dominated by persons whose activities are inimical to the security of the nations of the Western Hemisphere and where such business enterprises are not essential to the public health, safety, financial security or economic progress of the nation, shall forthwith be liquidated, the assets sold or transferred to persons of unimpeachable loyalty to the cause of the democratic nations and the welfare of the nations of the Western Hemisphere, and the proceeds derived from such liquidation and sale should be effectively blocked.

(b) All business enterprises owned, controlled or dominated by persons whose activities are inimical to the security of the nations of the Western Hemisphere and where such business enterprises are essential to the public health, safety, and financial security or economic progress of the nation should be vested in the government and operated in its interest, or sold as going concerns to persons of unimpeachable loyalty to the cause of the democratic nations and the welfare of the nations of the Western Hemisphere. Regardless of the method utilized by the Government every such business

- 4 -

enterprise shall be reorganized, so as to eliminate all undesirable personnel, practices, contracts and other relationships.

(c) Business enterprises which are owned, controlled, or dominated by persons not acting in the direct interests of the Axis governments but whose activities have been of benefit to Axis interests and injurious to the welfare of the Western Hemisphere shall be reorganized. Undesirable personnel should be dismissed, and undesirable practices, contracts and other relationships should be terminated, and such firms be permitted to continue to operate after such reorganization only under adequate and complete safeguards including the use of interventors in appropriate situations to insure that such objectionable practices and relationships cannot be resumed.

2. That, pending the full implementation of this program and to forestall possible sabotage, destruction or subversive activity in these business enterprises, each country take appropriate precautionary measures, including the use of interventors to scrutinize all transactions;

3. That each country designate or establish an organization charged with the responsibility of administering the program;

4. In the formulation of plans and in the actual administration of the program each country shall be privileged to call upon the other American Republics for assistance, information and cooperation which is desired to assure the success of the program. Each country shall cooperate

- 5 -

with the other American Republics upon request and shall, within the means and resources available to it, grant or furnish technical, financial or other assistance and information.

STANDARDS OF EFFECTIVE BLOCKING

WHEREAS:

1. This Conference has recommended that the governments of the American Republics proceed immediately with measures designed to eliminate the activities and influence of real or juridical persons within the American Republics whose activities are deemed inimical to the security of the Western Hemisphere; and

2. One of those measures will be the effective blocking of the funds, accounts and other assets of individuals and of the net proceeds arising out of the sale, transfer, or liquidation of undesirable business enterprises; and

3. It is recognized that to insure the effective blocking of assets, it is necessary to implement decrees or other laws by the adoption of stringent and flexible administrative procedure;

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

1. That the governments of the American Republics adopt administrative procedures for the effective blocking of assets which include the following:

- 2 -

(a) In so far as possible, all cash, securities, or other assets, as well as all current sources of income derived from any source including wages, rentals, profits, commissions, and proceeds from the liquidation of assets, shall be deposited in a blocked account in the central bank or in an approved bank and shall not be subject to use except with the permission of the appropriate governmental authority.

(b) The governmental authority shall not permit the release of funds from such blocked accounts except in so far as it is established that such release will not benefit directly or indirectly any Axis interests in the country of origin of the transaction or in any other country that may be involved in the transaction; and that such release shall be consistent with the fundamental objective of eliminating or greatly restricting all phases of influence or activity in the economic, social, and political life of the American Republics of any real or judicial persons whose activities are inimical to the security of the Hemisphere.

(c) The effective blocking of accounts necessitates not only the enactment of appropriate decrees or other laws but also the effective administration of such laws. The governmental authority charged with the administration of the control measures must have complete authority to determine that any particular assets are subject to the blocking provisions of the decrees or other laws; to

- 3 -

prevent the use of any blocked assets for any purpose whatsoever, and to deny any application for the release of blocked assets for any purpose whatsoever.

(d) Appropriate penalty measures must be provided which will be sufficient to deter any violation or attempt at violation of the control laws by blocked persons, banks holding blocked accounts, and other interested parties.

FINANCIAL AND COMMERCIAL TRANSACTIONS WITH
AGGRESSOR NATIONS AND NATIONS DOMINATED BY THEM

WHEREAS:

1. The nations which have committed acts of aggression against the American continent are using funds and property within the American Republics, including funds and property looted from real and juridical persons within the nations dominated by the aggressor nations, to threaten the political and economic freedom of the American Republics; and

2. Such aggressor nations have contrived to engage in financial and commercial transactions directly or indirectly with the American Republics which have the effect of furthering their aggression, and of imperiling the security of the Western Hemisphere,

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

1. That the Governments of the American Republics in cutting off all financial and commercial transactions, pursuant to Resolution V of the Third Meeting of the Ministers of Foreign Affairs of the American Republics, held at Rio de Janeiro, with nations which have committed acts of aggression against the American continent, and nations dominated by them, each of the American Republics adopt immediately appropriate measures

- (a) To block effectively the funds and property within the American Republics now held or hereafter acquired by or for the nations which have committed acts of aggression

- 2 -

against the American continent and the funds and property now held or hereafter acquired, by or for any real or juridical person within such nations and nations dominated by them.

- (b) To prevent any real or juridical person within the jurisdiction of such American Republic from engaging in any financial or commercial transaction which involves the exportation of any property of any nature whatsoever, the remittance of any funds, or the transmission of any communication to any person within the aggressor nations or nations dominated by them, whether such exportation, remittance, or transmission is
- (i) directly to any person within such nations, or
 - (ii) to any person within any other part of the world for transmission to or if intended for or destined to any person within such nations,
- except limited payments for living expenses to citizens of such American Republic residing within the territory of the aggressor nations or nations dominated by them, and payments of the expenses of representing the governmental interests of such American Republics within such territory, including the care and safeguarding of governmental property; all of which payments shall be effected by the government of such

- 3 -

American Republic through the Government representing its interests in such territory.

- (c) To prevent any real or juridical person within the jurisdiction of such American Republic from engaging in any financial or commercial transaction which involves the importation of any property of any nature whatsoever or the remittance of any funds, or the receipt of any communication or acting upon any instruction from any person within the aggressor nations or nations dominated by them, whether such importation, remittance, communication, or instruction is

- (i) directly from any person within such nations, or
- (ii) from any person within any other part of the world when such importation, remittance, communication, or instruction originates from any person within such nations,

except limited payments for living expenses to citizens of such aggressor nations or nations dominated by them and payments of the representation expenses of such nations within such republic; all of which payments shall be effected by the Government of such nation through the Government representing its interests in such American Republic and shall in no case be made except against foreign

- 4 -

exchange remitted from abroad and not out of the blocked funds and other assets of such nation in the American Republic.

FINANCIAL AND COMMERCIAL TRANSACTIONS WITH
COUNTRIES OUTSIDE THE WESTERN HEMISPHERE

WHEREAS:

1. The nations which have committed acts of aggression against the American continent have cloaked their funds and property in the names of real and juridical persons in other nations outside the Western Hemisphere, and have used such funds and property in a manner that threatens the security of the Western Hemisphere; and

2. The aggressor nations have conspired to carry on commercial and financial transactions through real and juridical persons in other nations outside the Western Hemisphere for the purpose of strengthening the economy of the aggressor nations, and of imperiling the security of the Western Hemisphere,

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

1. That the Governments of the American Republics, in cutting off financial and commercial transactions with other nations outside the Western Hemisphere when such transactions are directly or indirectly of benefit to nations which have committed acts of aggression against the American continent, adopt immediately appropriate measures:

- (a) To regulate and control the funds and property within the American Republics now held or hereafter acquired by or for nations outside the Western Hemisphere or real and

- 2 -

juridical persons within such nations, except nations which have cut off commercial and financial transactions with the aggressor nations.

- (b) To prevent any real or juridical person within the jurisdiction of such American Republic from engaging in any commercial or financial transaction which involves the exportation or importation of any property of any nature whatsoever to nations outside the Western Hemisphere, or the remittance of funds to or from any person in nations outside the Western Hemisphere, when such exportation, importation or remittance is of benefit to the nations which have committed acts of aggression against the American continent, or to the nations dominated by them.
- (c) To prevent all transactions between the American Republics and nations outside the Western Hemisphere involving any real or juridical person within any nation outside the Western Hemisphere whose activities are deemed inimical to the security of the Western Hemisphere.

TRANSACTIONS AMONG THE AMERICAN REPUBLICS

WHEREAS:

1. The nations which have committed acts of aggression against the American continent have contrived to continue undercover financial and commercial transactions among the American Republics which are of benefit to themselves and through which they encourage subversive activities within the American Republics, and

2. The American Republics are determined through increased vigilance and through mutual cooperation to eradicate all commercial and financial transactions among the American Republics which are of benefit to the aggressor nations,

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

1. That the Governments of the American Republics in cooperating with each other to prevent financial and commercial transactions among the American Republics which are of benefit to any of the nations which have committed acts of aggression against the American continent or any real or juridical persons within the American Republics whose activities are inimical to the defense of the Western Hemisphere, adopt immediately appropriate measures

- (a) To supervise adequately financial and commercial transactions among the American Republics to assure each other that such transactions are not of benefit to the aggressor

- 2 -

- nations or to persons whose activities are inimical to the defense of the Western Hemisphere.
- (b) To consult with each other and freely exchange information with respect to financial and commercial transactions among the American Republics, to prevent transactions which are of benefit to the aggressor nations or the persons whose activities are inimical to the defense of the Western Hemisphere.
- (c) To safeguard adequately in other ways the commercial and financial transactions among the American Republics to prevent transactions which are of benefit to the aggressor nations or to persons whose activities are inimical to the defense of the Western Hemisphere.

TRANSACTIONS OUTSIDE THE WESTERN HEMISPHERE
INVOLVING ANOTHER AMERICAN REPUBLIC OR THE
MONETARY UNIT OF ANOTHER AMERICAN REPUBLIC.

WHEREAS:

1. The nations which have committed acts of aggression against the American continent have cloaked transactions for their benefit with and through the American Republics by having them appear to originate or terminate in other nations outside the Western Hemisphere or in the American Republics, and have conspired to evade in this manner the control measures of the American Republics; and

2. The aggressor nations have conspired to utilize the monetary and banking systems of the American Republics to cloak the financial transactions designed to further their aggression;

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

1. That the Governments of the American Republics, in cooperating with each other pursuant to Resolution V of the Third Meeting of the Ministers of Foreign Affairs of the American Republics, held at Rio de Janeiro, to prevent the monetary and banking systems of the American Republics from being used for the benefit of the nations which have committed acts of aggression against the American continent, adopt immediately appropriate measures -

- 2 -

(a) To prevent any transactions subject to the jurisdiction of such American Republic involving a real or juridical person within any nation outside the Western Hemisphere (except nations that have cut off commercial and financial transactions with aggressor nations), and a real or juridical person in another American Republic, except transactions which have received the approval of the other American Republic.

(b) To prevent any transactions subject to the jurisdiction of such American Republic with real or juridical persons within nations outside the Western Hemisphere (except nations that have cut off commercial and financial transactions with aggressor nations) involving the monetary unit of another American Republic, except transactions which have received the approval of the American Republic whose monetary unit is involved in the transaction.

CONTROLS OF CURRENCY MOVEMENTS AND TRANSFERS

WHEREAS:

1. The nations which have committed acts of aggression against the American continent have looted United States dollar currency from the victims of their aggression and are seeking to utilize such looted currency to strengthen their economy for further aggressions and

2. The aggressor nations have conspired to dispose of looted United States dollar currency within the American Republics and to use the proceeds that might be derived therefrom for the destruction of the political and economic security of the Western Hemisphere, and

3. The United States Government pursuant to Resolution V of the Third Meeting of the Ministers of Foreign Affairs of the American Republics, held at Rio de Janeiro, has taken steps to prevent looted United States dollar currency from being utilized by the aggressor nations,

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

1. That the Governments of the American Republics in preventing all transactions in United States dollar currency for the benefit of the aggressor nations, adopt immediately appropriate measures

- (a) To prohibit, in the absence of other arrangements mutually satisfactory and agreed to between the American Republics involved, the importation and exportation of United States

- 2 -

dollar currency except importations and exportations by or through the Central Bank or other officially designated institution from or to the United States.

- (b) To prohibit, in the absence of other arrangements mutually satisfactory and agreed to between the American Republics involved, all dealing in and all holding of United States dollar currency, unless such currency constitutes a necessary part of the circulating medium, and to require that all such currency, the dealing in and holding of which has been prohibited, be deposited for collection with the Central Bank or other officially designated institution of such Republic for exportation to the United States.

CONTROL OF SECURITY MOVEMENTS AND TRANSFERS

WHEREAS:

1. The nations which have committed acts of aggression against the American continent have looted securities from the victims of their aggression and have utilized this loot to strengthen their economy for further aggressions; and

2. The aggressor nations have attempted to dispose of such looted property within the American Republics and to use the proceeds to finance subversive activities inimical to the freedom and security of the Western Hemisphere,

The Inter-American Conference on Systems of Economic and Financial Control

RECOMMENDS:

1. That the Governments of the American Republics in preventing all transactions in securities for the benefit of the aggressor nations, adopt immediately appropriate measures

- (a) To regulate the importation into such American Republic of securities in such manner that any security imported into such American Republic will be effectively blocked and such security, or the proceeds thereof, will be immobilized unless and until it is proved that no aggressor nation or nation dominated by the aggressor, or person within any such nation has had an interest in such security at any time on or since September 1, 1939.

- 2 -

- (b) To prohibit any dealing in, or the disposition by sale, transfer, hypothecation, or otherwise, of any security within such American Republic if such transaction is pursuant to any communication or instruction received directly or indirectly from any person within any aggressor nation or nation dominated by the aggressor.
- (c) To prohibit any dealing in or the disposition by sale, transfer, hypothecation, or otherwise, of any security within such American Republic, other than a dealing in or a disposition which results in the complete blocking and immobilization of such security or the proceeds thereof, if any person within any aggressor nation or nation dominated by the aggressor has an interest in such security or proceeds, or from which dealing or disposition any such person will derive any benefit, direct or indirect.
- (d) To prohibit the acquisition or dealing in any security of any interest in any security located outside of such Republic by any person within such Republic, except under appropriate controls by such Republic which will guarantee that no person within an aggressor nation or nation dominated by the aggressor has an interest in or will derive any benefit, direct or indirect, therefrom.

TELEGRAM SENT

AHC

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

June 29, 1942

9 p.m.

AMBASSY,

BUENOS AIRES.

966

Triple Priority

Your 1246, June 25, 8 p.m., your 1266, June 28, 2 p.m., and the Department's 909, June 17, 7 p.m.

The Department and Treasury do not feel that the proposed currency controls reported in your 1246 are in accord with those outlined in your 1145, June 15, in which you indicated that the Central Bank was prepared to call in all (repeat all) holdings of dollar currency.

The Department and Treasury regret that the Central Bank is not now disposed to follow the procedure outlined in the Department's telegram under reference. Several of the other American republics have already instituted controls over dollar currency which approximate the suggested procedure. It was hoped that Argentina, one of the countries having a substantial dollar currency market, would do the same and thus fully implement the currency controls established by this Government, and Resolution V of the Rio Conference.

In view of the previous proposal by the Central Bank to call in all holdings, it is difficult to understand why the Central Bank now considers that it does not have the power so to do. Even if the Central Bank is correct, it could certainly obtain the necessary power through effective cooperation by the Argentine Government.

The controls proposed by the Central Bank are believed to be inadequate, but if the program suggested in the Department's 909 is impossible, of adoption by Argentina at the present time, the Department and Treasury recommend that the following points be brought to the attention of the Argentine authorities:

-2-

- One: A prohibition against dealing in dollar currency cannot be effectively administered in the absence of a prohibition against the holding of such currency. Permitting individuals to continue to hold dollar currency encourages smuggling, and the existence of a black market.
- Two: The Central Bank should not (repeat not) grant licenses for the exportation of dollar currency to any place other than the United States. It is also felt that export licenses should be granted only in cases where the currency will be shipped to the United States by or through authorized banks.
- Three: The Central Bank should make it clear to all persons that export licenses granted by it are no (repeat no) guarantee whatsoever that the currency will be released by Treasury upon its importation into the United States.
- Four: Prior to granting export licenses, the Central Bank, in addition to the information outlined in the Department's telegram under reference, should obtain the serial numbers of the dollar currency to which the export license relates, and should turn over these serial numbers together with the other information to the Embassy for forwarding to the Department.
- Five: Treasury's attitude toward the holdings of banks and exchange houses under the control of the Central Bank as of May 19 was predicated upon the assumption that the Central Bank would adopt the controls outlined in your 1145 of June 15, which closely approximated the program suggested in the Department's telegram under reference.

HULL
(DH)

FF:TTjr:GEP FD EO RA

Copy:lc:7/20/42

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TELEGRAM SENT

HAS

A portion of
this telegram must be closely
paraphrased before being
communicated to anyone. (RR & B)

June 29, 1942

8 p.m.

AMEMBASSY

RIO DE JANEIRO

TRIPLE PRIORITY

1718

Your 2220, June 24, 5 p.m., and your 2260, June 27, 3 p.m.

The Brazilian procedure for administering currency controls and the political considerations involved in securing the adoption of the Treasury procedure have been explained to the Treasury Department. As a result the following procedure has been agreed to by Treasury, which the Department and Treasury hope will be satisfactory:

One. Treasury will accept all dollars already deposited, which have been or in the future may be converted into milreis, provided the dollars are accompanied by a certificate from the Embassy or Consulate when shipped to the United States. It is assumed that Treasury will be requested to accept such dollars only with respect to those deposits which have been or may be found to be satisfactory.

(BEGIN CONFIDENTIAL) The deposits by the French and Spanish Embassies should not (repeat not) be liquidated without prior consultation with the Department and Treasury and it is assumed that you will follow a similar procedure with respect to any other unusually large deposits where suspicious circumstances are involved. (END CONFIDENTIAL)

Two. With respect to deposits objectionable as to person or source and deposits by European refugees who are friendly but subject to Axis pressure because of home ties, it is assumed that the depositor will be given the option of transfer to a special account in the United States or deposit in a special blocked dollar account in the Bank of Brazil as outlined in your 1975, June 10, 9 p.m. Should such deposits be placed in a blocked dollar account in the Bank of Brazil, it is understood that you will permit withdrawals from such accounts only up to the sum of \$500, said withdrawals to be in milreis and to be permitted only in cases where funds are necessary for subsistence purposes and only after agreement by the depositor to permit the Bank of Brazil to send the balance to the United States on a collection basis.

- 2 -

Three. With respect to future deposits by such persons as recently arrived American tourists, Army and Navy personnel, merchant seamen, ferry command personnel, et cetera, Treasury is prepared to accept reasonable amounts of dollars converted into milreis with the approval of the Embassy or the Consulate.

Four. With respect to all other future deposits, it is assumed that there will be no difficulty in following the Treasury procedure of having all such deposits forwarded to the United States on a collection basis in the manner outlined in the Department's 1597, June 10, 9 p.m.

HULL
(DH)

811.51/4327

FF:TT Jr:MKG FD EO RA

Copy:bj:7-3-42

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BAS

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

Bogota

Dated June 29, 1942

Rec'd 7:20 p.m.

Secretary of State,
Washington.

878, June 29, 3 p.m.

Reference is made to the Department's circular telegram dated May 18 and Embassy's telegram 677, May 19.

The Colombian Government under date of June 27 issued a decree prohibiting the import and export of United States dollar currency except through the Bank of the Republic and making the following regulations concerning dealings in such currency; all payments and other transactions within Colombia are prohibited.

Holders must deposit all such currency with the Bank of the Republic or with one of its agencies within 15 days of the day of the decree. The Bank of the Republic will send such deposits to the United States for deposit or collection all of which will be exchanged into Colombian pesos.

If bills are not accepted by the United States Government they will be held by the Bank of the Republic until regulatory decrees are issued.

Depositors with the Bank of the Republic must make full declaration descriptive of the transactions through which such bills were required.

The Bank of the Republic will purchase amounts brought into Colombia by persons returning from the United States or other American Republics. These purchases will be made per decrees 386 and 1915 of the year 1936 referring to tourists.

This decree regulates the operations of all previous provisions, rules and decrees referring to currency.

LANE

JRL

Copy: vv; 6-30-42

NMC

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

Habana

Dated June 29, 1942

Rec'd 5:49 a.m., 30th.

Secretary of State,

Washington.

476, June 29, 9 p.m.

Minister of the Treasury informed me this afternoon that at forthcoming financial conference in Washington Cuban delegate will be instructed to propose that American Governments may take over funds of enemy or enemy occupied countries (with permission of owners in latter case) and invest same in government bonds.

BRADEN

RR

Copy:lc:7/1/42

Treasury Department 181
Division of Monetary Research

① Date July 1 19 42

To: Secretary Morgenthau

From: Mr. White

I am afraid this may annoy
you, but nonetheless you might be
interested.

H.D.W.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 29, 1942

TO Mr. White
FROM Mr. Hoflich

The appended statement is bitterly critical of the voluntary feature of the British War Savings system, chiefly on the ground that it has resulted in widespread inequality of sacrifice. The opinion is expressed that "everybody would have been much happier and victory over despotism nearer" if the Government had instituted enforced savings at the outset.

The statement, in the form of a letter from the American Consul at Birmingham to the American Consul at London, is based upon conversations with a small number of people — "ten or so" acquaintances of the Consul at Birmingham.

It is charged further that:

1. "In many cases the cost of exerting the pressure.....has actually been much greater than the amount of money such pressure squeezed out."
2. "The worker has come to regard with loathing a type of pressure which is all too frequently brought to bear upon him" to purchase War Savings securities.
3. The refusal of many people to save up to their capacity has led to a large volume of hoarding and black market activities.
4. The reported results of the savings campaign are deceptive in that a large proportion of the securities purchased do not represent genuine savings.

The hope is expressed that "the United States will dare demand that the individual American citizen bear his fair share of the population's responsibility in the matter of lending his Government the money which that Government needs for the successful prosecution of the war."

COPY FOR SECRETARY

DEPARTMENT OF STATE
WASHINGTON

June 26, 1942

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of a strictly confidential letter under date of May 27, 1942 from the American Consul at Birmingham to the American Consul at London concerning the attempts of the British Government to induce the population of that country to save and invest in government obligations.

Enclosure:

Letter dated May 27, 1942,
from Consul at Birmingham
to the Consul at London.

Copy:lc:6/27/42

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YSTRICTLY CONFIDENTIAL

800-JRW:dc

Birmingham 2, May 27, 1942.

Glenn A. Abbey, Esquire,
American Consul,
London, W. 1.

Dear Mr. Abbey:

During the last several days I have got into touch with ten or so men of my acquaintance with a view to seeing what they think about the method the British wartime Government has adopted to encourage people to lend it their money rather than unnecessarily spend it. In main upshot, what these men said added up to the opinion that everybody would have been much happier and victory over despotism nearer if, at the outset, that Government had simply required the individual citizen to save during a given period an amount the size of which depended upon his income and family responsibilities.

The criticism that the method the British Government has adopted has resulted in widespread inequality of sacrifice was little short of fierce. In any large body of citizens representing some sort of a category, among clerical workers, for example, while some have saved till it hurt, others have grimly resisted all appeals and have saved nothing. In many cases the cost of exerting the pressure brought to bear on the individual to save has actually been much greater than the amount of money such pressure squeezed out. Among people of wealth, there have been all too many who have absolutely refused to save to any degree approaching capacity, such refusal being motivated by downright suspicion that a postwar government would devise means to bilk. An enormous aggregate of money that should have gone into savings has instead gone into the hands of traders who possess a cunning knowledge of that trait in human character which makes people want to exchange what they fear will later become worthless for something whose intrinsic value is more or less static - for example, furniture, diamonds, gold, land.

Price/

Price regulation, rationing, scarcity, and so forth, have, without doubt, created huge savable surpluses. But of these precious little has been converted into Government securities. The spectacle of the over-paid war worker throwing his easily acquired wealth about is merely one evidence of this. Packed public houses is another. Black market transactions in cash is yet another. Daily, thousands of pounds find their way into the hands of vendors whose most effective sales argument is that sterling as well as British Government securities will one day be worth nothing.

The periodically reported results of the saving campaign are deceptive. The Government well knows this. But the Government does not care. Indeed, it looks upon the fact as a necessary evil, a sort of pious misrepresentation. Out of every ten pounds sterling reported as saved perhaps as much as five, or maybe even more, represents what, in effect, is little different from money taken out of one pocket and put into the other. Banks, insurance companies, building societies, and private business organizations have been willing to accommodate, willing to help boost collections up nearer the quotas fixed. In consequence, the man in the street has often been encouraged or shamed into rising to what he has been hoodwinked into believing is the average citizen's standard of patriotism or sacrifice in the matter.

