

DIARY

Book 552

July 21 and 22, 1942

- A -

	Book	Page
Aircraft War Production Council, Incorporated See Financing, Government: War Savings Bonds		
Airplanes		
Shipments to British Forces - Hoflich report - 7/22/42..	552	304
Australia		
Reciprocal aid - draft notes on terms of: White memorandum - 7/21/42.....		115

- B -

Bank of America		
"L.M." explains his part in investigation - 7/21/42.....		40

- C -

Canada		
See also Customs, Bureau of Evacuation (possible) from Victoria and southern end of Vancouver Island: Treasury recommends to State Department all possible assistance - 7/22/42.....		292
Customs, Bureau of		
Canada: Treatment of war materials between United States and Canada - report and proposed bill transmitted to FDR - 7/22/42.....		280

- E -

Exports		
To Russia, Free China, Burma, and other blocked countries, during 10-day period ending June 30, 1942 - 7/21/42....		94,102

- F -

Financing, Government		
War Savings Bonds:		
Aircraft War Production Council, Incorporated: Now an issuing agent - 7/21/42.....		46
Sales (daily) of \$50 million plus - report on - 7/22/42.....		270

- H -

Hayes, Ralph		
"Who's Who" report - 7/21/42.....		92
Hughes, Charles Evans (Supreme Court)		
HMJr suggests to FDR for Rubber Czar - 7/22/42.....		253

- L -

	Book	Page
Lend-Lease		
Purchases, week ending July 18, 1942 - 7/21/42.....	552	37

- M -

Merillat, Herbert L.		
Letter after leaving Treasury for service with Marine Corps - 7/21/42.....		88
Military Reports		
British operations - 7/21-22/42.....		167,308
Hoflich summary - 7/21/42.....		168

- R -

Revenue Revision		
Tables showing deductions for Social Security tax, income tax withheld at source during 1943, Savings Bonds, and tax on 1942 income - 7/21/42.....		53
Roosevelt, Eleanor		
See Secret Service		

- S -

Secret Service		
Mrs. FDR to be protected at cottage - 7/22/42.....		251
Shipping		
Situation as of July 21, 1942 - Hoflich report.....		93

- T -

Taxation		
See Revenue Revision		

- U -

United Kingdom		
Reciprocal aid - draft notes on terms of: White memorandum - 7/21/42.....		115

- W -

War Savings Bonds		
See Financing, Government		

July 21, 1942.
10:49 a.m.

HMJr: I just wanted to thank you, Mr. McKeough, for the magnificent fight you put up.

Congressman McKeough: (Laughs) Well, that's very kind of you to take time out to say thanks, but it was a labor of love.

HMJr: Well, you did a swell job and I'm delighted.

M: Well, I'm glad you're pleased. We didn't do as well as we might have but we....

HMJr: Well....

M:we did much better than I thought we'd do.

HMJr: That's right.

M: Yeah.

HMJr: Well, I want to tell you how much we in the Treasury appreciate what you did.

M: Well, that's very kind of you, and I hope that I may be lucky enough to be back in the Senate where I can continue to try and do what I think is right.

HMJr: I hope so.

M: Thank you, sir.

HMJr: Goodbye.

M: Goodbye.

July 21, 1942
11:00 a.m.

CANADA'S U.S. DOLLAR POSITION

- Present: Secretary Jones
- Mr. Bell ✓
- Mr. White ✓
- General Carter
- Commander Strauss
- Lt. Commander Linder
- Mr. Stewart
- Mr. Morrison
- Mr. Kirsch
- Mr. Griffith
- Mr. Scoll
- Mr. Bridgman
- Mr. McCabe
- Mr. Ecker
- Mr. Livesey
- Mr. Stinebower
- Mr. Coe
- Miss Kistler ✓
- Mrs. Klotz ✓

H.M.JR: I asked you gentlemen to come over here today because we here in the Treasury are supposed to look after the dollar exchange position for these United Nations.

In this original Hyde Park agreement, which has worked very well, we want to raise the question, in view of your various pooling arrangements that you have, and so forth and so on, whether the Army, the Navy, the Maritime Commission, and Lend-Lease, are confident that what they are giving in the way of orders to Canada are orders which England might not give direct. If Canada weren't getting these orders from us, then possibly they could make some special arrangement with England, because the way the situation looks now, strictly on the dollar exchange position, by the end of the year Canada may have a seven or eight hundred million U. S. dollar exchange, which would be far in excess of anything which she hoped for.

- 2 -

With these very complicated dealings with these various agencies, I thought I ought to check up on the Government because the President does look to me on the exchange position, to make sure that they have enough, also not too much, that maybe somebody isn't overdoing a good thing, meaning us.

I think I will start with the Army - General Carter, if you don't mind. I just wondered - I don't know how many months ahead that you could - what the Army's plan is in the way of big orders - I mean anything that you are contemplating, if you wouldn't mind, and telling what the purpose was behind it.

GENERAL CARTER: Mr. Secretary, for industrial operations the Army has orders in Canada now that will roundly equal a half a billion dollars. Most of those orders are on a cost-plus basis. In other words, the cost in Canadian currency is paid by the United States, and the adjustment is made, I presume, on the exchange through the balance here.

Now, we have a long-range program in addition to that that will involve approximately a hundred and twenty million dollars. When that will be required is problematical at the moment, but the work is progressing.

H.M.JR: Would it be asking too much to sort of sketch what that long-range program is? That is what I am interested in, what you are going to do from now on.

GENERAL CARTER: Well, in connection with the road that is being built, as you know, and in connection with certain other developments concerning oil and gasoline, and that sort of thing, that program will be delayed, I think, because there is some chance that the first operation will not prove feasible and we may have to go to something else. So it would be over a year, I should say, at least, and probably longer, that that project would be in hand.

MR. BELL: The latter?

GENERAL CARTER: The latter. Now, this other is a matter of production: Air Corps equipment, Signal Corps, Chemical Warfare, Quartermaster, and Engineers. That is pretty well distributed over their production.

H.M.JR: You mean that has already been placed?

GENERAL CARTER: Yes, sir.

H.M.JR: Are you contemplating any orders of any size from now on?

GENERAL CARTER: If they could handle them I think we probably would, but I doubt if it is possible to load them up any more.

H.M.JR: Could I ask this - and we won't hold you up a day - if before you place any more orders for munitions with Canada, could we know what they are and what the ultimate destination was going to be.

GENERAL CARTER: I don't know that the Army could give you a satisfactory answer on that, Mr. Secretary, because it would depend upon the transfers. I don't know how much of this equipment there will be or whether it will be transferred to allied Nations.

(Secretary Jones and Mr. Bridgman entered the conference.)

H.M.JR: I am just going around the room and trying to find out what orders they are thinking of placing with Canada in the future in view of their dollar exchange position, which at present looks very favorable. General Carter was just telling us what the Army had in mind.

MR. JONES: Fine.

- 4 -

GENERAL CARTER: Perhaps you know, Mr. Secretary, the Army deals almost exclusively with War Supplies Limited. There are very few contracts outside of that organization. One or two I can recall are contracts that have been let through American companies with Canadian subsidiaries, such as American Locomotive, and I think one other company, American Car and Foundry, or some such company as that, where they have facilities in Canada that have been augmented by the Canadian Government.

Now, we have some contracts with those companies of that sort, but that is a very small part of the total.

H.M.JR: Yes, but again, if you don't mind my pressing you a little bit, again looking to the future, wouldn't it be possible - I mean, I don't know - I know there is a pool but I don't know just how it works, you see - I mean whether it is the Munitions Board or what it is. But what we are interested here in trying to find out is, are you going to place any orders of considerable size in the future, and what is the ultimate destination?

GENERAL CARTER: As far as the Army is concerned, our orders will be placed for our requirements.

H.M.JR: For your own?

GENERAL CARTER: Yes, sir, unless we have specific instructions under Lend-Lease to put orders for them.

H.M.JR: You see what my problem is?

GENERAL CARTER: Yes, sir, I see exactly.

H.M.JR: Could you bear it in mind in the future?

GENERAL CARTER: Yes, sir, I think we could give you - from the Army viewpoint I think we could give

- 5 -

you a satisfactory answer to that question.

H.M.JR: Can you do that?

GENERAL CARTER: Yes, sir, and with cooperation with Lend-Lease, which we have, we could perhaps give you the correct answer at the end.

MR. BELL: You might not always know. You have a contract for your own contracts, and what comes off the line may go some place.

GENERAL CARTER: If the material is transferred in the end, again there is a different transaction. If it is ordered for us just as material in this country--

(Mr. Livesey and Mr. Stinebower entered the conference.)

H.M.JR: Well, you have got my problem. Most likely you haven't been worrying about our end of it, but now that you know what it is--

GENERAL CARTER: Yes, sir, I think we can give you exactly what you want, and our end answer will be even more correct than our first one because there may be some transactions in there we will have to adjust.

H.M.JR: And just so you know, this particular phase of the Treasury work Mr. White looks after for me, so if you have anything you could send it to him direct.

Now, where is the Navy? Could you tell us, Commander Strauss, the same thing, looking at the future for the Navy?

COMMANDER STRAUSS: Mr. Secretary, the Navy's purchases and orders in Canada have been, of course,

minute by comparison with the Army's. We have surveyed the possibilities from the point of view of some shipbuilding without finding anything that we could place there that could not be more advantageously built here. The survey with respect to airplane construction has not been completed. The Canadians are providing the Navy with small quantities, dollar-wise, less than - oh, it will run into a few millions, three or four millions of dollars of material, primarily involved in radar and in optical glass. They are items which are, so far as I am aware, and I believe I can be specific about it, not intended for Lease-Lend but for our own equipment.

I will keep in touch with Mr. White and advise him of other items that come to my attention, as you have suggested to General Carter.

H.M.JR: Would you do that? You have got the problem?

COMMANDER STRAUSS: Yes.

MR. WHITE: In both cases an aspect of it which is apparently important, in so far as you can judge, is do the orders replace production which the Canadians are undertaking, either for themselves or for the British. You may not be able to ascertain that in many cases, but that is most significant.

COMMANDER STRAUSS: In both the cases I mentioned I can be quite positive. The optical glass situation was one in which we had exhausted the possibilities here and they had a small surplus in Research Enterprises, Limited - I think that is its name - which exactly filled our need. I might add that it was through Mr. Coe's committee that we were able to locate it.

The amount of radar equipment is infinitesimal compared with our production, but they came in at a time when we needed a few sets for installation on

- 7 -

planes, and I think are still supplying it, although as to that I can't be quite certain.

MR. McCABE: Commander Strauss, did the Navy take over all the auxiliary vessels that they are building up there under Lend-Lease?

COMMANDER STRAUSS: I can't answer that question, sir. I thought they were being built under some direct arrangement. Probably Mr. Ecker would know.

MR. ECKER: No, I wouldn't know any more than Mr. McCabe; he is my boss here. (Laughter)

MR. McCABE: Canada was building these Naval auxiliary vessels for the British, and on account of the Canadian dollar position a great appeal was made to us, in line with the Hyde Park agreement, to put through Lend-Lease requisitions for these Naval auxiliary vessels. We finally did put through requisitions for some of them because our own Navy was going to use them, and we refused to put through any requisitions except those that our own Navy was going to directly use here.

COMMANDER STRAUSS: Were these corvettes?

MR. McCABE: They were corvettes and mine sweepers, and I think it was four different types of Naval--

MR. WHITE: A total of about thirty million dollars?

MR. McCABE: Yes, but the main question I wanted to ask was if the Navy now was going to take all these vessels, because they took the same position under their Lend-Lease appropriation that we did.

H.M.JR: What was that, Mr. McCabe?

- 8 -

MR. McCABE: That they would only requisition those vessels that were going to be used by our Navy.

COMMANDER STRAUSS: I will undertake to find the answer to that question and advise Mr. McCabe and let Mr. White know.

H.M.JR: And us, will you? I am coming to you last, if you don't mind.

MR. McCABE: That is all right.

H.M.JR: Can you think of anything else?

COMMANDER STRAUSS: No, sir, Mr. Secretary.

H.M.JR: Maritime?

MR. SCOLL: We have a firm commitment with the Canadians, embodied in the contract with War Supplies, to buy one hundred ships now under construction. Twenty or more have been delivered already.

H.M.JR: What kind of ships are those?

MR. SCOLL: Those are cargo ships. Ninety of them are about ninety-five hundred tons deadweight, and about ten of them are forty-five hundred tons deadweight. Those ships are being built by Canadian builders for Wartime Merchant, Limited, and we have taken over the ships from the Canadians. The total value of that commitment is about a hundred and seventy-five million dollars - a hundred and seventy-five million to two hundred million.

In addition, I might say that those ships are purchased by us and then they are bare-boated to the British. In other words, we hold the title, but the British operate them and put crews on them and pay the expenses of the voyages, in so far as they are operated by the British; if they are operated under Lend-Lease then we pay the dollar expense of the voyage.

- 9 -

Now, in addition to those ships, the Canadians have been dickering with us to take over approximately a hundred and fifty-five additional ships that are under construction, which will be delivered over into '44 - 1943 and '44. Of that number they have agreed to build between seventy and eighty, which will be oil-burning EC-2 types, that is, the liberty ship type, which we are primarily interested in.

The hundred ships already under commitment are of a British type, coal-burner, built on British specifications.

This seventy or eighty that we have been talking with them seriously about are now in designed process. I believe some work has been done to expand a few yards in Canada for this work. The ships will run around two million dollars apiece, so that if we buy from them the full eighty it will be another one hundred and sixty million dollars.

MR. WHITE: Suppose you don't buy those, would they produce them anyhow?

MR. SCOLL: That is a question.

MR. WHITE: Supposing you hadn't contracted for them?

MR. SCOLL: Well, I don't know. The original hundred, of course, they had already contracted for--

MR. WHITE: And were building when you stepped in and bought them. Therefore, it didn't add to the capacity but merely added to their exchange resources.

MR. SCOLL: That is so, and that was the reason we bought them. It was pursuant to the Hyde Park agreement.

- 10 -

MR. COE: They also get plate a little more easily, I suspect, when they sell them here. Isn't that so? I mean that is tied up with it.

MR. SCOLL: That is partially true. We have been checking into the question of how much material flows from the United States to build these ships in Canada. An estimate which we now have which we are checking into is approximately eight percent. It may be higher than that, so I think that eight-percent figure should be taken with caution.

H.M.JR: I just read in the papers, which doesn't mean it is so, that they stopped a contract for two hundred ships in Louisiana because we didn't have the material to give them. Now, if we entered into another contract with Canada would we have to furnish the plates?

MR. SCOLL: Well, our feeling about that is that we would not enter into any contracts in which we had to furnish steel that would be taken away from our own yards. We wouldn't do that. The Canadians do have some steel production of their own.

H.M.JR: Isn't it true that any steel you furnish would be taking it away from our own yards?

MR. SCOLL: I can't answer that question.

H.M.JR: I should think so.

MR. SCOLL: If there is any I believe that it is a small amount, but I would want to check on that. In fact, we are checking on it now.

H.M.JR: Well now, have you an appropriation to pay for those?

- 11 -

MR. SCOLL: Yes, we have an appropriation to pay for probably the whole amount. I believe that is so.

MR. KIRSCH: The first hundred, not the additional ships you speak of.

MR. WHITE: The General raises the question with respect to the equipment that is used in these shipbuilding plants, machine tools, and so forth. Those are obtained from the United States?

MR. SCOLL: Most of these plants, General, I believe, have made a very small amount of additional facility construction. I believe that there are two or three ways to be built in one yard in Montreal, and I believe that is the sum total of the new facility construction that is required.

H.M.JR: Would you think this over, on the assumption, which may not necessarily be so, but let's just assume that you entered into this original agreement in the spirit of the Hyde Park agreement, which I happened to instigate, and in order to assist the Canadians, both with the exchange and to use everything that they had - now let's just assume that their exchange position is adequate - I mean I just don't understand how you would decide to give them an order for another hundred ships up there, using this other case I read about in the paper, but you wouldn't give a shipyard in Louisiana an order for a hundred or two hundred ships.

I mean if the Hyde Park agreement - if that idea was no longer necessary and Canada is all right for a while and they don't need any more orders - I am just assuming, I am not saying it is so - if you had that information how would you decide about placing additional ships with them?

- 12 -

MR. SCOLL: Well, if the exchange question were moot and the Canadians were going to build the ships anyhow, then the question would be one of policy as to whether or not there were other reasons for building those ships there, such as, perhaps, some other reasons why the Canadians wouldn't build them unless we bought them. There is the exchange question, and there might be some other questions.

We would not build the ships, I do not believe - of course I can't speak for Admiral Land and Commissioner Vickery, but I think their feeling in the matter is that they would not build the ships to take away supplies from the United States construction. That wouldn't make sense, to deprive our own yards to build ships in Canada, certainly if Canada didn't need any exchange.

MR. WHITE: Would you assume that Canada might not build those ships and leave the capacity idle unless she could sell them to the United States?

MR. SCOLL: Well, I mean that is something - that is an assumption that either of us might make that might not be brought out by the facts. I mean, we would have to find out whether Canada would build them or not. That is something I couldn't answer.

H.M.JR: Would you do this for me? Would you reexamine the picture and ask Admiral Land to reexamine it, and before he goes into it I would like to have a chance to sit down and talk to him about it.

MR. SCOLL: Yes, sir, we are doing just exactly that.

H.M.JR: I mean before you place a large order with them I would appreciate it if you would consult with the Treasury on it.

- 13 -

MR. WHITE: Mr. Scoll has informed us of this very thing, and I think that the way he is doing now is right in line with your request.

H.M.JR: Is that correct?

MR. SCOLL: Yes, sir.

H.M.JR: And you won't have any trouble here. I mean if he calls up in the morning - I mean as far as we are concerned - we will give you yes or no before sunset. You won't have any delay here.

MR. SCOLL: Our policy is to work very closely with your office, and we have been doing so through Mr. White.

H.M.JR: Good. Does anybody want to ask the Maritime anything?

MR. JONES: No.

H.M.JR: Anybody else?

MR. KIRSCH: Just one other matter, Mr. Secretary, and that is the matter of ship repairs - other than ship construction. We are repairing some ships, particularly Russian ships, under Lend-Lease, in some Canadian yards. That is a matter of our own convenience because of lack of shipping facilities along the coast, the west coast, and the matter of saving the time in placing these repair works in the yards.

H.M.JR: I would say that is perfectly proper, and I would go right ahead with that.

MR. WHITE: How much is involved in that?

MR. KIRSCH: Well, ship repairs, depending on the damages, might run anywhere from ten thousand to a million or more per ship. It is quite likely

- 14 -

in the course of a year we may have repair work done in Canada that may run from twenty to fifty or sixty million dollars. There is no telling.

H.M.JR: But it is something that they can do better and quicker?

MR. KIRSCH: Not that they can do it better or quicker, but we need their facilities.

H.M.JR: We need their facilities. I wouldn't question that.

Mr. Jones, are you going to buy any more aluminum or anything up there in Canada?

MR. JONES: I think Mr. Bridgman is in a better position to discuss our metal purchases than I. You have got the memorandum with you?

MR. BRIDGMAN: Yes. On aluminum, Mr. Secretary, I don't think we will be placing any more contracts; but the amounts that we will be paying out do increase very rapidly from this year to the next. The total expectation, for instance, for '42 on aluminum is forty-five million, and they jump to ninety million in '43 and a hundred and eight million in '44.

Of those sums a certain amount has been prepaid; sixty-eight million five hundred thousand has been prepaid. That would come off those figures, thirteen million off this year and twenty-five million off '43, and thirty million off '44.

Those are the only very large increases of which we are aware today. Other materials depend a good deal on the allocations made by the Combined Raw Materials Board. For instance, we got in '41 approximately six million dollars' worth of lead, and at present the Combined Raw Materials Board I don't think is going to be able to allocate any to

- 15 -

the United States for '43 and '44; that the United Kingdom will need it. So that might tend to decrease our figures.

Outside of that we have no very large expected increases. We have a great many different activities, but they are small in the aggregate.

H.M.JR: But I was more interested in something new, I mean that you haven't already entered into.

MR. JONES: We have nothing new.

MR. BRIDGMAN: No. I think that if you put - we are negotiating a number of new ones, and I think if you put an increase of perhaps eight million for '43 and perhaps the same, or a little more, for '44--

H.M.JR: What would that be mostly, Mr. Bridgman?

MR. BRIDGMAN: Lead, zinc, copper, miscellaneous small properties that are now being developed.

H.M.JR: For our own consumption?

MR. BRIDGMAN: For our own consumption.

H.M.JR: Not for Lend-Lease?

MR. BRIDGMAN: No, sir.

H.M.JR: Do you want to add anything, Jesse?

MR. JONES: No.

MR. WHITE: Possibly the BEW might have something. They have a sort of an overall picture of the situation.

MR. COE: Not the BEW in this case but the War Production Committee.

- 16 -

Mr. Secretary, we checked around in the Army and Navy rapidly yesterday - our subcommittees, which have representatives in the procurement places - to see what orders were pending, and the degree of firmness of these orders varies. Some of this is by way of gossip, some of them have been placed since June 30, when good figures are available. There is a big tank deal, sixty million dollars pending, and there is--

H.M.JR: May I interrupt you? Now, who is negotiating that?

MR. COE: This is being negotiated, or being discussed, rather, with our Army procurement officers through the War Production subcommittee. War Production Committee subcommittee--

H.M.JR: I mean, that would be something that General Carter would catch, wouldn't it?

GENERAL CARTER: Yes, we have a contract already in existence up there on tanks, and it may be that what they are considering is an enlargement of that contract, but I doubt very much if it can be enlarged very much because of the facilities.

MR. COE: Well, I perhaps should explain that we have a committee which includes Perkins, Milo Perkins, and the Under Secretary of War, and the Under Secretary of Navy, and then a group of ten subcommittees who are the actual procurement officers in the Army and Navy. There are a good many gun contracts under consideration, one for as much as twenty million dollars; a good many small arms contracts, some ten and fifteen million dollar contracts underway. There is a new contract mentioned on radar, which is really an extended or revised and replacement contract.

Each of these problems from the point of view of exchange is different. In tanks the British and the U.S. people went up there and looked over their tank

- 17 -

installations and more or less told them that the tank program ought to be changed, had to be changed - they really have a tank assembly program - and suggested that they gear in very closely with us, produce the same sort, and looked at it from the standpoint of using the facilities.

Now, they are discussing placing an order for it, and it is going to require a flow of some equipment - very little but a flow of components from us.

In shells there has been a tendency to place a number of the contracts up there because they were geared to British specifications, and we tried to make the best use of facilities. You could usually - the Army found you could usually place the orders there and get delivery faster, or in some cases even expand.

MR. WHITE: British equipment for--

MR. COE: Yes, British specifications.

GENERAL CARTER: For Lend-Lease?

MR. COE: Yes, Army, Lend-Lease.

MR. WHITE: And with respect to the tanks, they have been producing tanks before.

MR. COE: They were producing tanks before, but different models.

MR. WHITE: Where were they going?

MR. COE: They were going to Britain and Russia.

MR. WHITE: And now they will produce tanks for us with the same facilities though with alternate specifications?

MR. COE: That is right.

MR. WHITE: For which they will get paid dollars.

H.M.JR: What is the ultimate destination of these tanks?

- 18 -

MR. COE: In the case of the tanks and many other items in the Canadian program I think you can't say. Their M-4 tank is practically the same as ours, and the British now is being brought very closely into line. Presumably Britain - this might interest you - we have made a compilation of the Canadian munitions program by sources of orders as of the second quarter - as of '42. About fifty percent of their orders, '42, are from the United Kingdom; thirty percent are on Canada's account itself; and counting this month-to-month ship arrangement that the Maritime Commission has, roughly eighteen percent is on United States account. But that doesn't mean that those particular countries will get it.

H.M.JR: Well, now that you know we are not worried, but interested in this, you will watch it particularly?

MR. COE: Yes, we will send you a report.

H.M.JR: You and Mr. McCabe - do you work through this committee or do you work independently with your orders? How do you do with Lend-Lease?

MR. WHITE: Possibly, Mr. Secretary, there is just one more department.

H.M.JR: Want to keep him to the last?

MR. WHITE: Yes, because he is a sort of over-all whereas the others are giving the orders. Mr. Morrison is representing Mr. Batt.

MR. MORRISON: The matters in which Mr. Batt is interested have been covered by Mr. Bridgman. That is to say, the bulk of the materials purchased in Canada under the auspices of whatever you call it, this Materials Coordinating Committee, are purchased by the Metals Reserve Company. There has been one other contract, I believe, the carbide contract, that you didn't mention, and at least one other under contemplation now that I don't know whether Defense Supplies has heard of yet involving meta para cresol. I can't keep track of the amounts of these things because the RFC corporations deal more directly with them as to actual deliveries.

- 19 -

I think from the point of view of Mr. Batt the operations of the Combined Raw Materials Board with reference to the diversion of lead, to which you referred, he might have to have some direction on. In connection with this lead diversion, the Combined Raw Materials Board has asked me how the Canadians would regard this diversion, and I think they were loath to make it if it would involve a substitution of sterling for dollars. But, on the other hand, I don't think the Combined Raw Materials Board should have jurisdiction over the terms of payment. They don't usually in other things. I think it is a very difficult question to settle, and they will only be able to settle it with some direction from the Treasury, or whoever is the appropriate authority to give it to them.

H.M. JR: Now, have you got anybody else here, Harry?

MR. WHITE: Well, there is Lend-Lease and the State Department.

H.M. JR: Well, I think the State Department is in the same boat I am in. They are learning. Aren't you?

MR. WHITE: It follows pretty closely. I don't know whether you have anything to add.

MR. STINEBOWER: No, I haven't. There is some small chicken feed that might be saved with this knowledge. There have been occasions when, more as a part of the Joint Economic Committees than part of the Department - the question of the British desire to shift a price adjustment or a source of supply. For example, flax - the other day they made some price adjustments in which the Canadians get the same amount of - not Canadian dollars, but I mean, the producer gets the same amount of Canadian dollars, but Canada gets more sterling and less U.S. dollars. We had occasion to wonder whether that was in line with the Hyde Park pronouncement. We finally did agree. It will be much simpler when we have this in front of us now.

- 20 -

MR. WHITE: I think it might be pointed out that there is a different aspect between the Canadian-U.S. situation and the British-U.S. situation. In the British-U.S. situation the United Kingdom simply produces up to her maximum capacity, distributing in such ways as the responsible authorities see fit, and the United States Treasury takes the responsibility of seeing that she is kept with an adequate dollar balance.

Apparently the Canadian situation has become different. The dollar balance no longer is the fact which is most significant, but Canada will sell things for dollars which she otherwise could produce herself and put into the common pool. I think that difference must be borne in mind. Maybe they ought to be comparable. Maybe Canada ought to produce everything she possibly can, irrespective of where the orders come from, and then the Treasury assume the responsibility to see that she is supplied with what may be regarded as a reasonable supply of dollars.

H.M.JR: Let's hear from Mr. McCabe now.

MR. McCABE: First I would like to ask Mr. Ecker to speak because he is our specialist on this whole dollar position.

MR. ECKER: Our interest in this is two-fold. I would like to make this clear first, that when we receive requisitions from the British, for example, we do none--

H.M.JR: Pardon?

MR. ECKER: When we receive requisitions for Lend-Lease aid from the British we do none of the actual buying ourselves. As you know, Mr. Secretary, it is done either by Army, Navy, Maritime, or whoever it may be, so that I do not recall that we have given them any instructions as to where the orders would be placed. That is up to them rather than to us. Now, as to the second point, the big group of requisitions which are known as Can.-Ex. requisitions, they are a direct outgrowth of the Hyde Park agreement and have the specific purpose of assisting the Canadian dollar position.

- 21 -

Are you familiar with those requisitions because I won't take time--

MR. WHITE: The Secretary was responsible for them in the first place.

MR. ECKER: I am sorry.

H.M.JR: That is all right.

MR. ECKER: It would seem to us, in the light of the information given to us today, that there no longer was a need for honoring Can.-Ex. requisitions.

MR. WHITE: How much have they amounted to in the past six months, do you recollect?

MR. ECKER: I do not have the figure for the past six months. I think they have been in excess of a hundred millions altogether. That is a figure that I have recently received which I would like to have checked and not actually stated as definite.

MR. WHITE: The Canadians have informed us they amount to twenty-three million dollars in the first six months; possibly you could give us the exact figures. Your estimate seems to be much higher.

MR. ECKER: We can unquestionably get the exact figures and by date. The estimate that I have is for the entire period and shows a hundred and twenty-two millions.

MR. WHITE: As having been delivered?

MISS KISTLER: Those are what, requisitions cleared?

MR. ECKER: I would assume that these are requisitions cleared by Lend-Lease. It doesn't necessarily follow that the goods have actually been bought.

H.M.JR: Mr. Ecker, I can't quite follow you. You say you asked these various agencies to do the buying, but evidently you give directions to them that they should buy in Canada.

- 22 -

MR. ECKER: I was not aware of that, Mr. Secretary.

MR. McCABE: No, we have watched very carefully when the British have put in requisitions specifying the purchase of things in Canada. We have taken the position that in the main our policy would be not to put through requisitions for finished articles in Canada to be shipped to Great Britain under Lend-Lease. We have made an exception or two in that we made an exception on trucks last winter, but in the main, as Mr. Ecker says, if we place British requisitions with Treasury Procurement, for example, we do not specify where that is to be procured.

If we know that the British are requisitioning finished articles in Canada we do not honor that requisition because we think that from a policy standpoint it is poor policy to requisition finished articles in Canada to be lend-leased to Great Britain. We have made that a policy and have made exceptions only in very rare cases.

Now, in the case of the Army, the Navy, and the Maritime Commission, they have their own direct Lend-Lease appropriations from Congress; and in the case of munitions and all Naval supplies, and in the case of ships and ship repairing, they have the responsibility, direct responsibility, of determining what they will or will not purchase in Canada.

H.M.JR: Could I ask you and Mr. Ecker this? I mean, from now on have you - are you in the midst of any important deals with Canada?

MR. McCABE: No.

MR. ECKER: No. No, none that we have under consideration.

MR. WHITE: But you get a constant flow of what you call these Can.-Ex. requisitions which are for the raw material which goes into goods to be lend-leased to England. They come in from time to time.

- 23 -

MR. ECKER: From time to time, that is correct.

H.M.JR: Do these originate from Canada or from England?

MR. ECKER: No, those are on a U.K. requisition, but endorsed by the Canadians.

In putting in those requisitions they certify to the fact that Canada has purchased in the United States equipment or material to a dollar amount for use of U.K., at least equal to the amount of the total Can.-Ex. requisitions that have been put into that date including the one that is at the time being offered.

H.M.JR: Mr. Ecker, would you object if, until we sort of got the feel of it, on a day-to-day basis Mr. White and his office could see those as they flow through?

MR. ECKER: Certainly.

H.M.JR: So he would get some idea as to the magnitude of it.

MR. ECKER: Yes, I would be very pleased to make that entire file available to him and inform him of every additional one that comes along.

H.M.JR: Would you mind, until we can sort of get the feel of the situation?

MR. ECKER: We have been acting automatically on those because of the early instructions.

H.M.JR: Well, the whole point of this meeting is, should we continue that policy; that is the whole point, should we continue that.

MR. ECKER: Exactly.

- 24 -

H.M.JR: I don't know, but just within the last two or three days I got a memorandum from the President raising the whole question and that is why I wanted this meeting.

MR. WHITE: Is it clear, Mr. Ecker, that the Secretary is not suggesting changing this program until further consideration, because the instructions come from the President on the Hyde Park agreement?

MR. ECKER: We will clear each one with you as it is presented in advance of any action from now on.

H.M.JR: Well, now, let's just go around and see if there is anybody I have overlooked. Does anybody have any afterthoughts? Bell?

MR. BELL: No.

H.M.JR: How about the State Department?

MR. LIVESEY: No, I don't want to comment on this. Mr. Berle called me in just at the last minute. He had apparently just seen the memorandum and told me about it. I haven't even read the memorandum which was sent over.