The country swarms with busybodies who spend days on end extracting small amounts from small citizens when the time could be much more effectively and profitably devoted to work at the bench or to operating a machine tool. The aggregate of energy exerted to maintain the volume of savings among wage earners is appallingly great. But what is worse, the worker has come to regard with loathing a type of pressure which is all too frequently brought to bear upon him to part with the instalments he has tongue in cheek promised periodically to pay.

Yet it is now perhaps too late for the British Government to inaugurate the system it did not have the courage or foresight to inaugurate at any one of the several junctures at which the people were ready, willing, even anxious to be told what their plain and individual duties were with respect to lending the Government money, with respect to cutting down their power to pay for nonessential commodities and services.

There/

- 3 -

There has been a great deal of controversy about ways and means, but, at least among intelligent citizens, there has seldom been any argument about the principle. During war, lending the Government money is no lesser duty than paying taxes, and, capacity to lend or pay taxes is the obvious measure of what is the twofold duty in the individual case. After this duty is discharged, and only after it is, has the citizen any scope for doing that which may fairly be looked upon as being more than his country can rightly demand of him.

No matter which way or means may be adopted to lay down what the individual citizen's duty is, there will always be a section of the population whose members will be able to and will maintain a standard of life unbecomingly higher than the standard maintained by the vast majority of their less fortunate compatriots. But this is no valid argument against the principle nor should it have ever been allowed to stand in the way of reducing the buying power of that majority to a level that must have spelt an immediate, lasting, and radical curtailment of the consumption of nonessential commodities as well as the use of nonessential services.

There is much in one complaint that thousands upon thousands of British savers have made against their non-saving neighbors. The latter are buying property or refusing to do without nonessentials. In other words, they are either translating their money into things which they will have after the war or are making the most of the "enjoy life now" doctrine. The former, however, are doing without nonessentials, are currently foregoing enjoyments, and are lending the money they thus save to their Government. If, after the war, the purchasing power of the money in which the Government refunds loans is far beneath the purchasing power of the money lent, the relative positions of these two classes of citizens will do little more than illustrate about all there is in the saying that virtue is its own reward. Any postwar loss resulting from lending the Government money during the war should be a burden borne not just by the patriot but by each and every individual as a citizen and according to his ability to bear such burden.

The United States has won great admiration in England for its will to adopt, one by one, not the half but the whole measure which latter a sense of justice coupled with courage so unhesitatingly recommends. And a great many

Englishmen/

- 4 -

Englishmen are today watching with friendly interest, with enlightened hope, to see whether the United States will dare demand that the individual American citizen bear his fair share of the population's responsibility in the matter of lending his Government the money which that Government needs for the successful prosecution of the war.

Very truly yours,

James R. Wilkinson
American Consul

A true copy of
the signed original.

Copy:lc:6/27/42

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PLAIN

London

Dated June 29, 1942

Rec'd 1:20 p.m.

Secretary of State

Washington

3608, twenty-ninth

Legation Stockholm still opposes proclaimed listing Rober Gotthard Wunsche.

Embassy and British will deal with this and other so-called "political" cases upon completion forthcoming discussions here of listing policy in Sweden. Results of discussions will be submitted Department for consideration and with request that further instructions be sent Legation Stockholm. In meantime if Department desires telegraph Embassy comment on Stockholm's 1302, May 23, guidance given will be helpful in London discussions.

If Legation Stockholm remains unable concur on "political" cases on basis new instructions Embassy will of course inform British of failure of ordination and report cases in full to Department.

WINANT

WSB

Copy:lc:7/2/42

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

London

Dated June 29, 1942

Rec'd 7:07 p.m.

Secretary of State,

Washington.

3621, June 29, 11 p.m.

Embassy assumes omission of Stockholm from Department's
unnumbered undated telegram quoting Proclaimed List
operations circular of June 23, 6 p.m. to Ankara, Bern,
Madrid and Lisbon was intentional, and that missions have
been instructed to air mail copies of reports to Embassy
London.

WINANT

CSB

Copy:lc:6/30/42

Treasury Department 190
Division of Monetary Research

Date July 1 19 42

To: Miss Chauncey

From: Mr. White

Please call to the Secretary's
attention.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 29, 1942

TO Secretary Morgenthau
FROM Mr. White
Subject: Desire of Iranian Government
to Purchase Silver

The State Department has cabled a reply to the American Legation in Iran concerning the inquiry of the Iranian Government on the availability of silver that could be purchased by Iran for coinage purposes.

The reply states that the Treasury has informed the State Department that the Treasury does not at present have authority to sell Treasury silver. Because of wartime need for silver the silver market is becoming increasingly tight and some difficulty may be experienced by Iran in acquiring silver in this country. The Iranian Trade Commissioner in New York has suggested to his Government the possibility of obtaining silver from India. The Treasury has informed the State Department that the price of silver in India is nearly twice as high as in the United States and that the British Government itself is seriously short of silver.

COPY FOR SECRETARY

DEPARTMENT OF STATE
WASHINGTONIn reply refer to
FD 891.515/81

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and with reference to the Department's letter of June 12, 1942, transmitting a copy of telegram 193 under date of June 10 from the American Legation at Tehran concerning the desire of the Iranian Government to purchase silver transmits herewith a copy of the Department's reply thereto, telegram 159 under date of June 19.

Enclosure:

To Legation, Tehran,
no. 159, June 19, 1942.

Copy:imc:6/26/42

TELEGRAM SENT

FMH

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

June 19, 1942

Noon

AMLEGATION,

TEHRAN, (IRAN).

159

Your 193, June 10, 10 a.m.

1. Last week Saleh* inquired informally of the Department whether this Government would license the export of silver to Iran for coinage purposes. After inquiry of the Treasury Department and the Board of Economic Warfare (the licensing authority) Saleh was informally advised that the Department did not contemplate any difficulty in obtaining export licenses for shipments of silver to Iran for legitimate coinage purposes. At the same time it was pointed out that it might be extremely difficult to purchase any significant amount of silver in the open market and the suggestion was advanced that Iran might look into the possibility of purchasing silver in India.

2. The Treasury Department does not at present have the legislative authority to sell the silver which it holds. At the same time there is a great need for silver for industrial war purposes for solders, et cetera and in substitution for copper for

electrical

*Head of Iranian Trade & Economic Commission, located in New York City. FD

- 2 -

electrical purposes and this has made the silver market a very tight one. The whole silver question is receiving the study of interested agencies of this Government and it is possible that in the near future legislation may be suggested to Congress which if it is passed may effect the release of some of the silver held by the Treasury for war uses and for essential coinage needs. The Department will advise you if there is any change in the present situation. In the interim the Department is reluctant to assist foreign governments in diverting from the open market silver which is badly needed for the war effort. Even with the assistance of the Department it is believed that Iran would find it extremely difficult and slow to acquire silver in the open market.

3. With respect to the suggestion to Saleh that Iran look into the possibility of obtaining silver from India the Department has subsequently been informed by the Treasury that the price of silver in India is nearly twice as high as the price in the United States and further that the British Government itself is running seriously short of silver. In the light of this information there may be little point in the Government of Iran taking this question up with the Indian authorities.

HULL
(AAB)

891.515/81

FD:GL:BM NE EO

Copy:imc:6/26/42

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

Mexico City

Dated June 29, 1942

Rec'd 10:47 p.m.

Secretary of State,
Washington.

746, June 29, 6 p.m.

Department's 879, June 20, 9 p.m. regarding
Ulises Miranda British concur in recommendation as
set forth in Embassy's telegram 683, June 12.

MESSERSMITH

EMB

Copy:bj:6-30-42

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BANCO CENTRAL DE RESERVA
DE EL SALVADOR

SAN SALVADOR, June 29, 1942

Ref. 9S - 1355

Federal Reserve Bank of New York
New York, N.Y.

Dear Sirs:

For the purpose of strengthening our gold reserves and maintaining the U.S. Dollar rate of exchange at the actual level we should be much obliged to you if you would kindly buy for our account 71 standard gold bars of approximately 400 fine ounces each.

We wish that the gold be held by you under earmark for our account. Please obtain the necessary licenses.

Thanking you in advance for your cooperation in this matter, we are, Dear Sirs,

Very truly yours,

BANCO CENTRAL DE RESERVA
DE EL SALVADOR

(signed)

President

Secretary

VMV/jfb

Note: This sale of approximately \$1,000,000 in gold will be made on July 6, 1942 - FD

ad

copy:7/6/42:kma

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 220

Information received up to 7 A.M., 29th June, 1942.

1. NAVAL

TARANTO. 26th. Photographs show one LITTORIO class battleship entering the graving dock.

TRONDHEIM. TIRPITZ, HIPPER and 4 destroyers were still present at noon 27th.

2. MILITARY

EGYPT. 27th. The enemy who had concentrated his forces in a locality about 20 miles south of MATRUH was engaged throughout the day by all formations of the Eighth Army. Our infantry opposed the enemy's eastward thrust and attacked his northern flank while our armoured and motorised forces operated further west against his southern flank and rear. The battle remains extremely fluid and details are still lacking. The general trend of movement continues in an easterly and southeasterly direction and our forces in the MATRUH area appear to be withdrawing to a position west of FUKA.

3. AIR OPERATIONS

WESTERN FRONT. 27th/28th. BREMEN. 118 aircraft dropped about 265 tons of bombs, weight of incendiaries being approximately four times that of H.E. 28th. 31 aircraft were despatched - ST. NAZAIRE 14, Intruders 9, shipping 3. One Stirling is missing. Hurricane bombers off CALAIS hit a 4,000 ton ship which was last seen listing. They also damaged one E-boat. About 40 enemy aircraft operated against the west country chiefly WESTON-SUPER-MARE. 2 were destroyed, one by intruders, and a third damaged.

EGYPT. 26th. Our fighters intercepted 20 escorted dive bombers near MERSA MATRUH, destroying 6 enemy aircraft and damaging 8. At night bombers successfully attacked TOBRUK harbour and set on fire a vessel 30 miles to the East.

27th. Intensive operations were continued in support of our land forces. Beaufighters successfully attacked landing grounds in CYRENAICA and road traffic between MERSA MATRUH and BARDIA.

4. HOME SECURITY

WESTON-SUPER-MARE. 29th. At about 2 a.m. incendiaries were dropped followed shortly by heavy H.E. and machine gun fire. Serious fires reported in the centre of the town are under control. Casualties are likely to be higher than on the previous night when killed were 36 as now reported.

June 30, 1942.
10:23 a.m.

HMJr: Hello.
Operator: Mr. Nelson is out until about eleven-fifteen.
HMJr: Eleven-fifteen.
Operator: That's right.
HMJr: Well, leave word I want to talk to him.
Operator: All right.
HMJr: Please.

12:04 p.m.

HMJr: Hello.
Operator: Mr. Nelson.
HMJr: Hello.
Donald
Nelson: Hello.
HMJr: Henry talking.
N: Yes, sir. Hello, Henry.
HMJr: How are you? Don, this is the thing that I
want your advice on. Congress is talking
about a five percent withholding tax. Hello.
N: Yes.
HMJr: And we've been talking about it. Now I've
asked Internal Revenue to give me an idea of
what it meant in the way of equipment, you
see?
N: Yes.

- 2 -

HMJr: And they said if they worked - hello....

N: Yes.

HMJr:day and night, two shifts, it would mean twenty-one hundred more typewriters, three hundred adding machines, and everything proportionate, you see?

N: Yes, about three hundred adding machines.

HMJr: And sixty-four calculating machines and sixty-four addressographs, and so forth and so on, and that's just for the - and thirteen thousand more employees, working two shifts. Now they then made a calculation as to what it would mean to a company that had one hundred employees - hello....

N: Yes.

HMJr:and they - not - and it would take two weeks' time for a company that had one hundred employees, and they've got a lot of stuff on this and there's no use our going ahead with this unless we know we can both get the manpower and the - the equipment.

N: The equipment? What would it mean with equipment with companies? Would it....

HMJr: Well, what I thought I'd like to do is, I'd like Sullivan and Helvering to meet with somebody in your office....

N: Fine.

HMJr:and talk the whole thing over.

N: Fine. I'll be glad to do it.

HMJr: If - and then if we find that the equipment - well, let's see, twelve thousand four-drawer letter cabinets, for instance.

N: Well, those could be made of wood, Henry.

HMJr: Yes, but I don't want to get into an impossible situation - and now's the time to find out.

- 3 -

N: Well, suppose I have Eddie Locke - I have Eddie Locke see Danny Bell and we'll let him straighten it out....

HMJr: Fine.

N:and have Eddie Locke see Helvering.

HMJr: Well, let's see - let him start with John Sullivan.

N: With Johnny Sullivan. Okay.

HMJr: Will you do that?

N: I'll do it right away.

HMJr: And Bell was very pleased. He said Locke was a very able man.

N: Oh, he is an able fellow.

HMJr: Yeah.

N: Well, we'll do it. I'll have Eddie Locke see - Eddie - see Johnny Sullivan right away.

HMJr: You can see that we don't want to (laughs) - if you were in the Treasury you wouldn't want to get into a thing like this if we're not going to be able to go through with it.

N: No, (laughs) I can see that very definitely, and I'll get after it right away.

HMJr: Thank you.

N: Okay.

June 30, 1942

This material was used at the conference between the Secretary, Mr. Sullivan and Commissioner Helvering on June 30, 1942, at 10:05 a.m. Meeting was not recorded.

6/30/42

EFFECT OF THE PROPOSED WITHHOLDING TAX
ON A CORPORATION WITH 100 EMPLOYEES

1. On January 1, 1943, the pay clerk will examine his payroll and select the names of the employees to whom the rate of pay is \$11.00 or more a week and ask each of them to fill in Form W-2.

Payroll List for Last Week in December 1942

Name	Social Security Number	Hourly Rate	Hours Worked	Total Paid	Employees from whom Form W-2 will be obtained
Adams, A. B.	3416192	40	40	\$16.00	✓
Allen, R. W.	216394	60	20	12.00	✓
Brown, C. R.	618934	58	16	9.28	
Botts, J.	792341	100	30	30.00	✓
(Etc., to 100)					

2. A. B. Adams, R. W. Allen and J. Botts, will be presented with exemption Form W-2, which will be prepared in duplicate, showing

1. Name and address of employee
2. Social Security number
3. District in which tax return will be filed
4. Marital status
5. Number of dependents.

3. The payroll clerk will receive the forms as soon as prepared and from a table to be furnished each employer (similar to Optional Form 1040-A) showing the amount exempt from withholding for each marital status and dependent and indicate the amount exempt on the payroll record of each of the employees from whom exemption forms have been obtained.

- 2 -

For example, A. B. Adams shows that he is married and has 2 children. From the table, the payroll clerk ascertains that his exemption is \$43.00 for one week. R. W. Allen shows that he is single. From the table, the payroll clerk ascertains the exemption to be \$11.00 for one week. J. Botts shows that he is head of a family with one dependent. From the table, the payroll clerk ascertains that his exemption is \$26.00 for one week.

The same process is repeated for each of the 100 employees from whom exemption forms have been obtained.

Once the exemption has been established for an employee, that same amount is used each week unless the employee has a change in family status. If a new employee is added, the same procedure prevails as for the old employees after the first exemption form is obtained.

4. On the basis of the exemption certificates, the payroll clerk gives effect to the certificates on the first weekly payroll in January 1943, as follows:

Name	Social Security Number	Hourly Rate	Hours Worked	Gross Earnings	Amount exempt from Withholding	Balance subject to Withholding	Rate of Withholding	Withholding Tax
ms, A. B.	3416192	40	40	\$16.00	\$43	None	5%	None
en, R.M.	216394	60	20	12.00	11	\$1.00	5%	.05
wn, C.R.	618934	58	16	9.28	-	-	5%	None
ts, J.	792341	100	30	30.00	26	4.00	5%	.20
(to 100)								

5. At the end of the first quarter, the payroll clerk will add the gross earnings of each of the 100 employees, the amount subject to withholding and the tax withheld, and prepare a withholding tax return, Form W-1, showing for the quarter ended March 31, 1943:

Name and address of company;	
Gross wages paid.....	\$29,000
Amount exempt from withholding	22,000
Amount subject to withholding.	7,000
Tax at 5 percent.....	350

6. Each quarter, the payroll clerk will repeat the above process.

7. At the end of the year, the payroll clerk will ascertain from the payroll records, the gross earnings for the year of each of the 100 employees, including all additional employees and those separated from the company's employ during the year from whom exemption forms have been obtained, and post to each of such forms in duplicate the amount of the earnings and the total tax withheld during the year.

8. After the posting is completed, the original form will be forwarded to the collector with the last quarterly withholding tax returns for the year. The duplicate will be signed by rubber stamp, or other means, and given to each of the employees as a receipt for the tax deducted from wages during the year.

9. The payroll clerk will be permitted to make adjustments in tax withheld for the account of any of the employees whose marital or dependency status changes during the year. The payroll clerk must be alert to changes in pay which would require the procurement of exemption forms from employees who at the beginning of the

- 4 -

were earning less than \$11.00 a week and from whom no exemption form is required, but who during the course of the year advance in earnings above this figure, so as to procure the necessary forms when such change takes place. The payroll clerk must be prepared to check back over the payroll records should discrepancies develop which require correspondence from the collector's office during the audit of the returns.

10. Based on computations on other lines of work, the time required by the average payroll clerk using some type of mechanical device to calculate the tax for each of the 52 payroll periods, make the necessary postings and complete the forms required for a corporation averaging 100 employees through out the year, is estimated at 2 hours for each payroll period, or 104 man-hours during the course of the year. This is the equivalent of slightly more than 2 weeks during the year for one employee. In the event of numerous adjustments requiring rechecking and correspondence because of errors discovered by the collectors' audit, the time may run much in excess of this total.

OUTLINE OF STEPS REQUIRED UNDER A WITHHOLDING TAX

(Assuming that 5 percent will be withheld
January 1, 1943, to be used as a
credit against 1943 taxes.)

A. What the Employee must do.

1. On January 1, 1943, each employee being paid at the rate of \$11.00 or more a week must advise his employer as to whether he is married or single and the number of dependents, if any, on a form provided for that purpose. (Some 40,700,000 employees worked in covered employment at some time during 1941 - Social Security Bulletin - May 1942, page 4.)

2. If any time after January 1, 1943, the employees marital status changes, another statement on an exemption certificate must be made by the employee to his employer on a form provided for this purpose. (One out of every ten employees will be required to make a new form because of some change affecting his family status.)

3. If after January 1, 1943, the employee changes employers he must make another statement and file it with his new employer. (One out of every five employees will have to make a new form at least once each year because of change of employment.)

B. What the Employer must do.

1. On January 1, 1943, the employer paying wages of \$11.00 a week or more to any employee must make certain that each of such employees prepares a statement for him showing his marital

status. The same must be done for all new employees hired during the year and also for all old and new employees if the marital status of the employee changes during the year.

2. The employer must indicate on his payroll record the marital status of the employee for use in reading from a tax table and posting to the payroll the amount of salary exempt from withholding.

The actual computation of tax is as follows:

Computation of Tax to be Withheld by Employer

(1) Statement from employee shows that he is a married person with two children.

(2) Tax table to be furnished employer determines the amount of the exemption--

Payroll Period	Single Person (Not head of family)	Married Person or Head of Family	Each Depen- dent
Weekly.....	\$ 11.00	\$ 26.00	\$ 8.50
Biweekly.....	22.00	52.00	17.00
Semimonthly....	23.00	55.00	18.00
Monthly	46.00	110.00	36.00
Quarterly.....	138.00	330.00	108.00
Semiannually...	276.00	660.00	216.00
Annually.....	552.00	1,320.00	432.00

(3) The payroll period is weekly.

(4) By reference to the table, the employer sees that the amount exempt from withholding for a married person paid on a weekly basis is \$26.00 and for each dependent \$8.50. Multiplying \$8.50 by 2 (because there are 2 dependents) and adding the product of \$17.00 to \$26.00, the total exemption for the week is \$43.00.

(5) The payroll shows that the employee has earned \$55.60 for the week. The amount subject to withholding is \$55.60 minus the amount exempt from withholding of \$43.00, or \$12.60.

(6) The rate of withholding is 5 percent. Therefore, the amount of tax to be withheld this week from this employee is 5 percent of the amount not exempt from withholding of \$12.60, or 63¢.

(7) The taxpayer will be paid the gross amount he has earned of \$55.60 less 63¢ for a withholding tax and less other deductions under social security and other purposes.

(8) The same computation must be made for each employee for each payroll period.

3. On each payroll period the amount exempt from withholding must be subtracted from the amount of wages paid for each payroll period and a tax of 5 percent computed on the remainder and deducted from the employee's pay, as described above. (If the employer has less than eight employees he must also prepare a receipt for the wages deducted and give such receipt to the employee each payroll period.)

4. At the end of each quarter, the employer must add his payroll for all periods during the quarter and make a return to the collector showing the total wages paid and the total amounts deducted accompanied by a payment of the amounts deducted.

5. At the end of the year, the employer must post, from each employee's payroll record the total amount of wages paid to such employee and the amount of tax withheld during the year, to the statement on the form which the employee furnished at the beginning

- 4 -

of the year showing his marital status. The forms, when posted, will be forwarded to the collector of internal revenue and a copy of such for each employee furnished to the employees as receipts, where the employer has eight or more employees. (For the employers with a small number of employees, the record work will be done by hand except for perhaps typing up the forms to be filed with the collectors. For the employers with a large number of employees, including the executive departments of the Federal Government, the record work will be done by punch cards, tabulating machines, and typewriters.)

C. What the Collector must do.

1. The collector must list for assessment each of the quarterly returns of tax withheld at source filed by the employer. (12,000,000 tax assessments listed by means of Elliott-Fisher billing machines.)

2. At the close of the year, the collector must add all the individual statements given by the employees to the employer and to which the employer has posted the amount withheld to insure that the amount reported as withheld has been paid to the Government on the Quarterly returns of the employers. (Adding machines are essential to this step.)

3. A stockholder which is a corporation must also file a form with the corporation whose stock is owned to notify that corporation that no withholding should take place.

E. What the Dividend-paying Corporation must do.

1. Upon receipt, from the exempt individual stockholders, or from stockholders which are corporations, the information on the forms filed by these stockholders will be carried forward to the stock ledger to serve notice to the disbursing agent that no tax should be withheld from dividends paid to these entities.

2. For all other stockholders, 5 percent must be deducted from the gross amount of dividends paid and a receipt for such deductions must be furnished each stockholder on each dividend-payment date. At the end of each quarter, the corporation must make a return of the tax withheld to the collector showing the amount of dividends paid and the amount of tax deducted accompanied by a remittance equal to the total withheld.

3. At the end of the year, the dividend-paying corporation must post to separate forms, for each stockholder from whom tax has been withheld, the amount of dividends paid and the amount of tax withheld, and forward such forms to the collector of internal revenue.

B. What the bondholder must do.

1. Individuals owning coupon bonds or registered bonds of private corporations or taxable obligations of the Federal Government must prepare an ownership certificate in duplicate at the time interest on such obligations is collected. This ownership certificate will indicate whether or not the taxpayer's total income for the year 1943 is likely to be less than or more than his

exemption. If less than his exemption, the bank receiving the interest item for collection will make no deduction for tax; but if more than his exemption, the bank will make a deduction of 5 percent from the gross amount of the interest.

2. The banks will transmit the ownership certificate through the usual banking channels to the obligor.

G. The action taken by the collector in the case of tax withheld from dividends and interest is substantially the same as in the case of wages described in C.

H. The above steps embrace the preparation of about 100,000,000 forms annually for employees, stockholders, and bondholders and the preparation of 12,000,000 withholding tax returns, involving manual and mechanical processes on the part of the public and all agencies of the Government exceeding any previous tax undertaking.



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

June 29, 1942

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

MEMORANDUM for the Secretary:

In re performance of work in collection districts as result of decision of War Production Board denying purchase of mechanical equipment and furniture.

The Bureau understands that the War Production Board in the interest of the war program has frozen practically all types of mechanical equipment that are required in connection with the assessment and collection of the revenue. Upon receipt of this highly significant information, consideration has been given to the position in which the Bureau finds itself as the result of these circumstances.

The accounting operations incident to the receiving and controlling of many millions of Federal tax returns and many billions of dollars in revenue involves the use of many kinds of modern mechanical equipment, such as typewriters, adding machines, addressograph machines, listing machines, numbering machines, calculating machines, endorsing machines, bookkeeping machines, folding machines, sealing machines and change-making machines, etc. The inability to secure any one of these important items is a matter of concern to the Bureau of Internal Revenue and the fact that the Bureau will apparently be unable to secure any of this equipment may present problems of vital importance to the revenue. This memorandum will not attempt to analyze the results of our failure to purchase each type of equipment mentioned. It is believed sufficient to point out the disastrous results that might be involved in our inability to obtain only one type of the equipment mentioned, provided the volume of work expands beyond the capacity of our present equipment.