H.M.JR: Maybe you are unbiased and your opinion would be valuable.

MR. LIVESEY: Mr. Berle made some remarks. Of course procurement is the thing, but those things are obvious.

MR. COE: Mr. Secretary, could I say a word or two on the other side of this orders business and suggest that immediately, it seems to me, it is better to proceed on the exchange position either by Lend-Lease, by gold, or in the case of the orders with stricter instructions; that no orders should be given which merely mean our paying for stuff up there which they would otherwise produce on British account.

In the case of the--

- 25 -

H.M.JR: I don't agree with you.

MR. COE: No, I was going to suggest one or two reasons for that position.

H.M.JR: But I mean, if I understand that last statement, I mean - do you mind repeating that again?

MR. COE: That there is some advantage, at any rate, in operating on the exchange position in terms of gold, Lend-Lease, or in the case of orders limiting it to instructing our procurement people not to buy where Britain - not to bring it up there if it merely replaces what Britain would buy. We run up against - Joint War Production Committee runs up against a good many cases which started out on that basis, where treating Canada as a separate country in terms of production really left the facilities idle.

For instance, here was a case that came up the other day. A man, American manufacturer, was talking with the procurement major in the Army and was told that he couldn't buy anything in Canada, that this man's plant in the United States was a bottleneck. It was running to capacity. They had a plant in Canada, of which only thirty percent of the facilities were being used, and the Army man, who I think wasn't familiar - I know he wasn't familiar with the Army's directives - didn't propose to purchase for U.S. account any items which he badly needed, and was talking in terms of stimulating this firm to expand production. Obviously it was more sensible to place the order up in Canada if there is no other machinery for getting that private firm in Canada into operation.

Now, at the present time there isn't any other machinery, as long as they don't go under Lend-Lease, and we can't requisition stuff for them. Placing orders up there is one way in which we get facilities used there.

H.M.JR: Well, Frank, no one is questioning that. It is just that I wanted to reexamine the whole thing and make sure that we weren't getting the short end of the stick. If there are facilities in Canada which can

- 26 -

only be used by your placing orders I would say off-hand, of course, place the orders. But, on the other hand, if it is something else that maybe somebody in England, a little smart, maybe is getting us to place the orders and they are ducking and Canada is refusing to sign Lend-Lease, I just think that at regular intervals it should be reexamined from the exchange position.

MR. COE: That was the position I was taking.

H.M.JR: I don't want anybody to go out of the room feeling that the President's policy of the Hyde Park agreement has been changed until we have had a chance to reexamine it and bring it to his attention. I would carry on just the same. But we would like to watch it from day to day. That is the whole purpose of this meeting, and then try to get everybody in one room - we can't get all the committees - I never heard of so many committees in my life. I am overwhelmed. How many secretaries do you need, Frank, to keep track of all of these committees?

MR. COE: Just two or three.

H.M.JR: You must be good.

Well, unless somebody has got something else I think that is about all.

MR. WHITE: Would it be possible to scrutinize sufficiently the contemplated expenditures so that they could center all in one place? What we would like to have would be the total in very rough categories. We are not as interested in the items as the totals.

H.M.JR: Doesn't Coe know that now?

MR. COE: We do for munitions and will give you everything we have.

MR. WHITE: There are the various procurement agencies here, as well as our own.

- 27 -

MISS KISTLER: They center with Mr. Coe.

MR. WHITE: If we got them from Mr. Jones and Mr. Coe and from our own we would get them all?

MISS KISTLER: Yes.

H.M.JR: Wouldn't Coe know? What is one of your titles, secretary to--

MR. COE: Joint War Production Committee.

H.M.JR: Couldn't you get that?

MR. COE: Yes, we will shoot that in regularly.

MR. McCABE: I do think Mr. White has made a point, that we ought to use the Treasury Procurement, and we will take a quick review also with Agriculture to see what extent we have got the procurement going forward in Canada.

H.M.JR: I would like to say again I wouldn't - I am not suggesting any changes today. All we are trying to do is inform ourselves.

MR. JONES: I think this is very timely and presents a very interesting situation, and I think you are entirely right to watch it and watch it very closely.

July 21, 1942.
12:09 p.m.

Congressman
Jere Cooper: Hello, Henry.

HMJr: How are you, Jere?

C: Oh, fine, thank you, fine. Hope you are.

HMJr: Fine. I just wanted to call you up and thank you for all the help you gave us on the tax bill.

C: Well, all right, Henry. It was a pleasure. We had one terrible battle, as you know.

HMJr: Well, you came out on top.

C: Fine, came out in fine shape, and I had to maneuver and operate pretty smoothly yesterday, but everything worked out fine.

HMJr: Well, nobody can do it as well as you do.

C: Well, that's very kind and I appreciate it.

HMJr: And we all down here are very much obliged to you.

C: Well, thank you so much. By the way, tell Randolph Paul he owes me a cigar. Don't forget that.

HMJr: Tell Randolph Paul he owes you a cigar.

C: Yeah, I told him that we'd wind up getting forty-five, and he didn't think we could so - tell him not to forget that cigar.

HMJr: I'll tell him.

C: (Laughs)

HMJr: I'll tell him.

C: All right, Henry. Thank you so much.

HMJr: Goodbye.

C: Goodbye.

July 21, 1942.
4:13 p.m.

HMJr: Hello.
Operator: Miss Tully is with the President in press conference.
HMJr: Well, as soon as she comes out, I want to talk to her.
Operator: All right.

4:50 p.m.

HMJr: Hello.
Operator: Miss Tully.
Grace
Tully: Hello.
HMJr: Morgenthau's the name.
T: Mr. Secretary, how are you?
HMJr: I'm alive.
T: That's good. Not more than that?
HMJr: A little more, not much.
T: (Laughs)
HMJr: How's Shang-ri-la?
T: Wonderful.
HMJr: Is it?
T: Grand. It really is a delightful spot. I enjoyed it ever so much.
HMJr: Good. Do I see Mr. Roosevelt or don't I?
T: Well, you wait till I see Mr. Roosevelt. (Laughs)
HMJr: Oh, is that the way it is?

- 2 -

T: That's the way it goes. I have to see Mr. Roosevelt first.

HMJr: Oh, is that so.

T: Yes, sir, and then I'll get you word.

HMJr: Well, how will I find out?

T: After I see him, I'll call you.

HMJr: You what?

T: After I see him, I'll call you.

HMJr: All right, and....

T: You see - he's finished with the press and he still has people with him, and I haven't had an opportunity to take anything up with him yet.

HMJr: I see.

T: As soon as I do, I will let you know....

HMJr: Thank you.

T:about the morning.

HMJr: What?

T: About the morning.

HMJr: That's right.

T: Fine, sir.

HMJr: I don't - I don't want breakfast. I just want to see him.

T: I see. (Laughs) All right, fine.

HMJr: Thank you.

T: I'll call you, sir.

HMJr: Goodbye.

T: Goodbye.

July 21, 1942
4:55 p.m.

HMJr: Hello.

Operator: Mr. McCabe.

HMJr: Hello.

Thomas B. McCabe: Hello, Mr. Secretary.

HMJr: How are you? Two things, Mr. McCabe - I don't know whether you're following this request of ours personally or not, but I'd like to get a "yes" or "no" out of your people in regard to furnishing silver for coinage to England and Australia.

M: Yes, sir, we've been on that today, and we've been on it for several days.

HMJr: Do you think I might get an answer in a day or so?

M: I'm having the - our policy committee - a special meeting called tomorrow morning at ten-fifteen to try to get a "yes" or "no"....

HMJr: Good.

M:recommendation because I wanted to from my own angle here to get a recommendation from my own policy committee before I....

HMJr: Yeah.

M:answered that.

HMJr: I think it's going on two weeks now.

M: Yes. It's - I talked to Harry White about it again this morning.

HMJr: Yeah.

M: It's....

HMJr: Well, it was my idea to call you up, not his.

- 2 -

M: Yes. Well, my feeling is on that I hate like deuce to delay an answer to a question like....

HMJr: Yes.

M:like that, but I did want to be absolutely sure of my ground before I said "yes" or "no" on it.

HMJr: Well, that's fair enough. Do you think maybe tomorrow we get a "yes" or "no"?

M: I think tomorrow afternoon we can give you a "yes" or "no" on it.

HMJr: You see....

M: The - the policy committee put that under a special committee under Fred Ecker....

HMJr: Yeah.

M:to study all the various angles of it, and on his recommendation today I asked him to call a special meeting tomorrow morning to consider it.

HMJr: Okay.

M: But that's a tricky one.

HMJr: Yeah.

M: (Laughs)

HMJr: All right. Now one other thing - I got word through Cliff Mack you stopped us from buying anything for Russia. Is that a - is that for everybody or was that just for us?

M: It stopped everybody....

HMJr: Well, I know we got word we shouldn't buy anything more for Russia.

M: Yes.

HMJr: Was that just for Treasury or does that go for everybody?

- 3 -

M: Well, that goes for everybody. The - I guess you know that whole picture.

HMJr: No, I don't.

M: Well, everything's been shut off....

HMJr: Yeah.

M:except to the southern port.

HMJr: I see.

M: And that means instead of operating on a fifty to sixty-ship basis a month....

HMJr: Yeah.

M:it's down to twelve ships a month.

HMJr: My God!

M: And the question there is going to be whether we can get the British to give us another convoy within the, say, the next month or two.

HMJr: On the northern route?

M: Yes.

HMJr: I see.

M: Well, it's - the thing has personally been discussed between the President and Churchill....

HMJr: I see.

M:and it's - it's an extremely hot one, and what we had to do was first ask the Russians to give us the highest priority items....

HMJr: Yeah.

M:because we have this large number of ships from - strung all the way from here to - to England
....

HMJr: Yeah.

- 4 -

M:and we're having to unload ships there and also hold certain ships at Iceland....

HMJr: Yeah.

M:and then we have certain ships at Newfoundland waiting for the convoy....

HMJr: Yeah.

M:and then what we - we asked that shipments to the ports cease except under direction of the highest priority things.

HMJr: I see.

M: And that means that until the word's given out that we just - I'd go easy on procurement.

HMJr: Yeah.

M: There's no definite - I mean there's - it's not just been laid down hard, hold and fast....

HMJr: Because we....

M: For diplomatic reasons, we didn't want to do that.

HMJr: I see. Because we have an enormous amount of stuff on hand for....

M: Yes, I know that.

HMJr: Well, I just was curious.

M: And there's nothing we can do on that except just wait for developments....

HMJr: Yeah.

M:and we ought to have something in a few days when the thing's a little better cleared in London.

HMJr: Good.

M: And you know certain people are conferring there now.

- 5 -

HMJr: I know. Right.

M: That's the situation. And on that - on that other matter, I'll have a - I'll have a definite statement for you on that tomorrow afternoon.

HMJr: Thank you.

M: Shall I call you or Harry White when we....

HMJr: You might call - either one.

M: All right.

HMJr: Thank you.

M: Thank you, Mr. Secretary. Goodbye.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

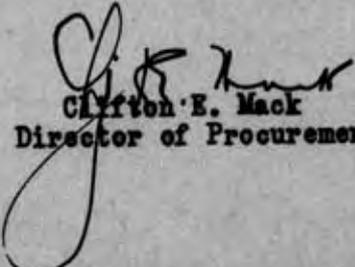
WASHINGTON

July 21, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended July 18, 1942.

The determination as to whether allocations or priorities will be granted by the War Production Board to cover Lend-Lease steel requirements is still pending. I talked with Mr. McCabe, Acting Lend-Lease Administrator this afternoon, and he proposes to discuss the matter tomorrow with General Clay and Mr. Eberstadt, both of the Army and Navy Munitions Board, and he will emphasize that it is essential to have a definite earmarking of Lend-Lease steel requirements if we are to plan a shipping program. I will report to you the result of the conference.


Clifton E. Mack
Director of Procurement



LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF JULY 18, 1942
 (In Millions of Dollars)

38

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Undistributed & Miscellaneous</u>
Allocations	\$1768.8 (1693.7)	\$976.4 (953.8)	\$436.2 (419.0)	\$56.4 (56.3)	\$1.6 (1.6)	\$298.2 (263.0)
Purchase Authoriza- tions (Requisitions)	\$1312.0 (1272.9)	\$863.3 (835.4)	\$395.5 (384.8)	\$46.8 (46.5)	- -	\$ 6.4 (6.2)
Requisitions Cleared for Purchase	\$1256.4 (1230.2)	\$827.5 (810.8)	\$376.6 (366.9)	\$46.5 (46.4)	- -	\$ 5.8 (6.1)
Obligations (Pur- chases)	\$1198.8 (1171.2)	\$817.6 (801.9)	\$335.6 (324.0)	\$40.0 (39.9)	\$1.6 (1.5)	\$ 4.0 (3.9)
*Deliveries to For- eign Governments at U. S. Ports	\$ 471.7 (454.9)	\$377.2 (362.8)	\$ 72.7 (70.3)	\$20.0 (20.0)	- -	\$ 1.8 (1.8)

*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 July 11, 1942.

July 21, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Meeting in Mr. White's office
July 21, 1942
2:45 P.M.

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

Dr. Kan Lee called at his own request. Mr. White discussed with him the question of charges involved resulting from the sale of gold in connection with the liquidation of the 1937 arrangement. Mr. White said that he wished to make clear to Dr. Lee that the charges were no factor in the decision of the Treasury and that in fact the Treasury did all possible to find some means by which they could save the Chinese Government this expense. However, such a loophole could not be found. Dr. Lee said that he appreciated perfectly the position of the Treasury and that he was sure the Chinese Ministry of Finance would not think that the charges involved were a factor in the decision. Dr. Lee said that he had come up to discuss the question of the necessary paper and the need for Treasury writing a letter to obtain this paper for the Crane Company. Mr. White said that he thought this had already been done but that he would look into the matter.

ISF/efs
7/28/42

July 21, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Meeting in Mr. White's office
July 21, 1942
2:45 P.M.

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

Dr. Kan Lee called at his own request. Mr. White discussed with him the question of charges involved resulting from the sale of gold in connection with the liquidation of the 1937 arrangement. Mr. White said that he wished to make clear to Dr. Lee that the charges were no factor in the decision of the Treasury and that in fact the Treasury did all possible to find some means by which they could save the Chinese Government this expense. However, such a loophole could not be found. Dr. Lee said that he appreciated perfectly the position of the Treasury and that he was sure the Chinese Ministry of Finance would not think that the charges involved were a factor in the decision. Dr. Lee said that he had come up to discuss the question of the necessary paper and the need for Treasury writing a letter to obtain this paper for the Crane Company. Mr. White said that he thought this had already been done but that he would look into the matter.

ISF/efs
7/28/42

7/240

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

Dear Mr. Secretary;

I must get a matter off my conscience. It has to do with the Bank of America. I am ashamed of my part in the transaction. Mr. Crowley started the investigation. We discussed how we could get the reports out of the Comptrollers office without the knowledge of Mr. O'Connor but we found it was necessary to make the request to him which Mr. Crowley did and received the reports immediately. Mr. Crowley said Mr. O'Connor was not to learn who in the Federal Deposit Insurance Corporation was making a study of the report. We went over the report and found the Bank to be in much better position than when President Roosevelt opened it after the Banking Holiday and that it had very large earnings. Mr. Crowley directed us to try and find something wrong. He said you can always find that a Bank has too much real estate or its appraisals are too high. Mr. Crowley then went to the Federal Reserve Board and discussed the matter with Chairman Eccles and he was advised that the Bank of America was in good condition. He then said he would get Dr. Viner from Chicago and as he did not know much about banking he could convince him that the Bank was in poor condition. He said Viner had the ear of the Secretary and that you were suspicious of everyone. He said Mr. O'Connor was not to know that he engaged Dr. Viner and he would pay him without O'Connor knowing anything about it as he had done in other instances. He said he was sure he could also get the cooperation of Mr. Tom Smith, President of the Boatmen National Bank in St Louis as Smith had the ear of the Secretary and Smith knew nothing about Bank examinations as he never was a Banker but got control of his bank thru his wife's stock and also that Smith did not like Giannini. I learned later that Mr. Crowley had strong backing from New York interests who were fighting Mr. Giannini.

Mr. Crowley told me about a meeting in your office the last week in January 1938 with Jones, Eccles, Taylor, Diggs, Viner and O'Connor and was angry because Dr. Viner "spilled the beans" by asking about the Bank of America and Mr. Crowley did not want Mr. O'Connor to know about the situation. Mr. Crowley said that you suggested to Mr. O'Connor that a meeting of the F. D. I. C. be called and that Mr. Crowley make a report to the Board of his criticisms of the Bank and that Mr. O'Connor request Mr. Crowley to make such a report. Mr. Crowley told me he would not do so as he had no objections that would stand up, and he told Mr. O'Connor the bank was O.K. He told me to drop the whole thing and not say anything more about it.

My greatest surprise came the latter part of September 1938 when Mr. Crowley told me it was very necessary to convince the President and the Secretary that the Bank of America was in bad condition. He got the message to the President and had the President take the matter up with you. Mr. Crowley said

you sent Mr. Upham to San Francisco to take over the Bank and that must be stopped as he did not want the matter to go that far he only wanted to use it as a means of getting O'Connor out of the way and prevent the President from appointing him Comptroller of the Currency. He said he would go to any end to accomplish this as O'Connor was too particular about every act done by the F. D. I. C. and O'Connor had caused an investigation to be made of his personal conduct in Wisconsin and that you had the report and he would have been asked to resign if the President ever got his hands on that report but Mr. Jessie Jones and Mr. McIntyre prevented it going to the President. He told me the report was in your hands.

Mr. Secretary, it all been a dirty mess. Everyone regards you as one of the squarest and finest men in Washington and for that reason I thought you should know the facts in this case from one who is ashamed of them.

The Attorney General sent Mr. Roggie, Asst. Atty. General to make a complete investigation of the Bank's affairs and Mr. Crowley intimated that he was instructed to try and find something irregular. He returned and reported that everything was regular and that the handling of the bank by the Comptroller's office was above suspicion. Mr. Crowley then had a long talk with Mr. Giannini and discussed the Bank and he told Mr. G. that it was very unfortunate that his Bank had been caused so much trouble and he regretted the action of the Treasury. He told Mr. G. that the Comptroller asked him in January about the Bank and he told him it was O.K. and that the Comptroller had sent the Secretary a "Memo" to that effect.

Since leaving the Treasury I have been told that Mr. O'Connor has praised your work highly. I feel better now that I have told you the story. Had I known in the beginning what it was all about I would not have had any part in it. For you I have the highest admiration,

Sincerely yours,

L. M.

42

File

WASHINGTON, D. C.
JUL 21
9-PM
1942



HON. HENRY MORGENTHAU, JR.
2211 30th. Street
Washington. D. C.

OFFICIAL

JULY 21, 1948

MR. WALTER P. REUTHER
UAW CIO
281 WEST BOULEVARD
DETROIT MICHIGAN

SECRETARY MORGENTHAU WILL BE GLAD TO SEE YOU AT THREE THIRTY
WEDNESDAY JULY TWENTY SECOND

H. S. KLOTZ
PRIVATE SECRETARY



1 Grosvenor Square, W. 1.
July 21, 1942.

Dear Mr. Secretary:

I was glad to get your letter of July 1st and the newspaper spread of the welcome given in our country to the contingent headed by Squadron Leader John D. Nettleton, V.C. They seem to have had a grand reception and I am very happy to know that you feel that the tour has done a great deal of good.

With kindest regards,

Sincerely,

John G. Winant

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

TO:

Miss Chauncey

45

FROM: Mr. Mills

I, myself, can see no objection to acknowledging Mr. Lee's letter. However, you may have noticed that within the last two days a wage conference for the Pacific Coast aviation industry came to grief and one of its conclusions was a statement made by the industry that final results had been prevented by conflicting positions taken by different Government departments. I do not believe that the wage conference has any bearing on Mr. Lee's letter, but someone might think otherwise.

JUL 21 1942

Dear Mr. Lee:

In acknowledging your letter of July 15, 1942, I also wish you to know the pleasure I felt when told of your previous telegram. The enviable production records made by the West Coast aviation industry have come from the energy and enthusiasm with which its individual companies set out to overcome obstacles and get results. The members of the Aircraft War Production Council, Inc. are handling their payroll savings programs and the problem of the prompt issuance and delivery of War Savings Bonds through becoming issuing agents with the same spirit. I can predict that here too the result will set a pattern of action for others to follow.

Please express to your separate member companies the Treasury's appreciation for their splendid cooperation.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. John G. Lee, Manager,
Aircraft War Production Council, Inc.,
7046 Hollywood Boulevard,
Los Angeles, California.

ALM, Jr./dwb
7/18/42

Original file to Thompson
Photo file to NMC.

AIRCRAFT WAR PRODUCTION COUNCIL, INC.

CONSOLIDATED · DOUGLAS · LOCKHEED · NORTHROP · NORTH AMERICAN · RYAN · VEGA · VULTEE

July 15, 1942

Mr. Henry Mongenthau, Jr.
Secretary of the Treasury
Treasury Department Building
Washington, D. C.

My dear Secretary:

Direct and speedy issuance of war bonds to aircraft workers of Southern California is assured by the action of the member companies of the Aircraft War Production Council, who will issue bonds directly from company to worker. This is in addition to the former practice of handling regular payroll allotments.

Mr. Mills has no doubt advised you of the receipt of our telegram regarding the adoption of this policy. As you probably know, energetic campaigns are being actively pursued by our member airplane producers, who are the Consolidated Aircraft Corporation, Douglas Aircraft Company, Lockheed Aircraft Corporation, North American Aviation, Inc., Northrop Aircraft, Inc., Ryan Aeronautical Company, Vega Aircraft Corporation, and Vultee Aircraft, Inc.

We believe, with you, that promptness in delivery lays the groundwork for the next bond sale. The Council aircraft companies will stress speed in delivery. That factor, with regular payroll allotments, should result in increased war bond sales among aircraft workers.

Each company handles its own sales programs and methods. Spirited competition in departmental contests is evidenced and trophies, banners, pins for members of the "Bond-a-Month" Club, house organs and public address system publicity all contribute to the campaign. Worker response is on the upswing.

In your own words, war production and war financing march together, and the Aircraft War Production Council believes that war bonds, directly issued and delivered, will show that Southern California airplane workers have enlisted as "bankers to the United States" for the duration. Millions of dollars for millions of man-hours will come rolling back for war bonds.

The Council pledges its continued cooperation.

Sincerely,



John C. Lee
Manager

JCL:pm

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May	July as percent of June	
July 1942						
1	\$ 12,597	\$ 12,597	\$ 9,705	\$ 7,302	129.85	
2	9,389	21,986	17,601	15,168	124.9	
3	10,455	32,441	26,235	25,516	123.7	
6	16,734	49,175	40,009	33,145	122.9	
7	13,386	62,561	49,353	48,751	126.8	
8	21,852	84,413	55,888	60,817	151.0	
9	17,172	101,585	67,414	67,213	150.7	
10	22,983	124,568	72,366	72,794	172.1	
11	17,050	141,618	82,310	80,845	172.1	
13	20,614	162,232	89,852	85,410	180.6	
14	14,358	176,590	95,254	94,391	185.4	
15	15,400	191,991	101,464	102,106	189.2	
16	13,842	205,833	108,715	108,923	189.3	
17	15,314	221,147	112,279	114,129	197.0	
18	9,696	230,842	119,749	123,534	192.8	
20	21,888	252,731	126,048	127,724	200.5	

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

July 21, 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.

CONFIDENTIAL

UNITED STATES SAVINGS BONDS - TOTAL
 Comparison of July sales to date with sales during the
 same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May	July as percent of June	
July 1942						
1	\$ 28,418	\$ 28,418	\$ 29,539	\$ 19,981		96.2%
2	24,269	52,687	45,442	39,430		115.9
3	27,277	79,964	67,046	72,048		119.3
6	46,531	126,495	98,208	88,605		128.8
7	31,110	157,605	132,341	122,575		119.1
8	43,451	201,056	154,085	157,866		130.5
9	39,918	240,974	192,659	181,431		125.1
10	47,755	288,729	206,523	201,464		139.8
11	36,127	324,856	236,552	232,801		137.3
13	47,164	372,020	259,772	246,756		143.2
14	30,102	402,122	281,724	271,525		142.7
15	33,807	435,929	303,163	296,152		143.8
16	31,670	467,599	334,398	317,861		139.8
17	37,659	505,257	345,497	337,371		146.2
18	21,929	527,186	368,782	371,066		143.0
20	53,257	580,443	387,369	385,098		149.8

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

July 21, 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 B

Comparison of July sales to date with sales during the
same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative Sales by business days			July as percent of June
		July	June	May	
July 1942					
1	\$ 15,821	\$ 15,821	\$ 19,834	\$ 12,679	79.8%
2	14,880	30,701	27,841	24,263	110.3
3	16,822	47,523	40,811	46,532	116.4
6	29,797	77,320	58,199	55,460	132.9
7	17,724	95,044	82,988	73,824	114.5
8	21,599	116,643	98,197	97,049	118.8
9	22,746	139,390	125,245	114,218	111.3
10	24,772	164,161	134,157	128,670	122.4
11	19,077	183,238	154,242	151,956	118.8
13	26,550	209,787	169,920	161,346	123.5
14	15,744	225,532	186,470	177,133	120.9
15	18,407	243,938	201,700	194,047	120.9
16	17,828	261,766	225,684	208,939	116.0
17	22,345	284,111	233,218	223,242	121.8
18	12,233	296,344	249,033	247,532	119.0
20	31,368	327,712	261,321	257,374	125.4

July 21, 1942.

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

Source: All figures are deposits with the Treasurer of the United States on
account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily
add to totals.

51
Sales of United States Savings Bonds
From July 1 through July 20, 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	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales	
	July 1	July 1	July 1	July 1	July 1	July 1	July 1	July 1	July 1	July 1		
	Daily	to	to	to	Daily	to	to	to	Daily	to	to	
		Date	Date	as % of Quota		Date	Date	as % of Quota		Date	Date	
1	\$ 15.8	\$ 15.8	\$ 23.6	66.9%	\$ 12.6	\$ 12.6	\$ 19.4	64.9%	\$ 28.4	\$ 28.4	\$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9	22.7	139.4	189.8	73.4	17.2	101.6	129.5	78.5	39.9	241.0	319.3	75.5
10	24.8	164.2	216.0	76.0	23.0	124.6	139.9	89.1	47.8	288.7	355.9	81.1
11	19.1	183.2	236.6	77.4	17.1	141.6	147.7	95.9	36.1	324.9	384.3	84.5
13	26.5	209.8	273.2	76.8	20.6	162.2	160.6	101.0	47.2	372.0	433.8	85.8
14	15.7	225.5	287.6	78.4	14.4	176.6	168.0	105.1	30.1	402.1	455.6	88.3
15	18.4	243.9	311.6	78.3	15.4	192.0	181.8	105.6	33.8	435.9	493.4	88.3
16	17.8	261.8	335.5	78.0	13.8	205.8	193.5	106.4	31.7	467.6	529.0	88.4
17	22.3	284.1	358.7	79.2	15.3	221.1	202.8	109.0	37.7	505.3	561.5	90.0
18	12.2	296.3	377.4	78.5	9.7	230.8	210.5	109.6	21.9	527.2	587.9	89.7
20	31.4	327.7	411.8	79.6	21.9	252.7	223.9	112.9	53.3	580.4	635.7	91.3
21			425.9				231.8				657.7	
22			451.1				247.0				698.1	
23			477.5				260.1				737.6	
24			503.8				270.7				774.5	
25			525.0				279.5				804.5	
27			562.7				295.1				857.8	
28			577.2				304.3				881.5	
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

July 21, 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.

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.

UNITED STATES SAVINGS BONDS, SERIES E

TOTAL DAILY SHIPMENTS BY DENOMINATIONS FROM JULY 1 TO JULY 20, 1942

Date of Shipment	Denominations - Number of Pieces					Total Pieces
	\$25	\$50	\$100	\$500	\$1,000	
July 1	441,453	79,590	78,344	2,256	2,527	604,170
2	515,964	94,404	93,481	3,068	3,510	710,427
3	464,350	80,760	79,220	8,320	3,565	636,215
6	736,205	82,647	89,767	8,475	2,235	919,329
7	678,221	163,951	160,712	24,510	13,894	1,041,288
8	558,650	106,000	115,461	15,039	3,790	798,940
9	440,389	89,212	112,623	7,807	5,816	655,847
10	672,288	117,122	107,512	5,508	5,967	908,397
11	643,310	121,615	135,412	5,062	15,649	921,048
13	654,983	118,591	98,816	6,314	8,528	887,232
14	673,000	109,750	102,000	7,775	10,000	902,525
15	548,501	156,626	152,361	12,270	14,535	884,293
16	384,250	91,600	107,800	13,010	19,955	616,615
17	555,023	138,080	124,232	8,378	10,066	835,779
18	599,366	109,552	98,646	6,052	9,777	823,393
20	629,367	60,200	98,900	4,150	9,885	802,502
Total	9,195,320	1,719,700	1,755,287	137,994	139,699	12,948,000

July 21, 1942.
MRL/kwk

MRL

Amount and effective rate of deductions from weekly wages for U. S. Civil Service Retirement Fund, income tax withheld at source during 1943, savings bonds, and tax on 1942 income

Married person, two dependents
Weekly exemption for income tax withheld at source - \$43

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
: Annual wage	: (1 + 50) : 1/	: Civil Service Retirement fund : (5% of Col. 2)	: Income tax withheld at source : (5% of Col. 2 - \$43)	: Savings bond quota : (10% of wages, Col. 2)	: Total withheld : (Col. 3 + Col. 4 + Col. 5)	: Tax per week on 1942 income (tax on Col. 1 + 50) : 1/	: Total withheld plus 1942 tax, per week : (Col. 6 + Col. 7)

Amount							
\$1,200	\$24	\$1.20	-	\$2.40	\$ 3.60	-	\$ 3.60
1,500	30	1.50	-	3.00	4.50	-	4.50
2,000	40	2.00	-	4.00	6.00	-	6.00
2,500	50	2.50	\$.35	5.00	7.85	\$1.60	9.45
3,000	60	3.00	.85	6.00	9.85	3.44	13.29
3,500	70	3.50	1.35	7.00	11.85	5.28	17.13
4,000	80	4.00	1.85	8.00	13.85	7.12	20.97
Effective rates							
\$1,200	\$24	5.0%	-	10.0%	15.0%	-	-
1,500	30	5.0	-	10.0	15.0	-	-
2,000	40	5.0	-	10.0	15.0	-	-
2,500	50	5.0	.7%	10.0	15.7	3.2%	18.9%
3,000	60	5.0	1.4	10.0	16.4	5.7	22.2
3,500	70	5.0	1.9	10.0	16.9	7.5	24.5
4,000	80	5.0	2.3	10.0	17.3	8.9	26.2

Treasury Department, Division of Tax Research

July 21, 1942

1/ Assumes worker employed 50 weeks. 1942 taxes computed under rates in H. R. 7378.

3d draft

July 21, 1942

STATEMENT OF SECRETARY MORGENTHAU
BEFORE THE
SENATE FINANCE COMMITTEE
JULY 23, 1942

55 9:30

Less than a month ago the Federal Government ended a fiscal year, carrying expenditures of over \$32 billion, of which almost \$26 billion were for the war effort. These were incomparably the greatest war expenditures in our national experience. The total amount was almost twice what we spent in the peak year that followed the last World War, and in the final weeks of the fiscal year we were spending at the rate of \$130 million a day, or a dollar a day for every man, woman and child in the country.

Today even these expenditures have been overshadowed by those we are incurring and shall incur in the new fiscal year. In the past three weeks we have succeeded in pushing our rate of expenditure to \$150 million a day, or almost \$5 billion a month. In the fiscal year that is beginning we are committed to spend the almost inconceivable sum of \$77 billion to win this war for human freedom.

These figures are a measure of our firm resolve to win the war regardless of cost. Their size, as I have

- 2 -

said once before, should frighten no one but our enemies. I mention them at the outset of my statement today because they bear directly upon the problem that faces this Committee in considering the first revenue bill of this war. It is only against the background of these figures that we can tell whether this revenue bill fulfills its purpose.

You will recall that in his Budget Message of January 5, 1942, President Roosevelt asked for additional taxes for the fiscal year 1943, exclusive of Social Security taxes, of \$7 billion. On March 3rd, I appeared before the Committee on Ways and Means of the House and presented recommendations for a tax program to produce \$7,600 million in additional revenue from taxes. On May 6th I wrote a letter to the Chairman of the Committee on Ways and Means recommending a reduction in personal income tax exemptions to produce approximately \$1,100 million more revenue. These two recommendations together involved a tax program of \$8,700 million of additional revenue. These amounts represented what I believed, and still believe, was the very least that the American people could afford to provide.

- 3 -

There can be no compromise with the war expenditures which I have outlined to you. We cannot reduce them if we would. Our whole effort must be to spend as fast and as effectively as possible in the production and use of our war materials. If our expenditures this year are to reach \$77 billion, our receipts in revenue from the people must bear some reasonable relationship to that colossal figure. If we were to leave present taxes on the statute books, the deficit for the new fiscal year would be \$56 billion. (That deficit has to be cut by the most drastic kind of self-denial on the part of every American.) To the extent that we cut it by enlisting our current income in taxes and in savings, we shall be protecting the future economic soundness of our country and our free institutions. To the extent that we fail, we shall be endangering the survival of all that we are fighting to preserve.

It is interesting to compare the fiscal situation here with the situation in Great Britain and Canada, remembering, of course, that they have been at war longer than we. In their first full year of war, namely, the fiscal year 1941, Canada devoted 18 percent of its

national income to the war effort and Great Britain devoted 48 percent. In the fiscal year 1943, which will be our first full year of war, it is estimated that the United States will devote 50 percent of its national income to the war effort.

On the other hand, Canada financed 61 percent of its fiscal 1941 expenditures by taxation and Great Britain 44 percent. In the United States, including Federal, State and local governments, only 37 percent of total fiscal 1943 Government expenditures would be financed through taxes on the basis of the revenue bill now before you.

I might add that in fiscal 1943 Canada expects to devote about 43 percent of its national income for the war, and raise 57 percent of its expenditures through taxes, while Great Britain expects to put about 50 percent of its national income into the war and raise 52 percent of its expenditures from taxes. From these figures it is clear that after two years of defense preparations and war production we are devoting to the war effort a proportion of our national income comparable to the proportions similarly devoted by Great Britain and Canada. It is likewise clear, however, that

we are substantially behind these countries in the proportion of our expenditures which we are raising through taxes.

Taxation and the Cost of Living

Taxation does more than supply money to finance the war. It does more than apportion the war burden now, once and for all, instead of leaving it for further distribution through taxes after the war. Wartime taxation also plays an important part in preventing rapid and continued increases in the cost of living. The President has announced a seven-point program for holding down the cost of living. Ceilings have been placed on prices. This fact may have caused many people to be unduly optimistic about the future of the cost of living. It cannot be too strongly emphasized that if the price ceilings are to be maintained and rapid and continuous price rises avoided, the pressure of the large and expanding volume of consumer purchasing power on the diminishing supply of goods must be reduced.

To reach the greatest possible volume of consumer purchasing power, the bill now before you includes such a broad reduction of personal exemptions that it will

affect almost seven million individuals who have never paid direct taxes before. If this section of the bill is passed as it stands, some thirty million income tax returns will be filed in the new fiscal year as against only 7,600,000 in 1940. Moreover, these thirty million individuals control the bulk of consumer demand today. The income tax has, in fact, become a people's tax for the first time in our history.

Taxes cannot, by themselves, win the battle against inflation. The battle must be fought with determined and coordinated effort on many fronts. Effort on one sector can be checkmated by timidity or half-heartedness on another. What we do by way of taxation may be offset by less than a determined restraint in connection with farm prices and wages. Nevertheless taxation is an essential weapon in the fight against inflation, and whatever setbacks may occur on other sectors of this battle are no excuse for not using this weapon to the utmost. Increases in taxes will, in any event, make the price situation more controllable and less dangerous than it otherwise would be. Inflation has been well described as "the ruthless process whereby sacrifice is imposed inequitably upon a people who have

- 7 -

lacked the unity, the courage and intelligence to impose that sacrifice equitably upon themselves." It is for us to show that we have the unity, the courage, and the intelligence to check inflation now.

Treasury Program a Minimum Program

The Administration's revenue program calling for \$8.7 billion additional tax revenue was presented as a minimum. It is even more emphatically the very minimum today. The revenues from the bill before you would fall below that minimum by approximately \$2.5 billion.

In presenting its revenue program to the Committee on Ways and Means, the Treasury outlined methods of taxation which it considered most desirable and appropriate to raise the required amounts. I still believe that these proposals are sound and present the most desirable sources for a revenue program of this size. They are based upon the principle of ability to pay, and they avoid such devices as a general sales tax, which would fall with the greatest impact upon those least able to bear the burden. The various provisions of the Administration program are well known and it is not necessary to repeat them here. I should like, however, to emphasize

certain points which I hope will be especially considered by the Committee.

1. Special privileges

The revenue bill as it stands violates the basic principle of equity which is so important to an all-out war finance program. It does this by leaving certain highly privileged groups free from tax on large portions of their income.

The first of these especially favored groups are the recipients of tax-free interest from State and municipal securities. Exemption of interest on State and local securities is a serious breach in our system of taxing according to ability to pay. For example, in the case of one individual, out of a total reported income of approximately \$975,000, over \$668,000 came from State and local securities.

If the bill as it passed the House should become law, this individual would pay only \$; if, on the other hand, your Committee would adopt my suggestion and remove this pre-Pearl Harbor exemption, he would pay \$. The existence of this special privilege for

- 9 -

all holders of tax-free securities costs the Government and the people of the United States, under the House rates of tax, about \$ million a year.

How can we expect to obtain an all-out war effort from all our people if we go on permitting a group of individuals and corporations owning \$14 billion of State and local securities to go tax free on the income from these securities? ~~We have no right to ask~~ our young men to give their lives in our defense if behind the lines wealthy individuals are able to escape their fair share of the war's financial burden. At a time when we are straining our energies to the utmost to defeat a powerful and ruthless foe, common decency requires that we abolish these special tax shelters, and do it now.

Another highly privileged group having large amounts of income exempt from income tax are the owners of oil wells and mines. I refer to percentage depletion. Percentage depletion is a serious breach in our system of taxation according to ability to pay. For example, a leading oil company owned a number of oil properties which had cost it \$3 million. At the time the case was

examined percentage depletion of \$3.6 million had already been allowed and the properties still had three-fourths of the oil left.

I cannot believe that the taxpayers of America would knowingly tolerate a provision of the law which allows owners of oil and gas wells to deduct from their income 27½ percent of their gross receipts from such wells--not for one year, two years, or the period necessary to return investment, but for an unlimited period. Certainly we cannot justify this exemption on the ground that it encourages exploration and drilling for oil. There is grave doubt that it has a substantial effect on oil discovery. It would have been cheaper for the Federal Government to have paid all the cost of every wild-cat well that was drilled in 1941 than to have allowed percentage depletion and the associated intangible drilling expenses. (Check for accuracy).

A small minority of married couples living in the eight so-called community property States receive tax advantages which are in no way commensurate to any special relationship that may exist between husbands and wives in those States. The result is a breach in our

system of income taxation according to the principle of ability to pay. For example, take a family in which the husband has a salary of \$10,000 after deductions. If the family has its residence in, say, California the family tax would be \$2,138, while if the family lives in, say, Iowa, the tax would be \$2,549 or \$411 more. A family in which the husband earned an income amounting to \$50,000 a year after deductions would pay under the proposed Treasury rates and exemptions an income tax of \$21,018 in the eight community property States, but \$27,373 or 30 percent more in the other forty States. In this national emergency how can we sit in complacency and see citizens of these eight States occupy a more favorable taxable status than those of the rest of the country?

A similarly favorable position is granted under the law to the married couples of the other forty States when income is received by both husband and wife. The tax of such a family is lower than the tax of a family where the husband earns the whole income although the family units enjoy the same income.

- 12 -

These and other examples of special privileges are intolerable at a time like this, when we are imposing heavy taxes on persons with small incomes and there is pressure for limiting wages and farm prices. The country is in greater danger today than ever before in its history. The war is now in its most critical phase, and only by pulling together as a united people can we make the effort that will turn the tide toward victory. At such a time any special privilege for any small group not only deprives the Treasury of revenue that is badly needed for the war effort, but it hinders the war effort by undermining the morale without which the war cannot be won. I never would have recommended lowering the personal exemptions if I had thought that these loopholes were to remain in the law as a symbol of special privilege in this time of national peril.

2. Excess Profits Tax

Another similar hindrance to the prosecution of this "people's war" is the existence of excessive profits in war time. There is no easier way to stir the righteous anger of the American people than to let them

hear constantly of excessive war-time profits that are not being recovered by adequate taxation. I have said repeatedly that we are determined to take the profit out of war, and the Treasury's recommendations have been framed with this determination in mind.

An effective excess profits tax does much more than produce badly needed revenue in time of war. It also reassures the masses of our farmers and workers that industry is not being rewarded unduly for its part in the winning of the war.

Experience has shown, however, that when excess profits taxes are too high they may result in extravagance and waste in the conduct of business. It is vitally important that we enable business to produce for war purposes as economically and efficiently as possible, if for no other reason than to avoid a waste of war materials and labor and to hold down the cost of the war to the Government. A businessman must plan for the future, and for that reason we have recommended a 90 percent excess profits tax coupled with a 10 percent credit for return to the corporation after the war. A

post-war credit to industry will not only encourage economy and efficiency but at the same time will help toward the rebuilding of our economic life. It should, of course, be restricted in such a manner that it would be used for the direct employment of labor, the conversion of plant to peace-time business or for other uses promoting economic adjustment and growth.

You will notice that I have not used the word "incentive" in this connection. I have not used it because I do not believe that any businessman or any patriotic American needs a selfish "incentive" at this time. Millions of our people are willing to pay new and genuinely burdensome taxes, to buy War Bonds without stint, and to face rising living costs with frozen wages and salaries. Their only "incentive" is their *determined* ~~grim~~ resolve to win this war and build a better future.

3. Tax on Freight and Express

One tax that would be imposed by the bill before you directly threatens the stability of prices. This is the tax on freight and express which would add to the cost of producing and supplying practically every

commodity and service. In great numbers of cases the added cost would make it impossible for businesses to continue to operate under the price ceilings which have been imposed and the breaches in the price ceilings which would thereby be caused would threaten the whole price structure.

Conclusion

I shall not attempt today to discuss the more technical aspects of the long and complex bill before you, nor to enlarge further upon the subjects I have mentioned already. The Treasury staff stands ready, as always, to assist you in every way possible in carrying out your difficult and responsible task. I should like, however, to make just one more appeal. Every day consumed in your Committee's work will lose us substantial amounts of revenue under the excise tax portions of the bill. Every day that can be saved in enacting this will enable it to produce just so much more in needed revenue. Every day saved will give our citizens additional time to adjust themselves to the impact of the most severe tax bill in all our history.

I make my appeal here today on broader ground than that of revenue alone. It is my conviction that the people of this country want a courageous tax bill, and want it with the least possible delay. They are ready for greater sacrifices than some of us imagine. The overwhelming majority of them, I am convinced, want us in Washington to show a determination that is worthy of their own. They will be critical of us only if we seem to palter or haggle, or if we pay too much attention to the demands of selfish groups, or if we seem half-hearted in asking sacrifices of the people as a whole.

Our acceptance of sacrifice on the home front is a yardstick of our determination to win the war. For this reason it is unthinkable to me that we should be straining every effort on the production line and on the fighting fronts abroad and at the same time be anything less than all-out in the financing of the war effort. This war, above all others, can be won only by hard fighting and heavy losses, by the acceptance of risks and deprivations, and by the united effort of civilians and fighting men alike. In this kind of war

a tax bill can be a decisive battle. It could be lost by narrow vision and faulty leadership. It can be won by boldness and courage. I am confident that this Committee will live up to its high responsibilities and keep faith with a united people.

4th draft 7-21-42
H per.

3 or 72

*next to
last*

STATEMENT OF SECRETARY MORGENTHAU
BEFORE THE
SENATE FINANCE COMMITTEE
JULY 23, 1942

You will recall that in his Budget Message of January 5, 1942, President Roosevelt asked for additional taxes for the fiscal year 1943, exclusive of Social Security taxes, of \$7 billion. On March 3rd, I appeared before the Committee on Ways and Means of the House and presented recommendations for a tax program to produce \$7,600 million in additional revenue from taxes. On May 6th I wrote a letter to the Chairman of the Committee on Ways and Means recommending a reduction in personal income tax exemptions to produce approximately \$1,100 million more revenue. These two recommendations together involved a tax program of \$8,700 million of additional revenue. These amounts represented what I believed, and still believe, was the very least that the American people could afford to provide.

It is only against the background of our war expenditures that we can tell whether the revenue bill before you will fulfill its purpose. We are now spending

\$150 million a day, or almost \$5 billion a month. In the fiscal year that is beginning we are committed to spend the almost inconceivable sum of \$77 billion to win this war for human freedom.

There can be no compromise with these war expenditures. ^{would not reduce them if we could} We ~~cannot reduce them if we would.~~ Our whole effort must be to spend as fast and as effectively as possible in the production and use of our war materials. If our expenditures this year reach \$77 billion, our receipts in revenue from the people must bear some reasonable relationship to that colossal figure. If the House Bill were to become law it would be necessary to borrow from the public during this fiscal year \$ billion. To the extent that we enlist our current income in taxes to cut down that borrowing, we shall be protecting the future economic soundness of our country and our free institutions. To the extent that we fail, we shall be endangering the survival of all that we are fighting to preserve.

It is interesting to compare the fiscal situation here with the situation in Great Britain and Canada,

- 3 -

remembering, of course, that they have been at war longer than we.

I have here a table of approximate figures which summarizes the situation:

Percent of National Income
Devoted to War Effort

Fiscal Year	Great Britain	Canada	United States
1941	48	18	
1943	50	43	50

Percent of Expenditures Financed
through Taxes

Fiscal Year	Great Britain	Canada	United States
1941	44	61	
1943	52	57	37

In its first full year of war, namely, the fiscal year 1941, Canada devoted 18 percent of its national income to the war effort; in the fiscal year 1943 it expects to devote about 43 percent of its national income to the war. In the fiscal year 1941 Great Britain

devoted 48 percent of its national income to the war effort, and in the fiscal year 1943 it expects to put about 50 percent of its national income into the war. In the fiscal year 1943, which will be our first full year of war, it is estimated that the United States will devote 50 percent of its national income to the war effort. Thus, thanks to the foresight of President Roosevelt and the splendid cooperation of Congress, we shall in our first full year of war have devoted to the war effort a proportion of our national income comparable to the proportions similarly devoted by Great Britain and Canada today.

On the other hand, in the fiscal year 1941 Canada financed 61 percent of its expenditures by taxation, and in the fiscal year 1943 it expects to raise 57 percent from taxes. Great Britain, in the fiscal year 1941, financed 44 percent of its expenditures by taxation, and in the fiscal year 1943 it expects to raise 52 percent from taxes. In the United States, however, including Federal, State, and local governments, only 37 percent of total fiscal 1943 Government expenditures would be

- 5 -

financed by taxation on the basis of the revenue bill now before you. It is clear that we are substantially behind Great Britain and Canada in the proportion of our expenditures which we are raising from taxes. ^{at least} Quite frankly, I do not see why we should not do ₁ as well as Great Britain and Canada.

Taxation and the Cost of Living

Taxation does more than supply money to finance the war. It does more than apportion the war burden now, once and for all, instead of leaving it for further distribution through taxes after the war. Wartime taxation also plays an important part in preventing rapid and continued increases in the cost of living. The President has announced a seven-point program for holding down the cost of living. Ceilings have been placed on prices. This fact may have caused many people to be unduly optimistic about the future of the cost of living. It cannot be too strongly emphasized that if the price ceilings are to be maintained and rapid and continuous price rises avoided, the pressure of the large and expanding volume of consumer purchasing power on the diminishing supply of goods must be reduced.

To reach the greatest possible volume of consumer purchasing power, the bill now before you includes such a broad reduction of personal exemptions that it will affect almost seven million individuals who have never paid direct taxes before. If this section of the bill is passed as it stands, some thirty million income tax returns will be filed in the new fiscal year as against only 7,600,000 in 1940. Moreover, these thirty million individuals control the bulk of consumer demand today. The income tax has, in fact, become a people's tax for the first time in our history.

Taxes cannot, by themselves, win the battle against inflation. The battle must be fought with determined and coordinated effort on many fronts. Taxation can be fully effective only if it is accompanied by restraint and self-denial in other fields. Nevertheless, taxation by itself can make the price situation more controllable and less dangerous than it otherwise would be, and it is an essential weapon that must be used to the utmost. Inflation has been well described as "the ruthless process whereby sacrifice is imposed inequitably upon a people who have lacked the unity, the courage and intelligence

- 7 -

to impose that sacrifice equitably upon themselves." It is for us to show that we have the unity, the courage, and the intelligence to check inflation now.

Treasury Program a Minimum Program

The Administration's revenue program was presented last Spring as a minimum. On March 3rd, when I first came before the Ways and Means Committee, our total contemplated expenditures for the fiscal year 1943 were \$63 billion. Since then they have risen by \$14 billion, and the total war appropriations, authorizations and requests for this and succeeding fiscal years have risen by \$50 billion. Yet the bill before you would provide only \$6.2 billion additional revenue in place of the \$8.7 billion we recommended in the Spring. It would fall by about \$2.5 billion to reach that minimum of last Spring, which is even more emphatically the very least we can afford to provide today.

In presenting its revenue program to the Committee on Ways and Means, the Treasury outlined methods of taxation which it considered most desirable and appropriate to raise the required amounts. I still believe that

these proposals are sound and present the best sources for a revenue program of this size. They are based upon the principle of ability to pay, and they avoid such devices as a general sales tax, which would fall with the greatest impact upon those least able to bear the burden. The various provisions of the Administration program are well known and it is not necessary to repeat them here. I should like, however, to emphasize certain points which I hope will be most carefully considered by the Committee.

1. Special privileges

The revenue bill as it stands violates the basic principle of equity which is so important to an all-out war finance program. It does this by leaving certain highly privileged groups free from tax on large portions of their income.

The first of these especially favored groups are the recipients of tax-free interest from State and municipal securities. Exemption of interest on State and local securities is a serious breach in our system of taxing according to ability to pay. For example, in the case

- 9 -

of one individual, out of a total reported income of approximately \$975,000, over \$668,000 came from State and local securities. If the bill as it passed the House should become law, this individual would pay only \$; if, on the other hand, your Committee would adopt my suggestion and remove this pre-Pearl Harbor exemption, he would pay \$.

The grossness of this immunity may be seen in another way. Under the tax rates in the House Bill, a person with a surtax income of \$100,000 from other sources who holds a 3 percent tax exempt security receives as much net return after taxes as from a taxable security yielding 20 percent. The existence of this special privilege for all holders of tax-free securities costs the Government and the people of the United States, under the House rates of tax, about \$ million a year; and it will cost still more as our wartime taxes induce more and more wealthy individuals to shift their investments into the hide-out of tax exempt securities.

How can we expect to obtain an all-out war effort from all our people if we go on permitting a group of individuals and corporations owning \$14 billion of State

- 10 -

and local securities to go tax free on the income from these securities? We are asking our young men to give their lives in ^{the defense of their country} our defense, and at the same time we are allowing many wealthy persons ^{safe} behind the lines to escape their fair share of the war's financial burden. At a time when we are straining our energies to the utmost to defeat a powerful and ruthless foe, common decency requires that we abolish these special tax shelters, and do it now.

Another highly privileged group having large amounts of income exempt from income tax are the owners of oil wells and mines. I refer to percentage depletion. Percentage depletion is a serious breach in our system of taxation according to ability to pay. For example, a leading oil company owned a number of oil properties which had cost it \$3 million. At the time the case was examined percentage depletion of \$3.6 million had already been allowed and the properties still had three-fourths of the oil left.

I cannot believe that the taxpayers of America would knowingly sanction a provision of the law which

allows owners of oil and gas wells to deduct from their income 27½ percent of their gross receipts from such wells--not for one year, two years, or the period necessary to return investment, but for an unlimited period. Certainly we cannot justify this exemption on the ground that it encourages exploration and drilling for oil. There is grave doubt that it has a substantial effect on oil discovery. It would have cost the Federal Government less than one-third as much to have paid all the cost of every wild-cat well that was drilled in 1941 than to have allowed percentage depletion and the associated intangible drilling expenses, at an annual cost of \$208 million to the Treasury and the taxpayers.

The privilege of filing separate income tax returns furnishes another example of special tax advantage to many married couples having larger than ordinary incomes. In families in which the income is earned partly by the husband and partly by the wife and in families in which income earning property can be divided between husband and wife, the tax on the family income is less than where the husband or wife receives the whole income. The family is the true economic unit, and it is unfair for

- 12 -

the amount of tax on the family to vary depending upon who earns the income or upon who in the family has income producing property. Ability to pay taxes must be judged in terms of family incomes and not the incomes of members of the family, the failure to require joint income tax returns constitutes a violation of the principle upon which our tax system should be based.

The adoption of mandatory joint returns would also eliminate another discrimination prevailing under existing law. Married couples living in the eight or nine so-called community property States receive tax advantages which are in no way commensurate to any special relationship that may exist between husbands and wives in those States. For example, take a family in which the husband has a salary of \$10,000 after deductions. If the family has its residence in, say, California, the family tax would be \$2,138, while if the family lives in, say, Iowa, the tax would be \$2,549, or nearly 20 percent more. The discrimination is even more pronounced with larger incomes. In this national emergency, how can we complacently permit the citizens of these community property States a more favorable tax status than those of the rest of the country?

- 13 -

These and other examples of special privileges are intolerable at a time like this, when we are imposing heavy taxes on persons with small incomes and there is pressure for limiting wages and farm prices. The country is in greater danger today than ever before in its history. The war is now in its most critical phase, and only by pulling together as a united people can we make the effort that will turn the tide toward victory. At such a time any special privilege for any small group not only deprives the Treasury of revenue that is badly needed for the war effort, but it hinders the war effort by undermining the morale without which the war cannot be won. I never would have recommended lowering the personal exemptions, and thus increasing the burden on millions with small incomes, if I had thought that these loopholes were to remain in the law as a symbol of special privilege in this time of national peril.

2. Excess profits tax

Another similar hindrance to the prosecution of this "people's war" is the existence of excessive profits in war time. There is no easier way to stir the

righteous anger of the American people than to let them hear constantly of excessive war-time profits that are not being recovered by adequate taxation. I have said repeatedly that we are determined to take the profit out of war, and the Treasury's recommendations have been framed with this determination in mind.

An effective excess profits tax does much more than produce badly needed revenue in time of war. It also reassures the masses of our farmers and ^{factory} workers that industry is not being rewarded unduly for its part in the winning of the war.

Experience has shown, however, that when excess profits taxes are too high they may result in extravagance and waste in the conduct of business. It is vitally important that we enable business to produce for war purposes as economically and efficiently as possible, if for no other reason than to avoid a waste of war materials and labor and to hold down the cost of the war to the Government. A businessman must plan for the future, and for that reason we have recommended a 90 percent excess profits tax coupled with a 10 percent

- 15 -

credit for return to the corporation after the war. A post-war credit to industry will not only encourage economy and efficiency but at the same time will help toward the rebuilding of our economic life. It should, of course, be restricted in such a manner that it would be used for the direct employment of labor, the conversion of plant to peace-time business or for other uses promoting economic adjustment and growth.

You will notice that I have not used the word "incentive" in this connection. I have not used it because I do not believe that any patriotic American needs a selfish "incentive" to produce for war at this time. Millions of our people are willing to pay new and genuinely burdensome taxes, to buy War Bonds without stint, and to face rising living costs with static wages and salaries. Their only "incentive" is their firm resolve to win this war and build a better future.

3. Tax on freight and express

One tax that would be imposed by the bill before you directly threatens the stability of prices. This is the tax on freight and express which would add to

the cost of producing and supplying practically every commodity and service. In great numbers of cases the added cost would make it impossible for businesses to continue to operate under the price ceilings which have been imposed and the breaches in the price ceilings which would thereby be caused would threaten the whole price structure.

Conclusion

I shall not attempt today to discuss the more technical aspects of the long and complex bill before you, nor to enlarge further upon the subjects I have mentioned already. The Treasury staff stands ready, as always, to assist you in every way possible in carrying out your difficult and responsible task. I should like, however, to make just one more appeal. Every day consumed in your Committee's work will lose us substantial amounts of revenue under the excise tax portions of the bill. Every day that can be saved in enacting this will enable it to produce just so much more in needed revenue. Every day saved will give our citizens additional time to adjust themselves to the impact of the most severe tax bill in all our history.

July 21, 1942.

My dear Lieutenant Merrill:

Thank you for your letter telling me of your new assignment with the Marine Corps.

I am sure that this opportunity to get into action means much more to you than working on the tax program! I hope that all will go well with you, and shall be glad to hear from you any time you have an opportunity to tell me what you are doing.

Sincerely,

(Signed) H. Morgenthau, Jr.

Second Lieutenant Herbert L. Merrill,
Marine Corps Unit 4780,
c/o The Postmaster,
San Francisco, California.

GEF/dbs

File - NMC

My dear Mr. Secretary,

I had hoped to have a chance, before I left Washington, to tell you how grateful I have been for the opportunity to work for you and how sorry I am that my work had to be cut short.

When I was called back from Hawaii to help with the new tax publicity program which you had in mind, I was particularly pleased that you should want my services in that connection. When I left Hawaii, however, I knew it would be only a few weeks before I should be in one of the armed services. I heard of an opening in the public relations section of the Marine Corps which seemed to promise my quickly getting to the scene of some action, and here I am, "somewhere with the Marines".

News from Washington is skimpy and I have completely lost touch with the development of the tax program - to my regret. I look forward to hearing the outcome of the sales tax controversy and of the war bond sales drive, hoping the news will be good.

I learned to appreciate the difficulties of the sort of fight you have been waging. I wish you success

90

in that fight and look forward to
being in the Treasury again, in
happier days.

Very truly yours,

Herbert L. Merillat

Herbert L. Merillat
2nd Lt., USMCR

Marine Corps Unit # 730
c/o Postmaster
San Francisco
California

H. L. Merrill WASH
Crescent, San Francisco

U.S.
JUN
18
1942
A.M.
NAVY

Personal

Hon. Henry Morgenthau, Jr.
U.S. Treasury Dept.
Washington, D.C.

RECEIVED BY NAVAL
OFFICER
RD.

1942 JUN 18 AM 9 23
OFFICE
U.S. TREASURY

100-100000-100000

Who's Who?

7-21-42
92

RALPH HAYES

Hayes, Ralph; b. Cresline, O., Sept. 24, 1894; s. John and Margaret (Costello) H.; A.B., Western Reserve Univ., 1915; unmarried. Sec. City Club, Cleveland, O., 1915-16; pvt. sec. to sec. of war Dec. 1916 - July 1918; asst. to sec. of war, Jan - June, 1920; asst. to pres. of Cleveland Trust Co., 1920-22; asst. to pres. of Motion Picture Producers & Distributors of America, 1922-23; v.p. Chatham Phenix Nat. Bank & Trust Co., 1927-29; 2d v.p. Press Pub. Co. (New York World), 1929-30; v.p. Trans-america Corp. 1930-31; exec. dir. N.Y. Community Trust since 1923; v.p. The Coca Cola Co. since 1933; dir. Studebaker Corp. Private 11th Div., U. S. Army, Camp Meade, July-Sept. 1918; commd. lt. inf. at Ligny, France, Sept. 1918. Mem. Phi Beta Kappa (ex-pres. Alpha of Ohio), Delta Sigma Rho, Alpha Delta Phi (ex-treas.) Phi Delta Phi. Clubs: City (Cleveland - ex-treas., ex. sec., ex-dir.); Country (Wilmington); Concord Country (Concordville, Pa.); Broad Street (New York). Home: Crestline, Ohio. Office: 101 W. 10th St., Wilmington, Del., and 120 Broadway, New York.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 21, 1942

TO Secretary Morgenthau
 FROM Mr. Hoflich

Subject; Shipping Situation (Charts attached)
 returned

1. Shipping losses during June were much higher than in any other month since the beginning of the war. June losses of Allied and neutral shipping totalled 808,249 gross tons, as compared with the previous all-high figure of 696,958 tons in May. In the first six months of 1942, losses amounted to over 3,800,000 tons.

2. Allied and neutral shipping losses exceeded British and American launchings by a much greater margin in June than in May, as indicated by the following gross tonnage figures:

	<u>May</u>	<u>June</u>
Losses	696,958	808,249
Launchings	<u>626,000</u>	<u>656,945</u>
Excess of losses over launchings	70,958	151,304

It was reported last month that launchings in May had finally caught up with losses. The receipt of revised loss figures, however, changed the picture considerably.

JUL 21 1942

My dear Mr. President:

I am enclosing report on our experts
to some selected countries for the period
ending June 30, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,
The White House.

Enclosure.

Delivered by Secret Service
Agent 4:50 7/21/42

cc-Dr. White
cc-NMC

Hon
7/23/42
FILE COPY

July 11, 1942

**Exports to Russia, Free China, Burma and other
blocked countries, as reported to the Treasury
Department during the ten-day period ending
June 30, 1942**

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending June 30, 1942 amounted to about \$50,000,000 as compared with about \$51,000,000 during the previous ten-day period. Among the military equipment exported during the period under review were 69 one engine pursuit and fighter planes, 11 two engine light bombers, 56 two engine medium bombers and 117 tanks. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China as reported during the ten-day period under review amounted to \$1,664,000 as compared with \$2,707,000 during the previous ten-day period. Military equipment accounted for about \$1,106,000 of the total exported. (See Appendix D.)

Exports to Burma as reported during the period under review amounted to about \$60. (See Appendix E.)

3. Exports to France

No exports to France were reported during the period under review.

4. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A. Exports to Switzerland and Portugal were most important, amounting to \$591,000 and \$165,000, respectively.

ISF/efs
7/11/42

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 30, 1942.

(In thousands of dollars)

	July 28 to June 10	Period ended June 20	Period ended June 30	Total Domestic Exports
S. S. R.	\$534,073	\$53,799	\$49,919	\$637,791
China	81,793	2,707	1,664	86,164
India 2/	12,435	—	5/	12,435
Morocco 3/	56	—	—	56
Netherlands	2,849	—	—	2,849
Switzerland	10,710	5/	991	11,301
Sweden	17,778	—	2	17,780
Portugal	9,027	9	165	9,201
French North Africa 4/	6,283	—	5/	6,283

Treasury Department, Division of Monetary Research

July 9, 1942.

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.

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.

Includes both Occupied and Unoccupied France — no breakdown is obtainable from Department of Commerce.

Includes Morocco, Algeria, and Tunisia.

Less than \$500.