For instance, the Elliott Fisher listing machine is one of the most important items of equipment in use in Collectors' offices. By means of this machine, many documents are prepared by the manifolding process, such as the assessment lists, mailing address slips for the succeeding year's blank return forms, statements of account to be sent to the taxpayers during succeeding quarters, index cards for use of Collectors' offices, index cards for use of the Bureau and information cards for use of the field divisions in connection with delinquencies.



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These Elliott Fisher listing machines are used in connection with not only income tax returns but employment tax returns, excise tax returns, special tax returns, etc. In connection with the income tax work, the listing machine operations must be performed within limited periods of time. This is necessary because the returns after being filed must be listed and the bills prepared in time to be mailed at least ten days before the next installment of tax is due. If anyone operation is not completed on time, or if anyone step in our accounting procedure is omitted, the entire system then fails. If the taxpayers fail to secure their statements of account by the time the next installment is due and send to the Collector their remittances without identifying documents, the work in Collectors' offices in controlling the accounts is multiplied many times and is likely to become entirely unmanageable. This result is brought about because of the necessity for searching the records in connection with each remittance to identify the class of tax and also to locate the serial number of the account and verify the name of the taxpayer so that the account can be located on the assessment records. Furthermore, if the taxpayers fail to receive the quarterly reminders that an installment of income tax is due, it is anticipated that many thousands, or perhaps millions, of them will fail to make their payments, thereby not only affecting the financial condition of the Government but requiring correspondence and demand notices from the Collectors' offices, thus increasing their clerical burden.

On the basis of past experience, it has been demonstrated that there should be in each Collector's office one Elliott Fisher listing machine for each 15,000 income tax returns filed. As a matter of fact during the calendar year 1939, each Collector's office had a listing machine for each 13,000 returns (approximately). It is true that during the current year many Collectors' offices have processed more than 15,000 returns per Elliott Fisher listing machine. However, in order to do that, the offices have required their clerks to perform many hours of overtime service. Even with the overtime that has been devoted to their official duties by employees of Collectors' offices, it has been extremely difficult to keep the work current and in some instances, the work has not been kept current.

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At the present time there are in the sixty-four collectors' offices 1000 Elliott Fisher listing machines. Priorities have been obtained for the purchase of an additional 97 machines, making a total of 1097, provided the freezing order does not prevent delivery of those now on order. Therefore, assuming that the number of machines available for work during next year is 1097, and assuming that each machine will be able to process 15,000 returns in addition to performing the necessary functions in regard to other types of Federal tax returns, there are enough machines available from this assumption to service 16,455,000 income tax returns on the basis of one eight-hour shift per day. By working two eight-hour shifts per day, theoretically Collectors' offices should be able with their Elliott Fisher listing machines to process 32,910,000 income tax returns annually. While a three shift program has been considered, it has been discarded as it is not feasible administratively.

If the proposal to lower exemptions to \$1200 and \$500 for married and single persons, respectively, is enacted into law, it is estimated there will be filed during 1943 approximately 35 million individual income tax returns. In addition to the estimated 35 million individual income tax returns, there will probably be filed about 1,200,000 income tax returns of other types, such as corporation returns, partnership returns, fiduciaries, etc., making a total of approximately 36,250,000 income tax returns to be received and controlled in Collectors' offices during the calendar year 1943. It will be observed that this figure is approximately 3,250,000 more than our present equipment will be able to handle if it is conceded that a two shift operation would be as efficient relatively as a one shift operation.

It has been proposed that in addition to the approximately 36,250,000 income tax returns mentioned above, there be required of withholding agents quarterly returns which would be submitted with the amounts withheld from employees, stockholders and bondholders. It is estimated there will be about three million withholding agents. If the withholding plan is enacted into law, an additional 12,000,000 returns would be received annually by Collectors, making a total of about 48,250,000 returns. The purpose of the foregoing analysis, stated simply, is to show that the Bureau of Internal Revenue with its present

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equipment will be taxed beyond its capacity in carrying on the additional burden occasioned by the increase of 8,250,000 in the number of returns filed, without giving consideration to the further burden entailed by the proposed enactment of the withholding plan. It is plain that if the withholding tax is to be enacted into law, the Bureau of Internal Revenue must of necessity have additional mechanical equipment.

At the time I was summoned before the Ways and Means Committee, I made clear that the withholding tax could only be administered if adequate personnel and equipment could be obtained. It was the expression of several members of the Committee, including its Chairman, that they would not vote for a withholding tax unless proper personnel and equipment were furnished the Internal Revenue Bureau. It would seem to me that the Treasury Department might be subjected to criticism if the proposed withholding tax were permitted to go forward to enactment without the difficulties concerning the obtaining of equipment being brought to the attention of the appropriate members of Congress.

Jay P. Hevering
Commissioner

MINIMUM EQUIPMENT NECESSARY TO SUCCESSFULLY
ADMINISTER THE WITHHOLDING PLAN

2100	Typewriters	
64	Calculating Machines	
300	Adding Machines	
64	Addressographs	} All Plates, Frames, Cabinets.
64	Graphotypes	
64	Sorting Machines	
64	Check Endorsers	
64	E. F. Bookkeeping Machines	
64	E. F. Listing Machines	
64	Duplicating Machines	

12000	4-Drawer letter cabinets	
3000	3 x 5 card cabinets	
4572	desks	
5000	office chairs	

TREASURY DEPARTMENT
WASHINGTONOFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

June 29, 1942

MEMORANDUM for the Secretary:

It has been observed in the press that there has been a recent discussion concerning the desirability of amending the income tax laws so as to direct taxpayers during the calendar year 1943 to satisfy their income tax obligations to the Government on a monthly basis rather than a quarterly basis. The purpose of the monthly payment plan during the next calendar year would be to ease any possible hardship on the individual income taxpayers who will be subject to the payment of the full amount of the tax on their 1942 incomes and will also be subject to a 5% withholding from their incomes in connection with their 1943 liabilities provided legislation now proposed is finally approved by the Congress. As you will, no doubt, recall the monthly payment plan has been proposed heretofore and this Bureau has, therefore, had occasion to give considerable thought to the matter. This office, therefore, desires to respectfully submit its comments in regard to the proposed plan for your consideration in the event it is contemplated to incorporate the monthly payment plan in pending legislation.

While this Bureau has not been informed concerning the details of the monthly payment plan, it is presumed that it would contemplate granting to each individual taxpayer the privilege of paying one-twelfth of his 1942 liability each month during the calendar year 1943. If this supposition is correct, the taxpayer who files his return in March (and a great majority of them do) would be required to pay three-twelfths or one-fourth of his tax at the time of filing the return. The individual taxpayers, under the present law, have the privilege of paying their first installment in this manner. Therefore, with respect to the payment that is required to be made with the return, no relief whatsoever would be accorded the individual taxpayer provided he delays filing his return until March 1. Therefore, the relief granted the taxpayer would be for a period of nine months rather than twelve months. It is with respect to the monthly payments following the filing of the return that this Bureau is greatly concerned.



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The accounting system which has been in successful operation in offices of Collectors of Internal Revenue for several years has been devised so as to make it possible to record millions of transactions with efficiency and accuracy in the shortest possible period of time with the least possible expense to the Government. In order to enable Collectors' offices to make prompt postings of the credits to taxpayers' accounts, the accounting system contemplates that prior to each installment date, a statement of income tax due is mailed to each taxpayer for return to the Collector's office with the remittance. The statement of account, in addition to other information, discloses the serial number assigned to the account. Upon receipt of the millions of periodic income tax payments with accompanying statements, the Collectors' offices are enabled to make prompt deposits of the monies in the depository banks and extend the credits to the accounts of the taxpayers using as posting media the returned statements of account.

During the calendar year 1941, the sixty-four Collectors of Internal Revenue had about 2,100,000 installment tax accounts on their records. During the expired portion of the calendar year 1942, the number of installment accounts has increased to approximately seven million. There have always been a limited number of installment taxpayers who failed to comply with the instructions to return their bills with their remittances. This was true when the Bureau was required to deal only with taxpayers of substantial incomes. This situation, however, has become increasingly acute since the lowered exemptions have added to the assessment rolls many millions of taxpayers with smaller incomes whose knowledge of accounting and bookkeeping methods is meager. As an illustration of the growing problem confronting Collectors of Internal Revenue, such a large portion of the approximately seven million installment taxpayers failed to return their statements of account in connection with the June, 1942, installment that Collectors were seriously delayed in depositing the tax receipts.

Without the return of the statement of account which has thereon the serial number of the return, it is necessary for the Collector's office, before the remittance can be safely deposited, to search the records for the purpose of identifying

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the taxpayer and the class of tax that is represented by the payment. When this information has been ascertained, a dummy document or posting medium is prepared for the purpose of placing the item under control. This necessary accounting procedure has the effect of retarding deposits, especially when the number of remittances without statements is of great volume. In connection with the June 15 installment, there were 30,000 unidentified items of this kind in the Chicago District alone, all of which had to be checked with the records before deposits could safely be made. The same condition in proportion to the number of part payments involved occurred in every collection district. On June 19, which was three days after the money was received, there was over a half-billion dollars on hand in Collectors' offices which had not been deposited. The fact that so many taxpayers failed to return their statements of account with their remittances was the biggest contributing factor to this difficulty.

As indicated hereinbefore, Collectors at this time are dealing with approximately seven million installment taxpayers and it is not unreasonable to estimate that with the lowered personal exemption bases and the higher rates contemplated by the pending revenue bill, the number of installment accounts will increase to somewhere between twelve and fifteen million. In view of the increasing difficulties experienced as the result of the expansion of installment accounts from two million to approximately seven million, some idea can be formulated as to the further difficulties with which Collectors of Internal Revenue will be confronted when the number of installment accounts is more than doubled next year. The importance of having the statement of account issued by the Collector accompany the remittance in part payment of the account has been discussed in the preceding paragraph. If from twelve to fifteen million taxpayers are permitted to pay monthly instead of quarterly, it would be impossible for Collectors to make the postings of the previous payments, develop the amounts of the unpaid balances, and mail the statements of account before the next due date. This is a procedure that would have to be performed every month of the year following the filing of the returns, rather than every quarter as is now the practice and it would appear that there would be less than two weeks to perform this important function rather than two and one-half months which is now available.

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You will recall, I am sure, the difficulties the Bureau had in successfully administering the social security taxes during the early days of the Act. At the insistence of the Social Security Board, the regulations were at first written so as to require a monthly filing of the returns and a semi-annually filing of the wage information. At that time we were dealing with less than two million social security taxpayers. New assessments were made every month and the Collectors were, therefore, not required to have statements of account come in with the remittances so as to post to a previously made assessment. Little searching of records was necessary in order to match remittances with previously established accounts. In other words, the situation with respect to the social security taxes was far simpler than the situation which would confront us in connection with the monthly payment of income taxes, both in volume and in accounting difficulties.

However, the complexities were so great with respect to the social security taxes that it soon became apparent the Bureau could not successfully carry on the work on a monthly basis and it was the recommendation of representatives of the Treasury Department, who were assigned to make a survey of conditions in the Internal Revenue Service, that the tax could not be administered on a monthly return basis and as a result of the recommendation of these representatives of the Treasury Department, the regulations were changed so as to require a quarterly filing. Your support of this change had the effect of permitting the administration of the social security taxes to go forward in an orderly manner and without this change of procedure, it is safe to say that a most serious condition would have resulted.

On Tuesday, June 23, a conference was held in the Treasury Department in connection with the recommendation that had been made to the Ways and Means Committee for the application of the proposed 10% withholding as a credit against both the 1942 and 1943 liabilities. After considering a memorandum prepared by the Internal Revenue Bureau on the subject, I understand that it was the conclusion of Mr. Randolph Paul and Dr. Roy Blough that it would be unwise to continue to advocate the application of the withholding to two different years, giving as a reason for their conclusion that the complications of the withholding tax were so great that it would be unwise to further complicate them with the difficulties that would be encountered

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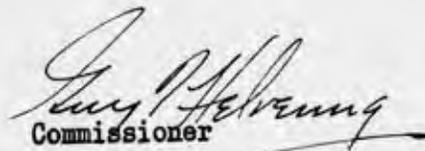
by reason of the application of 50% of the amount withheld to the tax liability of 1942 and 50% to be applied as a credit against the 1943 liability. It was also pointed out that the year 1943 would be an experimental year for the withholding tax and it would be unwise to add to the burdens during this first experimental year. It is believed that similarly it would be unwise to complicate the withholding plan during the first experimental year with the burdens of a monthly payment procedure.

The proposed withholding tax will be a permanent part of the internal revenue structure. While the percentage of withholding for the first year will be on the basis of 5%, the deductions for subsequent years will be on the basis of 10%. The administration of the withholding tax will be the most difficult task with which the Bureau and the taxpaying public have ever been confronted and it would seem that the complications which will occur in connection with the withholding tax should not be aggravated by the heavy burden and confusion which will exist under a combined withholding and monthly payment plan.

The purpose to be served by the proposed monthly payment plan is solely for easing the problem of the taxpayers who will be required to pay their 1942 taxes during 1943 and also during 1943 will be subject to the withholding tax. It is believed that the taxpayers of small amounts form the real basis for the suggestion of a privilege of monthly payments. It would seem that the reduction of the percentage of withholding to 5% during the first year would be as ample a relief of this burden as should be considered at this time. Furthermore, the hardship to taxpayers will not recur in years subsequent to 1943 and, therefore, the monthly payment plan should have no permanent part in the collection machinery. It is believed, however, that once the monthly payment plan with its accompanying administrative difficulties is injected into the tax collection machinery, it will be difficult, if not impossible to have such a law repealed.

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In a report dated April 1, 1942, over the signature of the Acting Secretary of the Treasury, which report was prepared in connection with Bill H. R. 6342 (77th Congress) entitled, "A Bill To permit the payment of income taxes in ten equal installments", the Treasury Department went on record in recommending to the Chairman of the Ways and Means Committee of the House of Representatives that before considering H. R. 6342, it would be better to await the outcome of the suggested legislation with respect to withholding of the income tax at the source in the case of wages and other specified classes of income. In effect, the Department at that time recognized the complications that would occur under two such plans and it is believed that the same difficulties should be recognized at this time in connection with the combined withholding tax and the monthly payment plan. This Bureau, therefore, trusts that the Treasury will maintain the position which it has heretofore expressed to the Ways and Means Committee.


Commissioner

copy to me 2/11
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June 30, 1942
11:10 a.m.

FINANCING

Present: Mr. Bell ✓
Mr. Eccles
Mr. Haas ✓
Mr. Murphy ✓
Mr. Sproul
Mrs. Klotz

H.M.JR: Mr. Bell, or Mr. Eccles, or Mr. Sproul.

MR. ECCLES: I defer to you, Dan.

MR. BELL: All right, for the moment. I thought we ought to have a preliminary discussion of the July financing. Our balance will be down to about seven hundred million dollars on the fifteenth so we have got to have our money around the fifteenth, and our estimates made up ten days ago--

H.M.JR: How much will it be down to?

MR. BELL: About seven hundred million dollars on the fifteenth.

H.M.JR: Practically broke.

MR. ECCLES: A couple of days' pin money, Dan.

MR. BELL: That isn't very much money these days. I told you that we would need one billion seven hundred and fifty million dollars in July and two billion dollars in August. Since I talked to you we have had a notice from the Bureau of Internal Revenue that they have postponed the collection of the capital stock tax to the end of September, which means that we lose two hundred and

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thirty million dollars out of our estimates that would come in in the end of July and the first part of August. So when we take another look at this before the financing date it may be two billion instead of one billion seven hundred and fifty million. But we ought to announce next week, not later, I should say, than Thursday, and even that would only give us six days before the fifteenth to get the bonds out and distribute them, policing and allotments, and the credits in; and if we could announce on Wednesday it would be that much better. The question is as to what we ought to do for that one billion seven hundred and fifty, whether we ought to have an increase in Treasury bills that we talked about last week, whether we ought to have a short bank bond, or a note, or a combination of those two, or whether this is the time to reopen the long two and a half's or have another long bond. I think those are the first questions we ought to discuss for next week.

MR. ECCLES: Well, last week when we met, it was about, I think, the fourth time we met for a general discussion of financing, not with regard to any particular issue, but with regard to the problem as a whole and the policy to pursue in laying out the program for at least a short time ahead. I would like to get into a discussion of that when we finish this other, Dan. I think that is terribly important because the size of this financing is so great that it just comes on us here, and I think that unless we lay some plans a little ways in the future we can very well make mistakes with reference to a program.

Speaking of the financing for July, we haven't discussed that in detail at all any more than we discussed it in general terms when we met last week. My view would be this, that - I don't know whether Allan agrees or not - I think we discussed last week the advisability of announcing the intention of opening the long registered two and a half again, possibly for August; but inasmuch as the sixty days is past and they will become a market issue now, it would be desirable to let the market know that this issue is going to be opened again, so that it

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would likely stay around par, which is the desirable thing to have. You don't want a lot of speculation in it, and if it was announced I think it would have to be announced on the sixth. That is the day when it becomes a market issue.

H.M.JR: That is a little early.

MR. ECCLES: What is it?

H.M.JR: It is a little early. You mean if we are going to reopen it?

MR. ECCLES: Just let them know you expect to reopen it within the next thirty days.

MR. BELL: It will be traded in on Monday; that is the first time it can be traded in, and it is a question of whether it will go up to maybe fifteen or twenty thirty-seconds, and when you announce a reopening, drop back to par again.

Now, could you avoid that push-up by announcing that you intend to reopen it very shortly? That is the question. That was my number two.

H.M.JR: You mean if we decide to do it?

MR. ECCLES: If you decide to reopen, but you are likely to reopen it again, aren't you?

(The Secretary left the conference temporarily.)

H.M.JR: Now I am at attention. How much can we decide today? Have you people made up your mind at all?

MR. ECCLES: I think we have got to discuss, as Dan says, this immediate financing, but discuss it in the light of the financing job we have got for the next three months, which would be much less specific. But the job that - I would like to see us make this announcement with

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reference to the long bonds as soon as they are on the market, which will be next week.

I think at this time possibly the situation calls for a two-percent bond, a billion and a half two-percent bond, which would go, I suppose, largely to the banks, although there ought to be some substantial market outside. I would like to see us increase our bills. We didn't increase them last week, did we?

MR. BELL: No.

MR. ECCLES: Increase them the fifty million, that would take care of us for July. I mean, I expect you want us to talk of the immediate job, Dan.

MR. BELL: That would give us two hundred million, yes, in bills if we increased to fifty million.

MR. ECCLES: And possibly a billion six, and some offering on the other, so you would get your billion and three quarters for July.

MR. BELL: That is right. Put it all on a short bond?

MR. ECCLES: I would. With the volume of financing that we have got to do I don't like to see us split a billion and a half issue. It is too small, with the picture we have got ahead of us.

H.M.JR: I agree with you on that.

MR. SPROUL: I like to look at it in terms of the whole fiscal year first and then work back to the quarter and the immediate financing. In the light of the discussions we have had, the way it looks to me, over the next fiscal year you have to get about fifty-four billion. On special issues and War Savings securities, say you get eighteen billion on that, leaving about thirty-six billion; with an increase in Treasury

bill issues that you would be rolling over four hundred million a week, which would give you over the whole period additional funds of two and a half billion, something like that.

An increase in certificate issues so that you would have four quarterly issues of at least a billion. Re-opening the long-term two and a half percent issue every quarter would give you another two and a half billion. I would add to the short-term open-end issue, which would be on sale continuously - to put a conservative estimate on it, that might be another two billion, and that would leave you with perhaps twenty-four or twenty-five billion to do in the market. This would be a question then of how you would offer those securities, whether two billion every month, or taking into account your certificate offering and your open-end offering every quarter, whether you concentrate that market in two out of every three months, or whether you might not even do better to concentrate those offerings in larger issues once every three months with some time for preparation for the drive and some time for the actual selling operation, with five and six billion dollar issues rather than two billion dollar issues each month.

That sort of a program would give you this schedule of financing; bills each week; certificates each quarter; long-term two and a half's each quarter; short-term open-end, available continuously; market issues either every month, two out of every three months, or once out of every three months.

This would leave, then, the question of credit policy to fit in with such a program, whether it would be on the basis of maintaining the existing excess reserves or in increasing them, or whether it would be on the basis of our getting a little closer to the market, with some further decline in excess reserves.

It seems to me we have already gotten to the point where it is more important to the banks now that they have excess reserves, or reserve funds, rather, available

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to them, easily, readily, and without loss, than any given amount of excess reserves. So if we maintain a bill-buying rate and if we perhaps have a preferential discount rate on short securities under a year, we would have created the circumstance in which the banks would be assured of reserve funds readily and easily whenever they want them, without the necessity of maintaining any fixed volume of excess reserves. You would then have a financing program which over the next fiscal year would be a workable program for such a sum as fifty-four billion dollars.

For the immediate financing, fitted into that sort of a program, in the light of what we have done in the past few months, I think either a nine - eleven year issue which would probably take two and a half, or a somewhat longer bond issue, and a note issue, in which case I would certainly go for two billion rather than a billion and a half.

The latter I only suggest because there is still some feeling it is a bank offering - if it is a bank offering that you should take into account the differing preference of banks. Some are willing to go five, some ten, eleven or twelve years, which is the only reason for considering a possible split offering for a larger amount.

But in general terms that is the way I would see your financing problem for the next fiscal year and the ways of meeting it.

H.M.JR: Well, it is a very intelligent presentation. I haven't been entirely satisfied. We only look ahead about a month at a time, but we have been learning to walk and so far we haven't stumbled; and as we learned to walk we made a pattern, left our footprints. But one thing that I wanted to ask was, to get back to this question of excess reserves, this legislation hasn't passed yet, has it?

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MR. ECCLES: Passed the Senate and has been reported out of the Committee of the House. It should be passed this week, or next week at the latest.

H.M.JR: You handled that very well. Once it is out, what, if anything, do you propose to do?

MR. ECCLES: Well, as Allan has indicated, we would want to discuss whether the thing to do was to reduce the reserves in New York or whether to buy bills. I mean, it is just a question of what mechanism to use. As long as you have got a bill-buying program in which the banks can sell on a minute's notice whatever they want to sell, it gives the amount of reserves needed at that point where it is needed.

I don't mean to say by that that you could get down to the point where the excess reserves - there is some point, but we haven't reached it yet, as indicated by this trend of rates. Looking back to last April, for instance - I was looking at them this morning, and the darned rate picture is just about the same now as it was in April. There has been practically no change in the yield on securities, and that is true in practically every category, showing that five hundred million or a billion difference in excess reserves, whether in New York or somewhere else, hasn't made very much difference; and so long as we had this bill-buying program, that met the situation and took any pressure whatever off of the market.

H.M.JR: New York has gone down steadily.

MR. ECCLES: Yes.

MR. SPOUL: Down from nine hundred million to five hundred million, a period of a month and a half, and it has begun to go down again. The excess reserves in New York last night got down to three hundred and eighty-eight million. They are back up a little bit. The banks indicate they are getting some funds in this morning, but what happened--

MR. BELL: What do they do on Wednesday after they pay for--

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MR. SPROUL: We are putting the funds into the market through purchase of bills. We will get most of those dealer bills; the dealers got a hundred and twelve millions. What happens is the New York banks are now working on a policy of keeping much more nearly fully invested than they were before, and with us standing ready to buy bills, or even to discount, they have little concern about the availability of reserve funds. If we try to keep piling reserves into the New York market, what we would be doing is they would try to keep those funds invested, we would keep buying bills or other short securities, and you will have a circle there.

You don't - with that sort of a policy on the part of the banks, you don't build up excess reserves. You keep them coming to you through the open-market end of it. It is a workable sort of policy, but it doesn't seem to me it is one that is as effective as having the reserves somewhat lower and the banks coming to us through whatever window is available to them without loss to get additional reserve funds.

MR. ECCLES: The difficulty with the New York banks, they have indicated they don't intend to keep reserves. If you give them reserves, they will immediately go out and use them.

MR. SPROUL: And that would work for New York, but it will to a certain extent prevent the most effective use of reserves in the rest of the country where a substantial volume of excess reserves still exists.

MR. ECCLES: I do think, however, there is some point where as the reserves go down we will find it necessary to decrease the reserve requirements. Just what that is and when it will be here - I think there

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has been no indication of it yet; you can tell when that point is developing by the way bills are moving.

You may get to a point where you take most of the bills. The dealers will be subscribing and we will be getting the bills; then we have got to decide whether we want to put reserves in the market by buying a couple of hundred million bills a week, which of course would give that to the market, or whether instead of us buying the bills we want to reduce the reserves so the banks will buy them.