W:rl 7/9/42

SECRET

97

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 30, 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		2,755
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	2,553
Sept. 29 - Oct. 4	1,225	684	525
Oct. 6 - Oct. 11	5,312	1,157	6,815
Oct. 13 - Oct. 18	5	35	1,924
Oct. 20 - Oct. 25	269	403	5,423
Oct. 27 - Nov. 1	4,772	58	4,424
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	3,409
Dec. 8 - Dec. 13	2,537	18	12,048
Dec. 15 - Dec. 20	111	8	4,480
Dec. 22 - Dec. 27	1	196	1,829
Dec. 29 - Jan. 3	35	2	3,795
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	925	9,608
Feb. 1 - Feb. 10 1/	4,889	1,054	17,315
Feb. 10 - Feb. 20 1/	4,853	583	28,174
Feb. 20 - Feb. 28 1/	2,921	-	28,119
Mar. 1 - Mar. 10	2,879	23	32,509
Mar. 10 - Mar. 20	8,058	5	28,528
Mar. 20 - Mar. 31 1/	3	2	42,435
Apr. 1 - Apr. 10	4,836	447	51,698
Apr. 11 - Apr. 20	5,325	639	64,304
Apr. 21 - Apr. 30	2,827	-	50,958
May 1 - May 10 1/	296	-	28,452
May 11 - May 20	1,872	5	18,000
May 21 - May 31 1/	2,533	-	26,180
June 1 - June 10	3,599	234	12,764
June 11 - June 20	2,707	-	53,799
June 21 - June 30	1,448	-	69,919
		.06	
Total	488,767	\$11,522.06	\$638,494

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

July 11, 1942

ISF/efs
7/11/42

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 30, 1942**

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of dollars)</u>
TOTAL EXPORTS			\$ 49,919
Principal Items:			
Aircraft			14,510
Pursuit and fighter (1 engine)	No.	69	
Light bombers (2 engine)	No.	11	
Medium bombers (2 engine)	No.	56	
Military tanks			9,076
Light tanks	No.	2	
Medium tanks	No.	115	
Sub-machine guns - .45 cal.	No.	21,980	4,440
Ammunition			4,228
.30 caliber	No.	15,285,500	
.32, .38, .45 caliber	No.	5,170,000	
.455, .50 caliber	No.	3,859,900	
3 inch .50 caliber	No.	1,000	
22 mm. Gerliken	No.	157,000	
37 mm. anti-aircraft	No.	55,020	
37 mm. tank and anti-tank	No.	154,780	
75 mm. artillery	No.	55,638	
81 mm. mortar shells	No.	36,500	
Fuses	No.	15,150	
Components for small arms	-	-	
Aircraft parts and accessories	-	-	2,651
Perk and sausage, canned	Lb.	5,977,769	2,070
Motor trucks	No.	690	1,458
Sole leather	Lb.	2,600,167	1,145
Copper wire, bare and insulated	Lb.	3,607,358	924
Parts and accessories for guns	-	-	784
Steel bars	Lb.	5,777,867	707
Brass and bronze plates, sheets & bars	Lb.	2,786,756	523
Diesel marine engines	No.	27	677
Steel sheets and strips	Lb.	9,050,886	474
Tritro teluene (T.N.T.)	Lb.	3,564,720	424
Smokeless powder	Lb.	1,495,000	386

Treasury Department, Division of Monetary Research
SF/cfs 7/11/42

July 11, 1942

APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
June 30, 1942**

(Thousands of Dollars)

TOTAL EXPORTS

\$ 1,664

Principal Items:

Military equipment	1,106
Other iron and steel manufactures	288
Other vegetable fiber manufactures	66
Radio transmitting and receiving sets and parts	49
Medicinal and pharmaceutical preparations	28
Telephone and telegraph apparatus and parts	25
Tires and tubes, other than auto and truck	15
Writing paper	15

Treasury Department, Division of Monetary Research

July 11, 1942

ISP/efc
7/11/42

SECRET

101

APPENDIX E

**Principal Exports from U. S. to Burma
as reported to the Treasury Department
during the ten-day period ending
June 30, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$.056
Principal Items	
 Motion picture film, exposed	.056

Treasury Department, Division of Monetary Research July 11, 1942

**ISP/efs
7/11/42**

JUL 21 1942

My dear Mr. Secretary:

I am enclosing copy of report on our exports to some selected countries for the period ending June 30, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State,

Washington, D. C.

Enclosure.

Delivered by Messenger Sturgis
7/21/42 4:50

HDC:mah
7/13/42

cc-Dr. White
cc-NMC

HDW FILE COPY

July 11, 1942

Exports to Russia, Free China, Burma and other blocked countries, as reported to the Treasury Department during the ten-day period ending June 30, 1942

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending June 30, 1942 amounted to about \$50,000,000 as compared with about \$54,000,000 during the previous ten-day period. Military equipment accounted for approximately 75% of the total exported. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China as reported during the ten-day period under review amounted to \$1,664,000 as compared with \$2,707,000 during the previous ten-day period. Military equipment accounted for about \$1,106,000 of the total exported. (See Appendix D.)

Exports to Burma as reported during the period under review amounted to about \$60. (See Appendix E.)

3. Exports to France

No exports to France were reported during the period under review.

4. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A. Exports to Switzerland and Portugal were most important, amounting to \$591,000 and \$165,000, respectively.

ICP/efs
7/11/42

SUMMARY OF UNITED STATES
DOMESTIC REPORTS TO SELECTED COUNTRIES
AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED
DURING THE PERIOD INDICATED $\frac{1}{2}$

July 25, 1941 to June 30, 1942.

(In thousands of dollars)

	July 25 to June 30	Period ended June 30	Period ended June 30	Total Domestic Receipts
S. S. R.	\$534,073	\$33,799	\$49,929	\$617,798
Free China	81,793	2,707	1,664	86,164
France $\frac{2}{2}$	12,435	—	$\frac{1}{2}$	12,435
France $\frac{1}{2}$	56	—	—	56
Spain	2,889	—	—	2,889
Netherlands	10,720	$\frac{1}{2}$	991	11,711
Sweden	17,778	—	2	17,780
Portugal	9,287	9	165	9,461
French North Africa $\frac{1}{2}$	6,283	—	$\frac{1}{2}$	6,283

Treasury Department, Division of Monetary Research

July 9, 1942.

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.

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.

Includes both Occupied and Unoccupied France — no breakdown is obtainable from Department of Commerce.

Includes Morocco, Algeria, and Tunisia.

Less than \$500.

APPENDIX B

Exports from the U. S. to Free China, Burma and U.S.S.R. as reported to the Treasury Department July 28, 1941 - June 30, 1942 1/ (Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to Burma 2/</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		686
Aug. 18 - Aug. 23	2		2,735
Aug. 25 - Aug. 30	1		1,023
Sept. 2 - Sept. 6	204		4,288
Sept. 8 - Sept. 13	2,281		5,217
Sept. 15 - Sept. 20	3,822		7,121
Sept. 22 - Sept. 27	110	449	2,353
Sept. 29 - Oct. 4	1,225	624	3,253
Oct. 6 - Oct. 11	5,312	1,157	6,823
Oct. 13 - Oct. 18	5	35	1,023
Oct. 20 - Oct. 25	269	405	5,623
Oct. 27 - Nov. 1	4,772	58	4,424
Nov. 3 - Nov. 8	1,672	342	3,523
Nov. 10 - Nov. 15	2,851	88	2,877
Nov. 17 - Nov. 22	1,228	1,021	3,581
Nov. 24 - Nov. 29	3,239	1,544	4,546
Dec. 1 - Dec. 6	751	64	3,499
Dec. 8 - Dec. 13	2,337	18	3,826
Dec. 15 - Dec. 20	111	8	3,888
Dec. 22 - Dec. 27	1	196	1,829
Dec. 29 - Jan. 3	35	2	3,995
Jan. 5 - Jan. 10	51	1,073	3,277
Jan. 12 - Jan. 17	1,695	447	3,874
Jan. 19 - Jan. 24	-	-	3,881
Jan. 26 - Jan. 31	6,928	923	6,608
Feb. 1 - Feb. 10 1/	4,889	1,024	5,115
Feb. 10 - Feb. 20 1/	4,855	583	5,174
Feb. 20 - Feb. 28 1/	2,921	-	28,119
Mar. 1 - Mar. 10	2,879	23	3,399
Mar. 10 - Mar. 20	8,038	2	3,526
Mar. 20 - Mar. 31 1/	2	2	3,526
Apr. 1 - Apr. 10	4,836	447	3,648
Apr. 11 - Apr. 20	5,525	639	64,904
Apr. 21 - Apr. 30	2,827	-	50,728
May 1 - May 10 1/	296	-	28,642
May 11 - May 20	1,872	5	18,000
May 21 - May 31 1/	2,553	-	26,189
June 1 - June 10	3,299	234	12,764
June 11 - June 20	2,707	-	53,799
June 21 - June 30	1,464	-	49,919
Total	888,767	611,322.06	6698,494

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.

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 30, 1942

(Thousands of Dollars)

TOTAL EXPORTS	\$ 49,919
Principal Items:	
Military equipment	36,654
Pork and sausage, canned	2,070
Motor trucks	1,458
Sole leather	1,145
Copper wire, bare and insulated	924
Steel bars	707
Brass and bronze plates, sheets and bars	529
Diesel marine engines	477
Steel sheets and strips	474
Other rubber manufactures	378
Other vehicles and parts	365
Motorcycles	351
Lathes	344
Tubular products and fittings	339

Treasury Department, Division of Monetary Research July 11, 1942

ISF/efa

7/11/42

SECRET

108

APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
June 30, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 1,664
Principal Items:	
Military equipment	1,106
Other iron and steel manufactures	200
Other vegetable fiber manufactures	66
Radio transmitting and receiving sets and parts	49
Medicinal and pharmaceutical preparations	28
Telephone and telegraph apparatus and parts	23
Tires and tubes, other than auto and truck	16
Writing paper	15

Treasury Department, Division of Monetary Research July 11, 1942

**ISF/efe
7/11/42**

SECRET

109

APPENDIX B

**Principal Exports from U. S. to Burma
as reported to the Treasury Department
during the ten-day period ending
June 30, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	0 .036
Principal Items	
 Motion picture film, exposed	.036

Treasury Department, Division of Monetary Research July 11, 1942

137/cfn
7/11/42

JUL 21 1942

Dear Mr. Davis:

Thank you very much for your letter of July 11, 1942, confirming your arrangement to have members of Dr. Libert's staff made available for the Treasury Department's study in Buffalo. I shall be glad to discuss the question of further studies after the Buffalo study has been completed.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Elmer Davis,
Director of War Information,
Washington, D. C.

OOH:ek 7/27/42

Photo file NMC.
Complete file to Thompson.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT

WASHINGTON, D. C.

Office of War Information

July 11, 1942

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

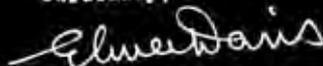
Dear Mr. Secretary:

In accordance with our telephone conversation this morning, I have arranged to have members of Dr. Renais Likert's staff made available for the study the Treasury Department desires to make in Buffalo. Dr. Likert estimates that the "pilot" study involved will require ten to fifteen man days on the preliminary problem of sampling, and thereafter the full time of four to six interviewers, one study director, and two analysts. If your representative will communicate with Mr. Keith Kane, Chief of the Bureau of Intelligence of the Office of War Information, Mr. Kane will be glad to work out the details of the arrangement.

I did not fully appreciate, when I talked to you, that this arrangement constitutes an exception to our general operations. Dr. Likert and his people, though carried on the Department of Agriculture payroll, are for purposes of operation a part of our Bureau of Intelligence, since the Bureau of Intelligence, by arrangement with the Secretary of Agriculture, absorbs their full time on a reimbursable basis. The Bureau conducts its various surveys for the government as a whole, providing through this Office essential information on problems of public opinion and general conditions affecting information and policies. Needless to say, the Bureau of Intelligence could not operate successfully for these purposes if members of its staff were detailed freely to the various departments and agencies for specific studies. However, the Office of War Information, including the Bureau of Intelligence, welcomes opportunities to serve other departments and agencies of the government and will be happy at all times to receive suggestions as to studies that should be undertaken.

I shall welcome any suggestions you may care to make from time to time as to surveys or inquiries you would like to see the Bureau of Intelligence pursue. I shall also be glad to discuss with you the question of the continuation of the Buffalo studies, after the pilot study is completed.

Cordially,



Elmer Davis
Director



MEMORANDUM

July 21, 1942.

TO: The Secretary
FROM: Mr. Sullivan

TWS

You will recall that about ten days ago you had a call from Congressman Gearhart about moving the Alcohol Tax office from San Francisco to Fresno. You referred this matter to me and I assured Congressman Gearhart that there was no likelihood of the office leaving San Francisco. He then stated that a majority of the work of the Alcohol Tax Unit was done in the San Joaquin Valley and asked if we would set up a branch office there. I discussed the matter with Mr. Berkshire who gave me a list of the bonded warehouses, distilleries, plants et cetera in California and in the San Joaquin Valley. This list showed that less than 15 percent of the work of our agents was performed in and about Fresno.

Yesterday I called Congressman Gearhart and read him these figures. He said that apparently he had been misled as to the extent of activity of our agents in that part of California. He then asked me if there was any chance at all of our establishing a branch office in Fresno and I told him there was not.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 21, 1942

TO Secretary Morgenthau
FROM Mr. White
Subject: Proposed Mexican Tax on Silver Exports

1. The Mexican Government has informed the Treasury that it plans to place an export tax on silver to raise additional revenue needed by the Mexican Government. Taxes derived from silver mining have always been an important part of the revenues of the Mexican Government, approximately 15 percent of total federal revenues being derived from such taxes. During the period of low silver prices these taxes were reduced substantially. With the present increased demand for silver the Mexican Government would like to place a tax of about 10 cents an ounce on exported silver.

Mexico is the most important source of supply for the silver market. More than 90 percent of Mexico's annual production of 75 million ounces of silver is exported to the United States, and this constitutes about 70 percent of our total imports of 100 million ounces of silver. Even if all the newly-mined domestic silver goes into the market, nearly 45 percent of the entire current supply other than reclaimed silver would be of Mexican origin. The policy of the Mexican Government would, therefore, directly affect the domestic silver market. An export tax of 10 cents an ounce would necessitate a ceiling price of 45-3/8 cents an ounce in this country.

2. Many domestic users of silver have been offering 50 and 60 cents an ounce for silver in Mexico, and some silver users will probably pay more than 71 cents an ounce for domestic silver. The WPB is instituting a system which will make it impossible for American users of silver to buy silver abroad and use it here unless they have paid more than the price ceiling established by OPA. At present that price ceiling is 35-3/8 cents. If Mexico imposes a tax of 10 cents an ounce, the producer in Mexico would receive only 25 cents. The supply of silver and some by-products metals would be somewhat curtailed.

We have talked to the WPB and they have said that the question of price is the responsibility of the OPA. We have talked with the OPA informally and they think they will be agreeable to raising the price ceiling to 45 cents.

Division of Monetary
Research

- 2 -

3. Since the Mexican Government has raised the question with you, you may wish to arrange a conference in your office to be attended by the representatives of the OPA and WPB to officially consider the Mexican proposal. You will remember you said you would see Mr. Beteta after he had talked with me about the subject.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 21, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Draft notes of U.K. and Australia on terms of reciprocal aid.

The State Department has forwarded the attached copies of draft notes on the terms of reciprocal aid submitted by the British Embassy and the Australian Legation. These notes constitute British and Australian counter proposals written in response to the State Department drafts of June 1. The State Department drafts of June 1 were written after the meeting of May 28 in your office at which the State Department's proposed drafts were discussed.

1. The present drafts do not call for U.S. payment of the balance due on B.P.M. contracts.

This was the point debated at the meeting of May 28, the consensus of opinion being that the clause calling for this action should be dropped from the draft.

The Australian draft, however, states: "regard will be had to the effects that may be produced on the general Australian economy," and the notes to the draft, written by the Australian Government, explain that "the Australian Government desires that the United States should transfer to Lend-Lease as much as possible of existing Australian cash contracts in dollars for war and essential civil supplies....."

2. Both of the present drafts introduce a proviso that the financial obligation falling on either party shall not exceed his financial capacity nor be such as to hinder his war effort.

3. Both add administrative expenses to the list of items not to be provided.

This is based on Lend-Lease precedent. The previous list was troop pay and allowances, and local purchases not made through official channels.

- 2 -

4. Both omit the clause providing for the extension of the arrangement to others of the United Nations.

The effect of this omission will be to make more difficult the conclusion of Lend-Lease arrangements between members of the United Nations other than the United States.

5. The Australian draft limits Australia's obligation to provide supplies and services for construction of military projects outside Australia except "in such other cases as may be determined."

The original drafts called upon each signatory to provide such supplies whenever those supplies can be most effectively procured in the country concerned.

There is also attached a copy of an earlier Australian note written by the Australian Minister before he had received instructions from his Government. The Minister's draft is of little interest at this time, but it is essentially similar to the final Australian draft.

C
O
P
YDEPARTMENT OF STATE
WASHINGTON

July 14, 1942

Dear Harry:

I enclose copies of draft notes on reciprocal lend-lease aid which were given me today by the British Embassy and the Australian Legation. These are based on the drafts which we presented to them on June 1.

As it seems desirable to conclude these negotiations as quickly as possible, I should be grateful if you could come to my office to discuss the matter at 2:30 on Thursday afternoon, July 16. I am also asking the War and Navy Departments, the Board of Economic Warfare, and the Office of Lend-Lease Administration to be represented.

Sincerely yours,

/s/ Dean Acheson

Enclosures:

2 draft notes

Dr. Harry White,
Assistant to the Secretary,
Treasury Department,
Washington, D. C.

D R A F T

FROM THE BRITISH AMBASSADOR TO THE SECRETARY OF STATE

In the United Nations declaration of January 1st, 1942, the contracting governments pledged themselves to employ their full resources, military or economic, against those nations with which they are at war and in the Agreement of February 23rd, 1942, each contracting government undertook to provide the other with such articles, services, facilities or information useful in the prosecution of their common war undertaking as each may be in a position to supply. It is further the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland that the general principle to be followed in providing mutual aid as set forth in the said Agreement of February 23rd, 1942, is that the war production and the war resources of both Nations should be used by the armed forces of each and of the Other United Nations in ways which most effectively utilise the available materials, manpower, production facilities and shipping space.

With a view, therefore, to supplementing Article 2 and Article 4 of the Agreement of February 23rd, 1942, between our two Governments for the provision of reciprocal aid, I have the honour to set forth below the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland of the principles and procedures applicable to the provision of aid by the Government of the United Kingdom of Great Britain and Northern Ireland to the armed forces of the United States and the manner in which

which such aid will be correlated with the maintenance of those forces by the United States Government.

1. Where appropriate, decisions as to the most effective use of resources shall be made in common, pursuant to common plans for winning the war.

2. As to financing the provision of such aid, within the fields mentioned below, it is my understanding that the general principle to be applied, subject to the financial liabilities falling on either party not being in excess of their financial capacity and accordingly such as to hinder their war effort, is that as large a portion as possible of the articles and services to be provided by each Government to the other shall be in the form of reciprocal aid so that the need of each Government for the currency of the other may be reduced to a minimum. It is accordingly my understanding that the United States Government will provide, in accordance with the provisions of, and to the extent authorized under, the Act of March 11, 1941, the share of its war production made available to the United Kingdom. The Government of the United Kingdom will provide on the same terms and as reciprocal aid so much of its war production made available to the United States as it authorizes in accordance with the Agreement of February 23, 1941.

3. The Government of the United Kingdom will provide the United States or its armed forces with the following types of assistance, as such reciprocal aid, when it is found that they can most effectively be procured in the

United

United Kingdom or in the British Colonial Empire:

- (a) Military equipment, munitions and military and naval stores.
- (b) Other supplies, materials, facilities and services for the United States forces, except for the pay and allowances of such forces, local administrative expenses, and such local purchases as its official establishments may make other than through the official establishments of the Government of the United Kingdom as specified in paragraph 4.
- (c) Supplies, materials and services needed in the construction of military projects, tasks and similar capital works required for the common war effort in the United Kingdom or in the British Colonial Empire, except for the wages and salaries of United States citizens.
- (d) Supplies, materials and services needed in the construction of such military projects, tasks and capital works in territory other than the United Kingdom or the British Colonial Empire or territory of the United States to the extent that the United Kingdom or the British Colonial Empire is a more practicable source of supply than the United States or another of the United Nations.

4. Requests by the United States Government for such aid will be presented by duly authorized authorities of the United States to official agencies of the United Kingdom which will be designated or established in London and in the

areas

- 4 -

areas where United States forces are located for the purpose of facilitating the provision of reciprocal aid.

5. It is my understanding that all such aid accepted by the President of the United States or his authorized representatives from the Government of the United Kingdom will be received as a benefit to the United States under the Act of March 11, 1941. In so far as circumstances will permit, appropriate record of aid received under this arrangement, except for miscellaneous facilities and services, will be kept by each Government.

6. The detailed application of the principles formulated in this note and the extent to which they will be carried out will be worked out by agreement by the two Governments as occasion may require, acting when possible through their respective appropriate administrative authorities.

7. The procedure by which requests for aid are made by one or other Governments and are dealt with shall be settled from time to time by agreement between the respective Governments.

If the Government of the United States concurs in the foregoing, I would suggest that the present note and your reply to that effect be regarded as placing on record the understanding of our two Governments in this matter.

I have the honour to be etcetera, etcetera.

LEND-LEASE AND RECIPROCAL LEND-LEASE BETWEEN U.S.A. AND AUSTRALIADRAFT EXCHANGE OF NOTES: AUSTRALIAN PROPOSALS(A) FROM THE AUSTRALIAN MINISTER TO THE SECRETARY OF STATENEW DRAFT:

As contracting parties to the United Nations Declaration of January 1, 1942, the Governments of the United States of America and the Commonwealth of Australia pledged themselves to employ their full resources, military and economic, against those nations with which they are at war.

EXPLANATORY NOTES:

The draft is based on the standard U.S. draft (hereunder referred to as the Original), which has been adapted in Canberra to suit Australian conditions, after consultation with the U.K., and as a result of conferences between the Prime Minister (Mr. Curtis), the Treasurer (Mr. Chifley), and the Attorney General (Dr. Evatt).

With regard to the arrangements for mutual aid between our two governments, I refer to the Agreement signed at Washington on February 23rd, 1942 between the Governments of the United States of America and the United Kingdom on principles applying to mutual aid in the present war authorized and provided for by the Act of Congress of March 11th, 1941 and have the honour to inform you that the Government of the Commonwealth of Australia accepts the principles therein contained as governing so far as applicable the provisions of mutual aid between itself and the Government of the United States of America.

It is the view of the Australian Government that as it was a party to the Agreement of February 23rd no separate Master Agreement is now necessary.

The Preamble therefore recites the original preamble and clause 1, with the following differences:

It refers to the Master Agreement of February 23rd and states that Australia accepts the principles therein contained as governing so far as applicable the provision of mutual aid.

Your concurrence in this note will therefore signify that each Government undertakes to provide the other with such articles, services, facilities, or information, useful in the prosecution of the common war undertaking, as each may be in a position to supply.

It is the understanding of the Government of the Commonwealth of Australia that the general principle to be followed in providing such aid is that the war production and war resources of both nations should be used by the armed forces of each, in the ways which most effectively utilize available materials, manpower, production facilities and shipping space.

I now set forth the understanding of the Government of the Commonwealth of Australia of the principles and procedure applicable to the provision of aid by the Government of the Commonwealth of Australia to the armed forces of the United States and the manner in which such aid will be correlated with the maintenance of those forces by the United States Government.

It suggests that by concurrence with this note the U.S. accepts the same principles in relation to Australia. The draft reply to the note suggests the following:
"In concurring therein I have the honour to inform you that the Government of the United States also accepts the principles contained in the Mutual Aid Agreement signed at Washington on February 23rd, 1942, as governing as far as applicable the provision of mutual aid between itself and the Government of the Commonwealth of Australia".

The numbering of the clauses is altered so as to begin as shown in the left hand column below.

- 3 -

1. Where appropriate, decisions as to the most effective use of resources shall be made in common, pursuant to common plans for winning the war.

As Clause 2 of original.

2. As to financing the provision of such aid, within the fields mentioned below, it is my understanding that the general principle to be applied

As Clause 3 of original,
except as noted.

subject to financial liabilities falling on either party not being in excess of their financial capacity and accordingly such as to hinder their war effort,

The words beginning "subject to" are inserted. The Australian Government feels that the agreement should on its face recognize that in the case of Australia its financial problems may operate as a limiting factor.

is that as large a portion as possible of the articles and services to be provided by each Government to the other shall be in the form of reciprocal aid so that the need of each Government for the currency of the other may be reduced to a minimum.

Continuation as in Clause 3 of original.

It is accordingly my understanding that the U.S. Government will provide, in accordance with the provisions of, and to the extent authorized under, the Act of March 11, 1941, the share of its war production made available to Australia.

The Government of Australia will provide on the same terms and as reciprocal aid so much of its war production made available to the United States as it authorizes in accordance with the principles enunciated in this note.

Substituted for "The Government of Australia will provide, on the same terms and as reciprocal aid, in accordance with the Agreement of the share of its war production made available to the United States".

It is thought that the proposed form of words should declare for Australia the same rights to determine limits as exist in the U.S. The Note is governed by the relevant articles of the Master Agreement.

3. The Government of Australia will provide as reciprocal aid the following types of assistance to the armed forces of the United States in Australia or its territories and in such other cases as may be determined.

Substituted for "The Government of Australia will provide the United States or its armed forces with the following types of assistance, as such reciprocal aid, when it is found that they can most effectively be procured in Australia".

(Clause 4 of original)

The Australian Government feels that it cannot at present give so large an undertaking as in the original draft, but it does not wish to exclude all supplies for U.S. forces in the S.W. Pacific area, nor for such adjacent areas as Timor.

Supplies had been sent to the Philippines, and more recently to New Caledonia. Later they may be sent further afield under the terms of the proposed agreement. The last words of the present draft allow the discretion required, and they also cover the problem of ordinary commercial exports which are in some degree materials of war.

While the original draft also allowed discretion and it was intended to interpret obligations from time to time according to changing circumstances, it is felt that the present draft is preferable for Australia.

- 5 -

(a) Military equipment, ammunition and military and naval stores;

(b) Other supplies, materials, facilities and services for the United States Forces except for the pay and allowances of such forces administrative expenses and such local purchases as its official establishments may make other than through the official establishments of the Australian Government as specified in paragraph 4.

(3) Supplies, materials and services needed in the construction of military projects, tasks and similar capital works required for the common war effort in Australia and in such other places as may be determined, except for the wages and salaries of United States citizens.

4. Requests by the United States Government for such aid will be presented by duly authorized authorities of the United States to official agencies of the Commonwealth of Australia which will be designated or established in Canberra and in the areas where United States forces are located for the purpose of facilitating the provision of reciprocal aid.

As 4 (a) of original but omitting the commencing word "all". The word, appears to be unnecessary and might be misunderstood.

As 4 (b) of original, but with the words "Administrative expenses" inserted.

Hitherto the Lend Lease principle has excluded such expenses, and it is thought that each Government should continue to bear them for itself, and that the term should cover all accommodation and incidental payments associated with administrative personnel other than in camps and training areas.

As 4 (c) of original except that the words "and in such other places as may be determined" have been inserted for the reasons given above.

4 (d) has been omitted for the same reasons. That clause provided for supplies "needed in the construction of such military projects, tasks and capital works in territory other than Australia".

As original clause 5.

- 6 -

5. It is my understanding that all such aid accepted by the President of the United States or his authorized representatives from the Government of Australia will be received as a benefit to the United States under the Act of March 11, 1941. Insofar as circumstances will permit, appropriate record of aid received under this arrangement, except for miscellaneous facilities and services, will be kept by each Government.

As original clause 6.

Original clause 7 is omitted. Its purpose is not clearly understood and it may prove the source of embarrassment.

Australia is not in a position to undertake to give reciprocal aid to other countries unless upon particular examination of any given proposal it is proved consistent with her capacity to carry out her obligations under this arrangement.

6. The detailed application of the principles formulated in this note and the extent to which they will be carried out will be worked out by agreement by the two Governments as occasion may require, acting when possible through their respective appropriate administrative authorities and in working them out regard will be had to the effects that may be produced upon the general Australian economy considered in relation to its financial ability to prosecute the war to a successful conclusion.

This new clause is proposed partly for reasons already given, but also to provide for subsequent definition and variations as they may be needed, e.g. shipping, Patent rights.

The Australian Government desires that the United States should transfer to Lend Lease as much as possible of existing Australian cash contracts in dollars for war and essential civil supplies but proposes that this matter should be dealt with separately by specific agreement embodied in a note or notes.

7. The procedure by which requests for aid are made by one or other Governments and are dealt with shall be settled from time to time by agreement between the respective Governments.

This new clause is proposed separately from the general principles of the preceding clause because procedure has already been the subject of arrangements made locally in Australia.

- 7 -

If the Government of the United States concurs in the foregoing, I would suggest that the present note and your reply to that effect be regarded as placing on record the understanding of our two Governments in this matter.

I have the honour to be, etc. etc.

- 8 -

(B) FROM THE SECRETARY OF STATE TO THE AUSTRALIAN MINISTER.NEW DRAFTEXPLANATORY NOTES.

I have the honour to acknowledge the receipt of your note of today's date concerning the principles and procedures applicable to the provision of aid by the Government of Australia to the armed forces of the United States, the terms of which are as follows:

As original.

(The Australian Minister's note is here quoted)

In concurring therein I have the honour to inform you that the Government of the United States also accepts the principles contained in the Mutual Aid Agreement signed at Washington on February 23, 1942 as governing so far as applicable the provisions of mutual aid between itself and the Government of the Commonwealth of Australia.

Substituted. See notes on Preamble. The original is as follows:

"In reply I have the honour to inform you that the Government of the United States agrees with your understanding as expressed in that note and that, in accordance with the suggestion contained therein, your note and this reply will be regarded as placing on record the understanding between our two Governments in this matter.

Accept Sir, the renewed assurances of my highest consideration

July 13, 1942
JBB:G



DEPARTMENT OF STATE
WASHINGTON

reply refer to

June 26, 1942

Dear Harry:

I enclose a copy of a draft note on Reciprocal Aid left with me by the Australian Minister on June 22 and a memorandum of our conversation. You will note that his changes in our draft represent his own ideas and have not yet had the approval of his government.

I am sending a copy to the War and Navy Departments, Office of Lend-Lease Administration and Board of Economic Warfare. I will keep you advised of further developments and will probably suggest a meeting as soon as the British, Australians and New Zealanders have all received instructions.

Sincerely yours,

Dean Acheson

Enclosures:

1. Draft note.
2. Memorandum.

FOR DEFENSE

Mr. Harry A. White,

Treasury Department.



DEPARTMENT OF STATE

Memorandum of Conversation

DATE: June 22, 1942

SUBJECT: Reciprocal Aid - Australia

PARTICIPANTS: The Australian Minister, Sir Owen Dixon
Mr. Acheson, Assistant Secretary
Mr. Achilles, Eu

COPIES TO:

... 1-1440

The Minister said that he had been endeavoring to clear up the confusion as to whether there should be a separate basic lend-lease agreement between Australia and the United States or whether Australia should merely accept the provisions of the basic Agreement of February 23, 1942 between the United States and the United Kingdom. After careful consideration he had come to the conclusion that it would be better for Australia merely to accept the provisions of the Agreement of February 23. He said that the New Zealand Minister held the same views and that the British Government strongly preferred this course.

He left a draft note, based upon the American draft given the Legation on June , but incorporating an open statement that the Australian Government regarded the principles of the Agreement of February 23 as applicable to its relations with the Government of the United States, and which had at the end a number of qualifying provisions.

He said that the draft represented his own ideas and that, while he had telegraphed it to his Government, he had not yet received its views.

Mr. Acheson

Mr. Acheson said that paragraph 7(b), relating to the Australian dollar position, was to a considerable extent covered by the American draft and that the new language might present difficulties. Aside from that he believed the new draft represented a useful basis of discussion.

Eu:TCA:PK

DRAFT

FROM THE AUSTRALIAN MINISTER TO THE SECRETARY OF STATE

I have the honour to inform you that the Government of Australia regards the principles set out in the Articles of Agreement between the Governments of the United States of America and of the United Kingdom of Great Britain and Northern Ireland, dated at Washington 23rd February 1942, as applicable to the relations between the Government of the United States and the Government of Australia and with a view of supplementing Articles II and VI of that Agreement. I have the honour to set forth below my understanding of the principles and procedures applicable to the provision of aid by the Government of Australia to the armed forces of the United States and the manner in which such aid will be correlated with the maintenance of those forces by the United States Government.

Each of our Governments pledged itself in the United Nations Declaration of January 1, 1942, to employ its full resources, military or economic against those nations with which it is at war. Each Government undertook according to the principles set out in that agreement to provide the

other with such articles, services, facilities or information, useful in the prosecution of their common war undertaking, as each may be in a position to supply. The general principle to be followed in providing such aid is that the war production and war resources of both nations should be used by the armed forces of each, and of the other United Nations, in ways which most effectively utilize available materials, manpower, productive facilities and shipping space.

2. Where appropriate, decisions as to the most effective use of resources shall be made in common, pursuant to common plans for winning the war.

3. As to financing the provision of such aid, within the fields mentioned below, it is my understanding that the general principle to be applied is that as large a portion as possible of the articles and services to be provided by each Government to the other shall be in the form of reciprocal aid so that the need of each Government for the currency of the other may be reduced to a minimum. It is accordingly my understanding that the United States Government will provide, in accordance with the provisions

of, and to the extent authorized under, the Act of March 11, 1941, the share of its war production made available to Australia. The Government of Australia will provide, on the same terms and as reciprocal aid, in accordance with the principles of such agreement, the share of its war production made available to the United States.

4. The Government of Australia will provide the United States or its armed forces with the following types of assistance, as such reciprocal aid, when it is found that they can most effectively be procured in Australia:

(a) All military equipment, munitions and military and naval stores;

(b) Other supplies, materials, facilities and services for the United States forces, except for the pay and allowances of such forces administrative expenses and such local purchases as its official establishments may make other than through the official establishments of the Australian Government as specified in paragraph

(c) Supplies,

(c) Supplies, materials and services needed in the construction of military projects, tanks and similar capital works required for the common war effort in Australia, except for the wages and salaries of United States citizens.

(d) Supplies, materials and services needed in the construction of such military projects, tanks and capital works in territory other than Australia or territory of the United States to the extent that Australia is a more practicable source of supply than the United States or another of the United Nations.

5. Requests by the United States Government for such aid will be presented by duly authorized authorities of the United States to official agencies of the Commonwealth of Australia which will be designated or established in Canberra, and in the areas where United States forces are located for the purpose of facilitating the provision of reciprocal aid.

6. It is my understanding that all such aid accepted by the President of the United States or his authorized representatives

representatives from the Government of Australia will be received as a benefit to the United States under the Act of March 11, 1941. Insofar as circumstances will permit, appropriate record of aid received under this arrangement, except for miscellaneous facilities and services will be kept by each Government.

7. The aid to be provided each other by the respective Governments and as indicated above, will be provided on the same terms by each Government to the forces of such of the other United Nations as shall enter into similar arrangements with them.

There are some matters of more particular concern to the Government of Australia and to these the following special provisions shall apply:-

(a) The detailed application of the principles formulated in this note and the extent to which they will be carried in the varying conditions arising will be worked out by agreement between the two Governments as occasion may require, acting where possible through their respective

appropriate

appropriate administrative authorities and in working them out regard will be had to the effects that may be produced upon the general Australian economy considered in relation to the prosecution of the war.

(b) With a view to protect the dollar exchange or dollar balances of Australia, the appropriate authority of the United States will subject to the limitations of the Act of Congress of March 11, 1941, and so far as may be reasonably practicable, (i) bring within the operation of the principles of Lease Lend transactions already entered into by the Government of Australia and not already closed if they involve a dollar expenditure and (ii) apply those principles to the future requirements of Australia which may be eligible therefor.

(c) The procedure by which requests for aid are made by one or other Governments and are dealt with shall be settled from time to time by agreement between the respective Governments.

(d) The practical operation of paragraph 4 (d) of the foregoing shall not be extended beyond islands of the Pacific

adjacent

adjacent to Australia or beyond naval and military operations
based upon Australia.

If the Government of the United States concurs in the foregoing, I would suggest that the present note and your reply to that effect be regarded as placing on record the understanding of our two Governments in this matter.

I have the honour, etc.

Treasury Department
Division of Monetary Research

140

Date September 12, 1942 19

To: Miss Chauncey

This was shown to the Secretary on August 27th (while out walking with the Secretary) and the matter was described to him. He approved the procedure and stated that it was not necessary at this point to discuss the matter with the President and that I should go ahead with the conversations with the various governments indicated.

H.D.W.

MR. WHITE
Branch 2058 - 214½

Treasury Department
Division of Monetary Research

141

Date.....August 14, 1942.19

To: Secretary Morgenthau
From: H. D. White

A copy of this was sent to Mr. Berle and Mr. Berle later informed me that the State Department approved of this procedure.

I presume the next step might be the convening of a meeting in your office to be attended by the same persons who attended the last meeting on this subject in your office, at which time you could inform them of the report of the subcommittee and the State Department's approval. Your committee might then instruct us to go ahead with the preliminary informal discussions as described in paragraph 2.

Or you might prefer at this stage to take it up with the President before anything further is done.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 21, 1942

TO Secretary Morgenthau
FROM Mr. White

At the last meeting of your Inter-Departmental Subcommittee the following recommendation was agreed upon:

It is proposed that the following procedure be recommended to the President for adoption:

1. That various friendly governments, from among the United and Associated Nations, be advised through appropriate channels that a group of technical advisers to the Government of the United States has been directed to examine the economic and financial problems relating to the establishment of an international stabilization fund, an international bank, and any other international financial organizations which may be necessary.
2. That a representative of the Department of the Treasury and a representative of the Department of State, acting in consultation with the interdepartmental committee of technical advisers, initiate informal exploratory discussions with the representatives of the governments of each of the following countries: the United Kingdom, the U.S.S.R., China, Canada, Australia, Brazil and Mexico. These conversations would be carried out for the purpose of ascertaining their views on the projected institutions, and in order to canvass the possibility of obtaining the cooperation of their technical advisers in the preparation of pertinent memoranda. Upon completion of these exploratory discussions, a report on the view of these seven governments and the reactions of their representatives would be submitted to the Cabinet Committee.
3. That, if the Cabinet Committee then feels that the response has been sufficiently promising, it instruct the Secretary of the Treasury, after obtaining the approval of the President, to convoke a preliminary meeting of the technical advisers of all appropriate United and Associated Nations, and fix the date for such a meeting, if possible. This gathering would be held for the purpose of preparing a draft annotated agenda and other documents necessary for a formal international conference of plenipotentiaries, to consider the establishment of a stabilization fund, a bank and other financial institutions for the United and Associated Nations.

Division of Monetary
Research

- 2 -

Prior to this preliminary meeting of advisers, the interdepartmental committee of experts appointed by the Secretary of the Treasury would be directed to prepare appropriate studies. Upon completion, such memoranda would be transmitted to the seven governments mentioned, for consideration by their technical advisers. As the technicians of these other seven governments prepare memoranda on the same subjects and submit them to this government, they would be studied by the interdepartmental committee. Copies of selected memoranda would also be forwarded to such other friendly governments as it may be desirable to keep informed. The appropriate technical advisers of these other governments would be informally invited to initiate memoranda setting forth their own ideas with respect to international financial problems of the post-war period.

4. That, if such a preliminary meeting reaches agreement upon the draft annotated agenda, the Cabinet Committee evaluate the situation again, after this meeting, with a view to a final decision as to the advisability of calling a formal conference of plenipotentiaries on a stabilization fund, a bank, and other financial institutions for the United and Associated Nations.

11 o'clock
1944
Friday
Treasury Department
Division of Monetary Research

White 1045
DateJuly 21, 1942..... 19

To: Secretary Morgenthau
From: H. D. White

You told Phillips that you would be glad to see Lieth-Ross. Phillips indicated that Lieth-Ross would wish to discuss the matter of International Relief with you. He has been here for several weeks in consultation on that subject with a State Department committee. I participated in some of the meetings.

Appended is a draft and an outline of the agreement. I think the final draft has just been completed and will probably be presented to the Department for formal approval or to the President directly without such approval.

I have been told that the President and Vice-President do not feel the time propitious for initiating the project. I believe final action likely to be postponed until at least after the election.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 21, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Draft of a United Nations Relief and Rehabilitation Administration.

The major provisions of the draft discussed at a meeting with Leith-Ross on July 15, at which I was present, are summarized below; only minor changes have since been made.

1. Objectives are to provide, immediately upon the liberation of an area, food, clothing, shelter and means of resuming production, to return exiled prisoners, to prevent disease, etc. Specifically the Administration shall plan, coordinate and, where desirable, administer international measures in any area under the control of any of the United Nations. It may take, hold, and convey property, enter into contracts and undertake obligations, manage undertakings, and perform other appropriate legal acts.

2. Policy will be determined by a Council consisting of one representative of each signatory government. A Policy Committee, comprising the representatives of China, the U.S.S.R., U.K. and the U.S.A., with the Director General presiding, will exercise all powers and functions of the Council, when it is not in session. Appointments to regional and standing committees will be made by the Policy Committee.

3. The Director General, appointed by the Council, will secure the staff and carry out the policies of the Council. He shall at once prepare plans for emergency relief of civilian populations, arrange procurement, and create the necessary organization.

4. Member governments pledge funds, materials, equipment, supplies and services, for use in any area in need. Purchases during the war, for post-war relief, may be made abroad only after consultation with the Director General. (Article VI should be read carefully.)

5. The Council will apportion expenses among member governments. In addition, any government receiving aid shall contribute any amount required by the Administration, in the currency of that area, for local expenditures.

6. The agreement becomes provisionally effective upon signature of any of the United Nations, and becomes fully binding after ratification. It may be amended by unanimous vote of the Policy Committee, accompanied by the approval of two-thirds of the Council. Other governments may be admitted by the Council.

ASSISTANT SECRETARY OF STATE
WASHINGTON

July 14, 1942

Dear Harry:

I am enclosing a copy of Draft No. 1 of Relief and Rehabilitation Administration. On Wednesday, July 15, at 4:00 p.m., in my office there will be an important meeting of the representatives of the various agencies who have been meeting with Sir Frederick Leith-Ross, at which time the enclosed draft will be considered.

Sincerely yours,

Alan Wilson

Mr. Harry White,
Assistant to the Secretary,
Treasury Department.

STRICTLY CONFIDENTIAL

July 10, 1948

Relief and Rehabilitation Administration

Principle 1

The Governments whose duly-authorized representatives have subscribed hereto,

Having subscribed to a common program of purposes and principles embodied in the Declaration of January 1, 1948, known as the United Nations Declaration and the Joint Declaration of the President of the United States of America and the Prime Minister of the United Kingdom of Great Britain and Northern Ireland dated August 14, 1941, known as the Atlantic Charter,

Being determined that victory shall bring relief, as well as freedom from oppression and cruelty, and that immediately upon the liberation of any area by their armed forces the population thereof shall receive aid and relief from their sufferings, food, clothing and shelter, assistance in obtaining the means of resuming agricultural and industrial production and in restoring essential services, the return of exiles and prisoners to their

home,

-3-

homes, the prevention of pestilence and the recovery of the health of their people, and assistance in general in restoring the essential foundations upon which a liberated world may build anew.

Being resolved that each shall contribute to the fullest extent of its resources and powers, to the relief and rehabilitation of its own and other peoples; have agreed as follows:

-3-

Article I

Establishment of the Administration

There is hereby established the United Nations Relief and Rehabilitation Administration, the purpose of which shall be the planning, coordination and, where desirable, administration of international measures for the relief and rehabilitation of the victims of war in any area under the control of any of the United Nations. The Administration shall have power to take, hold and convey property, to enter into contracts and undertake obligations, to manage undertakings, and in general to perform any legal act appropriate to its object and purpose.

-4-

Article II**Membership**

The members of the United Nations Relief and Rehabilitation Administration shall be the governments signatory hereto and such other governments as may upon application for membership be admitted thereto by action of the Council or the Policy Committee thereof.

-5-

Article III

The Council

1. Each member shall name one representative upon the Council of the United Nations Relief and Rehabilitation Administration, which shall be the policy-making body of the Administration. The Council shall, for each of its sessions, select one of its members to preside at the session.

2. The Council shall be convened in normal session not less than twice a year by the Policy Committee. It may be convened in special session whenever the Policy Committee shall deem necessary, and shall be convened within thirty days after request therefor by a majority of the members of the Council.

3. The Policy Committee of the Council, consisting of the representatives of China, the Union of Soviet Socialist Republics, the United Kingdom, and the United States of America, with the Director General presiding, shall between sessions of the Council exercise all the powers and functions thereof, and, during sessions, shall constitute the steering committee of the Council. The Policy Committee shall invite

the

the participation of the representative of any member government at meetings at which action of special interest to such government is discussed.

4. The Council shall establish regional committees to advise it on the making of plans and formulation of policy for the relief and rehabilitation of Europe, the Far East and of any other areas where such committees may be found desirable. The regional committees shall normally meet within the area and shall comprise representatives of the member governments directly concerned with the problems of relief and rehabilitation in that area. The Regional Committee on European Relief as so constituted shall take over and carry on the work of the Inter-Allied Committee on European Post-War Relief established in London on September 24, 1941.

5. The Council shall establish such standing committees as it considers desirable to advise it in respect of particular problems such as materials and supplies, finance, repatriation, agriculture, nutrition, health, and transport. The members of such committees shall be appointed by the Policy Committee, with the approval of the Council if it

-7-

be in session and otherwise subject to its ratification, from members of the Council representing the Governments most directly concerned in each case or alternates whom such members may nominate because of special competence in their respective fields of work. Should a regional committee so desire, subcommittees of these standing committees shall be established to advise the regional committees.

6. The travel and other expenses of members of the Council and its committees shall be borne by the governments whom they represent.

-8-

Article IV

The Director General

The executive authority of the United Nations Relief and Rehabilitation Administration shall be in the Director General, who shall be appointed by the Council on the nomination of the Policy Committee.

2. The Director General shall have full power and responsibility for carrying out relief and rehabilitation operations within the limits of available resources and the broad policies determined by the Council or its Policy Committee. In arranging for the procurement, transportation and distribution of supplies, he and his representatives shall consult and collaborate with the appropriate authorities of the United Nations and shall, whenever practicable, use the facilities made available by such authorities. In any area receiving relief or rehabilitation aid from the Administration, the activity of voluntary agencies may be permitted with the consent and subject to the regulation of the Director General and of the appropriate authority of the United Nations in control in that area.

3. He shall appoint such Deputy Directors, other officers, and staff, whether at his headquarters or in other areas, including the staff of field missions, and may delegate to them such powers as may be necessary to perform the functions of the Administration and to provide secretarial staffs for the Council and its committees.

-10-

Article V

Emergency Relief

The Director General immediately upon taking office shall in conjunction with the military and other appropriate authorities of the United Nations prepare plans for the emergency relief of the civilian population upon the occupation of any area by the armed forces of any of the United Nations, arrange for the procurement and assembly of the necessary supplies and create the emergency organization required for this purpose.

Article VI

Supplies and Resources

1. Each member government pledges its fullest possible support to the Administration, within the limits of its available resources and subject to the requirements of its constitutional procedure, through contributions of funds, materials, equipment, supplies and services, for use in its own, adjacent or other areas in need, in order to accomplish the purposes of this agreement.

2. The supplies and resources made available by the member governments shall be kept in review in relation to prospective requirements by the Director General, who shall initiate action with a view to assuring additional supplies and resources as may be required.

3. All purchases, by any of the member governments made outside their own territories during the war for post-war relief purposes shall be made only after consultation with the Director General, and shall, so far as practicable, be carried out through the appropriate United Nations agency.

-12-

The Director General, working with the appropriate standing committees, shall draw up proposals for the coordination of purchasing, chartering of ships and other procurement activities, after the war for relief and rehabilitation so as to avoid the dislocation of markets and provide an equitable distribution of the available supplies.

-13-

Article VII**Administrative Expenses**

Administrative expenses shall be borne by the member governments in proportion to be determined by the Council. The governmental authority of any territory receiving aid from the Relief and Rehabilitation Administration shall in addition place at the disposal of the Administration any sums required in the currency of that territory for local expenditure in the administration or distribution of such aid.

-14-

Article VIII

Amendment

The provisions of this agreement may be amended by unanimous vote of the Policy Committee and two-thirds vote of the Council.

-15-

Article IX

Entry into Effect

The present agreement shall become provisionally effective upon signature hereof, and shall come definitely into force in respect of each member country upon compliance with its constitutional procedure.



BOARD OF ECONOMIC WARFARE
~~ECONOMIC DEFENSE BOARD~~
WASHINGTON, D. C.

JUL 21 1942

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

Enclosed is a copy of the minutes of the meeting of the Board of Economic Warfare, which was held on July 16 in the Office of the Vice President. If there are any corrections which you care to suggest, please let me know.

Sincerely yours,

Milo Perkins
Executive Director

Enclosure

SECRET¹⁶³

Minutes of the Meeting of the Board of Economic Warfare
Held July 16, 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. on July 16, 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. Harry White, representing the Secretary of the Treasury
The Secretary of War
Mr. Charles Fahey, representing the Attorney General
Mr. James V. Forrestal, representing the Secretary of the Navy
Mr. Paul Appleby, representing the Secretary of Agriculture
Mr. Wayne Taylor, representing the Secretary of Commerce
Mr. Donald Nelson, War Production Board
Mr. Nelson Rockefeller, Office of Inter-American Affairs
Mr. Thomas B. McCabe, representing Mr. E. R. Stettinius, Jr.,
Lend-Lease Administration

In addition, the following persons were present:

Mr. Wayne Coy, Bureau of the Budget
Mr. Robert Patterson, War Department
Mr. Harold H. Neff, War Department
Dr. Joshua Bernhardt, Department of Agriculture
Mr. Thomas K. Finletter, State Department
Mr. Winfield Riefler, Board of Economic Warfare
Mr. John Fischer, Board of Economic Warfare
Mr. Milo Perkins, Board of Economic Warfare
Mr. Edwin W. Gaumnitz, Board of Economic Warfare
Mr. Adlai Stevenson, Navy Department
Mr. John Lockwood, Office of Inter-American Affairs
The Vice President opened the meeting indicating that the first topic would be the report on sugar.

SUGAR REPORT:

This report was requested for the purpose of determining whether the estimated production and stocks of sugar available to the United States and the friendly nations was such as to enable producing countries to shift from sugar production to the production of other foods. Such a shift would be for the purpose of making those countries more self sufficient and to reduce the volume of food stuffs necessitating shipping. The report indicated that sugar production could be reduced without prejudicing United States supplies.

Mr. Appleby pointed out that we should strive to reduce our importations of sugar to a "return haul" basis and assist the producing countries in making the necessary adjustment in food production. After discussion, it

was agreed that the Department of Agriculture and the Office of the Coordinator of Inter-American Affairs should continue activity looking to an increase in self sufficiency in various countries, taking into account the results of a credit statement for Cuba being prepared by Treasury, and if a further statement of policy by the Board was desirable, the matter should be handled with Mr. Perkins. It was indicated that the Hawaiian sugar and food situations were being considered by the Food Requirements Committee.

EUROPEAN NEUTRALS:

A "Statement on United Nations' Objectives in Economic Warfare Through Trade with the European Neutrals and with Turkey" had been circulated. Mr. Perkins stated that the report showing the principal exports from the United States to Switzerland, Sweden, Portugal, Spain and Turkey, principal imports into the United States from those countries and principal exports from those countries to enemy areas was incomplete in that data had not been available in Washington as to the total trade of these countries with countries outside the blockade area. He stated further that the United Kingdom treated much of the data on neutral trade on a very confidential basis so that it had been impossible to secure material for inclusion in the report. However, the Ministry of Economic Warfare did secure, and make available limited data as to tonnages of specified products imported by the United Kingdom from the blockaded area, which were presented by Mr. Perkins. He also stated that the Blockade Committee in London has under its control the issuance of navicerts and that the Board is now represented on that Committee. Generally, the Board Representative has been much more strict in the matter of quantities to be certified than was the Committee. In fact, the British and neutral country representatives apparently feel that the United States representatives are too strict.

Mr. Riefler stated that the Blockade Committee felt that it had quite comprehensive information as to the movement of goods in and out of the blockade area; that items were reviewed very carefully; that particular attention was paid to total movements in and out on a global basis; that reports of inventories were being secured and that movement from the neutral countries to enemy area was being kept to a minimum.

Discussion made it clear that trade with the area should be watched very carefully, particularly as it pertained to items which were of great strategic importance to the United Kingdom and the United States, as well as those of importance to the Axis group, there being little concern about the movement of food. It was agreed that the items being navicerted should be reviewed carefully with all interested agencies and specifically by Mr. Nelson. Mr. Perkins was to supply Mr. Nelson with the necessary data.

C
O
P
Y

165

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

Quito
Dated July 21, 1942
Rec'd 11:30 p.m.

Secretary of State,
Washington.

TRIPLE PRIORITY

HUSH

595, July 21, 9 p.m.

The Ecuadoran Government has canceled its contract with the Spanish Pedagogical Mission and is sending it back to Spain because of Falangist propaganda. The mission has acquired American currency presumably in Ecuador to the amount of \$7250 from their savings. Due to the regulations of the Central Bank regarding the purchase of American currency the mission cannot obtain passage from the Chilean line. Will the Treasury Department reimburse the Central Bank if this currency is accepted by it to provide funds for traveling expenses paying the balance in Argentine pesos? As the mission is scheduled to leave Guayaquil July 24 and as it is desirable that there be no delay in its departure a prompt reply is requested.

LONG

HRM
Copy: gj: 7-23-42

C
O
P
Y

165

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

Quito
Dated July 21, 1942
Rec'd 11:30 p.m.

Secretary of State,
Washington.

TRIPLE PRIORITY

HUSH

595, July 21, 9 p.m.

The Ecuadoran Government has canceled its contract with the Spanish Pedagogical Mission and is sending it back to Spain because of Falangist propaganda. The mission has acquired American currency presumably in Ecuador to the amount of \$7250 from their savings. Due to the regulations of the Central Bank regarding the purchase of American currency the mission cannot obtain passage from the Chilean line. Will the Treasury Department reimburse the Central Bank if this currency is accepted by it to provide funds for traveling expenses paying the balance in Argentine pesos? As the mission is scheduled to leave Guayaquil July 24 and as it is desirable that there be no delay in its departure a prompt reply is requested.

LONG

HRM
Copy:GJ:7-22-42

O
P
Y
ELP

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

Mexico City

Dated July 21, 1942

Rec'd 2:38 a.m., 22nd

Secretary of State,

Washington.

URGENT

836, July 21, 7 p.m.

Conference held today with Director and Manager of Bank of Mexico during which our proposal to permit immediate exchange of American bills up to \$1,000 was explained. It now develops that Mexicans in prohibiting the importation of dollar currency may not make any exceptions for tourists, forcing conversion of dollars at the border. Measures proposed by bank representatives specify confiscation of all currency not deposited with Bank of Mexico prior to dead line. Entire matter now under consideration by the Mexicans relative to working out of details and legality of measures proposed. Many details are now arising and it is very urgent that the treasury representative arrive with the least possible delay as final drafting of decree will be made after consultation with him.

MESSERSMITH

EMB

Copy:lc:7/22/42

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 248

Information received up to 7 A.M., 21st July, 1942.

1. NAVAL

Early this morning 3 motor gunboats intercepted a heavily escorted enemy tanker between CALAIS and BOULOGNE. An A.A. ship was set on fire. One motor gunboat is missing and the other two returned to harbour damaged. On the morning of the 20th a British vessel, 5,200 tons, reported she was being shelled by an armed raider 1,500 miles west of FREEMANTLE.

2. MILITARY

EGYPT. Little change. On the 19th slight progress was made by Twenty-Sixth Australian Brigade in the TEL EL EISA area while in the south one of our columns engaged the enemy on the eastern edge of the EL TAQA Plateau.

3. AIR OPERATIONS

WESTERN FRONT. 19th/20th. VEGESACK. About 240 tons of H.E. and incendiaries were dropped. 20th. Two Bostons made a successful low level attack on a power station in northern FRANCE. Sixteen squadrons of Spitfires attacked minor military objectives in the DIEPPE area. One Spitfire is missing.

EGYPT. 18th/19th. Our bombers attacked shipping and harbour installations at TOBRUK and laid mines in the harbour and approaches. A large fire was started at a petrol depot. 19th. Escorted bombers and fighter bombers made a very successful raid on about 100 enemy aircraft at EL DABA landing ground. About 40 aircraft on the ground were severely damaged by bombs and machine gun fire and 4 transport aircraft and a dive bomber which were coming in to land were shot down. We lost one Kittyhawk. In offensive patrols over the battle areas seven Italian tanks were hit. Baltimores bombed M.T. assisted by ground signals from the infantry which also enabled our fighter bombers to bomb within 400 yards of our troops.

MALTA. Between 1620 19th and noon 20th about 6 enemy bombers and 20 fighters operated. One bomber and one fighter were destroyed. Two Spitfires were shot down but pilots are safe.

BURMA. Our Light Bombers scored hits on workshops at AKYAB and attacked objectives at PALETWA, KWASAN and KALEWA.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 21, 1942

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

Russian and German tank strength

It is estimated by the Military Intelligence Division that the Russians have approximately 6,000 tanks on the Russo-German front, as compared with an estimated Nazi strength of 5,000 first-line tanks and 10,000 in reserve. Since the beginning of the present heavy fighting on the southern sector, it is quite possible that a considerable part of the German tank reserve has been moved up to the front. Each of these estimates is admittedly very rough, with a large probable error.

(M. I. D., July 15, 1942)

Magnitude of German forces on southern Russian front

Current estimates suggest that perhaps fifty infantry divisions, 10 to 12 Panzer divisions (two or three probably brought down from the central sector in recent weeks), 10 to 12 motorized divisions, and about 2,400 planes are active on the German side of the Russo-German front between Yelets (about 80 miles north of Voronezh) and Rostov. In the present offensive, it is estimated that the Germans are using about 75 percent of their total Russian front air strength.

(Office of Strategic Services, "The War This Week",
July 9 - 16, 1942)

July 22, 1942.
10:34 a.m.

HMJr: How are you?

Colonel
Halsey: I'm right here.

HMJr: All right. Look, I'd like your help.

H: Always, Henry.

HMJr: I'd like to come up this afternoon any time after two-thirty and - to see Senator Barkley and Senator George and in a - off the record, confidentially to go over my statement for tomorrow with them and get their suggestions, you see?

H: That will be fine. I'd be very happy. Come right to my office and you - the best - the newspaper men and so forth - if you want to if you'd be there promptly at two-thirty, I'll open that outside door so you can come in that side way.

HMJr: Well, I'm having lunch with the President. I think I could say definitely I could be there at three.

H: Well, supposing we just look for you down the corridor at three then.

HMJr: You think that would be all right?

H: You know how to come up on the second floor and come in the....

HMJr: Yes, I know how to get there.

H: Yeah, well, they'll have them - see, come in the back door. No one sees who comes in there. Then the newspaper men won't know why you're down there, and want to know all about it and so forth.

HMJr: I'll tell you, if you don't mind, could somebody meet me down - I'm very punctual - down at the entrance maybe....

- 2 -

H: Yes, I'll have my boy there to meet you there at....

HMJr: Five minutes of three?

H: Five minutes of three.

HMJr: You - well, you're taking it for granted you can deliver Barkley and George?

H: Well, (laughs) I think it's a pretty big order....

HMJr: All right.

H:to guarantee it but....

HMJr: Well....

H:I know that if I gave them your message that they'd be very happy to cooperate.

HMJr: I - if there's any change, either let me or Mrs. Klotz know.

H: I'll let you know.

HMJr: I thank you.

H: All right, sir.

July 22, 1942
11:30 a.m.

WAR BONDS VERSUS WITHHOLDING TAX

Present: Mr. Graves
Mr. White
Mr. Sullivan
Mr. Foley
Mr. Kuhn
Mr. Blough
Mr. Paul
Mr. Stewart
Mr. Odegard
Mr. Tarleau
Mr. Friedman
Mrs. Klotz

H.M.JR: Now, where is this gang?

The idea of this thing is this - where is Graves?

MR. GRAVES: Right here.

H.M.JR: In the first place, if anybody is going to get excited I am, and I am not going to so nobody is going to get excited in this discussion. I haven't got - come up here, Harry, where you can hear me. Sit up here where you can hear me better. Also, I can throw something at you better. (Laughter)

MR. WHITE: I am good at catching but not at this close distance. (Laughter)

H.M.JR: I don't know which is the better way to do it, to have the proponents or the people who are for the deduction at the source, give their case first, and then have Graves say why he doesn't think so.

MR. PAUL: I think the other way around would be better, have Mr. Graves - I haven't, for instance, even talked with Mr. Graves about this, and collection at the

- 2 -

source is in the bill now, and there we are, and if we are going to take it out we ought to have some compelling reasons.

H.M.JR: Which way would you like to do it, Harold?

MR. GRAVES: I will be perfectly happy to state my very simple point about this matter first, if you care to have me.

H.M.JR: I don't care. After all, this isn't - we are not on the air, as far as that goes-- (Laughter)

MR. WHITE: Just up in the air. (Laughter)

H.M.JR: Go ahead.

MR. GRAVES: Well, I start with the proposition that this withholding tax will very substantially interfere with, if it does not almost completely destroy, the pay-roll allotment plan for the purchase of War Bonds. I have that view because of the fact that a great many companies have found it difficult simply to carry the pay-roll allotment plan for the purchase of War Bonds.

H.M.JR: To do what?

MR. GRAVES: To carry the pay-roll allotment plan for the purchase of War Bonds, and our experience has been such as to justify the conclusion, in my opinion, that many companies, once they are required to serve as withholding agents under the pending bill, will give up the pay-roll allotment thing. Many of them, in my judgment, will have to give up the pay-roll allotment thing in order that they can carry out the provisions of this bill with respect to the withholding of income taxes at the source.

The amount which I have heard as the estimate of the collections to be derived from the withholding tax for the first calendar year is a billion two hundred fifty million dollars, and I assume that thereafter,

- 3 -

the other factors remaining the same, that amount would be two and a quarter billion a year. That, of course, is not additional taxes. It is merely the advance collection of taxes which would be collected otherwise later on. I have understood that the principal reason for the withholding of income taxes at the source is its value, whatever it is, as a means of combatting inflation.

Now, on the War Bond thing, at the present time, the withholding from pay-rolls toward the purchase of War Bonds we estimate is about two hundred millions a month, and a conservative estimate of the amount of such withholdings by the end of this calendar year when the new act becomes effective, if it is to become effective, would be not less than three hundred millions a month and might substantially exceed that figure.

Now, if it is a fact, as I think it is, that the volume of withholdings on account of War Bonds will be very substantially curtailed, we stand to lose in the calendar year 1943 not less than three billion six hundred millions, which we would otherwise derive from the sale of War Bonds under the pay-roll allotment plan; and we stand to gain a billion two hundred and fifty million in the advance collection of income taxes.

That, I think, is the whole case. It seems to me giving up an anti-inflationary thing that has a potential value of not less than three billion six hundred millions in the calendar year '43 for a thing that has a value of a billion two hundred and fifty millions in the calendar year '43. While I understand the situation we are in as a matter of public relations, yet those facts, it seems to me, are worth considering in deciding what the position of the Treasury should be.

H.M.JR: Do you want to call on anybody to support you, or do you want Paul or Blough--

MR. PAUL: We might draw the issue there, I think, get the broad issue before the meeting on the basis of what

- 4 -

Mr. Graves has said.

H.M.JR: What do you mean? I don't follow you, Randolph.

MR. PAUL: I mean, I think we could--

H.M.JR: Go to work on that?

MR. PAUL: Well, yes, in the sense that we can really get distinctly in mind what the question before us is.

H.M.JR: You have got the question.

MR. PAUL: Yes, but I wanted to point to two or three things in what Mr. Graves said where I think he is overlooking some of the other end of the picture.

H.M.JR: Go ahead, sure. Don't be quite so polite. Act more as though you were in your own office.

MR. PAUL: The inflationary aspect of the collection at the source is only one aspect of it. It is true that we collect the first year only a billion two hundred and fifty, and there we would be really advancing the payment and not collecting additional taxes; but collection at the source has a much broader meaning than that. In the first place, it collects money that otherwise wouldn't be collected. In the second place, and much more important, this is only the beginning of collection at the source. We are looking ahead; it is a pilot engine. We are looking ahead to a future when it will be an even more important part of our income tax structure than it is now - just getting it in through the door.