MR. SPROUL: There again I think you will have to look ahead and determine, or try to decide on what basis we would want to ride through this situation as far as reserve requirements are concerned, looking ahead to the post-war situation as well as to the war situation.

It seems to me we very well could and should reduce reserve requirements to some point below where they stand now, which is the highest permitted under the law, but I think that would be--

MR. ECCLES: That is right--

MR. SPROUL: But I think that would be one step in a program which would be determined upon, and then you try to ride through on that level of reserve requirements and use the open-market window for the rest of the program, with possibly sporadic - not every bank, but sporadic bank borrowing from time to time in specific instances, too.

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MR. ECCLES: We have talked about providing a special lending rate on certificates or bills, whereas the bank - the discount rate of the Reserve Banks is one percent. Of course it is not effective; no bank is going to borrow at one on short paper, but we have talked about loaning to the banks on the basis of the bill rate so that if you don't want to sell - anybody in a bank will say, "Well, I am going to need money in ten days here; I don't want to sell my certificates; I don't want to sell my bills. I will borrow for two or three days - I won't borrow at one percent." But if we establish a low rate so as to let them borrow over some temporary period which they all may have, that would just be another means of stabilizing the market, keeping less and less stuff going on the market and keeping the banks holding what they have got.

MR. BELL: I think that would be a good move.

H.M.JR: What is that?

MR. BELL: Lower that borrowing rate so that banks could go to the Federal Reserve and borrow not at the present one percent discount rate but at some rate commensurate with the short-term securities. They put up Treasury bills, put up the certificates, on which they don't lose interest. Now, if they have to borrow at one percent and the certificate bears five-eighths, they are losing money on this.

H.M.JR: If the dealers have a hundred and twelve million in bills, there is no shortage of bills in the market.

MR. SPROUL: No, the significance of that is, I think, that the distribution of bills this week was not so good as it has been, that more came to New York, and in New York more went to the dealers. Last week dealers got sixty million, and we had to take six million of them; this week one hundred and twelve million, and we may have to take seventy-five, eighty, or ninety million of them.

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H.M.JR: The reason I raise that point is, I don't see any reason right now to increase the bills beyond three hundred.

MR. SPROUL: If we increase the bills on a higher rate, I think we would get better distribution both ~~and~~ outside New York and outside the big banks.

H.M.JR: I am awfully sorry, both my ears are stopped up. They are both stopped up. I don't hear a thing.

MR. BELL: Your average rate went down a little last night, thirty-six.

H.M.JR: What was it?

MR. BELL: Thirty-six, two, the week before and thirty-six, five.

H.M.JR: I am very happy with the thing the way it is now. I like the peg at the bottom; I like the two and a half at the top. I am even beginning to work myself up - Marriner, I might be willing to join you and say something publicly.

MR. ECCLES: About what?

H.M.JR: About rates. (Laughter.) About rates, Marriner.

MR. ECCLES: Well,--

H.M.JR: The statement is all written. He wrote it six months ago.

MR. ECCLES: I haven't said anything on rates for quite a little while.

H.M.JR: Then this fellow - I didn't hear what he said, but I like it just the way it is.

MR. ECCLES: Well, I think that you shouldn't get your mind closed on this short-rate business for this

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reason, that I think that supplementing what Allan said on this program, you have got to think of the banks in this category and the rest of the financing in another category. What the banks buy - they buy from funds that the Fed provides. I mean, that is the control mechanism. If we want the banks to buy more, we give them reserves; if we want them to buy less, we take the reserves away.

H.M.JR: I know.

MR. ECCLES: So it is up to us to determine to what extent we want the banks to do this financing; where you give them a lot of excess reserves you have no determination on that. They can go out in the market and buy; they can do whatever they want with the reserves. If you give New York a lot of reserves and they say, "We are going to use our reserves," then they just go out and buy whether you want them to or not as long as you put them in funds. Therefore, I think it is necessary to keep reasonably close in the reserve picture-- I mean, don't have a lot of excess constantly fluctuating up and down, try to have enough so as the Fed won't have to buy too much. But, keep it in a pretty even groove.

Now, I would like to see us then determine-- do everything we can to sell securities outside of the banks to develop every kind of securities that would tend to get all of the funds outside instead of inflating the volume of funds, using the banks merely as the last second line defense, knowing that we can always get whatever we want there, because the Fed completely controls that situation. I would like to then figure on using these banks largely for short-term paper. It will cost the Treasury less than it would if you give them long paper; because if you give them a lot of bonds, you are going to have to be in a position to buy those bonds at par from them when they want to sell, anyway, so they are getting a higher rate on really a demand situation.

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Looking at it the way the British have done their financing, for instance, they keep the banks pretty largely out of the long stuff. They give them what is necessary to finance in the short market. They pay them an arbitrary rate, purely an arbitrary rate. They say, "We don't want you to have to go out and be getting into the long market here; we will pay you a rate for the job that you are doing." So I would like us to think of it from the financing along a completely controlled situation, which it is, rather than the open - what we term a natural market situation.

H.M.JR: I don't go that far in my thinking. I have always taken the position that I don't think you can control it, I don't care what you do.

MR. ECCLES: I think--

MR. SPROUL: From here on I think we have control, no matter which way we can work it.

H.M.JR: We can try it.

MR. ECCLES: You have got it absolutely.

MR. SPROUL: When you talk about high or short half percent for bills and wider distribution, I think from the standpoint of the Treasury selling more securities to the banks at a half and less, securities to the banks at two or two and an eighth is what it comes down to.

H.M.JR: Let's call a spade a spade. You are thinking of some relief for the banks, to give them more earning power.

MR. SPROUL: I think it comes down to selling more short securities at a slightly higher rate; and

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fewer long securities at two or two and an eighth.

MR. ECCLES: Not an earning point at all - I am just thinking of having them take more short and don't force them into long.

H.M.JR: Well, a ninety-day bill is pretty short.

MR. ECCLES: That is right, and certificates likewise. Our discussion involved two aspects of the short problem. One was to get the bill market up to at least four hundred million of bills a week. That is about a five billion, which certainly isn't large in relation to the total volume of financing that we have got. It won't be any larger, if as large as the two and a half billion of bills that we had in a much smaller market, and then to get a volume of certificates up to at least six billion, a billion and a half each quarter, so that you have got a roll-over of certificates--

H.M.JR: We have a billion and a quarter now, haven't we?

MR. ECCLES: Yes, but our recommendation would be--

H.M.JR: A billion and a half.

MR. ECCLES: ... that we start in September with a billion and a half at least.

MR. SPROUL: You have two issues of a billion and a half certificates out now. There would be two more.

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H.M.JR: A billion and a quarter.

MR. BELL: No, a billion and a half.

H.M.JR: There isn't much argument about that, but can I just talk a minute? Let me just say this, because you people have been talking amongst yourselves. I haven't had the benefit, and Dan hasn't told me whatever he knows.

MR. BELL: I will have a memorandum.

H.M.JR: Let me just put it this way. What I would like to do is this, after we have all thought it over, I would like to go through this July financing in more or less the regular way, and then - I don't want today, certainly, to make any decision on anything - and then I would like to, just as soon as that is over, sit down - what Sproul said interests me, this idea of possibly an issue every two months, you see, instead of doing this thing every single month. I mean, if you could do the refundings four times a year and the new money financing six times a year.

MR. SPROUL: Yes.

H.M.JR: Wouldn't that be every two months? Yes, six times, and then - so that, what I am thinking of is we wouldn't maybe do anything in August and go to September. That would be along the lines you are thinking?

MR. SPROUL: Yes, but that ties in, in my mind, with increased volume of short stuff certificates.

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H.M.JR: That is all right. Then the question is how much do we need. The other thing I would like to think about is, having got this legislation through - this other thing, for instance, about their having to put up collateral against Government deposits. If we could get that through that would help the banks, wouldn't it?

MR. SPROUL: It would help them to the extent of four or five hundred million. That is, if your balance with the banks runs about two billion and the reserve requirement averages about twenty percent, that would be about four hundred million.

H.M.JR: Is that all?

MR. SPROUL: I don't think it amounts to much.

MR. ECCLES: I don't think it is.

H.M.JR: I didn't know it was as little as that.

MR. SPROUL: I think more important than the amount is the feeling on the part of the banks when they go to subscribe to a new issue; that wouldn't immediately mean an increase in their reserve requirements so if they had no excess requirements at the time they would still subscribe to a new issue because immediately they wouldn't have to dig around and get some reserve funds.

MR. BELL: They would wait until it is called.

MR. SPROUL: But the calls are coming so fast they wouldn't have long to wait, and it does - if you think about the principles of reserves it violates the principles of reserves in there, the reason for it being without much advantage, it seems to me.

MR. BELL: It means about two hundred million in New York.

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MR. ECCLES: We are not very favorable to changing it. I would sooner see--

H.M.JR: Not favorable to doing what?

MR. ECCLES: Making this change of taking the reserve requirements off of the Government deposit.

MR. BELL: You would be in favor of taking off the FDIC insurance rate?

MR. ECCLES: Yes, I think that is much more important. I think the FDIC rate against a deposit is a much more important factor. Now, Leo wouldn't like that.

MR. BELL: Leo is against that in favor of the other.

MR. SPROUL: If the banks had to choose they would choose getting rid of the FDIC assessment rather than the reserve against Government deposits.

H.M.JR: We will have to go into it one of these days.

Let me ask you this. Supposing after studying it I say I don't want to increase the bills - I mean, just a supposition - I didn't want to do it now, I mean for another week or two, you see, so that we couldn't figure on getting that additional money, do you think a billion and three quarters is enough?

MR. BELL: I think it is the minimum.

MR. SPROUL: I think I would go for two billion under those circumstances.

H.M.JR: That is what I think.

MR. ECCLES: I would think if you are going to go for two billion at this time, then your suggestion

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of a split issue might be considered. If you are going to go to a two and an eighth, a two and a quarter, then a note. I was thinking of one issue of a billion and a half and getting more from the bills than you, possibly, are thinking of.

H.M.JR: Well, on the supposition, one, no immediate increase in the bills, and, two, there will be a two billion dollar issue, what do you think?

MR. SPROUL: I think I would go for, say, a two and an eighth and a four-year note, some such division.

MR. ECCLES: Why would you go for the eighth, Allan?

MR. SPROUL: That is the period where it fits in best in line with what financing we have done in the past two or three months in line with maturities.

MR. BELL: It is a little out of that crowded area.

MR. ECCLES: It is a little easier to price than getting another two.

MR. SPROUL: It is, and a little wider spread between the maturities of the note and the bond.

MR. ECCLES: It is going to be increasingly difficult to price open market bond issues because you have got to price them at some premium, and then the question is when the next issue comes up, where do you put those, the last issue that went out. You have either got to buy it and hold it at the premium or it drops down to par, and if you hold it at the premium you are in effect underwriting the underwriters. That is what you are doing.

H.M.JR: Well, on the two and a half tap issue, Dan thought the insurance companies wouldn't be ready until August. Is that right?

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MR. BELL: Yes.

H.M.JR: Do you?

MR. ECCLES: That is our idea. We didn't have it in mind before August.

MR. SPROUL: But with an announcement that it is going to be open.

MR. ECCLES: Open in August, but an announcement in July.

H.M.JR: Make a note of that, Bell.

MR. BELL: I have one suggestion, that it might be opened the latter part of July, the last week in July, and allowed to run through in August.

H.M.JR: Did you come down by air or--

MR. SPROUL: I came down by train.

H.M.JR: It is quite a chore, isn't it? What I was thinking about, Marriner, was I would like to continue this conversation on Friday.

MR. ECCLES: Yes, that would be fine. I am planning to go out of town Friday night for the most of the following week.

MR. BELL: These fellows, neither one of them, plan to be here for the next financing, I think.

MR. ECCLES: I haven't even been as far as the outskirts - well, I have been out to the club once or twice since April.

MR. SPROUL: I said that last week in our discussions with these fellows, and they sent up a loud cheer.

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H.M.JR: What is that?

MR. SPROUL: When they found we weren't going to be here they all said, "Swell."

MR. BELL: I think the cheer came from your own group, that we could do as we pleased then.

H.M.JR: What would be a good time for you, Marriner, next Friday morning?

MR. ECCLES: Any time Friday.

H.M.JR: Would Sproul come down or not?

MR. SPROUL: I will try to come down - yes, I certainly will.

H.M.JR: You don't fly down, do you?

MR. SPROUL: If I can get on a plane I do.

H.M.JR: Eleven o'clock is better than nine-fifteen for you, isn't it?

MR. SPROUL: No. Nine-fifteen is all right with me.

MR. ECCLES: Not if you come on the plane.

MR. SPROUL: Eleven would be better; that would give me more leeway.

H.M.JR: Let's say eleven o'clock Friday.

MR. ECCLES: That is fine. Just let me say one more thing so you can be thinking about it on this three months' program. Dan has said you need six billion dollars, we will say, for July, August, and September. Now, this is my suggestion as to what we ought to think about as to where to get it, if you

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accept the general philosophy which we have discussed of getting as much outside of the banks as possible. In that period you get your bills up to four hundred million; possibly it will be another five weeks before you could do it, but work right to that end, even if we had to decrease the reserves in New York and Chicago to make it effective, or if you had decided to increase the rate to a half in a month or so from now. But at least, whether you do that - if you do that, if you make up your mind you are going to put out five billion, bills, that would give you at least six hundred million in the next three months from bill money. Then you put out - carry out your certificate program. In September you would put out another billion and a half, so that--

H.M.JR: That is not new money, though - that isn't new money.

MR. BELL: Yes, November 1 is the first maturity.

MR. ECCLES: Yes, the idea being - you have only got three billion now; you would get six billion out, a billion and a half new money in September, and another billion and a half in November of new money. I am speaking of the next three months. There is six hundred bills, a billion and a half certificates, seven hundred and fifty million on this long registered issue - put the Victory Fund Committees on that; that is one thing they could be selling in July and August.

H.M.JR: I thought you didn't want to sell in July.

MR. ECCLES: I mean August and September - seven hundred million. Now you put out a bond issue now, and a note issue, if you will, you will get, say, two billion from that source. We would like you to consider again this short open-end issue.

H.M.JR: How long is that?

MR. BELL: That is the tap.

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MR. ECCLES: The two and a half to three year issue. We discussed it with the boys over there the other day again, for August and September, giving this Victory Fund Committee, then, the long open-end - the short open-end, and giving them a quota of a billion and a half for July and August. Now, I think they can sell a billion and a half in July and August. That is outside of the banks, entirely.

Now, that program then will give you six hundred of bills, giving up to five billion; approximately a billion and a half in the certificates, working in the direction of the six billion certificates, with the quarterly turnover; seven hundred and fifty million of the long bonds again for the trustees and the insurance companies; the two billion of your market issue in notes and bonds that we are thinking of for next week; a billion and a half on the short issue to get at the public funds and other funds that would be willing to go into a short issue.

Now, that will give you on that program - it would all fit into the pattern we have discussed - it would give you your six billion dollars for July, August, and September.

H.M.JR: It sounds easy when you say it. (Laughter)

MR. ECCLES: Well, and we would either buy enough bills to give the market reserves or we would reduce the reserves in Chicago, or some of both, and we will change the discount rate, that is, down to whatever the bill rate is, so as to help in that situation.

H.M.JR: Well, I get the idea. I mean, give me a memorandum, with Mr. Bell, at ten-thirty Friday so I can have it half an hour before. At least Dan can tell me what he had in his mind and not try to slip it to me as you walk in.

MR. ECCLES: We are awfully anxious to give these Victory Fund Committees something to do, and we figured if by the first of August you could get these two open-end

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issues again for two months, let them really get out and make a drive, I think you can get two and a half million dollars from outside of the banks by those Committees. At least we could find out whether they are any good or not. That is what I would like to find out.

H.M.JR: Me too. Well, I thank you very much.

CONFERENCE TO BE HELD ON JUNE 30
WITH REPRESENTATIVES OF THE
FEDERAL RESERVE SYSTEM

I. July financing (\$1,750,000,000)

Should we -

- (a) Increase Treasury bills
- (b) Offer a short bank bond
- (c) Offer a note
- (d) Offer a combination of a short bank bond and a note
- (e) Offer a long-term bond or re-open the 2-1/2's of 1962-67

II. Preliminary statement

- (a) Should the Secretary announce on July 6 (the first trading day of the 2-1/2's of 1962-67) that that issue will be re-opened? The purpose of this would be to keep the market for this issue around par and not permit it to advance to a substantial premium and then react sharply if the issue is later re-opened.
- (b) Discuss the question of making the 2-1/2's of 1962-67 available at par at all times for use in connection with the payment of estate taxes.

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SUMMARY OF DISCUSSION BETWEEN TREASURY AND FEDERAL
RESERVE REPRESENTATIVES ON JUNE 23

CONFIDENTIAL

The following general principles were agreed upon:

1. Every effort should be made to sell as large a part as possible of the increase in the Government debt to investors other than commercial banks. To the extent that this policy is made effective, the danger of inflation will be reduced during both the war and the post-war period. There is outstanding a large amount of idle funds in the form of deposits and currency, which it should be possible to reach to a considerable extent. The so-called inflationary gap should provide a substantial amount of current savings for investment in Government securities. Strong efforts should be made to reach these funds by offering types of securities that will be attractive to the holders of the funds and by the sales efforts of the Victory Fund Committees. It should be possible to reduce materially the amount that it is now estimated will be sold to commercial banks.

2. To the extent that it is necessary to sell securities to commercial banks, the issues should be primarily of short term. If the increase in commercial bank holdings is confined to short securities, the banking position will be sounder and the Federal Reserve will have a freer hand in the post-war period in exercising credit restraint, if that should become desirable. Another advantage is that the interest cost to the Treasury would be smaller than on longer securities. The amount of bills outstanding might be increased to about 5 billion dollars or 400 million dollars a week and the amount of certificates to 6 to 8 billion dollars or 1.5 to 2.0 billion in each quarter.

3. The existing pattern of rates should be maintained, but prices should be allowed to fluctuate moderately and should not be held rigid. Consideration might be given at a later time to an increase in the buying rate on bills from the present $3/8$ of 1 per cent to $1/2$ of 1 per cent. The higher rate would attract funds of commercial banks outside of the large cities and of investors other than commercial banks. The existing $2 1/2$ per cent rate on long bonds should be maintained.

4. Excess reserves will not be allowed to decline to a point that would make it difficult for the Treasury to do its financing.

In view of the need to raise during the period from July to September about 6 billion dollars from sources other than savings bonds, tax notes, and an increase in the weekly bill offering to 350 million dollars the following specific financing program was outlined:

1. The weekly bill offering should be increased to 400 million dollars, which would provide an additional 650 million dollars in the three months.

2. A certificate issue in September would provide an additional 1.5 to 2.0 billion dollars.

3. An additional open-end issue of registered 2 1/2 per cent bonds should be announced before the beginning of trading in the present issue. This offering should be kept open during July and August and should be made redeemable upon demand within perhaps four months after the death of the original holder. This issue would provide between 500 and 750 million dollars in the two months.

4. A short open-end nonmarketable note issue should be announced as soon as practicable. Such an issue would reach funds that will not be invested in marketable securities, would relate the return to the length of time that the securities were held, and would avoid some of the problems connected with marketable issues, such as those of secondary distribution and of maintaining a market and that of the frequent refunding of short issues. If the securities were made assignable as collateral for borrowing, few of them would be redeemed. It is difficult to estimate the amount of funds that would be invested in such an issue, but if offered in August perhaps 1 to 2 billion dollars could be raised during the two months.

5. This program would leave about 1.5 billion dollars to be raised from other sources. In view of the rapid depletion of the Treasury balance in the early part of July and the delay that will be experienced in getting funds from the above sources, an offering of about 2 billion dollars may be necessary next week. Since funds of investors other than commercial banks would be attracted to the various types of securities mentioned above, this issue should be directed principally to commercial banks. Although 2 1/4 per cent bonds would fall in a period when maturities of Treasury bonds are relatively small, it is an issue somewhat longer than commercial banks want and should have. While a note offering would be desirable from the point of view of selling short securities to commercial banks, notes have been recently issued. It would be preferable, therefore, to offer 2 per cent bonds at this time.

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TREASURY FEDERAL RESERVE DISCUSSION, JUNE 23, 1942.

The following is a general outline of the discussion which took place at a meeting of representatives of the Treasury and the Executive Committee of the Federal Open Market Committee on June 23, 1942, at Washington, D. C.

First, consideration was given to the general problem of the amount of Treasury financing to be done during the next fiscal year, and the proportion of this financing which might be done outside the banking system. There was general agreement on the desirability of doing as much as possible of the financing outside the banking system, although the representatives of the Treasury attached less importance to this than did the representatives of the Federal Reserve System. Similarly, representatives of the Treasury were less sanguine than were the representatives of the Federal Reserve System as to the amount of financing which can be done outside the banking system.

This difference in emphasis and in estimates of possibilities led to a real difference of opinion as to the appropriate credit policy to be pursued at this time. The representatives of the Treasury felt that the present financing program, supported by ample excess reserves in the banks of the country, is working very smoothly, and they questioned the wisdom of "experimenting" under these circumstances. The representatives of the Federal Reserve System, on the other hand, pointed to the very large decline in excess reserves which has already taken place without interference with Treasury financing and with desirable consequences as far as the interest rate structure and the country-wide use of funds is concerned; and they argued that a further decline in excess reserves might be permitted to take place with beneficial results both now and in the post-war period. In other words, they advocated a credit program which would hold to a minimum the creation of "new money" to finance the government's war expenditures. Whatever differences there may have been as to the importance of this objective during the war, when other controls admittedly are more effective, there was little difference as to its importance in the post-war period.

There was then a discussion of the short-term market for government securities and of interest rates in that area. The success of the Treasury and the Federal Reserve System, both in increasing the amount of Treasury bills and certificates of indebtedness outstanding, and in bringing about a wider distribution of these securities, geographically and as between bank and non-bank investors, was commented upon. It was the general opinion of the group that the amount of Treasury bills issued each week should be increased by \$50 millions to \$350 millions with the issue of July 1st, and the representatives of the Federal Reserve System were of the opinion that the amount of the weekly issue of bills could fairly soon be increased to \$400 millions a week. There was also general agreement that the Treasury might contemplate four issues of certificates of indebtedness of at least \$1½ billions each over a period of a year.

The effect of substantially increased offerings of bills and certificates of indebtedness upon short-term interest rates was discussed. The representatives of the Federal Reserve System believe that a modest rise in short-term rates of interest (the Treasury bill rate moving up to, say ½ of 1%) could be expected; that this would promote a desirable wider distribution of such securities; and that it would not endanger the maintenance of a maximum rate of interest of 2½% for Treasury borrowing, nor would it be likely to affect any rates, beyond the 3 or 4 year maturities. It was emphasized also that to give the banks as much as possible of these short maturities would reduce the amount of longer term financing to be done through the banks, and that the net cost to the Treasury, therefore, would be less than it otherwise would be, even though short-term rates firmed somewhat. Treasury representatives indicated that they had an open mind on the general question of a further rise in short-term rates of interest.

The general opinion was reaffirmed that obligations with maturities up to about 10 years should be designed for bank investment. The Treasury view appeared to be, however, that an obligation with perhaps a little longer maturity should now be offered, because of a relative concentration of recent offerings

and of maturities in the earlier periods. Some of the representatives of the Federal Reserve System questioned the need of paying the rate (over 2%) necessary on such an offering for funds which would come primarily from banks.

There was general agreement that the advantages of serial issues to be used in this 1 to 10 year area are outweighed by the disadvantages.

Special types of issues, principally designed to obtain funds from non-bank investors, were also discussed.

A Short-Term Open-End Registered Issue. Although there was no agreement to the use of a short-term open-end registered issue, there was general agreement that the 2 1/2 or 3 year issue, now recommended by the Federal Open Market Committee, would be preferable to the 5 year issue previously recommended. The representatives of the Federal Reserve System repeated their arguments in favor of adding this kind of a security to the list, in an attempt to bring into the Treasury individual, corporate, and public funds which may temporarily be idle and which cannot or will not run the risk of market fluctuations, and which must preserve a high degree of liquidity. It was further suggested that with the formation of the Victory Fund Committees, a selling organization is at hand to market this kind of a security, and that while finding out what volume of funds could thus be tapped, we could also be maintaining interest and enthusiasm of the Victory Fund Committees.

Tax Anticipation Notes. There was fairly general agreement that it would be desirable to increase the amount of Series A Tax Anticipation Notes which can be used by an individual in payment of taxes in any one year to \$5,000.