H.M.JR: You made a statement there I want you to explain to me. You said we would get money this way we wouldn't get any other way.

MR. PAUL: I meant there that is problematical; nobody can estimate how much, but we get money we wouldn't get before because you cannot police an income tax system that has thirty million returns. Some of those

- 5 -

people will not file returns, and we will not be able to collect the taxes they owe unless we have collection at the source.

MR. WHITE: More than that you get a billion dollars that you would never get. It is an advance payment. You get it once and always have it. So you get a billion dollars you never would get, and it doesn't cost you any interest.

MR. SULLIVAN: Not, that is not so.

MR. WHITE: I beg your pardon, we get it in advance; you never catch up with yourself.

H.M.JR: Let's have a leader on both sides.

MR. WHITE: I wanted to press that point home.

H.M.JR: Do you want Harry to get in?

MR. PAUL: We have the broad aspects before us.

H.M.JR: Go ahead.

MR. PAUL: The other aspect, the assumption, basic assumption of Mr. Graves, I think, needs examination, and that is a matter that some of our men can talk on; that is, the assumption that collection at the source will interfere with or destroy the pay-roll allotment plan. It doesn't seem to me that that assumption is justified.

Canada is going in for collection at the source notwithstanding its carrying out a pay-roll allotment plan. All the information we get from the field study is to the effect that there may be some effect on the plan, but certainly it wouldn't completely destroy the sale of two or, at the end of the year, three hundred million bonds a month. I don't know what data Mr. Graves has in support of that conclusion, but on the basis of what we have it isn't justified.

MR. ODEGARD: Randolph--

- 6 -

MR. PAUL: I just wanted to get those broad aspects.

MR. ODEGARD: The Canadian analogy doesn't fit at all so far as this is concerned because the Canadians on their savings program have done practically nothing with pay-roll savings. That is, there is no - they can install--

MR. PAUL: That is not very important.

MR. ODEGARD: That is right. As a matter of fact--

H.M.JR: Is that correct?

MR. ODEGARD: Yes, that is true.

MR. WHITE: It isn't that they have failed; they just--

MR. ODEGARD: They haven't tried it. We have tried it at great length. They came down and asked, "How do you install pay-roll savings? How does it work? We haven't done it." So the fact that a withholding tax - they haven't any experience.

MR. WHITE: That is right. It hasn't failed, but they are just beginning.

MR. PAUL: That isn't a very important argument.

H.M.JR: Also you can't use the Canadians as an example on deduction at the source because they haven't put it in yet.

MR. BLOUGH: Two years they have had it, Mr. Secretary.

H.M.JR: Two years?

MR. BLOUGH: Yes. Mr. Friedman is here; Mr. Friedman spent a couple of days - a day at least - in Canada last week, as part of this study of collection at the source. He can speak for himself, but he informed me that he talked to Canadian employers who were deducting two kinds of

- 7 -

savings for their workers under the Canadian plan and the taxes at the same time, and they didn't seem to be of the opinion that the taxes had any substantial effect on the savings. Is that correct?

MR. FRIEDMAN: That is quite correct.

H.M.JR: Let's hear from him.

MR. FRIEDMAN: So far as the Canadian experience is concerned we spent two days in Toronto, one day visiting employers and the other day with the inspector of income tax in the Toronto district. We went to two big employers. Both of those had withholding at the source for the income tax and in addition two separate types of savings bond programs. They have one form of savings bonds on which the interest is exempt from tax, and that is limited to a very small amount per year for each employee. That is the reason they have two different types, and both types were being handled in both of these cases by collection at the source.

H.M.JR: How big were the companies?

MR. FRIEDMAN: One company employed over ten thousand employees. The other company employed about three thousand.

H.M.JR: Now, the thing - I just want to give you people the benefit of what Mr. Stewart gave me before you came in because I have asked him, and I want to just say that, and you can correct me. I mean, he has been listening to both sides for me, and he says in this study, these teams of people that you sent out into the field to inquire how this thing was going, as far as he could tell in no case in the United States did you ask the employer what effect would this have on the sales of War Bonds; that you have got no facts on it; that you went to a hundred and eighty concerns but you didn't say to these people - you simply said, "How do you feel about deduction at the source?" But you didn't say to them, "If you have deduction at the source what effect will it have on War Bonds?" Is that correct, Roy?

- 8 -

MR. FRIEDMAN: No, that is, there are two aspects of that. We didn't ask the employers what they thought the employees would do but we did ask the employers how it would affect their own pay-roll system.

H.M.JR: That isn't the point Mr. Stewart makes. The point he is making is in the one hundred and eighty concerns that you visited you failed to have a question, "If you have deduction at the source, what effect do you think it will have on the purchase of War Bonds?" You didn't ask that question.

MR. FRIEDMAN: That question was not on the questionnaire, but in our personal interviews with the employers the problem of the pay-roll deduction for War Bonds came up. Since we discussed with them all of the various deductions that they were now making from the wage in computing the amount actually to be paid--

H.M.JR: Mr. Friedman, it is correct that that question wasn't on it?

MR. FRIEDMAN: On the questionnaire.

H.M.JR: I want to follow that. I think it is a very important omission, and I think there is still time to go back. But here is the thing. This, now, that I am saying is my own idea, and this, I think, as far as I know, everybody has overlooked. We go around to a hundred and eighty concerns and say to these people, "Gentlemen, how would you feel about having deduction at the source and how much machinery will you need," and so forth and so on. Then I am raising the question that I think we should go back and ask them, "Well, what would your attitude be if you had deduction at the source in regard to being issuing agents, in the first place, and also handling War Bonds for the employees?" But the more glaring omission on this survey is nobody has asked the fellow who earns the money. Nobody in these hundred and eighty factories has gone to the working man, whose money we are talking about, and said to the workman, "How do you feel about this?" Do you see?

Now, I think it is terribly important, and it isn't too late to get it.

- 9 -

MR. WHITE: Mr. Secretary--

H.M.JR: It isn't too late to get CIO and AF of L.

MR. BLOUGH: We have the CIO and AF of L support on the plan.

H.M.JR: Now, what I want is - you have got the men who sit in Washington - it is just like the American Farm Bureau doesn't speak for the American farmer. I would like to know from these three hundred AF of L men who are going around and talking and having meetings for us, or the CIO shop stewards, what does the man at the bench feel and how would he like to have this handled?

Now, maybe they are red-hot for it, Roy, I don't know. It would influence me a great deal more than what the factory owner would think, because we are talking about that fellow's money. It is his money. Now, maybe he likes Social Security, and I think if we are going to do another quick job we should ask him also about this increase in Social Security. "Would you like to have the Social Security increased?" Would he like deduction at the source? And last of all, would he continue the same amount of purchase of War Bonds or would it have any influence on him.

Now, what the man at the bench through his shop steward would tell me, what he thinks, that would pretty much decide it for me. That has not been brought out. That has not been brought out, and I don't think anybody in this room has got any facts on it. Now, what Mr. Green or Mr. Murray thinks about it I wouldn't give that. (Indicating) But if a fellow could talk to a dozen shop stewards or women shop stewardesses - that is what they call them - the kind of people that Harold and I met with in Detroit, and find out what these people think, that would have a real influence. It is their money we are talking about.

Now, Mr. White?

- 10 -

MR. WHITE: I was going to merely comment, in fairness to the committee, that I think I was there when the decision was made to ask your approval to go out and investigate it. The question which they were going to investigate was the question which was - the doubts were raised by Mr. Sullivan and Mr. Graves as to the possibility of businesses being able to handle the payroll deduction, and they were going out among the businesses, not to ask whether the employees would like it or not. That is a separate inquiry and a very desirable one, but they didn't think it was their particular function. They were merely going out to see if they could get data which would support either view or which would give further information for both the gentlemen.

H.M.JR: Harry, you are right.

MR. WHITE: I didn't know but what you were feeling they had overlooked something.

H.M.JR: I feel that they have, but that is the fault of the people that gave them their instructions.

MR. SULLIVAN: We were trying to get the report as quickly as we could.

H.M.JR: Now, look, I am trying to - I have listened to this argument. I have heard both sides, and the thing that I missed in this thing - let's say all of us overlooked it - is what is the fellow whose money we are talking about - how does he feel about it.

MR. SULLIVAN: I entirely agree with you, sir.

H.M.JR: I am not trying to blame anybody, but trying to say we sit here so often and I make the mistake of trying to decide something that is going to affect thirty million people, and we haven't even asked the people how they feel about it.

Now, if the comeback was seventy-five percent, or whatever it is, or a high percentage of these people say,

- 11 -

"Yes, that is the way we want it" - I mean, I have talked to people, a few people, and they say they would like to have it, that it would help them; but if the overwhelming evidence was that the people who were working want it, and that they would continue to buy their War Bonds, it would be awfully hard to argue against it.

MR. WHITE: May I just add this one point. I am wondering whether we are not talking about different things. Mr. Graves raised the point that a good deal of the voluntary savings would go out the window if you had taxes withheld because - and this seems to me to be the significant point at this moment - because the businessmen would not want to handle both. Now, that point needs to be examined. I am very skeptical of that decision. If, however, you are raising a different point, Mr. Secretary--

H.M.JR: Harry, again may I interrupt you? Stewart makes the same point as you, that Graves in this study - that Graves has no evidence to back that up. It is purely his personal opinion.

MR. WHITE: I think that is true of all our judgments.

H.M.JR: He has nothing to back that up with.

MR. WHITE: Neither have I. It is just a question of judgment.

H.M.JR: So, therefore, it is a question of going back to the field, Harry.

MR. WHITE: Yes, but you are now raising a very separate point. You are now raising the question whether the employee would like to pay his taxes and savings.

Now, I am wondering whether you want to take his opinion because as soon as the employee understands it - and it won't take him long to figure this out, that what he is doing is not paying taxes in advance but additional taxes for the first year, double taxes -

- 12 -

he isn't going to like it any more than if you asked him, "Do you like an increase in taxes?" I think that the decision has to be made independently of how he feels, though I do think it would be very helpful if he would feel nicely about it.

H.M.JR: Oh, Harry, really, you shock me now. What is this? A democracy. This is something we are going to wrap up and--

MR. WHITE: If you want to go to the employees and ask each employee whether he likes to pay more taxes - maybe you do - I didn't know that you had any such investigation--

H.M.JR: Harry, you really shock me. I mean, the whole - if your philosophy is right, then don't let's bother about any of this stuff. I mean, let's just sit here cold-bloodedly and decide the thing.

MR. WHITE: I think that is what you have to do with respect to this question of taxation at the source.

H.M.JR: Are you afraid of what they would think?

MR. WHITE: Well, I don't see any more reason for asking them on this than there is for asking them on taxes. Now, we do like to get their general impression.

H.M.JR: The businessman through the NAM and the Chamber of Commerce has his spokesman here. What is the name of that Treasury man that used to be here and is now over with the Chamber of Commerce?

MR. KUHN: Alvord.

H.M.JR: They pay him God knows what to be their representative. The little fellow at the bench doesn't get his chance to be heard.

MR. WHITE: I didn't know it was the Treasury's function to use anything but the spokesmen for those various groups. If you would like to do it, far be it

- 13 -

from me to be against additional information or additional opinions from the fellow lower down, but it can't be decisive.

H.M.JR: Our whole program of War Bonds is not to go through the front door.

MR. WHITE: That is different.

H.M.JR: No, no, I am really shocked at that.

MR. WHITE: One is a question of a voluntary purchase; the other is taxation.

H.M.JR: You read my tax speech and everything else - well, if we are going to take the position here in the Treasury that we are afraid that these people are going to understand this thing and therefore we mustn't explain it to them, I am on awfully weak grounds.

MR. WHITE: I am not making that implication.

H.M.JR: You said they would catch on to the fact that they are going to pay more.

MR. WHITE: Therefore, if you ask the man, what you are actually asking him - and if you wish to ask him this question it is perfectly all right - you are asking this man, "Are you in favor of paying more taxes this year in addition to the additional tax bill which we are going to impose?"

H.M.JR: No, I would explain the whole plan to him.

MR. WHITE: Well, that is the plan in its essence.

H.M.JR: I would explain it to him. Now, I am being terribly sincere about this.

MR. WHITE: I am, too. I think that your reaction if you went to the working man - I suspect if you went to the working man in general and you explained this and gave him a chance to understand it, he would say,

- 14 -

"Now, let's see, you want me to buy bonds, you want me to pay more taxes, and you now have got a new wrinkle, you want me to pay double taxes the first year and you are asking me if I like it."

MR. STEWART: It is five percent of his taxes.

MR. FOLEY: Yes, but that is over and above what he would pay next year. I think Harry is absolutely right.

H.M.JR: It is five percent of his income. I made the same mistake before the Committee that you did, and I had a terrible time getting my record straightened out. Didn't I?

MR. TARLEAU: Yes.

MR. BLOUGH: Mr. Secretary, there has been a Gallup poll in which a substantial majority said they were in favor of the ten-percent tax being withheld at the source.

H.M.JR: But look, let me see if I can sum up the the thing, as I understand it, and let me ask this thing from either you or Friedman. Of the one hundred and eighty concerns that you have asked, what percentage of them will say that they are willing to put in deduction at the source?

MR. BLOUGH: That question was not asked. It very definitely was not asked, "Are you willing to do this?"

H.M.JR: What was the question?

MR. BLOUGH: The question was, "What difficulties will you meet in doing it?"

H.M.JR: Well, what was the answer to that?

MR. BLOUGH: I would rather Mr. Friedman, who is intimately tied up with it, would speak.

- 15 -

MR. FRIEDMAN: All told we interviewed - this one hundred and eighty you referred to was a preliminary sample. We now have returns from over four hundred and fifty. We ourselves interviewed, personally, in the Detroit area, and we find there would be no serious difficulty in introducing the collection at source. We asked each employer what effect it would have on his pay-roll system, and I can speak on this point primarily from my own personal experience. Not one employer whom we talked to said that it would interfere - that it would on the pay-roll side interfere with the collection at source - not one.

MR. ODEGARD: Did you ask every one that question?

MR. FRIEDMAN: Yes, we asked every one about that. We asked how it would fit into their pay-roll system and what readjustment they would make, what other deductions they were now carrying; and almost all of them are carrying between five and twelve deductions, so that the additional deduction is not a serious problem. All of them, when we asked them and pressed them, indicated other deductions that were less important than either the bond purchase deduction or the collection at source, tax deductions; and it was these other deductions they said they would consolidate or handle manually if they couldn't do it any other way.

Not one of them missed the War Bonds. All of them were either proud of their record on War Bonds or somewhat ashamed of what they had done, and their whole feeling was that this War Bond thing must go on. Their general reaction was that the collection at source was a good idea, that it would be no serious problem. To a few of them of course it would be a more serious problem than to others, but in general the reaction was there was no serious problem on the bookkeeping and pay-roll side.

H.M.JR: Well now, you see the person that first raised this thing wasn't thinking of War Bonds at all.

- 16 -

There were two people that first brought this to my attention. One was my son, Henry, out in Cleveland, who worked very closely with the people there. They have community chests; they have to do something about medical care and Red Cross, and he counted up - there were six or seven different things that a man living in a housing authority, in which he was working, had to deduct, you see.

Then the next man that brought this plan up was a man by the name of Roosevelt, and he wasn't thinking of War Bonds, but he was thinking of the man making between two and three thousand dollars. By the time we get all of these things, aren't we asking this man to do too much?

MR. WHITE: That is exactly it, and there is no doubt in my mind but that Harold is right when he says that the amount they will buy voluntarily will be curtailed; but it will be from the worker and not because the employer doesn't want to handle both things. The worker will simply say, "This is too much, and therefore I am going to cut down on my Bond purchases."

MR. PAUL: But you can't compare the figure one billion two hundred and fifty with three hundred million because you are not going to lose it all.

H.M.JR: Harry - also very much in the room - another thing here that makes me want to go to work is the fact that management unanimously wants this thing. If nobody has talked to the man at the bench, for us here - you and I and all of us in this room - to approach this thing without finding out the repercussions - we haven't had time yet to get results from the study in Buffalo as to what is happening to the people; but I say this, from the little I heard, that I don't think anybody understands what will happen to the workman's family. The thing I want to be so careful about is - and Harold will get the worst end of this thing because I am so anxious to see War Bonds go so I treat him a little bit tougher than I would anybody else, and I am going to be more careful about it, that I don't side with him, because I am so interested in it.

- 17 -

But the thing I would like to see at this stage, Roy, or Harold, is what happens to a family with between two and three thousand dollars, with two children.

MR. BLOUGH: I have that.

H.M.JR: Do you want to read it out loud? I would like to know, because there is a limit, you know. You know, gentlemen, there is this thing - after all, the only thing that everybody in this room is interested in is licking Mr. Hitler. Now, if you hit these people too hard at this level you are going to hit their morale, and we can't overlook this thing. What are the figures, Roy?

MR. BLOUGH: Well, you want a man between two and three thousand dollars, married couple, with two children.

H.M.JR: Yes.

MR. BLOUGH: And this is the tax computed under the House bill. Let's take a man with an annual wage of twenty-five hundred dollars. He has two children.

H.M.JR: Couldn't you start lower than that?

MR. BLOUGH: Yes, I can go down to twelve hundred dollars. His weekly wage is twenty-four dollars. His Social Security deduction next year will be two percent, or forty-eight cents.

H.M.JR: Per week?

MR. BLOUGH: Per week on twenty-four dollars. He will have no income tax to pay of any kind whatever. He will have two dollars and forty cents deducted for bond purchases, making a total deduction of two dollars and eighty-eight cents out of twenty-four dollars.

H.M.JR: Go to the next level.

MR. BLOUGH: The next level is fifteen hundred dollars. That is a weekly wage of thirty dollars. Sixty cents a week, Social Security deduction; no income tax; three dollars on the bond quota; total withheld from thirty dollars is three dollars and sixty cents.

- 18 -

On two thousand dollars there is eighty cents Social Security deduction; no tax; four dollars Savings Bond quota; total withheld is four dollars and eighty cents.

Twenty-five hundred dollars, or fifty dollars a week; one dollar Social Security deduction; thirty-five cents, income tax deducted at the source; Savings Bonds quota, five dollars; total withheld, six dollars and thirty-five cents; to which should be added tax on 1942 income, a pro-rated share, one dollar and sixty cents a week. So he must meet seven dollars and ninety-five cents all together.

H.M.JR: Out of how much?

MR. BLOUGH: Out of fifty dollars, and of that amount six thirty-five would be withheld, and the other dollar sixty cents is the amount he has to save and scrape up to pay--

H.M.JR: Pay?

MR. BLOUGH: ... the Government on his 1942 income tax.

H.M.JR: Do that one again, because that is where the deduction at the source comes in for the first time.

MR. BLOUGH: Under the House bill, yes, sir.

H.M.JR: At what level?

MR. BLOUGH: Above two thousand dollars. I didn't have between two thousand and twenty-five hundred dollars. I have twenty-five hundred dollars.

H.M.JR: Do that again.

MR. BLOUGH: Fifty dollars a week is what he gets. Social Security will take a dollar a week; the collection at source of income tax will take thirty-five cents from

- 19 -

him; his Savings Bonds quota will take five dollars from him. He will have withheld from his salary six dollars and thirty-five cents. He will also have to meet income taxes which on a weekly basis would be a dollar and sixty cents. Those won't be withheld. That is the amount he will have to pay in installments. So the total on a weekly basis is seven ninety-five out of fifty dollars.

MR. PAUL: The greater part of that - five dollars of that is a saving, not a tax.

MR. BLOUGH: Five out of seven ninety-five is saving.

MR. WHITE: And Social Security is a saving.

MR. BLOUGH: Six including the Social Security.

At three thousand dollars he has a weekly wage of sixty dollars; social security deduction of one dollar and twenty cents; income tax withheld at the source, eighty-five cents; Savings Bonds quota, six dollars; total withheld, eight dollars and five cents; in addition to which he has his regular income tax of three dollars and forty-four cents, or eleven forty-nine out of sixty dollars.

H.M.JR: Let me see that, please. Those are the figures I have been crying for. Savings bank quota?

MR. BLOUGH: That is an error in typing. I am very sorry, Mr. Secretary. It is Savings Bond quota.

H.M.JR: Just come back here over my shoulder. This is starting with twenty-five hundred dollars.

(Mr. Paul left the conference.)

H.M.JR: How long have you had these figures ready? They are the ones I have been trying to see.

- 20 -

MR. BLOUGH: Since yesterday.

H.M.JR: What is the difference?

MR. BLOUGH: That (indicating) is the percentage of income.

H.M.JR: The twenty-five hundred dollar fellow pays seven ninety-five?

MR. BLOUGH: Which is fifteen and nine-tenths percent of his income.

H.M.JR: That is lower than what I thought. That is, including the--

MR. BLOUGH: ... including the savings, including the tax, including Social Security, and everything.

MR. WHITE: That is the increase in Social Security which is being contemplated.

MR. BLOUGH: Not being contemplated - it is in the law now to take effect as of January first.

MR. ODEGARD: This doesn't take account of the other deductions such as you mentioned, Community Chest, and so on.

MR. BLOUGH: The Government employee you asked for also. He has a somewhat stiffer situation because he in addition has the five percent Civil Service retirement in place of Social Security.

H.M.JR: Have you got that?

MR. BLOUGH: Yes, I have that. Again a married person with no - married person and two dependents - these are comparable. Instead of the Social Security he has a dollar and twenty cents. His Civil Service retirement is five times the Social Security.

- 21 -

H.M.JR: He has no Social Security?

MR. BLOUGH: He has no Social Security, but he has in place of that the Civil Service retirement.

H.M.JR: Who wants to take up from here on?

MR. GRAVES: I would like to ask Mr. Friedman a question.

H.M.JR: Go ahead.

MR. GRAVES: Did you ask the Canadian employers - you said you visited two - how many of their employees were participating in the bond purchase program and what their rate of participation was?

MR. FRIEDMAN: No, we did not, but I did see the pay-roll books on one of those concerns. We looked through the pay-roll books, and I can say from just the inspection of the pay-roll books that a very large percentage of the employees--

MR. GRAVES: But you didn't ask for any figures?

MR. FRIEDMAN: We did not consider that within our purview.

MR. GRAVES: Of course that is a very significant point, that obviously in any company where participation in the plan, although the plan is available, is very small the difficulty of the employer in taking on this additional job would be much less. Our objective, as no one knows better than yourself, is to bring about a ninety percent, at least, participation in this plan, and on a basis, if we can attain it, of ten percent of gross pay roll. A company that is in that or near that objective would obviously be in an entirely different situation than the companies which had the plan in on a nominal or token basis. I think that is very

- 22 -

important. I doubt if Canada, in view of the lateness of their start on this pay-roll allotment, would have any substantial--

MR. FRIEDMAN: I know one of these was certainly not nominal. As I say, we looked over the pay-roll records and saw the columns and the amounts that they were deducting for each of these types of savings bonds.

MR. SULLIVAN: Milton, were you with Dr. Atkeson when he visited the AT and T? I just had an opportunity to speak with him for a moment. I understood from him that the comptroller--

H.M.JR: Who did you talk to?

MR. SULLIVAN: The comptroller of the American Telephone and Telegraph gratuitously remarked that this would be sabotage - the pay-roll allotment plan. Is that correct?

MR. FRIEDMAN: The comptroller there was referring to the employees' reactions, not the employer's side.

MR. SULLIVAN: That is what I understood. He was expressing his own opinion about what the employees would do. That was not an opinion about the effect on the employer's pay-roll system.

H.M.JR: That is what I have pointed out; we really don't know how the employees will react. That is what we don't know. John, do you want to get in on this?

MR. SULLIVAN: No, sir. The report will be ready, we hope, tomorrow on the result of this investigation.

H.M.JR: You don't know how it will look?

- 23 -

MR. SULLIVAN: No, I don't. You will recall that Monday I said Mr. Cann had stated that it looked as though about fifteen percent of the employers would need additional equipment. This morning he said it might be nearer twenty-five, and they are trying on a sampling basis to find out how much that means in terms of additional machinery.

H.M.JR: Of course that is something that once we get it - I mean, that isn't a question to argue about. It is a question--

MR. SULLIVAN: It is purely factual.

H.M.JR: That is, to go to Mr. Nelson and say, "They need so many typewriters, so many adding machines, so many computing machines. Can we get them?" That is exclusive of the Bureau?

MR. SULLIVAN: Yes, sir.

H.M.JR: Foley?

MR. FOLEY: Well, I think that the fair way to put the question to the employee is to ask him whether or not it would facilitate his budgeting and facilitate his income tax payments if a plan similar to the plan under which he purchases War Bonds were instituted and the company deducted at the source so much each pay period for income taxes. I think that is the way to put it to the employee. The other way is the unfair way, because you are asking him, as Harry points out, if he is willing to pay more than he has ever paid before in the way of income taxes and pay-roll deductions for War Bond purchases.

It seems to me that now we are putting a greater burden on the income tax system, and we will continue to increase that burden as we go along; that we are faced with a permanent improvement in our income tax system that necessity compels us to take. While at the moment there will be a clash with your War Bond purchases,

- 24 -

nevertheless it seems to me it is a step that we inevitably must take if we are going to make our income tax system workable with these additional levies that the man in the low income brackets must pay for the first time.

H.M.JR: The only thing there I don't - either you and Harry don't understand, or I don't - all I was suggesting is that the thing be explained to the workmen. There is nothing unfair about that, to explain to him what the proposal is.

MR. WHITE: If you explain it, I think you would have to say something more than Ed said. I think it would have to be made clear to him that though he is paying taxes in advance, he doesn't catch up to himself until he dies, so that this one year - let's put it this one year he is paying more. He will see that. I don't think it is in any sense an insuperable obstacle to his acceptance. I do think we can't overlook the fact that it is in many cases going to cut down on the voluntary savings. In many cases it is going to cut it some; how much I don't know.

MR. FOLEY: I think any worker would like to pay his income tax out of current earnings rather than to have to save out of current earnings to pay income taxes based upon income he received the year before.

H.M.JR: You didn't mean, Harry, he wouldn't catch up to himself until he dies.

MR. WHITE: On this thing he catches up--

H.M.JR: On this he catches up - in '44 you become current, don't you, Randolph?

MR. WHITE: That is right. What I meant is he never gets this double pay back.

MR. SULLIVAN: Harry means in '44 it is being withheld for '45.

- 25 -

MR. WHITE: One year he pays something out which he never gets back.

MR. BLOUGH: Unless he becomes unemployed, in which case that is not correct. If he becomes sick or retires before he dies--

MR. WHITE: But for one year he is being asked to pay more. That will become clear to him. I don't think that is asking too much, but I merely mean that will add to the curtailment of his voluntary purchases in many cases, though I don't think it will be anything like the amount suggested by Harold; but it will be something, and I think that has to be anticipated.

MR. FOLEY: I think it is the most significant thing that any Secretary of the Treasury has been faced with since we instituted the income tax system, and it is going to be a permanent thing when it is done. It is an improvement in the collection of taxes that has to be made, it seems to me, in view of the exigencies of the burden that you are throwing on the people.

MR. ODEGARD: Ed, is it contemplated that ultimately there will be collection at the source which will obviate the necessity for the income receiver making an additional return?

MR. FOLEY: I don't think the thing will ever be that perfect, but I think that as improvements are made in the light of experiences that are gained in the actual operation of the new system, there will be less actually collected from returns, that the workmen will have to fill out later on, than will be true in the first instance.

MR. ODEGARD: I am thinking merely from his point of view. That is, he has to make out an income tax return in any case; and if it were possible to obviate the necessity for him making out this return, it would be much stronger - he would have a much stronger case.

- 26 -

MR. FOLEY: I agree with you, Peter, but I think you will gradually work in that direction and you will never--

H.M.JR: You asked that--

MR. FOLEY: ... attain perfection.

H.M.JR: ... about getting a return out of these thirty million people - I mean, this would be a substitute.

MR. STEWART: It is not a substitute.

H.M.JR: But if it was, it would be a big argument in his favor.

MR. FOLEY: There is the other argument in its favor, that the fellow doesn't have to save.

MR. ODEGARD: Do the English require a return, individual return?

MR. BLOUGH: Yes, the English do.

MR. STEWART: It seems to me the employer makes out the return, and the employee signs it.

MR. BLOUGH: In Great Britain the Government assesses the tax on all people, and the person simply files the statement of his income, and the Government makes the computation; but the return has to be filed.

MR. WHITE: I think the mass of the people will be pleased next year. I think they will look back and say, "I am glad this was done."

MR. KUHN: Mr. Secretary, could I ask a question of the people who made the inquiry? Did you put it to the employers as a withholding tax in principle and in general terms, or did you explain to the employers the procedure that they would have to follow under the proposed bill?

- 27 -

MR. FRIEDMAN: We did the latter.

MR. KUHN: In all cases?

MR. FRIEDMAN: In all cases. We had a little mimeographed two or three page statement which described the steps the employer would have to take, and in most cases we let the employer read that. We supplemented it by explanations, but in all cases we tried to investigate in great detail just exactly how it would fit into his pay-roll system, what additional steps he would have to take.

H.M.JR: Tarleau?

MR. TARLEAU: No, there is nothing much that I can add, except that I always get a little nervous when they talk about, just as you (Kuhn) do, a withholding tax, because that again prejudices the thing. It isn't a withholding tax, but a method of collection at the source; a withholding tax is something that is in the Internal Revenue, and several examples of it are a withholding tax on non-residential aliens, a withholding tax on various types of income. But this is not a withholding tax; it is a collection system.

I just noticed here when the Secretary was speaking about low income people that single persons having an income of eighteen hundred dollars a year last year paid a tax of, I think, somewhere around thirty dollars. This year he pays ninety-seven dollars and ninety cents; and under the bill that passed the House, on a salary of about eighteen hundred dollars a year, which is about thirty-four dollars a week, he will have to pay a tax of two hundred and thirty-six dollars and twenty cents.

In the bill that the Secretary will appear for perhaps next January or February, instead of paying two hundred thirty-six dollars and twenty cents, he may be asked to pay four hundred dollars.

H.M.JR: Will you underwrite my appearance?

- 28 -

MR. TARLEAU: I will bet on it. The fact is this fellow making thirty-four dollars a week isn't going to have two hundred and thirty-six dollars and twenty cents, or one-fourth of it, on the fifteenth of March, June, September, and December unless somebody gives him some help in forcing him to lay some of that money aside now. I mean, this two hundred thirty-six dollars and twenty cents is larger, in my own opinion, than any individual debt, except some unfortunate disaster, that this man has to meet. It is something, moreover, in which we have jumped from about thirty dollars to two hundred and thirty-six dollars, and I should think that that is a compelling - to my mind one of the compelling motives for going into a collection at the source system.

H.M.JR: Why don't you go the whole hog and collect his income tax at the source?

MR. TARLEAU: You mean collect the whole two hundred and thirty-six dollars and twenty cents?

H.M.JR: Yes.

MR. TARLEAU: Well, for obvious reasons I would like to go ahead and do that. You know the reasons that compelled us to take the ten and bring it down to five.

H.M.JR: If you could write it, wouldn't you collect the whole thing, the whole two hundred and thirty odd dollars?

MR. TARLEAU: I would, yes.

MR. WHITE: Don't you expect to move in that direction?

MR. TARLEAU: Certainly.

MR. WHITE: Just give it to him gradually.

- 29 -

MR. TARLEAU: We are moving into this thing gradually. This transition period is a tough one. You don't want to do it all at once, but that, I think, is a factor that can't be overlooked. Moreover, now going back on the other side, take some of the examples. We are going into it so slowly that the present effect on the bond program of a man making twenty-five hundred dollars a year, married, with two dependents - he is paying five dollars for Bonds of his fifty-dollar income, and I should think that additional thirty-five cents isn't going to prejudice the five-dollar expenditure for Bonds. At least I would feel that needs a great deal of explanation to make me feel he would give up his five-dollar Bond purchase because of thirty-five cents he is prepaying on his income tax.