Consideration was given to the desirability of increasing the return on Series B Tax Anticipation Notes. The present coupon of 4 1/2%/100 of 1 1/2% was fixed when short-term rates of interest were much lower than they are now, and to bring these funds more nearly into line with the going rates, a coupon of 6 1/2%/100 of 1 1/2% was suggested.

2½ Registered Bonds. It was the opinion of the group that the Treasury should contemplate reoffering, from time to time, 2½ registered bonds like the 2½ bonds of 1962-67 offered in May 1942, or even that such an issue should be continuously on offer. It was anticipated that an offering of such a security would be made either in connection with the July or the August financing, and one suggestion was that this security be offered in July and the books kept open through the period of the August financing. It was also suggested that such bonds be made redeemable, on demand, by the executors of the original holder, say 4 months after the death of the original holder, so that such bonds may be readily liquidated to meet estate taxes and other demands for cash funds which might accompany the death of the holder.

There was general agreement that the present maximum rate for Treasury borrowing—2½—should and could be maintained, and that the Federal Reserve System, by appropriate action, should continue to maintain prices and yields for shorter maturities consistent with this maximum rate. It was agreed, however, that this "pattern of rates" does not involve fixed or pegged prices for individual issues, but means maintenance of prices within a range which may include prices below par as well as above par.

SUMMARY

The general outlines of the financing program, as further developed in this discussion, included:

1. A further increase in the issuance of Treasury bills and certificates of indebtedness.
2. A possible further modest rise in short-term rates of interest accompanying the increase in the volume of short-term securities outstanding.
3. Continued use of obligations up to 10 years maturity, or thereabouts, for offerings designed for bank investment, relying on periodic and split offerings to provide diversification of maturities rather than introducing serial issues.

4. Special types of issues designed primarily for non-bank investments
 - a. A short-term open-end registered issue having a maturity of 2½ or 3 years and redeemable in the intervening period, was considered.
 - b. Changes in the terms of tax anticipation notes were suggested to make them more attractive.
 - c. Continued use of long-term registered bonds of the type of the 2½ bond of 1962-67.
5. Maintenance of the present ceiling of 2½ on ordinary Treasury borrowing and maintenance of a range of rates for shorter maturities consistent with this ceiling. This objective is not inconsistent with some further rise in short-term rates of interest and with moderate fluctuations of prices of individual issues of securities either above or below par.

June 27, 1942.

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LUNCHEON HELD AT THE
FEDERAL RESERVE BANK OF NEW YORK
WEDNESDAY, JUNE 30, 1942. 1:00 P.M. O'CLOCK.

The Honorable Henry Morgenthau - Guest
Mr. Allan Spraul _____ - Host

- Mr. Winthrop W. Aldrich, Chairman, Chase National Bank
- Mr. John E. Bierwirth, President, New York Trust Company
- Mr. James G. Blaine, President, Marine Midland Trust Company
- Mr. W. Randolph Burgess, Vice Chairman, National City Bank
- Mr. Leon Fraser, President, First National Bank
- Mr. E. Chester Gersten, President, Public National Bank and Trust Co.
- Mr. F. Abbot Goodhue, President, Bank of the Manhattan Company
- Mr. Wm. S. Gray, Jr., President, Central Hanover Bank and Trust Co.
- Mr. Frank K. Houston, President, Chemical Bank and Trust Company
- Mr. Herbert P. Howell, Chairman, Commercial National Bank and Trust Co.
- Mr. Edwin G. Merrill, Chairman, Bank of New York
- Mr. Wm. C. Potter, Chairman of Executive Committee, Guaranty Trust Co.
- Mr. Gordon S. Rentschler, Chairman, National City Bank
- Mr. Dunham B. Sherer, Chairman, Corn Exchange Bank Trust Company
- Mr. Ernest G. Stoeffen, Jr., Chairman, Trust Committee, Manufacturers Trust Co.
- Mr. B. A. Tompkins, Vice President, Bankers Trust Company
- Mr. Harry E. Ward, Chairman, Irving Trust Company
- Mr. George Whitney, President, J. F. Morgan and Co., Inc.
- Mr. Perry Hall, Executive Manager Victory Fund Committee

June 30, 1942
3:05 p.m.

WAR BONDS

Present:

Mr. Graves
Mr. Gamble
Mr. Kuhn
Mr. Haas
Mr. Tickton
Mr. Houghteling
Mr. Odegard
Mr. Sloan
Miss Elliott
Mr. Englesman
Mr. Coyne

H.M.JR: Well, Harold, you had a chance to see this earlier in the day? (Indicating charts submitted by Mr. Tickton.)

MR. GRAVES: Yes, sir.

H.M.JR: And I asked you to think about it in view of the fact that we have always realized, and still do, that the guts of this whole War Savings sales campaign is the pay-roll deduction plan. I asked Mr. Tickton to do a little work.

I had a glance at it, and there seems to be great difference, not only within industry but between industries; and the thing I want to discuss here this afternoon with you, with your people, is what we could do, having this information in hand, to bring these industries and their people that work for them up to the ten percent.

Now, what have you got in mind?

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MR. GRAVES: Would you like Mr. Englesman to tell you what we have been doing for the last - when did we start this, about six or seven weeks ago?

MR. ENGLSMAN: The middle of May.

MR. GRAVES: I think that you would be interested to hear what we have been doing, and Mr. Englesman has visited, I suspect, all of the important States, and some perhaps not so important, and can tell you what our people are doing and how they are doing it. He can perhaps tell you what, in his opinion, has got to be done yet.

H.M.JR: Before he starts - I am sorry, but you weren't here when the retailers came in. I have never seen them so happy. Mr. Bell has assured them that fifty-two hundred retail stores will have all the bonds they want on hand on consignment.

MR. GRAVES: Fine. Mr. Gamble told me.

H.M.JR: They were very, very happy. Go ahead.

MR. ENGLSMAN: We have held pay-roll savings meetings in some twenty States, concentrating mostly on the twelve States where most of industry is.

Our method has been as follows: We have first covered the method of approach on the pay-roll savings plan as outlined in the program which was developed by the Advertising Council, and our purpose in bringing this to the attention of these various States was to see that every firm with over a hundred employees - the executives of every firm with over a hundred employees in America be called on within a specified length of time.

Now, when we went to the State after presenting the material we always tried to estimate the extra

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number of volunteers they would need in order to reach all of these employees, and where they wanted help we actually helped them get extra volunteers, and where they didn't we made some suggestions as to how they may get the volunteers.

Now, we are following that up. We had hoped, and we believe that most of the firms in America - the executives of most of the firms in America with over a hundred employees will have been called on by the first of July and presented with an outline of the plan to get ten percent. We are following that up now and going back to these leading States to see whether they have done the job.

Generally speaking, we think that July will show the results of this effort, that we will begin to get ten percent in a lot more plants than we have in the past, and everywhere they seem to be confident. Frankly, I have been out in a number of the places myself, have gone into some of the plants myself, and gone out with some of the volunteers and also investigated the work of a number of the volunteers; and I think that by and large it has been good. I do think, however, that if we are going to get ten percent it will be necessary to go back to a number of these large plants and get them to put on what you might call a community chest drive within the plant. Many of them have installed pay-roll savings and think that they have done a good job - in their own hearts and souls they think that they have done everything possible, but they haven't gone after the ten percent.

In order to do that we will need more volunteers. It has been our experience that a number of these volunteers, where you assign four or five leads to them they don't do any of them well; but if you give them one or two they will do a job and they will report back.

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One other thing that seems to me to be indicated is this, that wherever we go the administrator and those who are working with him say, "Now that you have given us a track to run on let us run on that track. Let us follow through on this without giving us too many other things to do in the meantime."

I think that we could clean this thing up in a month or a month and a half and be well on the way to national participation to the extent of ten percent if we just concentrate on this pay-roll savings drive. That is the only point.

H.M.JR: Be careful now on giving me dates because I have got an awful memory, plus the help of this record. (Laughter)

MR. GRAVES: I should have warned him.

MR. ENGLSMAN: May I revise that then and say by the end of the summer.

H.M.JR: When does the summer end?

MR. ENGLSMAN: Labor Day.

H.M.JR: What are you going to do by Labor Day?

MR. ENGLSMAN: Well, I think that we will have the participation over what - above what Mr. Tickton will tell us after the June report, up to somewhere between eight and ten percent.

H.M.JR: For the country?

MR. ENGLSMAN: For the concerns with over a hundred.

H.M.JR: Well, if you are right--

MR. ENGLSMAN: Now I am sticking my neck out, and I realize that.

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MR. GAMBLE: These are firms that have just wired in that they are over ten percent, Mr. Secretary. (Paper handed to the Secretary)

H.M.JR: I have just been giving a lecture on people constantly throwing cold water on me, so I will not begin throwing cold water on you, but I don't see how you are going to do it.

MR. GRAVES: I think, Mr. Englesman, that the Secretary probably will be interested if you will tell him a little about New York and Ohio and Illinois.

H.M.JR: May I interrupt just a minute? How do you happen to get these, Ted?

MR. GAMBLE: Those are firms that have wired in, Mr. Secretary, since we have started this stepped-up activity in these important States - their drives have brought that result.

H.M.JR: This is since when?

MR. GAMBLE: Those would all be in the last thirty days.

MR. GRAVES: That is the result of the telegrams that you sent out asking these firms to report.

H.M.JR: May I do it a little bit differently and ask you a couple of questions.

Now, in this thing, for instance, with the help of Mr. Houghteling, we were supposed to have all the organizers of the AFL working for us. Now, how close did you work together?

MR. HOUGHTELING: We haven't worked together at all.

H.M.JR: You haven't worked together at all? That is pretty far apart, isn't it? (Laughter)

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MR. ENGLESMAN: Mr. Houghteling, I think we have worked together more than you think. For instance, in New York last week we went to the head of National - the biscuit leader, Mr. Glavin, and he went with us, and I believe we will have the proper result there, which will be the result of his efforts.

In a number of other places the administrators have worked directly with labor, at our request, so we personally haven't been working together but actually we have been working with labor in the field all the way throughout the country.

H.M.JR: That isn't very satisfactory to Mr. Houghteling if he doesn't know and if - he has got to see the national leaders and keep after them - I mean, I have been trying to find out what these AFL leaders are doing. I know about these twelve meetings which are going to take place, but that wasn't the purpose - that wasn't really to correlate labor. We had another purpose in mind on these twelve regional meetings.

But the purpose of this meeting is I want to say here and now that the policy of the Treasury is payroll deduction should be number one, and everybody who is in the Treasury, I want them to direct their attention towards that because if that can steadily grow I am more than willing to face anybody in a discussion as to the volunteer plan. So I wanted to get everybody together and say that anything else that we are doing should be secondary to this. I want everybody to get his back to it.

But if Houghteling - well, you can always talk for yourself, but I have always got to - and the other thing I want to say is, because I haven't had a chance to tell you before, I don't want to go through the front office. I want to start with the workmen where they are organized, with their representatives.

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MR. ENGLSMAN: In every one of our meetings, Mr. Secretary, all parts of labor have been represented, AFL, CIO, in every meeting that we have held throughout the country.

H.M.JR: You will have to sell that to Lawrence Houghteling. His eyebrows seem to go up. How about it?

MR. HOUGHTELING: Well, I have felt that I don't know about these various plans, that I could be much more useful if I were kept more closely in touch with what Mr. Englesman and the rest are doing. I am working through the local labor unions through all these organizers, and I am convinced that that is the way to get ten percent, to get the labor in any organized plant - to get the union officers talking to their men.

H.M.JR: I have been through this thing with General Motors. I don't know what happened; I wrote that letter - did that do any good?

MR. HOUGHTELING: I know you did. I don't think we have had an answer from them.

H.M.JR: But, you see, I go on the theory that this is a long war. We are going to have to live with labor more and more, not less and less, and let's say that General Motors does get ten percent, which they haven't - let's say they do have, and then the CIO labor people are thoroughly dissatisfied, and we want to go to the next plant, the Ford plant, or somebody else, and finally they begin to work against us and kick it out. It doesn't help towards national unity. I haven't just thought of these things overnight, and you are comparatively new and I would like you to know how I feel about it. I go on the theory this is a five-year war; I hope to God I am wrong. If it was a five months' war we might get away in General Motors with a high-pressure executive sales drive and get it

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through, and get the men in, and then when we go back in fifteen months from now have the labor unions say, "We are not interested; we won't help you." In other words, I am trying to make long-term friends for these War Bonds, and I am convinced the way to do it is to have the men at the bench satisfied, and the women.

Now, as I say - Sloan, you are supposed to ride herd on these boys over there.

MR. SLOAN: Mr. Englesman has been away a good deal, but he has been in several meetings where he has discussed what he has been doing on his trips, and so forth. Larry has heard him on a few occasions when he has been back here. We will ride herd a little harder to try to get together closer on that.

H.M.JR: You have got to do it. It is always the same thing, though, whenever I have a meeting in the office; I always find that the labor people are overlooked. It happens time and time again, and on a long-term basis I think it is a mistake and I don't want it that way.

MR. GRAVES: I was simply going to say with reference to the job that is being done by the organizers - at least my understanding of that arrangement was that those men were to go to the union locals and work with the membership of the union locals. There was nothing in the plan that would have involved bringing those people into this pay-roll allotment approach that Mr. Englesman is responsible for.

MR. HOUGHTELING: No, they are not responsible for getting the plan established by the various companies.

MR. GRAVES: That is right. Mr. Houghteling's approach will result in the unions urging their membership to participate on a higher rate, and I

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think that, generally speaking, with perhaps some exceptions, this thing has been handled as Mr. Englesman indicated, with the full collaboration of organized labor. I can think of two of our biggest States, for example, where labor is right in the picture. I have in mind Mr. Wagner in Ohio, who is in charge of pay-roll allotment in that State and who comes from organized labor. Mr. Shackelford in Missouri is another case in point. I think in New York Mr. McMannus, who is employed in our New York organization, I understand, is always called in in any case where organized labor should be consulted with reference to the installation of the thing.

MR. HOUGHTELING: We have to do that in about ten more States.

MR. COYNE: In theory, Mr. Graves, every State is covered through the regionalizing of Larry's men. We have these regional offices, and they have been instructed--

MR. GRAVES: That was for a different purpose. That was to reach the union locals.

H.M.JR: But, Harold, can't we correlate this all?

MR. GRAVES: Yes, I think we can. I was not aware that there was any point here until this minute.

H.M.JR: Well, the point of the meeting is - what I am groping for is I want to get everybody working and thinking together in the Treasury towards making a success of this ten percent thing, and to do it - certainly in the Washington office they ought to be in frequent consultation and then have it spread out from Washington to the States down the line.

Now, what I want to ask is this. I just want - I mean, would you, Harold, approve of this? As I

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say, I am groping - take an industry, aircraft or shipbuilding, which is among the higher weekly ones, and say we will put on a drive - just use shipbuilding, for example - in the shipbuilding industry, wherever they are, and try to bring the whole industry up to ten percent as an industry, or would you rather do it by States?

MR. GRAVES: I would like to talk with Mr. Tickton about that a little bit. I think as to some industries we ought to do it by industries. You used two illustrations of industries like that, shipbuilding and aircraft. I think probably we can make some headway with them, dealing with them by industries; but some of the other classifications, they seem very heterogeneous. After all, there is no--

H.M.JR: Machine tools is a very closely-knit industry; shipbuilding is, and automobile manufacture. Now, that is out of the five - I don't know about engine and turbine manufacture, but I think all of the top five are very--

MR. GRAVES: Steel probably is another one.

H.M.JR: Yes, but among the top five of the highest weekly, I think you will find there aren't too many concerns in each one of those. Is that right?

MR. TICKTON: That is right. There is a limited number of firms. You would have to work at a disadvantage in trying to work by States on this basis, Mr. Graves. Most of these are national companies.

MR. GRAVES: I think that is the answer, that any companies that are national in scope we might best approach as an industry.

H.M.JR: What I had in mind, Harold - and the salesmen in this room can tell me whether it is good or bad - supposing we could take the top - the engine

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manufacturing company has the highest weekly rate, and if we could go out and say that of the engine manufacturing companies ninety-five percent of their employees are members of the plan, and they are taking over ten percent, then you go to the aircraft and say, "Aren't you as good as the other fellow? We have got the other fellow; we have got this industry; now we want to see if you want to do it." Do it among these industries.

I don't suppose in the aircraft industry there could be - what, twenty-five to fifty manufacturers?

MR. TICKTON: About fifty. All of the small ones are included in fifty.

H.M.JR: I don't know whether I am right, but I just was wondering.

MR. GRAVES: I think you are certainly right as to some industries, but I doubt whether--

H.M.JR: I am mentioning the five which are at the top. What do you think, Mr. Englesman?

MR. ENGLSMAN: I think you are right as long as they are well defined and they are limited to a reasonable number. Any under a hundred we could do it that way, and probably very effectively.

H.M.JR: I am not saying it is the way. What do you think, Coyne?

MR. COYNE: Well, I think it would be an interesting experiment. I don't think it would be the answer to our question, but I certainly would not oppose undertaking it and we might learn something of great value.

Mr. Gamble had an idea some time ago of making a series of approaches to big companies by a selected

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group of men of standing, very carefully picked. Now, it might be entirely consistent with that idea.

H.M.JR: Well, the engine people, it looks as though there were twenty-five. Why couldn't you do this, Harold, why can't you take the people who are directly responsible to you for this, you see, and let them talk this thing over and take a fresh look at the thing, with the idea that this takes precedent over everything else, that is, the ten percent idea?

MR. COYNE: Surely.

H.M.JR: And bring in a plan.

MR. GRAVES: Yes.

MR. HOUGHTLING: I would like to bring out one or two points. These first five categories are all pretty solidly unionized and there are comparatively few unions. For instance, in shipbuilding there is one, CIO, and the boilermakers and the machinists in the AFL. From the labor standpoint we can do a lot through three big organizations.

When we talk about getting volunteers in a situation like that, the volunteers ought to be appointed by the labor unions in the unionized plant, not by management, because that is the way to get their own people to tell them what to do.

H.M.JR: Most of these people, I think you will find, have an association - the owners.

MR. GRAVES: The industries are organized in associations.

H.M.JR: Most of them, and if you had the secretary - for instance, when I was dealing with machine tools they had a very good secretary out at Indianapolis, as I remember - a man like that, plus a man from the union, and they sat down - "Now,

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would be willing to help us put on a thirty-day drive? We have got a lot to do between now and Labor Day in this particular industry." Then let them go to it.

Harold, I am groping; I am not laying down any laws.

MR. GRAVES: I understand. I think that in certain instances that approach would be very helpful. Railroads is a good example, Larry. You fellows have taken hold of railroads, not on a geographical basis at all but as a special part.

MR. HOUGHTELING: For the most perfect example of cooperation of management and labor, I got a report today that ninety-six railroads, including some of the biggest ones, are over ninety percent. Their participation is only about five percent so far, but we are pushing them up.

H.M.JR: Then I was thinking, Miss Elliott, that, after all, they get this all day long and then they are going to come home and talk it over with their wives, and they help them to make up their minds.

MISS ELLIOTT: We were talking about that, the way we can work the Women's Division into the local educational program.

H.M.JR: Don't you think, for instance, if they are going to take an engine plant, that something should be done with the women in their homes to help them become receptive?

MISS ELLIOTT: Yes, I do, and as we said this morning, in any meetings that they plan I think the women directors and the heads of the local women's committees should be invited to those meetings and be a part of that program.

H.M.JR: I think so.

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Well, Harold, will you turn this over to whoever you want?

MR. GRAVES: Yes. Gamble, Coyne and Englesman and I will have to study this out.

H.M. JR: Will you, and then - Gawd, don't forget this fellow Houghteling. He is such a modest fellow, you know. (Laughter) You know, you have got to come in here with a gun or something. (Laughter)

MR. GRAVES: Of course I always represent Mr. Houghteling. I don't know that I am a very satisfactory representative.

H.M. JR: Anyway, don't leave Lawrence Houghteling out, and as soon as you get something let me know and I will drop what I am doing; but from now on, if this thing that you (Englesman) are in charge of gets pressing, radio, press, everything, if you don't get what you want, holler, but - I mean, so that we can get these people up to the ten percent or better.

Eugene, over in your place see that everybody knows that, will you?

MR. SLOAN: Yes, sir, I won't forget that.

H.M. JR: And tell somebody over there - I listened to the General Electric program Sunday night; they have just gone over the ten percent, and they broke into their program and gave us a wonderful send-off on the ten percent, what they had done, and everything. They did a beautiful job on the General Electric program Sunday night. I don't know whether it was voluntary or written by somebody in the Treasury, but it was very well done. This man was speaking, and in the middle of it this all-girl orchestra said, "Wait a minute, you have forgotten us; don't forget us; we have gone eleven percent" or twelve percent. They broke right in, "Don't forget us." It was very well done.

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Ted, this all fits into your regional thing, doesn't it?

MR. GAMBLE: Yes, very well.

H.M.JR: Peter, got any contributions?

MR. ODEGARD: No.

H.M.JR: Kuhn?

MR. KUHN: No.

H.M.JR: Well, this (indicating papers submitted by Mr. Tickton) is the bible - or, rather, it is the measuring stick. Somebody else will have to furnish the bible. This is the yardstick.

MR. GAMBLE: I don't think you have ever seen this all at one time, so we had it put together for you so you will know what is going on in the plants today. (Mr. Gamble submitted a group of charts to the Secretary.)

H.M.JR: I have never seen any of it. Who did this?

MR. GAMBLE: This is Advertising Council material. These are the posters going into the factories. This is all the material that is being used, pay-roll envelope stuff, and so forth.

H.M.JR: Now, is there anything in there for the women? I will bet you there isn't. You (Miss Elliott) will find that if you and Lawrence Houghteling - if the two of you pair together maybe you will get heard. I suggest that you join up. (Laughter)

MISS ELLIOTT: All right.

MR. COYNE: That "I Gave A Man" poster is very effective.

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H.M.JR: I have been wanting to see this. I have never seen this in finished form.

What have they got for labor?

MR. GAMBLE: Labor is all through here.

MR. ODEGARD: Mr. Secretary, could I make just one suggestion on that? Running throughout that copy you will find "Will you give ten percent?" It seems to me psychologically and every other way bad. We are not asking anybody to give anything.

H.M.JR: I agree with you. Is it too late to change it?

MR. GAMBLE: Peter, that was discussed, and the opinion of the fifteen leading advertising men in the country was that "Give Three, Get Four" was just the thing they wanted to use. It isn't running all the way through, Peter.

MR. KUHN: No, it doesn't.

MR. ODEGARD: I haven't seen that. I just noticed the ads that were held up.

MR. KUHN: It is in that one poster and in the booklet, "Give Three, Get Four", which was pretty effective.

MR. ODEGARD: "Give Three, Get Four" is a different proposition. If you say "Give Ten Percent" it is a different thing than "Give Three, Get Four."

MR. KUHN: You won't find that in the rest of that copy.

H.M.JR: Could I have one other thing, if I was real good, a set of ads that they ran in New York in connection with their drive?

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MR. GAMBLE: Yes.

MR. KUHN: I have one of those which I can send in to you.

H.M.JR: Could you? When?

MR. KUHN: Right away. I have it in my office. Do you want it now?

H.M.JR: Yes, right now.

I have nothing else.

MR. GRAVES: There is one thing that is missing from our discussion here. You asked me a week ago for a report on pay-roll allotment, and Mr. Tickton prepared one and I sent it to you. I was wondering if you had a chance to--

H.M.JR: Yes, I have that very much in mind.

MR. GRAVES: It shows the progress of the various factories.

H.M.JR: Definitely - I read it twice very carefully. I read that, but I thought now, with the position that Congress was taking, whatever you wrote for Mr.--

MR. GRAVES: Ludlow.

H.M.JR: Mr. Ludlow, and I am not conscious just now of any particular pressure from the White House on me on this thing. When they see the bond figures there will be all kinds of questions, and I think this, Kuhn, that I would like to pin this on you - I don't know whether Thursday morning they will go after me on the fact that we won't have sold as many bonds as we did in May - what the explanation is going to be -

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I have got a press conference at ten-thirty, and the boys are kind of tough on me. But I think the figures will be out - as I say, the June figures won't look as good as May, and what have I got to offer them in July. I would, if I had some pay-roll allotment figures--

MR. GRAVES: I think Mr. Tickton can probably project these figures to give you some estimates for June.

H.M.JR: If you will consider that a number one assignment between now and ten-thirty--

MR. KUHN: You mean to get up something you can give to the newspapers?

H.M.JR: And come in early so I don't get it at ten twenty-nine.

MR. KUHN: I think this kind of thing will be very good because it is concrete and the boys don't know about this.

H.M.JR: Well, I wish you would talk around, and if anybody has any ideas they want me to talk about if they could give them to Kuhn in time enough so I would have something to offset this bad publicity--

MR. GRAVES: I think I would like to talk with Mr. Kuhn about that and give him some suggestions. I have some in my head.

MR. KUHN: This won't be a surprise to newspaper readers. It has been prepared for, and you have prepared the way.

H.M.JR: I know, but I will have to take it just the same.

Now, in order that you can make good on your statement here you (Englesman) can see you have got

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to stand up and ask for what you want.

Mr. Graves will get these people together, and then as soon as you are ready - I don't mean today, but in a couple of days, come back.

MR. GRAVES: Yes, sir, as soon as we can.

H.M.JR: Harold, if I don't see you again, you are willing to fly? Does Gamble fly?

MR. GRAVES: Yes, he flies more than I do.

H.M.JR: Does Tickton fly?

MR. TICKTON: Sure.

H.M.JR: Then I will be at the Cosmos Club at eight-fifteen tomorrow morning to pick the three of you up. We are going up to see Madden.

MR. GRAVES: They are expecting us. I talked with him.

H.M.JR: Did you do anything?

MR. TICKTON: Yes, sir, I talked with Madden for about an hour.

H.M.JR: Could you boil it down to three minutes?

MR. TICKTON: I can. They will have the kind of follow-up on this person-to-person check that you are going to have next week, the kind of follow-up you talked about; but the follow-up that is being conducted in the usual way is going a lot slower than Mr. Madden thought it would go. It is going slower because of the physical impossibility of handling two million pledges with a lot of volunteer workers and doing it in a very short period of time.

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These bank postal cards will really not get out into the mails until the fifteenth of July. Not more than fifteen or twenty thousand pledges have been delivered to the banks as of yesterday, and they will deliver them at the rate of ten or fifteen thousand a day for the next couple of days, twenty-five thousand afterwards.

The post office designees, if they are followed up, of course will not be followed up on that basis until some time the middle of August; and the pay-roll savings designees will probably also be followed up, say, in the first part of August, all because of the physical impossibility of very quickly handling these two million pledges. That is as of yesterday.

They only had financial statistics on five hundred thousand of the two million pledges. They knew there were two million - I am pretty sure there are, but they got that count by measuring bundles and not by physically counting them.

H.M.JR: Now, what about this thing of sending the men - twenty-five men out in the blocks?

MR. TICKTON: Those twenty-five men will be trained this week, the end of this week, and will do their canvassing the first part of next week.

H.M.JR: You were going to do it last week, weren't you? That is what I wanted. We said seventy-two hours - that is what we first said, you remember, and then it was going to be this week.

MR. GAMBLE: No, it was to be the date he said, the same date. He didn't close his drive until Sunday night.

H.M.JR: But he is going to do the thing - when are these men going to get out?

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MR. TICKTON: They will probably get out next Monday or Tuesday. What he wants to do, Mr. Secretary, is to physically pick up the books the people sign so that the canvasser will actually have the book and come to you and have your stuff; but in order to do that, first he has to determine what district he is to canvass and then he has to locate the books; and all this is in the middle of two million pledges.

H.M.JR: What if I barge in there tomorrow?

MR. TICKTON: Well, I can say this, that they were very much more follow-up conscious this week than last as a result of you having become interested.

H.M.JR: Well, we have told them we are coming.

MR. GRAVES: Yes.

MR. KUHN: Patterson gave out a statement to the press on the follow-up idea.

H.M.JR: I read it this morning. It wasn't very good.

Well, anyway, we will go up because I have told the Federal Reserve I will be there tomorrow.

Sloan, I would like to show you where in my room I would like these posters so that you will see that they come over.

June 30, 1942.
4:36 p.m.

HMJr: Sumner?

Sumner
Welles: Hello, Henry.

HMJr: How are you?

W: I'm fine, thanks.

HMJr: Sumner, this is in the nature of a personal matter.

W: Yes, indeed.

HMJr: Judge Irving Lehman has sent me a letter - on a personal basis, see - whether or not there's anything that we could do for the Joint Distribution to help them communicate through Switzerland with people and these Jewish refugees in Shanghai. Hello.

W: Yes.

HMJr: What I'd like to do would be just to stick this in an envelope with my card in it, and send it over to you....

W: Yes.

HMJr:and then let you decide whether there's anything that could be done for these poor people or not, you see.

W: Do that, Henry, and needless to say there's nothing that I won't do if there's any possible way of doing it....

HMJr: Well....

W:not only on account of the reason but also on account of the fact that he's interested in it. You know the very high regard and affection I have for him.

HMJr: Well, I knew you'd feel that way. I know it's a difficult thing but - all these things are difficult nowadays.

- 2 -

W: Send it over to me and I'll do everything on earth I can.

HMJr: Thank you so much.

W: All right, Henry.

HMJr: Thank you.

W: Goodbye.

HMJr: Goodbye.

June 30, 1942.
4:39 p.m.

Sam
Rayburn: Henry.

HMJr: Hello.

R: Sam.

HMJr: Sam?

R: Yeah.

HMJr: Henry is my name.

R: That's correct. That's what I said, Henry.

HMJr: Yeah.

R: And you know it. Henry.

HMJr: Yes.

R: Two things - there are some people down in Texas, the Texas Textile Mills, who are celebrating on July the Fourth - that's Saturday at noon.

HMJr: Yeah.

R: They want me to make a little recording on a disk....

HMJr: Yeah.

R:telling them how grand they are because there's ninety percent participation in payroll deduction for War Bonds.

HMJr: Yeah.

R: They want me to make a little disk here in the morning so they can take it in their pocket and take it down there and play it to those employees of the three mills.

HMJr: Right.

- 2 -

R: They're wondering if you'd come up here and sit in with me ten minutes and let's have a little conversation about those people.

HMJr: Sure, I'd love to.

R: Congratulating them, and so forth.

HMJr: Sure, I'd love to.

R: Well, supposing you come here at ten o'clock in the morning then if you can.

HMJr: Well, now I won't - I won't be here tomorrow but I'll be here Thursday. Hello. I'm leaving - I'll be gone all day tomorrow. I'm out of town.

R: Well, we'll just have to do it - let me see now. Yeah, they can leave here on the train Thursday night and get there - do they (talks aside) Bill, did they come on an airplane or what?

HMJr: Yeah, they go by airplane. They could go by airplane.

R: Yes, or they can go by train and make it.

HMJr: Yes, well, I'll....

R: All right, then say we'll do it ten o'clock Thursday morning?

HMJr: Ten o'clock Thursday morning - well, now you couldn't make it - I have a regular press at ten-thirty.

R: Uh huh.

HMJr: You couldn't either make it - would - would eleven be too late?

R: No.

HMJr: What?

R: No.

- 3 -

HMJr: Or earlier. You don't get up so early though, do you?

R: No.

HMJr: How about if I get up there about eleven-fifteen?

R: ~~That~~ That'll be fine.

HMJr: And now would - would you like to have us write something beforehand?

R: Well, I thought you and I would just get together here in the office and talk it over and just have a little informal conversation.

HMJr: Fine.

R: I'll ask you some questions....

HMJr: That's fine.

R:and these people have done a grand job, and so forth, and they - they'd enjoy it down there.

HMJr: Well, I'd love to. I'll be at your office sharp eleven-fifteen Thursday.

R: All right, Henry.

HMJr: I'll be there.

R: Fine.

HMJr: Is that all you've got on your mind?

R: That's all. Oh yes - you know this old fellow Cottrell that's been making out the income tax for these people up here?

HMJr: Yeah.

R: Well, they're after me again to speak to you about continuing him - it's hell, I know.

HMJr: It's Cottrell. He's in income tax. You want him extended.

- 4 -

R: Yes, he's been making out - he comes up to the Sergeant at Arms' office.

HMJr: Well, we'll have to do it, I guess.

R: All right, Henry. The name's Cottrell.

HMJr: Cottrell. He's income tax. He makes out Congressmen's income tax.

R: That's right.

HMJr: I'll do the best I can.

R: All right, Henry.

HMJr: Thank you.

R: Goodbye.

JUN 30 1942

Says Secretary Morgenthau:

Treasury Did Request McCarty Deferment

By MARTHA STRAYER

The strange draft case of Milburn McCarty Jr. today became stranger and stranger, as Treasury Secretary Henry Morgenthau Jr. revealed that without his knowledge and contrary to information given him by his associates, the Treasury had requested occupational deferment for this young man.

Developments followed thick and fast yesterday, after The News printed a story quoting from a mimeographed document which, written by Mr. McCarty about Mr. McCarty, told how important he is to the War Bond drive, for which he is press section chief. The story pointed out discrepancies between his statements and those of his draft board in New York.

First, Mr. Morgenthau called a press conference to denounce The News for printing the story and calling it "unfair to Mr. McCarty and the Treasury, and entirely uncalled for."

PRaises McCarty's Action

He described Mr. McCarty as a young man in I-A who had agreed to postponement of a Navy commission to stay in the Treasury and take his chances on the draft.

"Mr. McCarty was sufficiently patriotic to be willing to stay here and take his chances," said the Treasury Secretary. "He was willing to give up an opportunity for a commission. Not everybody is like that."

The Secretary read a letter of April 29, addressed to Navy Secretary Knox by his own (Mr. Morgenthau's) administrative assistant, Norman Thompson, asking postponement of a commission applied for by Mr. McCarty; also Mr. Knox's reply, granting the request.

"I take full responsibility for draft deferments in the Treasury," said the Secretary. "I did not ask for Mr. McCarty's deferment, and if I had been asked to make this request, I wouldn't have done anything about it."

TOLD OF DISCREPANCIES

A News reporter pointed out discrepancies in Mr. McCarty's statements, those of his draft board, and the record of his case as reported by Mr. Morgenthau. Mr. Morgenthau said he would investigate these discrepancies.

Less than two hours later he telephoned The News, said he had "just begun to go into the case himself," found he had been misinformed and that the Treasury did ask



Mr. McCarty

Mr. Morgenthau

for Mr. McCarty's deferment, and added: "I owe The News an apology. If agreeable to you, I will make it at my next press conference on Thursday."

"I am only human," the Secretary continued. "I have got to depend upon other people. As soon as I went into this case myself, I found I had been misinformed."

CORRESPONDENCE IS READ

Correspondence read by Mr. Morgenthau at this special press conference was as follows:

From Mr. Thompson to Mr. Knox:

"It is my understanding that the Navy Department now has under consideration a commission for Milburn McCarty Jr., who will be assigned to Admiral Conard's division. At the request of the Secretary, I will ask that you have the granting of this commission indefinitely postponed. As you know, the President recently inaugurated a greatly intensified campaign for the voluntary sale of War Savings Stamps and Bonds. His leaving at this time would seriously hinder our war-bond activity."

KNOX TO THOMPSON

"Under these circumstances, we believe it is necessary for Mr. McCarty to remain in the service of the Treasury

The News

and so hope you will agree with us and that this will not affect Mr. McCarty's record with the Navy Department."

From Mr. Knox to Mr. Thompson: "This will acknowledge your letter of April 29, relative to Milburn McCarty Jr. who applied for a commission in the U. S. Naval Reserve. The indefinite postponement you ask for will be granted, without in any way prejudicing any application Mr. McCarty might submit or reflecting upon his record with the Navy."

Discrepancies pointed out by The News were as follows:

Mr. McCarty said he hadn't heard from his draft board, couldn't remember its number, and that his case involved no question of deferment. Mr. Kuhn reiterated that it involved no deferment, but had to do only with a Navy commission.

Mr. McCarty's local board (No. 14, New York City) told The News his case is now before the occupational deferment division there. This meant, according to draft regulations, that some one must have asked for deferment and that the request must have had support from Mr. McCarty's employer.

When these discrepancies were pointed out to the Treasury Secretary, he said he would immediately investigate them. He added:

"All correspondence between the Treasury Department and any draft board is available to inspection at all times. In this case we have not asked for deferment."

GETS FEW REQUESTS

"There have been some few requests for deferment here and I have rejected a number of cases. I take full responsibility for what has happened between the Treasury and draft boards. I consider honest enforcement of the draft more important than any other part of the war effort."

"I shall certainly ask Mr. McCarty to explain these discrepancies. I happen to feel very strongly on the war. I am fighting the war."

Asked by another reporter about deferment of Treasury General Counsel Edward H. Foley Jr., 10 Thompson Circle nw, Mr. Morgenthau replied:

"I have not asked for any deferment for Mr. Foley."

"I have heard comment about Mr. Foley's case from outside sources," said the reporter.

"Anybody that wants to may see the correspondence between this department and any draft board," Mr. Morgenthau reiterated.

(In connection with deferments which had been approved by an Acting Secretary during the Secretary's absence from the city

I told Norman Thompson I did not care where I was, as far as draft deferments were concerned I was always Secretary of the Treasury.

Norman Thompson please bring this in and talk to me
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 4/22/42
 [Signature]

DEFERMENTS REQUESTED BY THE TREASURY DEPARTMENT

For 6 months, 3
 For 3 months, 8
 For 2 months or less, 4

Total requested by the Treasury Department, 15

Request made by Department of Commerce for 6 months
 deferment for employee of the Bureau of Marine
 Inspection and Navigation which was transferred to
 the Treasury Department by EO-9083 on 3-1-42, 1

Total, 16

Deferments which have expired as of the present date, ... 5
 Number of those deferred who have entered or received
 notice of induction into the military service, 2
 Employee reclassified by Board after request for defer-
 ment was made, 1
 Number of employees deferred from military service at the
 present time, 8

Total, 16

In addition to the above, requests have been made for the deferment of 14 Secret Service Agents and Police assigned to the White House. Two of these requests were disapproved by the local boards and two of the employees enlisted in the Army Air Corps after the requests for deferment were made.

[Signature]

RECOMMENDATIONS MADE FOR DEFERMENT OF TREASURY EMPLOYEES FROM MILITARY SERVICE

<u>Name</u>	<u>Title</u>	<u>Office</u>	<u>Deferment Requested</u>	<u>Approved by</u>	<u>Board Action</u>
286 Hahn, Theodore P.	Sr. Clerk	Customs	6 months	Director, Bureau of Marine Inspection & Navigation, Dept. of Commerce (Transferred to Customs by EO-9083, effective 3-1-42)	Deferred until 8-20-42
Miller, Charles M.	Engineer	Mint (New Orleans)	6 months	Secretary Morgenthau on 3-6-42.	Deferred until 9-19-42
Leahey, Thomas F.	Sr. Economist	Res. & Stat.	6 months	Secretary Morgenthau on 4-27-42	Placed in Class II-A until 11-12-42.
McCarty, Milburn (Jr.)	Chief, Press Section	War Savings Staff	6 months	Secretary Morgenthau on 5-1-42	The Board has not replied to our request or advised Mr. McCarty of his present classification.
McEachern, Webster C.	Engineer, Revenue Agent	Int. Rev.	3 months	Secretary Morgenthau on 2-4-42.	The Board has not replied to our request.
Perkins, Edwin M.	Sr. Atty.	Int. Rev.	3 months	Under Secy. Bell on 6-6-42.	Deferred until 8-9-42
Overby, Wesley C.	Zone Deputy Collector	Int. Rev.	3 months	Secretary Morgenthau on 6-26-42.	
Gatz, Peter	Zone Deputy Collector	Int. Rev.	3 months	Secretary Morgenthau on 6-26-42.	

<u>Name</u>	<u>Title</u>	<u>Office</u>	<u>Deferment Requested</u>	<u>Approved by</u>	<u>Board Action</u>
Breithut, Richard C.	Ec. Analyst	Res.& Stat.	3 months	Secretary Morgenthau on 2-23-42.	Deferment granted for 2 months. Entered Army Air Corps 5-5-42.
Weir, William	Adm. Asst.	Res.& Stat.	3 months 3 months	Under Secy. Bell on 3-23-42. Second request approved by Under Secy. Bell on 6-2-42.	Deferred by Board for 2 months. Reclassified by Board to III-A.
Anderson, Carl W.	Asso. Ec. An.	Tax Res.	3 months	Secretary Morgenthau on 3-6-42.	Mr. Anderson was advised that he would be inducted around 7-15-42.
Atlas, Martin	Asso. Stat.	Tax Res.	3 months	Secretary Morgenthau on 3-6-42.	The Board has not replied to our request or advised Mr. Atlas of his present classifica- tion.
Due, John	Ec. Analyst	Tax Res.	2 months	Secretary Morgenthau on 6-26-42.	
Edelman, Albert I.	Asso. Atty.	Gen. Counsel	1 or 2 months	Acting Secy. Foley in the absence of the Secretary. Letter signed by Mr. Thompson on 5-20-42 re- questing the Board to defer induction until Edelman could return from the West Coast.	Deferred until 7-26-42. Will report to Coast Guard for active duty as an ensign on 7-13-42.

TREASURY EMPLOYEES DEFERRED FROM MILITARY SERVICE AT THE PRESENT TIME (6-30-42)

<u>Name</u>	<u>Title</u>	<u>Office</u>	<u>Deferment Requested</u>	<u>Approved by</u>	<u>Board Action</u>
Hahn, Theodore P.	Sr. Clerk	Customs	6 months	Director, Bureau of Marine Inspection & Navigation, Dept. of Commerce (transferred to Customs by EO-9083, effective 3-1-42)	Deferred until 8-20-42.
Miller, Charles M.	Engineer	Mint (New Orleans)	6 months	Secretary Morgenthau on 3-6-42.	Deferred until 9-19-42
Leshey, Thomas F.	Sr. Economist	Res. & Stat.	6 months	Secretary Morgenthau on 4-27-42.	Placed in Class II-A until 11-12-42
McCarty, Milburn Jr.	Chief, Press Section	War Savings Staff	6 months	Secretary Morgenthau on 5-1-42.	The Board has not replied to our request or advised Mr. McCarty of his present classification
Perkins, Edwin M.	Sr. Atty.	Int. Rev.	3 months	Under Secy. Bell on 6-6-42.	Deferred until 8-9-42.
Overby, Wesley C.	Zone Deputy Collector	Int. Rev.	3 months	Secretary Morgenthau on 6-26-42.	
Gatz, Peter	Zone Deputy Collector	Int. Rev.	3 months	Secretary Morgenthau on 6-26-42.	
Due, John	Ec. Analyst	Tax Res.	2 months	Secretary Morgenthau on 6-26-42.	

REQUESTS FOR DEFERMENTS WHICH WERE DISAPPROVED BY THE SECRETARY

Name	Title	Office	Deferment Requested	Disapproved
Head, James D. Jr.	Pr. Atty.	Int. Rev.	6 months	By the Secretary on 11-28-40.
Mouhtouris, Charles J.	Deputy Collector	Int. Rev.	6 months or more	Mr. Thompson advised Mr. Helvering in a memo dated 2-26-41, that the Department could not ask for a deferment simply because he might be called to testify at trials as he could be released from camp for that purpose.
Moore, Lawrence C.	Attorney	General Counsel		2-11-42 his draft board requested the Department to advise them whether or not he was a "necessary man". On 3-12-42, Mr. Thompson advised that the Department did not wish to recommend deferment.
Marcus, Max	Jr. Clerk	Public Debt		4-29-42 his draft board submitted a Form 42-A to be used by the Department if it desired to request his deferment. 5-8-42 Mr. Thompson advised the board that the Department did not wish to recommend deferment.
Melcher, Daniel	Publications Consultant	War Savings Staff	2 months	By the Secretary on 6-26-42.
Minaker, Cecil W.	Zone Deputy Collector	Internal Revenue	12 months	By the Secretary on 6-26-42.
Parks, David A.	Asst. Chief Traffic & Expediting Unit, New York Office.	Procurement	6 months	By the Secretary on 6-26-42.

In addition to deferments under the Selective Service Act, there were 8 cases of reserve officers where the question arose as to whether if they gave up their commissions, they would be given draft deferments. They were told that it was a matter for their own decision as to whether they resigned or accepted their commissions and no promises were made that if they resigned their commissions, deferments would be asked for them. Following is a list of the employees involved:

*Kamarck, Andrew, Office of the Secretary.
 *Towson, Norman E., Foreign Funds
 *Kades, Charles L., General Counsel
 ****Brown, James Joel, Internal Revenue
 ***Allen, Guy F., Disbursement
 *Orcutt, Ralph G., Secret Service
 *Hale, Kenneth G., Secret Service
 ***Bouck, Robert I., Secret Service

- * Accepted their commissions.
- ** Has not been ordered to report for duty.
- *** Over age and was advised that he had been relieved from call to active duty.
- **** Resignation as a Reserve Officer was accepted 8-7-41.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 30, 1942

TO Secretary's files
FROM Ferdinand Kuhn, Jr.

I told Miss Elliott this morning what Mr. Street was doing about the Presidents' wives, and have asked Mr. Street to see her when he gets to Washington later in the week.

F. K.

June 29, 1942

TO: MR. KUHN
FROM: THE SECRETARY

Please ask Julian Street, Jr., to inform Miss Elliott what he is doing about the wives of former Presidents of the United States.

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June 30,
1942.

Ted Gamble
Secretary Morgenthau

I am worried about these demonstrations that we are going to put on in the coal mining towns. Before you commit the Treasury any further on this, I want to talk to you and to Mr. Houghteling.

JUL 9 1942

Knox, Frank 294

THE SECRETARY OF THE NAVY
WASHINGTON

June 30, 1942

Dear Henry:

The Navy will be glad to cooperate in the Treasury Department's plan for placing a small plaque on ships sponsored and made possible by War Bond purchases. This complies with your request of June 18th.

It is suggested that the practical arrangements necessary in connection with this project be made direct with the Bureau of Ships here. That Bureau has been informed and will be ready to cooperate with your representatives.

Yours sincerely,

A handwritten signature in cursive script that reads "Frank Knox". The signature is written in dark ink and is positioned below the typed name "Frank Knox".

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

June 18, 1942

Dear Frank:

It would be most helpful to our War Bond effort, and I think, to the Navy, if the warships which a county or city "builds" with its War Bond subscriptions could bear a small plaque naming that county or city as its "sponsor".

For example, the District of Columbia has chosen the "building" of a destroyer as the objective of its June War Bond drive. The interest and activity of the people would be stimulated very much if our advertising and publicity could say that a small plaque or even a few stenciled or painted words would be placed on an actual destroyer. Such a plaque might say: "Sponsored and made possible by the War Bond purchases of the people of the District of Columbia." The same procedure might be followed for other types of naval equipment chosen by other cities or counties.

Would the Navy agree to do this, limiting the items to one per county or city per month?

Machinery for handling all phases of the promotion could be worked out to involve a minimum of effort and paper work.

Sincerely,

(Signed) Henry

The Honorable,

The Secretary of the Navy.

FK/egk

June 30, 1942

Dear Mr. President:

I am so sorry to hear from Mr. Kuhn that you are under doctors' orders for a couple of months. This is just to send you my best wishes and my hope that you will be well and strong very soon.

Needless to say, we all appreciate your willingness to help us with the War Bond campaign later in the summer. I know that a speech from you will be of the greatest possible value whenever you feel able to make it.

Sincerely,

(Signed) H. Morgenthau, Sr.

Hon. Manuel L. Quezon,
President of the Commonwealth
of the Philippines,
1617 Massachusetts Avenue, N. W.,
Washington, D. C.

FK/cgk

Copies
to Mr. Thompson.

Rmc

UNITED STATES SAVINGS BONDS - SERIES B

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	156.44	
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	
16	7,535	233,218	223,242	168,103	104.5	
17	15,815	249,033	247,532	178,870	100.6	
18	12,288	261,321	257,374	189,156	101.5	
19	19,421	280,742	271,079	207,742	103.6	
20	10,987	291,729	290,485	217,104	100.4	
22	29,386	321,114	309,584	229,140	103.7	
23	10,692	331,806	323,705	241,644	102.5	
24	15,866	347,673	347,494	256,076	100.1	
25	14,877	362,550	360,564	267,396	100.6	
26	15,956	378,505	375,702	288,434	100.7	
27	13,719	392,224	392,627	300,188	99.9	
29	24,893	417,117	408,409	313,511	102.1	

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

June 30, 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	
16	11,099	345,497	337,371	279,933	102.4	
17	23,285	368,782	371,066	295,244	99.4	
18	18,587	387,369	385,098	309,780	100.6	
19	27,435	414,804	409,987	339,594	101.2	
20	14,354	429,158	439,987	353,636	97.5	
22	39,655	468,812	466,171	374,391	100.6	
23	16,526	485,338	485,109	394,628	100.0	
24	25,108	510,446	518,829	416,474	98.4	
25	22,650	533,097	539,771	433,674	98.8	
26	21,818	554,915	564,973	464,995	98.2	
27	20,742	575,657	588,819	484,467	97.8	
29	33,858	609,516	615,283	508,904	99.1	

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

June 30, 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 - 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 as percent of May	
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	
16	3,564	112,279	114,129	111,829	98.4	
17	7,470	119,749	123,534	116,374	96.9	
18	6,299	126,048	127,724	120,625	98.7	
19	8,014	134,062	138,908	131,852	96.5	
20	3,367	137,429	149,502	136,532	91.9	
22	10,269	147,698	156,587	145,250	94.3	
23	5,834	153,532	161,404	152,983	95.1	
24	9,242	162,774	171,335	160,398	95.0	
25	7,773	170,547	179,208	166,278	95.2	
26	5,863	176,410	189,271	176,561	93.2	
27	7,024	183,433	196,192	184,279	93.5	
29	8,965	192,398	206,874	195,393	93.0	

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

June 30, 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.