MR. WHITE: Except that it psychologically has a little more impact than the actual quantitative measure.

MR. TARLEAU: I can see that.

MR. WHITE: A lot of people are on the line, and it doesn't take much pushing to get them to change their minds about the amount of contributions. Look how that is apparent in the letters that come to the Treasury. No matter what the complaint is the man has - it can be the Post Office, the taxes, the spending of money, the way the Army operates - he says, "As long as this continues I am going to stop buying Bonds." It is the one avenue he has in which he can express his dislike or antagonism and takes it out of buying Bonds. There are many who are going to dislike this and take it out of their Bonds as long as the voluntary plan is in.

MR. TARLEAU: That is true.

MR. WHITE: There can merely be a difference of point of view as to the amount, but I don't think that you can take the position that it won't interfere to some extent.

MR. TARLEAU: Yes.

- 30 -

MR. PAUL: Yes, but the interference is not going to be to the full extent by a long shot. We are comparing a reduction of the sale of War Bonds with a system of collection at the source which is vital to the income tax not only next year but for all time.

MR. ODEGARD: Randolph, on that I am not clear about what data you have to say that if you don't collect at the source you are going to lose a lot of revenue.

MR. PAUL: I mentioned that. That is one point, but I don't want to stress it too much because nobody can compute it. All I feel is that quite definitely there are a lot of people who are going to fail to file returns and pay their tax when we get thirty million returns - and we are supposed to get that many - and we can't go out and police that, particularly today, so we are going to lose the money that those defaulters would otherwise pay.

MR. WHITE: Might I ask a question? What will the total be if you move up to the ten percent?

MR. PAUL: Two and a half billion.

MR. WHITE: If you move - when you get to the ten percent it will be two and a half billions. If you apply the average rate of interest to that two and a half billion the Government will save fifty millions a year, so that if there are some additional expenses merely in the collection of the tax one would have to--

MR. SULLIVAN: Oh, no, it isn't for a full year you are saving - it is an average of seven and a half months.

MR. WHITE: Well then, you would have to modify it.

- 31 -

MR. SULLIVAN: That is about what withholding would cost.

MR. BLOUGH: It is practically a full year, Mr. Sullivan. If the tax is paid in quarterly installments you have substantially a full year - in fact, a little more than a full year in some cases.

MR. SULLIVAN: That is right, but the experience in those brackets affected by withholding has been that not a small number have taken advantage.

MR. BLOUGH: That has been true in the past, but not in the future. I am willing to gamble on that, because of the heavy tax.

May I before this meeting is over - I would like to have a couple of words, if I may. The meeting seems to be getting well toward the end. I would like just to add one or two points to what has been said, especially by Mr. Foley and Mr. Tarleau.

It seems to me that we have here a chance in the United States - we are pretty much at the turning point in the United States as to whether the people's tax, and we are going to have a people's tax and we are getting a people's tax - whether the tax on the masses of the people levied by the Federal Government should be an income tax in which you can have exemptions and in which you can have deductions and recognition of marital status and progressive rates, and so on, or whether our people's tax is going to be a sales tax.

(The Secretary left the conference temporarily.)

MR. ODEGARD: It is not going to ease the burden at all on handling the returns.

MR. PAUL: It will be harder for the Bureau.

- 32 -

MR. WHITE: It mustn't be compared to what it is now. It must be compared with what it will be with the expansion. Even so it will complicate it, but we mustn't allocate all the troubles they are going to have to collection at the source.

MR. FRIEDMAN: A large part involved with collection at the source is already involved with information at the source.

H.M.JR: What else did you want to say, Roy?

MR. BLOUGH: I was about to make this point, that we can make the income tax a people's tax or we can take heavy general sales taxes. I don't believe you can make the income tax a people's tax on anything like the scale that needs to be used under coming conditions without collection at the source; and that it has a permanent aspect of the income system and has been used in other countries to very good advantage. It can be used and should be used here to good advantage.

Now, the second point I would make is this, that if a billion dollars collected at the source through this tax cuts down Bond purchases a billion dollars, you are still considerably ahead because the billion dollars in one case is taxes which never has to be paid back. There isn't going to be any doubt about the cashing of these things at a very embarrassing time, no interest to pay, and so on. The Bonds, after all, are bonds. It is borrowing and does let the Secretary of the Treasury and the people of the United States in for the problem of repaying them and repaying them with interest. You can take something in sacrifice in order to get this sort of thing in operation.

MR. GRAVES: May I ask Mr. Blough a question about a statement he just made. I don't understand--

- 33 -

H.M.JR: I want to save three minutes at the end because I want to ask Stewart to give me his impression when we are through.

MR. GRAVES: When you say this billion dollars you are talking about is taxes and not borrowing, you mean both are borrowing, if I understand this scheme.

MR. BLOUGH: I may not have made myself clear. I frankly don't believe that you can impose income taxes on the plane on which we are about to impose income taxes, even in this bill, and have them successfully operated and have the public stand up to them without a method of this kind being put into operation.

MR. GRAVES: That isn't my point. I mean when you say in one case it is taxes and in the other case it is borrowing--

MR. BLOUGH: As to the billion dollars it is borrowing for one year at no interest, but it is a much bigger matter than that. You will get this billion dollars and many other billions of dollars through collection at source which you will never get in any other way, and in that sense it isn't borrowing but taxes.

H.M.JR: Well, you borrow this five percent for a year, but then you give him a credit on his income tax.

MR. BLOUGH: That is right, but you are going to be able to impose taxes at a level you could never expect to impose on them without collection at the source, except through sales taxes.

H.M.JR: Now, Walter, if you want to - I am very proud of myself--

MR. STEWART: I got the same impression as out of the interviews I had yesterday. It is very

- 34 -

difficult. The strongest difference of opinion is at the point where there is the least evidence. We don't really know how much the withholding at the source will affect the Bond sales, and I don't mean to imply that the other inquiry was expected to cover that. It is difficult evidence to get, particularly to get it in a conclusive form.

The evidence up to date, I would say, on these surveys, so far as the employer was concerned, is that he would not find it an impossible task to administer.

To get evidence as to how the employees feel would be much more difficult. I also agree that the test there is not its popularity.

The view that Foley and Blough expressed to me yesterday about the withholding tax being a permanent improvement and the long-term view, I am entirely persuaded of. I think it is probably not only desirable but essential if you are going to administer an income tax at the levels that you are working on and that it makes itself flexible. It runs into a period where you have got the problem of the sales of the Bonds, and on that we just don't know, but I would be prepared to say it would jeopardize it somewhat.

If you don't do it now you are quite likely to have to do it at a less convenient time. It would have been a fortunate thing to have had it done a couple of years ago.

Now you are faced with, "When will you do it?" If there are to be further reductions, further exemptions and lowering the level, you will find it more difficult in its flexibility of administration, fitting the fiscal program into the economy. The method of collection is a definite improvement, and I think probably a requirement at this level.

- 35 -

What we don't know is the reaction which it may have upon the Bond sales, and I would think that the proper thing to do is first, perhaps, to go back to these one hundred and eighty firms and ask them the question in a more precise form, of the kind we discussed this morning, and then get such consensus of opinion as you can from the employees.

H.M.JR: Well, what I would like to do is this, because I am going on the assumption that I will have two weeks' time from tomorrow if I still decide to put in a hedge, so to speak, tomorrow when I appear, in view of the machinery side of the thing.

I wonder if this group here couldn't meet right after lunch, or enough of them to meet and then submit it to the bigger group - additional questions. I don't know who did it in the first case, but the questions are there. Go back to these people, both the employer and the employee in these factories, to find out what effect this deduction at the source would have, what reaction it would have generally on Social Security, Community Chest, and what have you - how would they feel about it.

I mean, is deduction at the source such a big hurdle that they will say, "Well, if you are going to do this that is all we can do", or will they say, "We can do a little bit less", or, "It won't make any difference."

Roy, I don't think that is impossible.

MR. BLOUGH: I am quite in favor of it, Mr. Secretary.

H.M.JR: I have got enough confidence in the people in this room here that if you people would

- 36 -

get together and fix up something and let the boys go out into the field again - I would only let them stay out a week, not more than a week.

MR. WHITE: Do you expect, Roy, that you would get any meaningful quantitative results from an inquiry of that kind? Certainly no investigation which has ever been made of a similar thing - and there have been a number of them made in universities, and I know - I am familiar with three - has yielded quantitative results which are worth the paper they are written on. You will get what the Secretary has asked; you will get what their reaction to the idea is - it will be bad or good - but you will not emerge with anything even approaching the estimate of the extent to which your voluntary program will be interfered with.

MR. STEWART: That is so far as the employee is concerned. As far as the employer is concerned, you will get everything.

H.M.JR: Well, look, let me just - I should be on time - irrespective of what has happened before, Harry, I would like this thing done. See? It may not be worth the paper it is written on, but at least--

MR. WHITE: From a quantitative, not qualitative - you won't be able to say approximately how much.

H.M.JR: Well, you can get some idea, and I think that Harold is on the weakest ground, if he doesn't mind my saying it. He has got to find data to support the thing. He is just giving his personal opinion, for what it is worth; and he may be right and he may be wrong. I think everybody here in the room agrees it is going to hurt War Bond sales. I don't think anybody here agrees that it won't.

But I would like this additional - I have got a week, and I would like to spend that week finding out.

- 37 -

This discussion for me was very helpful, and I must say that I was impressed more with the argument for deduction at the source than I was against it - I mean, listening this morning.

I have always said here, and I would like you to all keep this in mind - I have always made the statement, as far as I am concerned I have got a plan for a five-year war. Well, if I am planning for a five-year war this is one of the fiscal steps that I should take, because certainly if we are in a five-year war we will have to do this and I have always said, "Let's plan that this war is going to be a five-year war."

But the machinery thing, you will have that ready Thursday?

MR. SULLIVAN: Yes, sir, I hope to have a report tomorrow morning. We will not have gone to WPB to find out--

H.M.JR: But you will go tomorrow?

MR. SULLIVAN: Tomorrow afternoon, yes, sir.

MR. ODEGARD: I was going to make another suggestion, that in getting the opinions of employees it would seem to me that you might use machinery for doing that such as Likert's machinery rather than Mr. Friedman's.

H.M.JR: Well, I think - I thought of that. I don't know whether Likert's people are available. But would this group in some room continue this thing after lunch to get this questionnaire up so that between now and tonight it will be settled; and I think the Likert thing is a good idea.

I have got to stop, but this is one of the best discussions I have ever had, and may I compliment you all on your low blood pressure. (Laughter)

Table 1 - a

Amount and effective rate of deduction from weekly wages for Social Security tax, income tax withheld at source during 1943, savings bonds and tax on 1942 income

Single person - no dependents
Weekly exemption for income tax withheld at source - \$11

Annual wage	Weekly	Social	Income tax	Savings	Total	Tax per week	Total withheld	
	wage (Col. 1 + 50)	Security deduction 2/ (2% of Col. 2 up to \$3,000)	withheld at source - 5% (Col. 2 - \$11)	bond quota (10% of Col. 2)	withheld (Col. 3 + Col. 4 + Col. 5)	on 1942 income 1/ (Tax on Col. 1 + 50)	plus 1942 tax, per week (Col. 6 + Col. 7)	
	1	2	3	4	5	6	7	8
				<u>Amount</u>				
\$1,200	\$24	\$.48	\$.65	\$2.40	\$ 3.53	\$ 2.52	\$ 6.05	
1,500	30	.60	.95	3.00	4.55	3.62	8.17	
2,000	40	.80	1.45	4.00	6.25	5.46	11.71	
2,500	50	1.00	1.95	5.00	7.95	7.30	15.25	
3,000	60	1.20	2.45	6.00	9.65	9.44	19.09	
3,500	70	1.20	2.95	7.00	11.15	11.98	22.73	
4,000	80	1.20	3.45	8.00	12.65	13.72	26.37	
				<u>Effective rates</u>				
\$ 1,200	\$24	2.0%	2.7%	10.0%	14.7%	10.9%	25.2%	
1,500	30	2.0	3.2	10.0	15.2	12.1	27.2	
2,000	40	2.0	3.6	10.0	15.6	13.7	29.3	
2,500	50	2.0	3.9	10.0	15.9	14.6	30.5	
3,000	60	2.0	4.1	10.0	16.1	15.7	31.8	
3,500	70	1.7	4.2	10.0	15.9	16.5	32.5	
4,000	80	1.5	4.3	10.0	15.8	17.2	33.0	

Treasury Department, Division of Tax Research

July 21, 1942

1/ Assumes worker employed 50 weeks. 1942 taxes computed under rates in H. R. 7378.

2/ Employee's share of payroll tax for old-age and survivors' insurance.

GLH:DMK/lm
7/21/42

orig to REP

208

Table 2 - a

Amount and effective rate of deductions from weekly wages for U. S. Civil Service Retirement Fund, income tax withheld at source during 1943, savings bonds, and tax on 1942 income

Single person, no dependents
Weekly exemption for income tax withheld at source - \$11

1	2	3	4	5	6	7	8
Annual wage	Weekly wage	Civil Service retirement fund (5% of Col. 2)	Income tax withheld at source (5% of Col. 2 - \$11)	Savings bond quota (10% of wages, Col. 2)	Total withheld	Tax per week on 1942 income (Total tax \$.50) ^{1/}	Total withheld plus 1942 tax per week
<u>Amount</u>							
\$1,200	\$24	\$1.20	\$.65	\$2.40	\$ 4.25	\$ 2.52	\$ 6.77
1,500	30	1.50	.95	3.00	5.45	3.62	9.07
2,000	40	2.00	1.45	4.00	7.45	5.45	12.91
2,500	50	2.50	1.95	5.00	9.45	7.30	16.75
3,000	60	3.00	2.45	6.00	11.45	9.44	20.89
3,500	70	3.50	2.95	7.00	13.45	11.58	25.03
4,000	80	4.00	3.45	8.00	15.45	13.72	29.17
<u>Effective rate</u>							
\$1,200	\$24	550%	2.7%	10.0%	17.7%	10.5%	26.2%
1,500	30	5.0	3.2	10.0	18.2	12.1	30.2
2,000	40	5.0	3.6	10.0	18.6	13.7	32.3
2,500	50	5.0	3.9	10.0	18.9	14.6	33.5
3,000	60	5.0	4.1	10.0	19.1	15.7	34.8
3,500	70	5.0	4.2	10.0	19.2	16.5	35.8
4,000	80	5.0	4.3	10.0	19.3	17.2	36.5

Treasury Department, Division of Tax Research

July 21, 1942

^{1/} Assumes worker employed 50 weeks. 1942 taxes computed under rates in H. R. 7378.

LGP/CLM:bm
7/21/42

209

Table 1 - b

Amount and effective rate of deductions from weekly wages for Social Security tax, income tax withheld at source during 1943, savings bonds and tax on 1942 income

Married person - two dependents
Weekly exemption for income tax withheld at source - \$43

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Annual wage	Weekly wage (Col. 1 ÷ 50)	Social security deduction 2/ (2% of Col. 2; up to \$3,000)	Income tax withheld at source - (5% of Col. 2; - \$43)	Savings bank quota (10% of Col. 2)	Total withheld (Cols. 3 + 4 + 5)	Tax per week on 1942 income 1/ (tax on Col. 1 ÷ 50)	Total withheld plus 1942 tax, per week (Col. 6 ÷ 7)
\$1,200	\$24	\$.48	-	\$2.40	\$2.88	-	\$2.88
1,500	30	.60	-	3.00	3.60	-	3.60
2,000	40	.80	-	4.00	4.80	-	4.80
2,500	50	1.00	\$.35	5.00	6.35	\$1.60	7.95
3,000	60	1.20	.85	6.00	8.05	3.44	11.49
3,500	70	1.20	1.35	7.00	9.55	5.28	14.83
4,000	80	1.20	1.85	8.00	11.05	7.12	18.17
<u>Effective rates</u>							
\$1,200	-	2.0%	-	10.0%	12.0%	-	12.0%
1,500	-	2.0	-	10.0	12.0	-	12.0
2,000	-	2.0	-	10.0	12.0	-	12.0
2,500	-	2.0	.7%	10.0	12.7	3.2%	15.9
3,000	-	2.0	1.4	10.0	13.4	5.7	19.2
3,500	-	1.7	1.9	10.0	13.6	7.5	21.1
4,000	-	1.5	2.3	10.0	13.8	8.9	22.7

Treasury Department, Division of Tax Research

July 21, 1942

- 1/ Assumes worker employed 50 weeks. 1942 taxes computed under rates in H. R. 7378.
2/ Employee's share of payroll tax for old-age and survivors' insurance.

CLM:IMH:com
7/22/42

Fifth Draft.

July 21st / 42

STATEMENT OF SECRETARY MORGENTHAU
BEFORE THE
SENATE FINANCE COMMITTEE
JULY 23, 1942

*Last draft
7/22/42*

9:30 am

You will recall that in his Budget Message of January 5, President Roosevelt asked for additional taxes for the fiscal year 1943, exclusive of Social Security taxes, of \$7 billion. On March 3rd, I appeared before the Committee on Ways and Means of the House and presented recommendations for a tax program to produce \$7,600 million in additional annual revenue from taxes. On May 6th I wrote a letter to the Chairman of the Committee on Ways and Means recommending a reduction in personal income tax exemptions to produce approximately \$1,100 million more revenue. These two recommendations together involved a tax program of \$8,700 million of additional revenue. These amounts represented what I believed, and still believe, was the very least that the American people could afford to provide.

It is only against the background of our war expenditures that we can tell whether the revenue bill before you will fulfill its purpose. We are now spending

- 2 -

\$150 million a day, or almost \$5 billion a month. In the fiscal year that is beginning we are committed to spend the almost inconceivable sum of \$77 billion to win this war for human freedom.

There can be no compromise with these war expenditures. We would not reduce them if we could. Our whole effort must be to spend as fast and as effectively as possible in the production and use of our war materials. If our expenditures this year reach \$77 billion, our receipts in revenue from the people must bear some reasonable relationship to that colossal figure. If the House Bill were to become law it would be necessary to borrow from the public during this fiscal year \$ billion. To the extent that we enlist our current income in taxes to cut down this borrowing, we shall be protecting the future economic soundness of our country and our free institutions. To the extent that we fail, we shall be endangering the survival of all that we are fighting to preserve.

It is interesting to compare the fiscal situation here with the situation in Great Britain and Canada,

remembering, of course, that they have been at war longer than we. In its first full year of war, namely, the fiscal year 1941, Canada devoted not quite one-fifth of its national income to the war effort; in the fiscal year 1943 it expects to devote more than two-fifths of its national income to the war. In the fiscal year 1941 Great Britain devoted almost half of its national income to the war effort, and in the fiscal year 1943 it expects to put just about half of its national income into the war. In the fiscal year 1943, which will be our first full year of war, it is estimated that the United States will devote at least half of its national income to the war effort. Thus, thanks to the foresight of President Roosevelt and the splendid cooperation of Congress, we shall in our first full year of war have devoted to the war effort a proportion of our national income comparable to the proportions similarly devoted by Great Britain and Canada today.

We get a different picture, however, if we look at the percent of expenditures financed through taxes in the three countries, as shown in this table:

- 4 -

Percent of Expenditures Financed
through Taxes

<u>Fiscal:</u> <u>Year :</u>	<u>Great Britain :</u>	<u>Canada :</u>	<u>United</u> <u>States</u>
1941	44	61	
1943	52	57	37

In the fiscal year 1941 Canada financed 61 percent of its expenditures by taxation, and in the fiscal year 1943 it expects to raise 57 percent from taxes. Great Britain, in the fiscal year 1941, financed 44 percent of its expenditures by taxation, and in the fiscal year 1943 it expects to raise 52 percent from taxes. In the United States, however, including Federal, State, and local governments, only 37 percent of total fiscal 1943 Government expenditures would be financed by taxation on the basis of the Revenue Bill now before you. It is clear that we are substantially behind Great Britain and Canada in the proportion of our expenditures which we are raising from taxes. Quite frankly, I do not see why we should not do at least as well as Great Britain and Canada.

Taxation and the Cost of Living

Taxation does more than supply money to finance the war. It does more than apportion the war burden now, once and for all, instead of leaving it for further distribution through taxes after the war. Wartime taxation also plays an important part in preventing rapid and continued increases in the cost of living. The President has announced a seven-point program for holding down the cost of living. Ceilings have been placed on prices. This fact may have caused many people to be unduly optimistic about the future of the cost of living. It cannot be too strongly emphasized that if the price ceilings are to be maintained and rapid and continuous price rises avoided, the pressure of the large and expanding volume of consumer purchasing power on the diminishing supply of goods must be reduced.

To reach a much larger volume of consumer purchasing power, the Bill now before you includes such a broad reduction of personal exemptions that it will affect almost seven million individuals who have never paid direct taxes to the Federal Government before. If this section of the Bill is passed as it stands, some thirty

million income tax returns will be filed in the new fiscal year as against only 7,600,000 in 1940. Moreover, these thirty million individuals represent the bulk of consumer demand today. The income tax has, in fact, become a people's tax for the first time in our history.

Taxes cannot, by themselves, win the battle against inflation. The battle must be fought with determined and coordinated effort on many fronts. Taxation can be fully effective in this battle only if it is accompanied by restraint and self-denial in other fields. Nevertheless, taxation by itself can make the price situation more controllable and less dangerous than it otherwise would be, and it is an essential anti-inflationary weapon that must be used to the utmost. Inflation has been well described as "the ruthless process whereby sacrifice is imposed inequitably upon a people who have lacked the unity, the courage and intelligence to impose that sacrifice equitably upon themselves." It is for us to show that we have the unity, the courage, and the intelligence to check inflation now.

Treasury Program a Minimum Program

The Administration's revenue program was presented last Spring as a minimum. On March 3rd, when I first

came before the Ways and Means Committee, our total contemplated expenditures for the fiscal year 1943 were \$63 billion. Since then they have risen by \$14 billion, and the total war appropriations, authorizations and requests for this and succeeding fiscal years have risen by \$50 billion. It is true that the Bill before you would produce by far the greatest revenues in our history, and I would not wish for one moment to minimize the task performed by the Ways and Means Committee. Yet this Bill would provide only \$6.2 billion additional revenue in place of the \$8.7 billion we recommended in the Spring. It would fall by about \$2.5 billion to reach that minimum of last Spring, which is even more emphatically the very least we can afford to provide today.

In presenting its revenue program to the Committee on Ways and Means, the Treasury outlined methods of taxation which it considered most desirable and appropriate to raise the required amounts. I still believe that these proposals are sound and present the best sources for a revenue program of this size. They are based upon the principle of ability to pay, and they avoid such devices as a general sales tax, which would fall with the

greatest impact upon those least able to bear the burden. The various provisions of the Administration program are well known and it is not necessary to repeat them here. I should like, however, to emphasize certain points which I hope will be most carefully considered by the Committee.

1. Special Privileges

The Revenue Bill as it stands violates the basic principle of equity which is so important to an all-out war finance program. It does this by leaving certain highly privileged groups free from tax on large portions of their income.

The first of these especially favored groups are the recipients of tax-free interest from State and municipal securities. Exemption of interest on State and local securities is a serious breach in our system of taxing according to ability to pay. For example, in the case of one individual, out of a total reported income of approximately \$975,000, over \$668,000 came from State and local securities. If the Bill as it passed the House should become law, this individual would pay only \$; if, on the other hand, your Committee would adopt my suggestion and remove this pre-Pearl Harbor exemption, he would pay \$.

The glaring inequity of this exemption may be seen in another way. Under the tax rates in the House Bill, a person with a surtax income of \$100,000 from other sources who holds a 3 percent tax exempt security receives as much net return after taxes as from a taxable security yielding 20 percent. The existence of this special privilege for all holders of tax-free securities costs the Government and the people of the United States, under the House rates of tax, about \$ million a year; and it will cost still more as our wartime taxes ^{tempt} induce more and more wealthy individuals to shift their investments into the hide-out of tax exempt securities.

How can we expect to obtain an all-out war effort from all our people if we go on permitting a group of individuals and corporations owning \$14 billion of State and local securities to go tax free on the income from these securities? We are asking our young men to give their lives in our defense, and at the same time we are allowing many wealthy persons behind the lines to escape their fair share of the war's financial burden. At a time when we are straining our energies to the utmost to defeat a powerful and ruthless foe, common decency requires that we abolish

- 10 -

these special tax shelters, and do it now.

Another highly privileged group having large amounts of income exempt from income tax are the owners of oil wells and mines. I refer to those provisions of the law dealing with percentage depletion. Percentage depletion is a serious breach in our system of taxation according to ability to pay.

I cannot believe that the taxpayers of America would knowingly sanction a provision of the law which allows owners of oil and gas wells to deduct from their income 27½ percent of their gross receipts from such wells--not for one year, two years, or the period necessary to return investment, but for an unlimited period. For example, a leading oil company owned a number of oil properties which had cost it \$3 million. At the time the case was examined percentage depletion of \$3.6 million had already been allowed and the properties still had three-fourths of the oil left.

Certainly we cannot justify this exemption on the ground that it encourages exploration and drilling for oil. There is grave doubt that it has a substantial effect on oil discovery. It would have cost the Federal Government less than one-third as much to have paid all the

cost of every wild-cat well that was drilled in 1941 than to have allowed percentage depletion and the associated intangible drilling expenses, at an annual cost of \$208 million to the Treasury and the taxpayers.

The privilege of filing separate income tax returns furnishes another example of special tax advantage to many married couples having larger than ordinary incomes. In families in which the income is earned partly by the husband and partly by the wife and in families in which income earning property can be divided between husband and wife, the tax on the family income is less than where the husband or wife receives the whole income. The family is the true economic unit, and it is unfair for the amount of tax on the family to vary depending upon who earns the income or upon who in the family has income producing property. Ability to pay taxes must be judged in terms of family incomes and not the incomes of members of the family. The failure to require joint income tax returns constitutes a violation of the principle upon which our tax system should be based.

The adoption of mandatory joint returns would also eliminate another discrimination prevailing under existing law. Married couples living in the eight or nine so-

called community property States receive tax advantages which are in no way commensurate to any special relationship that may exist between husbands and wives in those States. For example, take a family in which the husband has a salary of \$10,000 after deductions. If the family has its residence in, say, California, the family tax would be \$2,138, while if the family lives in, say, Iowa, the tax would be \$2,549, or nearly 20 percent more. The discrimination is even more pronounced with larger incomes. In this national emergency, how can we complacently permit the citizens of these community property States a more favorable tax status than those of the rest of the country?

These examples of special privileges are intolerable at a time like this, when we are imposing heavy taxes on persons with small incomes and there is pressure for limiting wages and farm prices. The country is in greater danger today than ever before in its history. The war is now in its most critical phase, and only by pulling together as a united people can we make the effort that will turn the tide toward victory. At such a time any special privilege for any small group not only deprives the Treasury of

revenue that is badly needed for the war effort, but it hinders the war effort by undermining the morale without which the war cannot be won. I never would have recommended lowering the personal exemptions, and thus increasing the burden on millions with small incomes, if I had thought that these loopholes were to remain in the law as a symbol of special privilege in this time of national peril.

2. Excess Profits Tax

Another similar hindrance to the prosecution of this "people's war" is the existence of excessive profits in wartime. There is no easier way to stir the righteous anger of the American people than to let them hear constantly of excessive wartime profits that are not being recovered by adequate taxation. I have said repeatedly that we are determined to take the profit out of war, and the Treasury's recommendations have been framed with this determination in mind.

An effective excess profits tax does much more than produce badly needed revenue in time of war. It also reassures the masses of our farmers and workers that industry is not being rewarded unduly for its part in

the winning of the war.

I do not believe that any patriotic American needs the "incentive" of profits to produce for war at this time. Millions of our people are willing to pay new and genuinely burdensome taxes, to buy War Bonds without stint, and to face rising living costs with static wages and salaries. Their only "incentive" is their firm resolve to win this war and build a better future.

Experience has shown, however, that when excess profits taxes are too high they may result in extravagance and waste in the conduct of business. It is vitally important that we stimulate business to produce for war purposes as economically and efficiently as possible, if for no other reason than to avoid a waste of war materials and labor and to hold down the cost of the war to the Government. (~~Moreover, a businessman must plan for the future.~~) For these reasons we have recommended a 90 percent excess profits tax coupled with a 10 percent credit for return to the corporation after the war. A post-war credit to industry will not only encourage economy and efficiency but at the same time will help toward the rebuilding of our economic life. It should, of course, be restricted in such a manner

that it would be used for the direct employment of labor, the conversion of plant to peace-time business or for other uses promoting economic adjustment and growth.

3. Tax on Freight and Express

One tax that would be imposed by the Bill before you directly threatens the stability of prices. This is the tax on freight and express which would add to the cost of producing and supplying practically every commodity and service. In great numbers of cases the added cost would make it impossible for businesses to continue to operate under the price ceilings which have been imposed and the breaches in the price ceilings which would thereby be caused would threaten the whole price structure.

Conclusion

I shall not attempt today to discuss the more technical aspects of the long and complex Bill before you, nor to enlarge further upon the subjects I have mentioned already. The Treasury staff stands ready, as always, to assist you in every way possible in carrying out your difficult and responsible task. I should like, however, to make just one more appeal. Every day consumed in

your Committee's work will lose us substantial amounts of revenue under the excise tax portions of the Bill. Every day that can be saved in enacting this will enable it to produce just so much more in needed revenue. Every day saved will give our citizens additional time to adjust themselves to the impact of the most severe tax bill in all our history.

I am discussing our tax problem with you today on broader grounds than that of revenue alone. It is my conviction that the people of this country want a courageous tax bill, and want it with the least possible delay. They are ready for greater sacrifices than some of us imagine. The overwhelming majority of them, I am convinced, want us in Washington to show a determination that is worthy of their own. They will be critical of us only if we seem to palter or haggle, or if we pay too much attention to the demands of selfish groups, or if we seem half-hearted in asking sacrifices of the people as a whole.

Our acceptance of sacrifice on the home front is a yardstick of our determination to win the war. For this reason it is unthinkable to me that we should be straining every effort on the production line and on the

fighting fronts abroad and at the same time be anything less than all-out in the financing of the war effort. This war, above all others, can be won only by hard fighting and heavy losses, by the acceptance of risks and deprivations, and by the united effort of civilians and fighting men alike. In this kind of war a tax bill can be a decisive battle. It could be lost by narrow vision and faulty leadership. It can be won by boldness and courage. I am confident that this Committee will live up to its high responsibilities and keep faith with a united people.

- 18 -

I am discussing our tax problem with you today on broader ground than that of revenue alone. It is my conviction that the people of this country want a courageous tax bill, and want it with the least possible delay. They are ready for greater sacrifices than some of us imagine. The overwhelming majority of them, I am convinced, want us in Washington to show a determination that is worthy of their own. They will be critical of us only if we seem to palter or haggle, or if we pay too much attention to the demands of selfish groups, or if we seem half-hearted in asking sacrifices of the people as a whole.