300
 Sales of United States Savings Bonds
 From June 1 through June 29, 1942
 Compared with Sales Quota for Same Period
 (At issue price in millions of dollars)

Date	Series B				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	92.5
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	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	7.5	233.2	251.1	92.9	3.6	112.3	137.3	81.8	11.1	345.5	388.4	89.0
17	15.8	249.0	271.3	91.8	7.5	119.7	147.8	81.0	23.3	368.8	419.1	88.0
18	12.3	261.3	295.2	88.5	6.3	126.0	157.0	80.3	18.6	387.4	452.2	85.7
19	19.4	280.7	317.4	88.4	8.0	134.1	164.6	81.5	27.4	414.8	482.0	86.1
20	11.0	291.7	336.9	86.6	3.4	137.4	170.6	80.5	14.4	429.2	507.5	84.6
22	29.4	321.1	373.0	86.1	10.3	147.7	181.9	81.2	39.7	468.8	554.9	84.5
23	10.7	331.8	390.0	85.1	5.8	153.5	189.2	81.1	16.5	485.3	579.2	83.8
24	15.9	347.7	413.5	84.1	9.2	162.8	201.3	80.9	25.1	510.4	614.8	83.0
25	14.9	362.5	441.1	82.2	7.8	170.5	212.0	80.4	22.7	533.1	653.1	81.6
26	16.0	378.5	466.8	81.1	5.9	176.4	221.0	79.8	21.8	554.9	687.8	80.7
27	13.7	392.2	489.2	80.2	7.0	183.4	228.0	80.4	20.7	575.7	717.2	80.3
29	24.9	417.1	530.6	78.6	9.0	192.4	241.4	79.7	33.9	609.5	772.0	79.0
30			550.0				250.0				800.0	

June 30, 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 30, 1942

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Attached is the memorandum on deducting from net income not to exceed \$1,000 for debt repayment. You were right about not receiving this. I am very sorry that I failed to check more carefully as I thought it had been sent at the time it was completed.

In addition to this memorandum, we are working over the whole problem again and will prepare a further memorandum.

Attachment

RB:dmd
6/30/42

Proposal to Allow a Personal Income Tax
Deduction for Debt Repayment

Pending income tax increases may impose special hardship on some individuals obligated to make relatively large repayments on debt incurred prior to the war emergency. To relieve such individuals, it has been proposed that repayment of debt contracted prior to January 1, 1942, be allowed as a deduction in computing taxable income, such deduction not to exceed \$1,000 a year.

Distribution of "Relief"

In occasional instances, at the lowest taxable income levels, the tax saving accomplished by this deduction would completely offset the increase in tax liability resulting from the pending 1942 legislation. In general, however, the resulting tax saving would be less than the increase in tax liability. This partial "relief" would be accorded to a group of taxpayers arbitrarily determined by the chance situation of their personal finances as of January 1, 1942.

The tax saving afforded by the proposal would be greater for large incomes than for small because the tax saving for a dollar of additional deduction would be determined by the highest rate applicable to the income of the taxpayer.

Equity

Debt repayment is only one among various forms of saving. Limitation of the deduction to debt repayment would discriminate in favor of this one type of saving, and against such other forms as insurance payments, savings accounts, and purchase of War Bonds. Adoption of this proposal would probably stimulate agitation for the allowance of special deductions for these other forms of saving and may establish an undesirable precedent.

Effect on prices

The proposed reduction would have an inflationary effect since the reduction in individuals' tax liability would increase the amounts available to them for spending. This inflationary effect would be offset by the extent

- 2 -

to which the special deduction accelerated debt repayment out of current income.

Voluntary debt repayment

Many debt contracts call for specified obligatory payments, with the option of additional payments at the discretion of the debtor. The special deduction for debt repayment would encourage debtors to make voluntary repayments on their debts out of their liquid assets or current income. Deduction of such optional debt repayment would be outside the "relief" intent of the proposal. It would be desirable to limit the deduction to the obligatory element of debt repayment, but administrative considerations make this impracticable. Moreover, if the special deduction remains in effect long enough, the tax rates do not decrease and the taxpayer's income remains the same, the advantage obtained by taxpayers in deducting such voluntary debt repayments would amount only to the interest on postponed tax payments.

Administrative complexity

Adoption of the proposal would create difficult administrative problems. In particular, requirements of listing creditors, attaching debt contracts, and requiring informational returns from creditors, which would check abuses of the deduction privilege, would add to the administrative complexity of the income tax.

Revenue loss

Official estimates of the revenue loss that would result from the proposal are not yet available. Preliminary calculations indicate that the loss, under the proposed rate schedule, would probably be of a magnitude between \$400,000,000 and \$500,000,000 a year.

Possible alternative

Instead of a special allowance for debt repayment under the regular income tax, consideration might be given to a policy of not increasing the income tax rate beyond the point where ability to repay debt will be

- 3 -

appreciably impaired, and to obtaining additional revenue from individuals through a graduated tax on expenditures. Such a tax would impose no burden on that part of personal income devoted to debt repayment and other forms of saving. The practicability of such a tax is being studied by the staff.

Treasury Department
Division of Tax Research

June 22, 1942

E-R: CLH: WJS: am
6/22/42

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

June 30, 1942

Attached is the original letter from Harold Smith, which I mentioned to you at lunch today. I have a copy of the letter, so the attached may be put in your files. I showed this letter to Chairman Doughton shortly after I received it.

RSI

EXECUTIVE OFFICE OF THE PRESIDENT
 BUREAU OF THE BUDGET
 WASHINGTON, D. C.

JUN 8 1942

Mr. Randolph Paul,
 Tax Advisor to the Secretary
 Treasury Department
 Washington, D. C.

Dear Mr. Paul:

It is my understanding that in its consideration of the problem of collection of income taxes at source, the Ways and Means Committee has expressed some concern at the priority classification of the Bureau of Internal Revenue. There is some feeling on the part of Internal Revenue officials that this classification might hamper their efforts in recruiting and maintaining a staff sufficient to collect taxes in this manner. Knowing the interest of Chairman Doughton in this subject, I wish you would assure him that I have no intention of perverting the priority classification of an agency to stand in the way of carrying out any major administration policy. My position, I believe, has been stated to the committee by Mr. Larson, my Administrative Assistant.

Since I last talked to you the Bureau has explored the matter with Comptroller Halvering, and we are taking the necessary steps to insure that no action of the Budget Bureau will in any way impede the administration of the tax program.

Very truly yours,

Wm. Randolph Paul
 Director



BOARD OF ECONOMIC WARFARE
WASHINGTON, D. C.

Office of the Executive Director

JUN 30 1942

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

Enclosed are the minutes of the meeting of the Board of Economic Warfare which was held on June 25, 1942. If there are any corrections which you care to suggest, please let me know.

Sincerely yours,

Nils Perkins
Executive Director

Enclosure

SECRET³⁰⁸

Minutes of the Meeting of the Board of Economic Warfare
Held June 25, 1942, at 10:00 A. M.

A meeting of the Board of Economic Warfare was held in the office of the Vice President in the Capitol Building at 10:00 A.M., June 25, 1942.

The meeting was attended by the following members of the Board:

The Vice President, Chairman of the Board
Mr. Dean Acheson, representing the Secretary of State
Mr. Robert Patterson, representing the Secretary of War
The Attorney General
The Secretary of the Navy
The Secretary of Agriculture
Mr. Wayne Taylor, representing the Secretary of Commerce
Mr. Nelson A. Rockefeller,
Mr. E. R. Stettinius, Jr.

In addition, the following persons were present:

Mr. Emilio Collado, Department of State
Mr. Leslie Wheeler, Department of Agriculture
Dr. Joshua Bernhardt, Department of Agriculture
Mr. Harold H. Neff, War Department
Mr. Wayne Coy, Bureau of the Budget
Mr. William Bullitt, Navy Department
Mr. W. L. Clayton, Department of Commerce
Mr. Warren Pierson, Department of Commerce
Mr. Percy Douglas, Coordinator of Inter-American Affairs
Mr. John McClintock, Coordinator of Inter-American Affairs
Mr. James D. LeCron, Coordinator of Inter-American Affairs
Mr. Stanley Robbins, Coordinator of Inter-American Affairs
Mr. Milo Perkins, Executive Director, Board of Economic Warfare
Mr. E. W. Gaumnitz, Board of Economic Warfare

THE FOOD SUPPLY PROBLEM IN THE OTHER AMERICAN REPUBLICS:

The Vice President opened the meeting, and referring to the food report (copies of which were circulated on June 23) stated that a proposed resolution on this problem had been prepared. The proposed resolution was as follows:

"The report on the food supply problem in the other American Republics prepared by the Coordinator of Inter-American Affairs indicates that the following action should be taken immediately:

(1) Preparation of factual information to reflect the current and changing food supply situation in the other American Republics under war

time conditions.

(2) Establishment of field parties under the Coordinator's direction in those countries where required for the purpose of gathering information, organizing production and distribution of food supplies in cooperation with the Governments concerned.

Be it resolved that the Board of Economic Warfare agrees that the Coordinator of Inter-American Affairs shall establish field parties in such countries as may be mutually agreed upon by the Government of the United States and the Governments concerned for the purposes set forth above.

Be it further resolved that a committee be established in Washington, by the Coordinator as Chairman, members of which shall be representatives of the Department of State, Department of Agriculture and Board of Economic Warfare for the purpose of reviewing and integrating the food supply program of the Coordinator's Office in the other American Republics. The Committee will integrate such food supply programs as may be developed in the American Republics, with whatever food supply program is executed in the Caribbean possessions."

Discussion of the feasibility of increasing production in the various countries and of the mechanics of operation brought out the importance and difficulty of the task. Attention then centered on the last sentence of the proposed resolution, Mr. Acheson wishing to be certain that the effect of the proposed resolution would not be to hinder or delay action for the Caribbean area, (the proposed Caribbean program is one under which Lend-Lease has made available \$16,000,000 as a revolving fund through Agriculture for the purpose of procuring, assembling and transporting food stuffs to designated distribution centers in the Caribbean area, and the storage and disposition of such supplies. This food supply is for the purpose of serving Puerto Rico, the Virgin Islands, British West Indies and possibly the Dutch West Indies. Supplies for the Virgin Islands and Puerto Rico would be on a cash reimbursement basis and probably those for the British West Indies would be on a lend-lease basis, as well as possibly those for the Dutch West Indies.

Mr. Perkins stated that the Caribbean proposal raised serious policy questions, there being involved; Government to Government action and elimination of private exporting without the necessary administrative machinery having been established; possible extension of Lend-Lease financial aid to other islands in the Caribbean; and the probability that such actions would undoubtedly bring requests for the extension of assistance to other Latin-American Republics. He indicated that the main reason for such a program in the Caribbean was to secure a preferential shipping position and noted that any increase in shipping to that area meant reduction to other areas.

Both Mr. Patterson and Mr. Stettinius shared some of Mr. Perkins' concern as to policy. Mr. Patterson pointed out that the Caribbean question had been presented to the Army but no question of funds had been involved. The present request seemed to go in the direction of added financial help with no intention of repayment. Mr. Rockefeller pointed out that equitable allocation of shipping as between South American Republics could perhaps be handled through the Advisory Committee to the Combined Shipping Adjustment Board. With reference to the establishment of pattern or precedent and the difficulty of confining action through Lend-Lease, Mr. Acheson stated that the program was intended definitely to be limited to the Virgin Islands, Puerto Rico, the British and possibly the Dutch West Indies. Mr. Stettinius suggested that the interested agencies confer further as to administrative problems involved in the Caribbean program. Such a conference is to be called by Mr. Perkins.

There being agreement on the balance of the resolution, the Vice President stated that the resolution would stand with the last sentence omitted and the addition of a representative of the Department of Commerce to the Committee. The resolution, as agreed, read as follows:

"The report on the food supply problem in the other American Republics prepared by the Coordinator of Inter-American Affairs indicates that the following action should be taken immediately:

- (1) Preparation of factual information to reflect the current and changing food supply situation in the other American Republics under war time conditions.
- (2) Establishment of field parties under the Coordinator's direction in those countries where required for the purpose of gathering information, organizing production and distribution of food supplies in cooperation with the Governments concerned.

Be it resolved that the Board of Economic Warfare agrees that the Coordinator of Inter-American Affairs shall establish field parties in such countries as may be mutually agreed upon by the Government of the United States and the Governments concerned for the purposes set forth above.

Be it further resolved that a committee be established in Washington, by the Coordinator as Chairman, members of which shall be representatives of the Department of State, Department of Agriculture, Department of Commerce, and Board of Economic Warfare for the purpose of reviewing and integrating the food supply program of the Coordinator's Office in the other American Republics."

The Vice President left the meeting at this point and Mr. Perkins acted as Chairman.

SAILING VESSELS:

The Progress Report on Wooden Sailing Vessels for Latin American Trades had been circulated to all members prior to the meeting. The following resolution was presented:

"BE IT RESOLVED that the plan for the building of wooden sailing vessels and the acquisition of existing small vessels to aid in transporting necessities in the Western Hemisphere, as presented at the meeting of the Board of Economic Warfare on June 4, 1942, and supplemented by Progress Report of June 25, 1942, is hereby accepted by the Board of Economic Warfare and the Coordinator of Inter-American Affairs is authorized to proceed to place the plan in operation through the medium of the Inter-American Transportation Corporation, to be financed in such manner as the Coordinator may determine, and BE IT RESOLVED FURTHER that the Coordinator will present periodic reports to the Board of Economic Warfare as to the progress and development of the program."

Secretary Knox moved that it be adopted and Secretary Wickard seconded the motion. Mr. Patterson had some reservation to the resolution, feeling that the construction of vessels, as outlined, would require U. S. materials such as auxiliary engines, which might interfere with production of military items. Secretary Knox stated that his Department had checked the matter carefully and was satisfied that the program could be handled advantageously. After further consideration, Mr. Patterson indicated that he would withdraw his objection and the resolution was adopted unanimously.

EUROPEAN NEUTRALS:

Mr. Patterson raised the question of the imports from and exports to the European neutrals and the assistance which those countries were giving Germany. He was particularly concerned with the situation as it related to Sweden, Switzerland, Portugal, Spain and Turkey. It was decided that a report should be prepared for the next meeting of the Board covering this subject.

SUGAR:

Secretary Wickard stated that data on sugar were available as requested at the June 4 Board meeting. In general, the Secretary indicated that the data showed ample supplies of sugar, with shipping, of course, the limiting factor. It was decided to postpone discussion of the sugar situation until the next Board meeting.

The meeting adjourned at 11:15 A. M.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

June 30, 1942

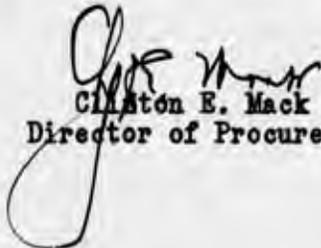
OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended June 27, 1942.

As a result of numerous conferences with members of the Central Traffic Committee, ODT, WSA, Office of Lend-Lease Administration, also the British and Russian representatives, we are planning certain changes which will eliminate a good part of the routine now required to clear materials for shipment. It is proposed that effective Monday, July 6, we will request suppliers to forward requests for shipping instructions on Lend-Lease goods for the British to our New York office, and instructions will be requested immediately from the British as to the port to which the goods should be shipped and related shipping instructions; then the release will be obtained from the War Department here through a direct wire teletype with New York.

Further conferences are to be had with the ODT representatives with the thought in mind of obtaining specific authorization to establish banks of bottom cargo at, or very near, the ports and to secure block releases which could be delegated to our New York office to save time. If ODT will authorize the issuance of block releases, we will be able to complete the entire transaction at New York without the necessity for teletyping the War Department prior to clearance. The processing of shipping instructions for the Russians will be handled from this office, and they are now listing the items in warehouses and in process which they wished shipped during July.


 Clifton E. Mack

Director of Procurement

FOR DEFENSE


 BUY
 UNITED
 STATES
 SAVINGS
 BONDS
 AND STAMPS

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF JUNE 27, 1942
 (In Millions of Dollars)

Allocations	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative</u> <u>Expenses</u>	<u>Undistributed &</u> <u>Miscellaneous</u>
	\$1695.9	\$791.8	\$331.2	\$ 56.7	\$ 1.6	\$514.6
	(1695.9)	(754.6)	(298.0)	(56.7)	(1.6)	(585.0)
Purchase Authoriza- tions (Requisitions)	\$1106.0	\$721.2	\$331.7	\$ 45.8	-	\$ 7.3
	(1042.3)	(680.4)	(309.4)	(45.6)	-	(6.9)
Requisitions Cleared for Purchase	\$1064.7	\$710.3	\$301.8	\$ 45.7	-	\$ 6.9
	(999.4)	(668.3)	(278.9)	(45.6)	-	(6.6)
Obligations (Pur- chases)	\$1017.7	\$699.0	\$274.5	\$ 39.1	\$ 1.4	\$ 3.7
	(955.7)	(657.8)	(253.8)	(39.1)	(1.4)	(3.6)
*Deliveries to For- eign Governments at U. S. Ports	\$ 445.4	\$358.0	\$ 65.7	\$ 20.0	-	\$ 1.7
	(421.5)	(337.9)	(62.5)	(19.4)	-	(1.7)

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

Note: Figures in parentheses are those shown on report of June 20, 1942.

EXPLANATION OF DECREASES

The allocations for the United Kingdom and Russia increased for the week 37.2 and 33.2 respectively. These funds were provided from the undistributed and miscellaneous allocations, which explains the decrease therein of 70.4.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 30, 1942

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

The Inter-American Conference on Economic and Financial Control opened this morning at 11:30 a.m. at the Pan-American Union. Sumner Welles made the opening address. A copy of his talk is attached. As you will note, he took a strong line and his speech was well received.

I was elected Chairman of the Conference and I then delivered my prepared talk, copy of which is attached.

After the ratification of the action taken at the preliminary session the day before and the adoption of formal procedures for conducting the meeting, the first plenary public session of the Conference concluded around 12:30.

All of the delegates attended Mr. Welles' luncheon at the Mayflower. Leo Crowley attended the luncheon and despite the fact that all of us were as attendant as possible, he showed some signs of irritation. However, he promised to come to my reception on Thursday afternoon. I talked with Mr. Welles about the situation and he promised to have a talk with Leo Crowley and explain that the decision to restrict the United States delegation to State and Treasury people was absolutely necessary so that the Conference might be run in an orderly manner. I also talked along these lines with Leo and explained to him that the Consultative Committee, composed of a representative of A.P.C., B.E.W., Rockefeller Committee and Export-Import Bank, which had its first meeting in my office at 9:30 this morning was intended to serve as a means of keeping these agencies informed and getting their help and advice. The resolutions which will be taken up at the subsequent meetings of the Conference were distributed and another meeting for the purpose of getting their suggestions and criticisms was scheduled for Thursday morning at 9:00 o'clock.

This afternoon at 3:00 o'clock, the Peruvian, Mexican and Brazilian delegation met in my office. We went over the eleven resolutions and agreed upon their distribution.

- 2 -

At the conclusion of our meeting, we had a brief talk with the delegates in regard to the selection of a Chairman for the International Committee which meets tomorrow morning at 10:00 o'clock. We tentatively decided that the Nicaraguan Minister, Senor DeBayle, would be nominated as Chairman of the International Committee. We also arranged to have luncheon with the same people in the Treasury tomorrow noon when we will continue our discussions of the resolutions.

Enclosures

DEPARTMENT OF STATE

FOR THE PRESS

JUNE 30, 1942
No. 331**CONFIDENTIAL
FUTURE RELEASE
NOTE DATE**

CONFIDENTIAL RELEASE FOR PUBLICATION IN THE NEWSPAPERS OF
TUESDAY, JUNE 30, 1942, WHICH DO NOT APPEAR ON
THE STREETS BEFORE 11:30 A.M., E.W.T. NOT TO BE
PREVIOUSLY PUBLISHED, QUOTED FROM OR USED IN ANY
WAY.

ADDRESS OF THE HONORABLE SUMNER WELLES, UNDER
SECRETARY OF STATE, BEFORE THE INTER-AMERICAN
CONFERENCE ON SYSTEMS OF ECONOMIC AND FINANCIAL
CONTROL AT THE PAN AMERICAN UNION ON TUESDAY,
JUNE 30, 1942, AT 11:30 A.M.

Delegates to the Inter-American Conference on Systems of
Economic and Financial Control, Your Excellencies, Ladies
and Gentlemen:

It is a source of great pleasure to me to extend to all
of you on behalf of the Inter-American Financial and Economic
Advisory Committee a cordial welcome to this Inter-American
Conference on Systems of Economic and Financial Control.

Once again the twenty-one American republics are meeting
in conference in order still further to fortify their soli-
darity, still further to strengthen their common purpose to
maintain this hemisphere forever free from any encroachment
upon the independence of the peoples of the Americas, and as
a citadel of human liberty.

We are confronting an attack upon the New World which is
being waged by the Axis Powers on every front upon which they
can muster their forces of treachery and of deceit.

For this war is not being fought, today, on the military
front alone. We, the free nations of America, are today faced
with the supreme and historic mission of repelling a total
assault on our freedom and our integrity, an assault that is
being carried on, not only by pirate submarines and military
arms, but also by the colonies of subversive agents on the
sovereign soil of each one of our countries. These human
termites, carrying out the will of their Axis masters, have
been gnawing for a long time, not only at the foundations of
our inter-American system, but also at the foundations of the
economic structure that maintains us whole. It is for the
purpose of completing and integrating controls that have al-
ready been established to thwart, and to stamp out, their
activities, that this meeting of technical experts from our
twenty-one American republics is convened in Washington today.

-2-

Even by the time that the Ministers of Foreign Affairs met at Rio de Janeiro to consult on measures for the common defense of our nations, some measures had already been adopted by the American republics to control the exportation or re-exportation of merchandise, to restrict and control financial and commercial transactions with the nations signatory to the Tripartite Pact and the territories dominated by them, and to curb other alien economic activities prejudicial to the welfare of the Western Hemisphere.

At that meeting, the representatives of the American Governments laid down, in Resolution V, an outline of the general nature and objective of commercial and financial controls that they were unanimous in believing should be established in order to defend the hemisphere against the encroachments of the sinister fifth columns that were operating in advance of the Axis military forces. At that time they recommended, for immediate adoption, "any additional measures necessary to cut off for the duration of the present hemispheric emergency all commercial and financial intercourse, direct or indirect, between the Western Hemisphere and the nations signatory to the Tripartite Pact and the territories dominated by them;" and also "measures to eliminate all other financial and commercial activities prejudicial to the welfare and security of the American Republics ... "

The Ministers of Foreign Affairs at their meeting in Rio de Janeiro recognized, however, that in order to make such controls as they recommended effective against the Axis fifth column in the Western Hemisphere, it would be necessary that the financial authorities charged with the administration of such controls in each of the American republics should meet together to consult with each other, in order to exchange information and to pool their experience. It would be necessary to work out the details of joint procedures that would altogether eliminate the financial and commercial manoeuvres by which the tools of the German and Italian and Japanese war-lords, operating in this hemisphere, seek to reduce our defenses and endeavor to prepare the way for our subjugation. It was with this in view that the Meeting in Rio de Janeiro recommended the convocation of this present Inter-American Conference on Systems of Economic and Financial Control.

The historic task that now confronts the peoples of America, the task of defending the traditional freedom of the American continent against attack from abroad, can not be accomplished by military means alone. We must be no less resolute in measures to counter the economic assault than in the measures we are taking to meet the military threat. The soil of our own continent is one of the great battlefields of this war. On it we are fighting, and fighting with increasing success, the enemy who has insinuated himself in our midst.

Delegates

-3-

Delegates to this conference, the decisions that are made by you here, at this conference, and the actions of our governments in carrying out those decisions, are of the utmost consequence in assisting in the creation of the assurance that the American continent shall continue to maintain its liberties and its independence. It is a solemn mission with which this conference is charged. I have faith that that mission will be fulfilled in a manner worthy of the spirit that has nurtured and defended the freedom of the Americas throughout the term of our independent life.

Upon you rests a responsibility to provide implements for the willing hands that are fighting today the economic battles to preserve our solidarity. I voice the hope of millions when I express the firm conviction that in this critical moment your vision, your leadership, and your high devotion will not be found wanting.

* * *

TREASURY DEPARTMENT
Washington

(The following address by Edward H. Foley, Jr., General Counsel of the Treasury Department and chairman of the Inter-American Conference on Systems of Economic and Financial Control is scheduled for delivery before the Conference at 11:30 A.M., Tuesday, June 30, 1942, and is for release upon delivery.)

Mr. Chairman, Members of the Inter-American Financial and Economic Advisory Committee, fellow Delegates and Advisers:

It is with a feeling of genuine appreciation of the high honor which you have accorded to me that I accept the chairmanship of this important Conference. The responsibility imposed upon each of us by our Governments in this hour of peril is very great indeed. I am confident we shall do everything in our power to accomplish swiftly and effectively the important purposes and goals of this meeting.

This is a working conference of experts trained in the field of economic and financial controls. During the period we shall be together there will be much to discuss and much which we will learn from each other. I am sure that these discussions will result in more effective economic and financial controls in each of our countries - thereby hastening the destruction of the forces of aggression.

Resolution V of the meeting of Ministers of Foreign Affairs held in Rio de Janeiro last January recognized the urgent necessity for the adoption of measures by the American Republics to cut off all commercial and financial relations with the Axis powers and the territories dominated by them. By its terms, the Resolution called for the immediate elimination of financial and commercial activities, prejudicial to the welfare and security of the American Republics, in both the international and the domestic field. Resolution VI of the Rio Conference provided for this meeting.

Our common problem is to organize effectively all of our economic and financial strength to strike our common enemy wherever we meet him. The strength of the enemy in the past has been the division and disunity among those nations that should have been united in all of their efforts against the aggressors. These aggressors have always sought to deal with their opponents one by one, alternately reassuring or threatening, and playing on

- 2 -

their narrow national interests and fears to convince them that their neighbor's problem is not their own. Many nations that sought to maintain their independence through the observance of strict neutrality have seen their countries occupied and destroyed. No country can any longer have confidence in the security of a policy of strict neutrality during this war.

The strength of the American Republics is and must continue to be their singleness of purpose and their unity in action. We must forge one continuous chain of economic and financial controls around the Axis and each of the links in this chain must be as strong as all the others. This is and will continue to be the answer of the American Republics to our common foes. And in this unity of action lies the greatest assurance that the political and economic institutions of the Western Hemisphere, the freedom and dignity of its way of life, will survive.

It is our task to establish a common program for withholding our resources from the Axis and the areas which it has overrun or dominates. We must prevent the Axis from acquiring our goods and services. We must prevent the Axis from carrying on financial transactions either directly or through the cloaks of neighboring countries. We cannot hope for full success if such Axis transactions are controlled by one American Republic but not controlled by another; if fugitive funds can pour from one American Republic to another where the Axis taint can be cloaked and the funds used for financial and commercial transactions inimical to the interests of all the American Republics. If each country imposes effective controls within its own boundaries over Axis funds and transactions of benefit to the Axis, the controls of all the Republics will be strengthened.

We must, in a spirit of cooperation and mutual assistance, work out measures to destroy Axis financial and commercial activities carried on within the borders of the Western Hemisphere. Axis-owned or controlled enterprises in the American Republics must be liquidated or taken over by the American Republics. We must make sure that those who manage or work in business enterprises in this hemisphere are loyal to the cause of the American Republics.

We know that the Axis nations have planted and are using enterprises and persons within our borders to undermine our war efforts, to limit our production, to subvert our institutions and peoples, and to carry on a myriad of activities of benefit to our enemies and of harm to the interests of the American Republics. This Fifth Column not only seeks constantly to weaken us but also lies in wait for the day when it might join with kindred forces from across the seas to conquer and destroy everything that we hold dear in the Western Hemisphere. If we are to survive, if we are to bring this war to a swift and successful conclusion,

- 3 -

we must be ruthless in the destruction of this Fifth Column regardless of whether its members have retained their European nationality or sought to gain immunity for its nefarious activities by acquiring the cloak of citizenship of one of the American Republics.

In destroying these Axis enterprises or the interests which they hold in the business life of our community, we will need each other's support and cooperation. The technical and managerial skills and the financial resources of the American Republics should and will be made available to each other to facilitate the reorganization of such business enterprises and to assure their operation by persons of unimpeachable loyalty and of ability capable of contributing to the development of the national economy of the American Republics. We must be determined in our methods and mutually helpful in our procedures if we are to succeed in destroying the enemy within our midst.

As an integral part of our joint efforts we will, of course, be developing procedures for the exchange of views and information and assistance which will carry over not only during the war but into the period of reconstruction and development after the war.

Men who have stood side by side in the struggle to preserve democracy against the forces of aggression, will stand side by side to face and solve common problems in the victory and the reconstruction.

These are the purposes of our meeting. The agenda which has been adopted for this Conference details the work which we shall do. All of us here will contribute to the completion of our tasks. We are resolved on the economic and financial battlefields to do our part in the winning of the war.

-oOo-

Treasury Department 321
Division of Monetary Research

① Date.....19

To: Secretary Morgenthau

From: Mr. White

Original of this report appended
to prepared letter to President.

June 30, 1942

**Exports to Russia, Free China, Burma and other
blocked countries, as reported to the Treasury
Department during the ten-day period ending
June 20, 1942**

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending June 20, 1942 amounted to about \$54,000,000 as compared with \$18,000,000 during the corresponding period in May and about \$67,000,000 during the corresponding period in April. Among the military equipment exported during the period under review were 58 one engine pursuit, interceptor and fighter planes; 24 bombers, and 232 tanks. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China as reported during the ten-day period ending June 20, 1942 amounted to \$2,707,000, of which military equipment accounted for more than ninety-five percent. (See Appendix D.)

No exports to Burma were reported during the period under review.

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, which are given in Appendix A, were negligible during the ten-day period ending June 20, 1942.

ISP/efs 7/1/42

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 June 20, 1942.

(In thousands of dollars)

	July 28 to <u>May 31</u>	Period ended <u>June 10</u>	Period ended <u>June 20</u>	Total <u>Domestic Exports</u>
U. S. S. R.	\$521,498	\$12,575	\$53,799	\$587,872
Free China	78,394	3,399	2,707	84,500
Burma 2/	12,201	234	—	12,435
France 3/	56	—	—	56
Denmark	2,849	5/	—	2,849
Switzerland	10,367	343	5/	10,710
Sweden	17,778	5/	—	17,778
Portugal	9,012	15	9	9,036
French North Africa 4/	6,283	—	—	6,283

Treasury Department, Division of Monetary Research

June 27, 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.

W:rl 6/27/42

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 - June 20, 1942 1/
(Thousands of Dollars)

	<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		2,733
Aug. 25 - Aug. 30	1		1,023
Sept. 2 - Sept. 6	204		4,280
Sept. 8 - Sept. 13	2,281		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	405	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 1/	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
June 1 - June 10	3,399	234	12,764
June 11 - June 20	2,707	-	53,799
Total	\$87,103	\$11,322	\$588,575

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APPENDIX B

Page 2

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. 8-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.

Treasury Department, Division of Monetary Research

June 30, 1942

ISP/efs 6/30/42

Regraded Unclassified

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APPENDIX C

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
June 20, 1942

	<u>Unit of</u>	<u>Quantity</u>	<u>Value</u> (Thousands of dollars)
TOTAL EXPORTS			\$ 53,799
Principal Items:			
Ammunition			11,123
.30 caliber	No.	44,381,500	
.32, .38, and .45 caliber	No.	20,000,000	
37 mm. armor piercing	No.	142,160	
37 mm. high explosive	No.	31,940	
.50 caliber	No.	4,701,650	
75 mm. armor piercing	No.	44,076	
75 mm. high explosive	No.	73,524	
81 mm. mortar shells	No.	42,332	
Components for small arms ammunition	-	-	
Military tanks			10,564
Light tanks	No.	141	
Medium tanks	No.	91	
Aircraft			8,082
Pursuit, interceptor & fighter (1 engine)	No.	58	
Light bombers (2 engines)	No.	17	
Medium bombers (2 engines)	No.	7	
Guns			2,875
Anti-air craft Gerlikon guns (20 mm.)	No.	52	
Sub-machine guns (.45 caliber)	No.	11,700	
Linseed oil	Lb.	19,909,065	2,634
Sausage, canned	Lb.	4,922,550	1,848
Gasoline motor trucks	No.	712	1,550
Aircraft parts	-	-	1,452
Copper wire, insulated	Lb.	2,163,246	695
Armor plate	Lb.	3,178,837	668
Internal combustion marine engines	No.	35	627
Auto parts for assembly	-	-	616

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APPENDIX D

Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
June 20, 1942

(Thousands of Dollars)

TOTAL EXPORTS

\$ 2,707

Principal Items:

Military equipment
Other iron and steel manufactures
Copper wire, insulated
Iron and steel wire, rope and cable
Other vegetable fiber manufactures
Cleaning and washing compounds

2,656
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Treasury Department, Division of Monetary Research

June 30, 1942

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ELP

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

Buenos Aires

Dated June 30, 1942

Rec'd 11 p.m.

Secretary of State,

Washington.

MUSH

1281, June 30, 10 p.m.

Department's 966, June 29, 9 p.m.

An officer of the Embassy with Cochran and Meltzer who had previously not (repeat not) participated in Central Bank currency conversations discussed with Prebisch at length the various proposals covered in telegram under reference.

(a) Prebisch strongly objected to proposal that the Central Bank be the channel for the exportation of United States currency on the ground that (1) the bank would be merely an automatic shipping agent unaware of Treasury Standards (2) the bank would be embarrassed by the inability to secure assurance that the currency it exported would be released.

(b) Prebisch also opposed any requirement that all holdings of United States currency be deposited with the Central Bank on the ground that such a regulation

-2-#1281, June 30, 10 p.m. from Buenos Aires.

regulation would be violated by holders of doubtful notes. Furthermore, such a regulation would require legislation.

(c) It was explained to Prebisch that the Treasury must itself determine whether imported currency would be released after examination thereof. It was, however, pointed out that the bank's participation would nevertheless not be futile because it would contribute to the protection of legitimate holdings in Argentina, that is the \$190,000 "bona fide" holdings of banks and other authorized institutions as of May 19 which under Department's 909, June 19, 9 p.m., were assured of "very sympathetic consideration".

(d) With respect to the objection to the bank's calling in currency it was pointed out: (1) Such a regulation even though not universally observed would, in accordance with our policy, depress the market for tainted currency in the future. (2) Such a measure would assist bank in enforcing a prohibition against dealings in currency since such enforcement would be extremely difficult if holding of currency were permitted. Notwithstanding these considerations Prebisch would not agree to the proposal that the bank act as intermediary or to
the proposal

- 3 -

the proposal that all United States currency be called in.

(E) The bank is agreeable to the following arrangement which follows in substance the one set forth in Embassy's telegram 1246, June 5, 9 p.m.

(1) The bank will block all imports of dollar currency except limited amounts brought by travelers from the United States.

(2) All Exports of United States currency will be prohibited except those destined for the United States and licensed in accordance with procedure under item three.

(3) Mechanics for licensing exports to the United States will be as follows: The Central Bank will empower certain authorized banks and exchange institutions to issue licenses and will provide that only such banks and institutions will be authorized to ship the licensed currency. Individuals desiring to have their currency exported will file sworn application therefor with the authorized enterprises. Copies of such applications will call for such information regarding the pedigree of the currency and related matters as Treasury may recommend.

(4) All dealings in United States currency in
Argentina

Argentina including dealing by individuals will be permitted.

(5) The bank will invite all holders voluntarily to apply for export licenses covering their currency, particularly if the Treasury indicates that an expeditious application will prevent a presumption which might arise from delay that the funds involved are tainted. (In this connection the following suggestion is submitted: If the Treasury publicly indicated that all currency not (repeat not) arriving in the United States by a fixed dead line would prima facie be considered tainted, the black market for currency would be depressed as the dead line approached; and legitimate holders would prior to the dead line tend to send their currency to the United States promptly. Moreover, a public indication that steps will be taken to prevent the postwar redemption of the currency would also be helpful. The forgoing action would achieve many of the benefits which would be derived from a registration scheme or the calling in of currencies).

It is believed that the foregoing proposal is the limit to which the Central Bank will go.

ARMOUR

KLP

Copy:bj:7.1.42

Exchange Stabilization Fund

FEDERAL RESERVE BANK OF NEW YORK
 NEW YORK NEW YORK
 ATTENTION H. L. SANFORD

JUN 30 1942

WITH REFERENCE TO CABLE NO. 16 OF JUNE 29, 1942 FROM CENTRAL BANK OF CHINA YOU ARE HEREBY AUTHORIZED AND REQUESTED AS FISCAL AGENT OF THE UNITED STATES TO SEND THE FOLLOWING CABLE TO THE CENTRAL BANK OF CHINA:

"WITH REFERENCE TO YOUR CABLE NO. 16 REQUESTING A FURTHER EXTENSION OF THE ARRANGEMENT BETWEEN US FOR PURPOSE OF SUPPLYING REPUBLIC OF CHINA WITH DOLLAR INCREASE THE SECRETARY OF THE TREASURY HAS AUTHORIZED US AS FISCAL AGENT OF THE UNITED STATES TO MODIFY FURTHER PARAGRAPH SIX OF OUR LETTER OF JULY 14, 1937 AS MODIFIED BY DATES 'JUNE 30, 1942' WHEREVER SUCH WORDS AND FIGURES APPEAR IN SUCH PARAGRAPH AS MODIFIED AND INSERTED IN LIEU THEREOF 'MARCH 31, 1942'. PLEASE CONFIRM YOUR AGREEMENT TO SUCH MODIFICATION OF THE ARRANGEMENT."

(Signed) H. Morgenthau, Jr.

SECRETARY OF THE TREASURY

FD:cmh:6.26.42

Init:FD:BB:FAS:HDV

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OUTGOING CABLEGRAM

June 30, 1942

Central Bank of China

Chungking

No. 21

With reference to your cable number 16 requesting a further extension of the arrangement between us for purpose of supplying Republic of China with dollar exchange the Secretary of the Treasury has authorized us as fiscal agent of the United States to modify further paragraph 6 of our letter of July 14, 1937, as modified, by deleting "June 30, 1942" wherever such words and figures appear in such paragraph as modified and inserting in lieu thereof "December 31, 1942". Please confirm your agreement to such modification of the arrangement.

FEDERAL RESERVE BANK OF NEW YORK

rs

Copy:emk:7.2.42

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 30, 1942, 1 p.m.

NO.: 779

The following telegram, no. TF 46, is a message from Mr. Adler for the Secretary of the Treasury.

On June 29 I went to see Dr. Kung at his request. He told me that he would like to ask your advice on the following matter.

Between \$19,000,000 and \$20,000,000 of the credit of about \$48,000,000 received by the Central Bank of China in 1937 is still owed by the Bank to the United States Stabilization Fund. In that year gold was purchased from the Treasury on your advice by Dr. Kung and the loan was fully secured by this gold. He told me that several times he has received advice that this gold on which no interest was being earned should be used to liquidate entirely this debt on which interest had to be paid. However, because he appreciated the spirit of your advice and considered it a symbol of good will between the Ministry of Finance and the Treasury to have some earmarked gold belonging to China in the United States, Dr. Kung was and still is reluctant to part with all the gold which was purchased on your advice. At this time, however, it is difficult for the Central Bank to raise between \$19,000,000 and \$20,000,000 from other sources in order to pay off the debt. Of course, the remaining Chinese gold which is held in the United States could be used for this purpose, but Dr. Kung would prefer as an alternative that approximately \$19,000,000 from the \$500,000,000 United States loan to China be advanced so that he can clear up this debt. He would like to be informed of your reaction to this plan. The transaction contemplated by Dr. Kung would result in net effect in paying off the debt to the United States Stabilization Fund with the gold China now holds in the United States and in China acquiring by means of an advance from the \$500,000,000 United States loan an equivalent amount of gold.

GAUSS

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

Fort de France
Dated June 30, 1942
Rec'd 8:13 p.m.

Secretary of State,
Washington.

RUSH

242, June 30, 5 p.m.

I am informed that the French (?)eur general
has applied to the Treasury Department for permission
to transfer \$40,700 from French Government Reserve
C account to the bank's A accounts. The amount arises
from inability to use it for purchases of petroleum
products and the High Commissioner requests me to
support the application.

The critical food situation requires that every
available dollar be used and I recommend that applica-
tion be granted.

MALIGE

LMS

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RS

PLAIN

London

Dated June 30, 1942

Rec'd 6:10 p.m.

Secretary of State

Washington

3640, thirtieth.

FOR PROCUREMENT DIVISION.

Your 1061, March 12, third sentence, Diamond
Trading Company inquires when payment may be ex-
pected against deliveries completed early in May.

WINANT

MG

Copy:lc:7/2/42

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YBRITISH EMBASSY,
WASHINGTON, D.C.
June 30th 1942.

With the Compliments of

H. W. AUBURN

Mr. Frank Dietrich,
U.S. Treasury Department,
Stabilization Office, Room 279,
Washington, D.C.

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Y

June 29th 1942.

W.T. 1124/BA/39/42.

Further to previous memoranda regarding the Reichsbank accounts in Escudos we have received the following information, which is summarized:-

1. Reichsbank's Escudo account with Banco Lisboa y Acores:-

<u>Payments in</u>		<u>May 29th to June 13th 1942</u>	<u>Payments out</u>		
From Leu & Co.'s Bank	Esc.	6,000,000	To Japanese Payees	Esc.	500,000
" sales of Swiss francs		<u>2,800,000</u>			<u> </u>
	Esc.	8,800,000		Esc.	500,000
		<u> </u>			<u> </u>

2. Reichsbank's Escudo account with Banco Espirito Santo:-

From Swiss Bank Corp.	Esc.	400,000	To Minero Silvicola	Esc.	2,400,000
" sales of Swiss francs		<u>2,800,000</u>	" Miscellaneous Payees		<u>700,000</u>
	Esc.	3,200,000		Esc.	3,100,000
		<u> </u>			<u> </u>

Copy: 10:7/2/42

June 30th 1942.

W.T. 1124/BA/40/42.

Further to previous memoranda regarding the Reichsbank accounts in Escudos we have received the following information, which is summarized:-

1. Reichsbank's Escudo account with Banco Lisboa y Acores:-

<u>Payments in</u>	<u>June 3rd to 22nd 1942</u>	<u>Payments out</u>
From Leu & Co.'s Bank	Esc. 14,500,000	To Banco Pinto y Sotto Mayor Esc. 2,000,000
" Miscellaneous sources	<u>4,700,000</u>	" Miscellaneous payees <u>2,200,000</u>
	Esc. 19,200,000	Esc. <u>4,200,000</u>

2. Reichsbank's Escudo account with Banco Espirito Santo:-

<u>Payments in</u>	<u>June 3rd to 22nd 1942</u>	<u>Payments out</u>
From	Nil	To Miscellaneous payees Esc. 700,000

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PMW

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Montevideo

Dated June 30, 1942

Rec'd 10:15 p.m.

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

Secretary of State,

Washington.

544, June 30, 7 p.m.

Referring to the Department's circular telegram of June 23, 11 p.m. and the Embassy's telegram number 529 of June 24, noon.

Implementing the decree of July 18 the Bank of the Republic has issued regulations in which it is made clear that United States currency is accepted only on a collection basis for remittance to the United States. All currency the holders of which desire its immediate or future negotiation must be declared by July 5 failing which the Bank will not undertake its negotiation. The bank reserves to itself all operations in United States currency.

No rate of exchange has been fixed inasmuch as the bank is acting simply as a transmitting agent and the costs of transportation are for the account of the holders. Such currency as may be approved and released by the United States Treasury will be converted into pesos at the rate of exchange then obtaining for dollar drafts.

The bank believes that there has been no important transactions in United States currency since May 19 because the rate for dollar bills has been 20% or more below the rate for drafts.

Deposits with the bank to date for remittance to the United States total only \$35,000. All deposits and declarations must be made this week and a report with comment on large blocks will be submitted as soon thereafter as possible.

It is understood that the Spanish Legation does not intend to deposit the \$35,000 referred to in the Embassy's despatch no. 1194, June 24.

CHARGE TREASURY.

DAWSON

eh:copy
7-3-42

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

Caracas

Dated June 30, 1942

Rec'd 4:48 a.m., July 1st

Secretary of State

Washington

503, June 30, 9 p.m.

Department's circular June 23, 11 p.m.

Following publication of notice reported in
Embassy's telegram 493, June 27, noon, all trading
in United States dollar currency has ceased.

(a) No rates were quoted last Saturday (June
27) previously United States notes were bought at
approximately same rate as checks, that is, 3.30
to 3.32 and sales were at 3.35.

(B) Superintendent of banks reports total
purchases of currency dollars by (*) and exchange
houses June 1 to June 20, inclusive, \$41,123. This
figure believed very conservative. No trading ob-
servable since June 27.

(C) Unable confirm reliable rumor that one
block of \$25,000 in currency seeking buyer now,
seller unknown. An exchange house reports being
offered \$5000 in the United States 500 dollar bills
the past

-2- #503, June 30, 9 p.m. from Caracas.

the past week, seller unidentified.

CORRIGLN

WSB

(*) apparent omission.

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 221

Information received up to 7 A.M., 30th June, 1942.

1. NAVAL

1 of the Swedish Food Relief Ships from PIRAEUS to HAIFA was bombed and sunk on the 9th southwest of CYPRUS. A 12,500 ton British merchant ship en passage from AUCKLAND to LIVERPOOL reported torpedoed in North Atlantic early on 29th.

2. MILITARY

EGYPT. By the 28th the Italians had concentrated the bulk of their forces west and south of MATRUH while advanced German elements further south were advancing eastwards and had reached a point south of BAGSEH. Our forces were operating on the enemy's right flank delaying him and then withdrawing while on his left flank our forces held MATRUH. During the night 28th/29th it was decided to withdraw from MATRUH along the coast road to FUK. About 10 miles west of BAGUSH enemy troops were met. Operations on the 29th centred on giving all possible assistance to the withdrawal of the MATRUH garrison. No reports of the result of these operations have yet been received.

RUSSIA. The Germans have passed to the offensive in the KURSK area.

SEVASTOPOOL. Enemy attacks continued in the eastern sector on 26th and 27th. The Russian line was reported still unbroken between INKERMAN and BALACLAVA on 28th.

3. AIR OPERATIONS

WESTERN FRONT. 29th. 12 Bostons escorted by 22 squadrons of fighters attacked HAZEBROUCK Railway centre. Our fighters shot down 3 F.W.190's and damaged four. 5 of them are missing.

29th/30th. 281 aircraft were despatched - BOMBERS 251, aerodromes 18, sea mining 7, leaflets 5. 9 are missing, 1 crashed and 2 came down in the sea. Preliminary reports state that cloudy conditions were found over the objective preventing accurate identification but the glow of fires was seen through the clouds. 20 enemy aircraft crossed the east coast, 1 JU 88 was damaged.

EGYPT. 27th/28th. Liberators, Wellingtons, Bostons and Blenheims bombed enemy forward landing grounds, M.T. concentrations and camps between MATRUH and CAPUZZO. Many fires and explosions among vehicles and also petrol fires were started. 1 Wellington was lost.

28th. Fighter bombers attacked M.T. and gun positions in the battle area. 4 fighters missing.

28th/29th. Liberators and Wellingtons bombed transport vehicles and dumps and set alight 2 large dumps near SIDI BARRANI. More mines were laid in TOBRUK Harbour.

- 2 -

GIBRALTAR. 28th/29th. About 8 enemy aircraft believed Italian, attacked the harbour area and north front aerodrome. 1 of our aircraft was destroyed on the ground and 2 damaged.

4. HOME SECURITY

WESTON-SUPER-MARE. 28th/29th. There were 4 principal fire areas in the business and shopping centre in two of which buildings were completely burnt out. About 100 H.E. bombs were dropped. 55 persons reported killed.

PETERBOROUGH. 29th/30th. Some fires were caused by incendiaries.

COPY NO. 13BRITISH MOST SECRETU.S. SECRETOPTEL No. 223EGYPT.

Early on 30th June German forces appeared to have reached a point 20 miles east of DABA and later in the day an armoured battle was in progress 20 miles south of this point. Our mobile forces were operating against the enemy's southern flank and our main forces were withdrawing to the EL ALAMEIN position. 60 percent of the MATRUH garrison is already in reserve behind this position.