Our acceptance of sacrifice on the home front is a yardstick of our determination to win the war. For this reason it is unthinkable to me that we should be straining every effort on the production line and on the fighting fronts abroad and at the same time be anything less than all-out in the financing of the war effort. This war, above all others, can be won only by hard fighting and heavy losses, by the acceptance of risks and deprivations, and by the united effort of civilians and fighting men alike. In this kind of war a tax bill can

- 19 -

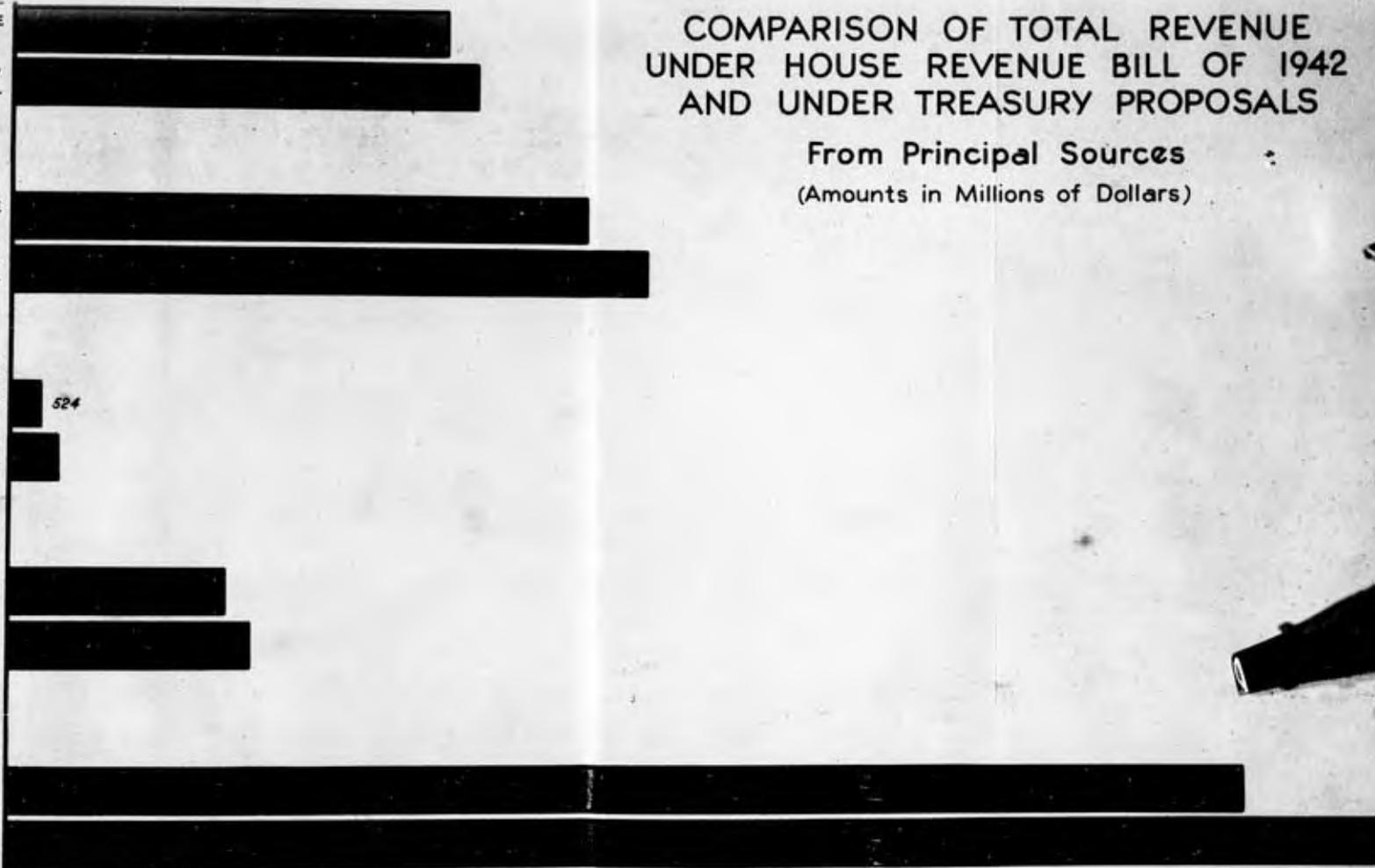
be a decisive battle. It could be lost by narrow vision and faulty leadership. It can be won by boldness and courage. I am confident that this Committee will live up to its high responsibilities and keep faith with a united people.

Individual Income TaxREVENUE
BILLTREASURY
PROPOSALCorporation TaxesREVENUE
BILLTREASURY
PROPOSALEstate and Gift TaxesREVENUE
BILLTREASURY
PROPOSALExcisesREVENUE
BILLTREASURY
PROPOSALTOTALREVENUE
BILLTREASURY
PROPOSAL

COMPARISON OF TOTAL REVENUE UNDER HOUSE REVENUE BILL OF 1942 AND UNDER TREASURY PROPOSALS

From Principal Sources

(Amounts in Millions of Dollars)



7-22-42

232

JUL 22 1942

STATEMENT OF SECRETARY MORGENTHAU
BEFORE THE
SENATE FINANCE COMMITTEE
JULY 23, 1942

*Finaly
Drafted
7:30 am*
CONFIDENTIAL

You will recall that in his Budget Message of January 5th, President Roosevelt asked for additional taxes for the fiscal year 1943, exclusive of Social Security taxes, of \$7 billion. On March 3rd, I appeared before the Committee on Ways and Means of the House and presented recommendations for a tax program to produce \$7,600 million in additional annual revenue from taxes. On May 6th I wrote a letter to the Chairman of the Committee on Ways and Means recommending a reduction in personal income tax exemptions to produce approximately \$1,100 million more revenue. These two recommendations together involved a tax program of \$8,700 million of additional revenue. These amounts represented what I believed, and still believe, was the very least that the American people could afford to provide.

It is only against the background of our war expenditures that we can tell whether the revenue bill before you will fulfill its purpose. We are now spending

\$150 million a day, or almost \$5 billion a month. In the fiscal year that is beginning we expect to spend the almost inconceivable sum of \$77 billion to win this war for human freedom.

There can be no compromise with these war expenditures. We would not reduce them if we could. Our whole effort must be to spend as fast and as effectively as possible in the production and use of our war materials. If our expenditures this year reach \$77 billion, our receipts in revenue from the people must bear some reasonable relationship to that colossal figure. If the House Bill were to become law it would be necessary to borrow from the public during this fiscal year about \$53 billion. To the extent that we enlist our current income in taxes to cut down this borrowing, we shall be protecting the future economic soundness of our country and our free institutions. To the extent that we fail, we shall be endangering the survival of all that we are fighting to preserve.

It is interesting to compare the fiscal situation here with the situation in Great Britain and Canada,

- 3 -

remembering, of course, that they have been at war longer than we. In its first full year of war, namely, the fiscal year 1941, Canada devoted not quite one-fifth of its national income to the war effort; in the fiscal year 1943 it expects to devote more than two-fifths of its national income to the war. In the fiscal year 1941 Great Britain devoted almost half of its national income to the war effort, and in the fiscal year 1943 it expects to put just about half of its national income into the war. In the fiscal year 1943, which will be our first full year of war, it is estimated that the United States will devote at least half of its national income to the war effort. Thus, thanks to the foresight of President Roosevelt and the splendid cooperation of Congress, we shall in our first full year of war have devoted to the war effort a proportion of our national income comparable to the proportions similarly devoted by Great Britain and Canada today.

We get a different picture, however, if we look at the percent of expenditures financed through taxes in the three countries, as shown in the following table:

Percent of Expenditures Financed
through Taxes

<u>Fiscal:</u> <u>Year :</u>	<u>Great Britain :</u>	<u>Canada:</u>	<u>United</u> <u>States</u>
1941	44	61	(Not at War)
1943	52	57	37

In the fiscal year 1941 Canada financed 61 percent of its expenditures by taxation, and in the fiscal year 1943 it expects to raise 57 percent from taxes. Great Britain, in the fiscal year 1941, financed 44 percent of its expenditures by taxation, and in the fiscal year 1943 it expects to raise 52 percent from taxes. In the United States, however, including Federal, State, and local governments, only 37 percent of total fiscal 1943 Government expenditures would be financed by taxation on the basis of the Revenue Bill now before you. It is clear that we are substantially behind Great Britain and Canada in the proportion of our expenditures which we are raising from taxes. Quite frankly, I do not see why we should not do at least as well as Great Britain and Canada.

Taxation and the Cost of Living

Taxation does more than supply money to finance the war. It does more than apportion the war burden now, once and for all, instead of leaving it for further distribution through taxes after the war. Wartime taxation also plays an important part in preventing rapid and continued increases in the cost of living. The President has announced a seven-point program for holding down the cost of living. Ceilings have been placed on prices. This fact may have caused many people to be unduly optimistic about the future of the cost of living. It cannot be too strongly emphasized that if the price ceilings are to be maintained and rapid and continuous price rises avoided, the pressure of the large and expanding volume of consumer purchasing power on the diminishing supply of goods must be reduced.

To reach a much larger volume of consumer purchasing power, the Bill now before you includes such a broad reduction of personal exemptions that it will affect almost seven million individuals who have never paid direct taxes to the Federal Government before. If this section of the Bill is passed as it stands, some thirty

million income tax returns will be filed in the new fiscal year as against only 7,600,000 in 1940. Moreover, these thirty million individuals represent the bulk of consumer demand today. The income tax has, in fact, become a people's tax for the first time in our history.

Taxes cannot, by themselves, win the battle against inflation. The battle must be fought with determined and coordinated effort on many fronts. Taxation can be fully effective in this battle only if it is accompanied by restraint and self-denial in other fields. Nevertheless, taxation by itself can make the price situation more controllable and less dangerous than it otherwise would be, and it is an essential anti-inflationary weapon that must be used to the utmost. Inflation has been well described as "the ruthless process whereby sacrifice is imposed inequitably upon a people who have lacked the unity, the courage and intelligence to impose that sacrifice equitably upon themselves." It is for us to show that we have the unity, the courage, and the intelligence to check inflation now.

Treasury Program a Minimum Program

The Administration's revenue program was presented last Spring as a minimum. On March 3rd, when I first

- 7 -

came before the Ways and Means Committee, our total contemplated expenditures for the fiscal year 1943 were \$63 billion. Since then they have risen by \$14 billion, and the total war appropriations, authorizations and requests for this and succeeding fiscal years have risen by \$75 billion. It is true that the Bill before you would produce by far the greatest revenues in our history, and I would not wish for one moment to minimize the task performed by the Ways and Means Committee. Yet this Bill would provide only \$6.3 billion additional revenue in place of the \$8.7 billion we recommended in the Spring. It would fall by about \$2.4 billion to reach that minimum of last Spring, which is even more emphatically the very least we can afford to provide today.

In presenting its revenue program to the Committee on Ways and Means, the Treasury outlined methods of taxation which it considered most desirable and appropriate to raise the required amounts. I still believe that these proposals are sound and present the best sources for a revenue program of this size. They are based upon the principle of ability to pay, and they avoid such devices as a general sales tax, which would fall with the

greatest impact upon those least able to bear the burden. The various provisions of the Administration program are well known and it is not necessary to repeat them here. I should like, however, to emphasize certain points which I hope will be most carefully considered by the Committee.

1. Special Privileges

The Revenue Bill as it stands violates the basic principle of equity which is so important to an all-out war finance program. It does this by leaving certain highly privileged groups free from tax on large portions of their income.

The first of these especially favored groups are the recipients of tax-free interest from State and municipal securities. Exemption of interest on State and local securities is a serious breach in our system of taxing according to ability to pay. For example, in the case of one individual, out of a total reported income of approximately \$975,000, over \$668,000 came from State and local securities. If the Bill as it passed the House should become law, this individual would pay only \$243,000; if, on the other hand, your Committee would adopt my suggestion and remove this pre-Pearl Harbor exemption, he would pay \$832,000

The glaring unfairness of this exemption may be seen in another way. Under the tax rates in the House Bill, a person with a surtax income of \$100,000 from other sources who holds a 3 percent tax exempt security receives as much net return after taxes as from a taxable security yielding 20 percent. The existence of this special privilege for all holders of tax-free securities costs the Government and the people of the United States, under the House rates of tax, about \$200 million a year; and it will cost still more as our wartime taxes tempt more and more wealthy individuals to shift their investments into the hide-out of tax exempt securities.

How can we expect to obtain an all-out war effort from all our people if we go on permitting a group of individuals and corporations owning \$14 billion of State and local securities to go tax free on the income from these securities? We are asking our young men to give their lives for their country, and at the same time we are allowing many wealthy persons, safe behind the lines, to escape their fair share of the war's financial burden. At a time when we are straining our energies to the utmost to defeat a powerful and ruthless foe, common decency requires that we abolish

these special tax shelters, and do it now.

Another highly privileged group having large amounts of income exempt from income tax are the owners of oil wells and mines. I refer to those provisions of the law dealing with percentage depletion. Percentage depletion is a serious breach in our system of taxation according to ability to pay.

I cannot believe that the taxpayers of America would knowingly sanction a provision of the law which allows owners of oil and gas wells to deduct from their income 27½ percent of their gross receipts from such wells--not for one year, two years, or the period necessary to return investment, but for an unlimited period. For example, a leading oil company owned a number of oil properties which had cost it \$3 million. At the time the case was examined percentage depletion of \$3.6 million had already been allowed and the properties still had three-fourths of the oil left.

Certainly we cannot justify this exemption on the ground that it encourages exploration and drilling for oil. There is grave doubt that it has a substantial effect on oil discovery. It would have cost the Federal Government less than one-third as much to have paid all the

cost of every wild-cat well that was drilled in 1941 than to have allowed percentage depletion and the associated intangible drilling expenses, at an annual cost of \$200 million to the Treasury and the taxpayers.

The privilege of filing separate income tax returns furnishes another example of special tax advantage to many married couples having larger than ordinary incomes. In families in which the income is earned partly by the husband and partly by the wife and in families in which income earning property can be divided between husband and wife, the tax on the family income is less than where the husband or wife receives the whole income. The family is the true economic unit, and it is unfair for the amount of tax on the family to vary depending upon who earns the income or upon who in the family has income producing property. Ability to pay taxes must be judged in terms of family incomes and not the incomes of members of the family. The failure to require joint income tax returns constitutes a violation of the fundamental principle upon which our tax system has been based.

The adoption of mandatory joint returns would also eliminate another discrimination prevailing under existing law. Married couples living in the eight or nine so-called community property States receive tax advantages which are in no way commensurate to any special relationship that may exist between husbands and wives in those States. For example, take a family in which the husband has a salary of \$10,000 after deductions. If the family has its residence in, say, California, the family tax would be \$2,138, while if the family lives in, say, Iowa, the tax would be \$2,549, or nearly 20 percent more. The discrimination is even more pronounced with larger incomes. In this national emergency, how can we complacently permit the citizens of these community property States a more favorable tax status than those of the rest of the country?

These examples of special privileges are intolerable at a time like this, when we are imposing heavy taxes on persons with small incomes and there is pressure for limiting wages and farm prices. The country is in greater danger today than ever before in its history. The war is now in its most critical phase, and only by pulling together as

a united people can we make the effort that will turn the tide toward victory. At such a time any special privilege for any group not only deprives the Treasury of revenue that is badly needed for the war effort, but it hinders the war effort by undermining the morale without which the war cannot be won.

2. Excess Profits Tax

Another similar hindrance to the prosecution of this "people's war" is the existence of excessive profits in wartime. There is no easier way to stir the righteous anger of the American people than to let them hear constantly of excessive wartime profits that are not being recovered by adequate taxation. I have said repeatedly that we are determined to take the profit out of war, and the Treasury's recommendations have been framed with this determination in mind.

An effective excess profits tax does much more than produce badly needed revenue in time of war. It also reassures the masses of our farmers and factory workers that industry is not being rewarded unduly for its part in the winning of the war.

I do not believe that any patriotic American needs

- 14 -

the "incentive" of profits to produce for war at this time. Millions of our people are willing to pay new and genuinely burdensome taxes, to buy War Bonds without stint, and to do without many of the accustomed luxuries and even conveniences of daily life. Their only "incentive" is their firm resolve to win this war and build a better future.

Experience has shown, however, that when excess profits taxes are too high they may result in extravagance and waste in the conduct of business. It is vitally important that we stimulate business to produce for war purposes as economically and efficiently as possible, if for no other reason than to avoid a waste of war materials and labor and to hold down the cost of the war to the Government. Moreover, a post-war credit to industry will help toward the rebuilding of our economic life. For these reasons we have recommended a 90 percent excess profits tax coupled with a 10 percent credit for return to the corporation after the war. The credit should, of course, be restricted in such a manner that it would be used for the direct employment of labor, the conversion of plant to peacetime business or for other uses promoting economic adjustment and growth.

- 15 -

3. Tax on Freight and Express

One tax that would be imposed by the Bill before you directly threatens the stability of prices. This is the tax on freight and express which would add to the cost of producing and supplying practically every commodity and service. In great numbers of cases the added cost would make it impossible for businesses to continue to operate under the price ceilings which have been imposed and the breaches in the price ceilings which would thereby be caused would threaten the whole price structure.

Conclusion

I shall not attempt today to discuss the more technical aspects of the long and complex Bill before you, nor to enlarge further upon the subjects I have mentioned already. The Treasury staff stands ready, as always, to assist you in every way possible in carrying out your difficult and responsible task. I should like, however, to make just one more appeal. Every day consumed in your Committee's work will lose us substantial amounts of revenue under the excise tax portions of the Bill. Every day that can be saved in enacting this will enable

- 16 -

it to produce just so much more in needed revenue. Every day saved will give our citizens additional time to adjust themselves to the impact of the most severe tax bill in all our history.

I am discussing our tax problem with you today on broader grounds than that of revenue alone. It is my conviction that the people of this country want a courageous tax bill, and want it with the least possible delay. They are ready for greater sacrifices than some of us imagine. The overwhelming majority of them, I am convinced, want us in Washington to show a determination that is worthy of their own. They will be critical of us only if we seem to palter or haggle, or if we pay too much attention to the demands of selfish groups, or if we seem half-hearted in asking self-denial of the people as a whole.

Our acceptance of sacrifice on the home front is a yardstick of our determination to win the war. For this reason it is unthinkable to me that we should be straining every effort on the fighting fronts abroad and on the production line at home, and at the same time be anything less than all-out in the financing of the war

- 17 -

effort. This war, above all others, can be won only by hard fighting, by the acceptance of risks and deprivations, and by the united effort of civilians and fighting men alike. In this kind of war a tax bill can be a decisive battle. It could be lost by narrow vision and faulty leadership. It can be won by boldness and courage. I am confident that this Committee will live up to its high responsibilities and keep faith with a united people.

REP:el
7/22/42 12:15 P.M.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

July 22, 1942

This memorandum is intended briefly to review the conference held by the two of us this afternoon with Senators George and Barkley.

You handed a copy of the statement (without some of the final changes made later in the afternoon) to Messrs. George and Barkley. Both of them read it quite carefully, taking some time to do so. You told them that you had gone over the statement with the President at lunch and that he approved.

Senator Barkley asked whether you wished his approval of the points made. You replied that you merely wanted him to see whether the statement had any sins of omission or commission, that is, if he wanted any additional points added or anything in particular deleted. Senator Barkley then said he did not but that he frankly would like to tell you his inclination to be against you on the tax exempt issue and joint returns issue. He said that he was not adamant on these points. With respect to the tax exempt issue, he had no constitutional doubts but merely stressed the point that the States issued bonds at a lower rate of interest because of the exemption feature, thus saving money to the people of the States. I pointed out this factor was a small one in the equation.

With respect to the joint returns issue, Senator Barkley has the feeling that the provision is a reversal of trend on women's rights. He expressed himself as being completely with us on the community property issue but said that he thought such a provision would delay the Bill considerably even if the Finance Committee inserted it.

On the sales tax, Senator Barkley recounted that he had always been against such a tax except as a last resort and the only question in his mind was whether this was

- 2 -

the time for a last resort. Senator George said he did not believe there was such a strong sentiment for a sales tax as some months ago when he personally had been for it, but now he was inclined against it.

Senator George also said that he did not think the tax exempt and the joint returns points would go through the Committee although at one point in his conversation he indicated that perhaps one of the two of them would on a trade. No mention was made during the session of the percentage depletion point.

Both Senators expressed approval of the form of the statement and a desire to increase the amount of taxes in the House Bill. George explained more in detail that he thought the individual rates at least, and perhaps also the corporate rates, should be increased so as to allow flexibility for debt deductions and insurance premium deductions.

R.S.C.

July 22, 1942.
4:30 p.m.

HMJr: Hello.

Operator: Mr. Wilson.

HMJr: Chief?

Chief
Wilson: Yes, Mr. Secretary.

HMJr: I spoke to the President and told him that I thought that when Mrs. Roosevelt was at her cottage, there should be a man there looking after her just the way there is a man at my place.

W: Yes, sir.

HMJr: And he agreed.

W: All right, we'll have a man there all the time.

HMJr: But not....

W: When she's there.

HMJr: Only when she's there.

W: Yes, sir.

HMJr: Only when - I said I wouldn't ask her, I'd just do it.

W: Yes, sir.

HMJr: See?

W: Well, all - all right, I'll work that out right away, Mr. Secretary.

HMJr: You might inform her or have whoever is up there, your man up there, inform her.

W: Yes, sir.

HMJr: You see, but....

- 2 -

W: Yes, sir.

HMJr: I'd - I'd like you to do it.

W: All right, sir, we will.

HMJr: And they took good care of her over the week-end.

W: Well, that's fine, and I'm glad to hear that.

HMJr: All right, Chief.

W: All right, sir.

July 22, 1942.
4:34 p.m.

HMJr: Hello.

Operator: Miss Tully is with the President.

HMJr: Who is there?

Operator: Mrs. Brady?

HMJr: Okay.

Operator: I'll try to get her on.

Mrs. Kathryn
Brady: Yes, sir.

Operator: Mrs. Brady.

HMJr: Mrs. Brady....

B: Yes, sir.

HMJr:I don't know my baseball very good, but
when you throw from first to second to the
pitcher, what is that?

B: That's a double-play.

HMJr: Double-play.

B: From first to second to the pitcher?

HMJr: Well, anyway to - to the catcher.

B: Yeah, that's a double-play.

HMJr: Well, all right. Well, here's one from you
to Grace to the President now.

B: (Laughs) Oh, come on.

HMJr: What?

B: All right, what is it?

HMJr: What is it?

- 2 -

B: Yesh, what is it? (Laughs) I'll let you know if I can carry the ball.

HMJr: (Laughs) All right. You look strong.

B: (Laughs)

HMJr: The President happened to tell me that the Chief Justice turned him down on a request he made of him.

B: Oh!

HMJr: Hello?

B: Oh-oh.

HMJr: Now I've got a suggestion to make to the President and somebody else....

B: Uh huh.

HMJr:that the ex-Chief Justice Hughes....

B: Uh huh.

HMJr:to ask him to do that rubber business.

B: Yes, sir.

HMJr: Now can you carry that?

B: Sure, that's easy.

HMJr: Without dropping it?

B: Oh, that's easy.

HMJr: Okay.

B: All right, sir.

HMJr: Goodbye.

B: Goodbye.

July 22, 1942.
4:40 p.m.

HMJr: Hello.

Operator: Mr. McCabe.

Thomas
McCabe: Hello.

HMJr: Hello.

M: Hello, Mr. Secretary.

HMJr: Yes, Mr. McCabe.

M: Why, we have a tentative draft of a memo on our -
decision on this silver thing.

HMJr: Yeah.

M: I was just getting ready to send that over to
Harry White.

HMJr: Yeah.

M: I was going to have Fred Ecker and Judge
? Weizinsky, who's down here - the two of them
have been working on this with our Policy
Committee.

HMJr: Is Weizinsky with you now?

M: Yes.

HMJr: I didn't know that.

M: Yeah, he's a grand fellow too.

HMJr: Yeah, oh, he's a good man.

M: And what I was going to have - send this over
informally....

HMJr: Yeah.

M:to Harry....

HMJr: That's good.

- 2 -

M:so that it wouldn't be any official - no signature at all.

HMJr: And then see how we like it, hmmm?

M: And then get his reaction.

HMJr: Yes.

M: And then I - then these two men will be glad to sit down with him informally....

HMJr: Fine.

M:and thrash it, and then if - if it reaches the point where you want to discuss it with us....

HMJr: Uh huh.

M:why, I'll be glad to. Now generally this is the decision that we reached....

HMJr: Yeah.

M:that - that so far as lend-leasing silver for industrial purposes, that seems okay....

HMJr: Yeah.

M:that for coinage purposes, we have serious doubts about that.

HMJr: I see.

M: Particularly now, and we've left the door open on it.

HMJr: Yeah.

M: But unless there was some extraordinary reason given, that is, I could seize on a lump sum basis where Norway was restored as a nation and had absolutely no silver whatever, to start a coinage system that we could consider.

HMJr: Yeah.

M: But the principal request here coming from Britain....

- 3 -

HMJr: Yes....

M: Ah....

HMJr:Australia, where we have men and they have no small coins - running out of them. Our troops down there are suffering because they have a lack of coins - Australia.

M: Yes.

HMJr: Well, anyway I'm....

M: Well, anyway....

HMJr:I'm - I'm much more interested in the coinage than I am in the - for the industrial use.

M: You are.

HMJr: Oh, yes, because - it's these countries that - where we have our troops like England and Australia and that - I was interested in helping them out. After all, through....

M: Well, now if we let Harry bring that out with these two men....

HMJr: What's that?

M: I say....

HMJr: I'll tell Harry.

M: You tell Harry.

HMJr: Yeah - it was - it was these countries and their coinages as treasury to treasury - because Nelson is going to let them have this silver through a corporation of Jones' for industrial use.

M: He is?

HMJr: Yes. Well, let them come over and see Harry. He knows the whole story.

M: All right.

- 4 -

HMJr: But it was the coinage thing I was principally interested in.

M: I see.

HMJr: But let them come over, and I appreciate the spirit in which you're approaching this.

M: Well, we're - we don't want to make any hard-and-fast decision on this....

HMJr: No. All right.

M:without having plenty chance to thrash it out.

HMJr: Thank you, Mr. McCabe.

M: And then, the next thing, I don't think you could on it, we feel that it would be very desirable for us to informally discuss this at least with the chairmen of the two Appropriations Committees.

HMJr: Okay. Well, look....

M: Do you see why?

HMJr: Well - let your men talk with Harry first, you see?

M: Okay.

HMJr: And see where we get, hmm?

M: All right.

HMJr: All right.

M: Righto.

HMJr: Thank you.

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D.C.

July 22, 1942

Dr. Harry White
Director of Monetary Research
Room 214
Treasury
Washington, D.C.

Dear Mr. White,

I enclose herewith draft of proposed letter to the Secretary on the subject of lend-leasing silver concerning which Mr. McCabe phoned you today.

I understand that if you desire us to go into the matter further you will advise me.

Sincerely yours,

s/s Fred Ecker

F. W. Ecker

C O P Y

July 22, 1942

The Honorable

The Secretary of the Treasury

My dear Mr. Secretary:

This Administration has considered Dr. Harry D. White's memorandum of July 11, entitled "Provision of Silver to meet the needs of Friendly Foreign Countries", receipt of which Mr. Stettinius acknowledged July 13.

It is our view that under the Act of March 11, 1941, c.11 and under the policies adopted by this Administration, silver is a commodity which is lend-leasable for industrial uses to Lend-Lease countries, provided the usual standards of justification for Lend-Lease aid are met. However, it is our view that under existing circumstances and needs so far apparent, it would not now be sound policy to lend-lease silver to any country for purposes of coinage.

If silver is to be transferred, we understand that, aside from the Act of March 11, 1941, the Treasury has not itself independent statutory power to lend silver or sell it at the world market price to a friendly foreign country. On that assumption, we suggest that insofar as silver is to be transferred abroad for industrial uses, the preferable method to be followed in acquiring the silver would be for this Administration to designate the Treasury as its agent to purchase silver from American sources at the price now being paid by the Treasury when it purchases silver for monetary purposes, i.e., a fraction over 71¢ an ounce. If this is impractical, we suggest as an alternative that this Administration purchase silver from the Treasury's stock pile at the same price the Treasury paid when purchasing for its own account. The power of this Administration to make that purchase and the power of the Treasury to make that transfer are given by Section 3(a)(2) of the Act of March 11, 1941, c.11. We are not prepared to pay a higher price, or to secure Treasury silver by offering for redemption silver certificates.

The Secretary of the Treasury - 2 -

7/22/42

We have given consideration to the suggestion made by the Treasury and by several members of the Senate Special Silver Committee that with respect to silver we make special agreements with friendly countries to assure the return to the United States of the number of ounces of silver lend-leased. We suppose that that proposed safeguard was intended only if silver were to have been lend-leased for coinage. It seems to us unnecessary where silver is to be lend-leased for industrial uses, and can be readily subjected to the provisions of the applicable Lend-Lease Master Agreement. Of course, the friendly country which received silver could do so without prejudice to any option it may request and obtain to discharge the obligation incurred by returning an equivalent number of ounces of silver.

Before embarking upon any program for lend-leasing silver we should wish to give to the Appropriation Committees of the two Houses of Congress notice of our intention so that if they saw fit they might express an opinion upon the subject.

Sincerely yours,

Thomas B. McCabe
Acting Administrator

7/22/42

CC: Mr. Tanbuskirk

COPY

July 23, 1942.

Dear Mr. Schlanger:

This is just to tell you how much I appreciate all that you did to make a success of the visit of the fifteen war heroes to Philadelphia last month.

Most of these fighting men are back on active service now, but they will long remember the hospitality which you and your committee provided for them.

My own belief is that this heroes' tour did a great deal of good, not only to the War Bond campaign but to the war effort generally. It could not have been a success without your help, and I feel that your work has been a real service to your country.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Ted Schlanger,
Warners,
11th and Market Streets,
Philadelphia, Pennsylvania.

NMC - CC to Thompson

FK:eg

Similar letters dated 7/22/42 /s/ H. Morgenthau, Jr. were sent to the following:

Mr. John Harris
Mr. Izzy Rappaport
Mr. Dave Idzal
Mr. Harold Fitzgerald
Mr. John Friedl
Mr. Rick Ricketson
Mr. L. B. Mayer
Mr. Sam Panansky
Mr. Martin Mullens
Mrs. Margaret Mayer
Mr. Tracy Barham
Mr. Frank L. Newman
Mr. Al Finke
Mr. Arch Bowles
Mr. Charles Skouras
Mr. Bob O'Donnell
Mr. Ed Collins
Mr. Frank Weatherford
Mr. E. V. Richards
Mr. Harry Arthur
Mr. Hardie Meakin

July 23, 1942

Dear Mr. Farwell:

Your very kind letter of July 18th has reached my desk, and shortly after I read it the scrap book, which you were so good as to send me, arrived. This is certainly a most unusual and complete record of my brief visit to the plant. I enjoyed being with you on the Fourth and appreciate your taking the time and trouble to prepare this record of the occasion.

You and your employees are much to be congratulated on the record that you have made in connection with the War Bond effort.

With thanks again for your courtesy in writing as you did,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Fred H. Farwell,
Resident Manager,
International Business Machines
Corporation,
Foughkepsic, New York.

File - NMC

GMF:ms

MUNITIONS MANUFACTURING CORPORATION

POUGHKEEPSIE, NEW YORK

July 18, 1942

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

Dear Mr. Secretary:

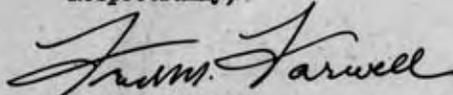
You will recall during your recent visit to our Plant that you requested a transcript of the stenotype notes taken during the ceremonies. It is a great pleasure to send you not only the stenotype notes but also pictures taken during those ceremonies.

It was a great honor to have you with us on July 4th and certainly a great inspiration to all. Your evident desire to meet the men and women of our shop and your democratic manner of talking to them have made a deep and lasting impression on our people.

It will please you to know that as a result of your visit the sale of War Savings Bonds has increased and we are within a fraction of 10% of the gross weekly compensation of the plant. When we have achieved this goal we shall then endeavor to have every single employee contribute at least 10% which will put the plant average considerably above 10%.

Thanking you again for the honor of your presence in our plant, I am

Respectfully,



Resident Manager.

FMF-M

July 22, 1942

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

Dear Secretary Morgenthau:

I feel obliged to register with you, on behalf of the United Electrical, Radio and Machine Workers of America, (UIO), a most vigorous protest concerning the contents of the Treasury-issued booklet describing the sale of War bonds to the employees of the General Motors Corporation. I am informed that the booklet makes no mention of the part played by this union and by the United Automobile Workers of America in the sale of bonds in this company, but that instead, it is indicated throughout that this program was developed and carried through solely by the Corporation.

May I relate to you some of the background describing our experience with this problem? Some weeks ago a similar booklet was issued relating to the General Electric Corporation. This publication by the Treasury purposed to describe the program of selling bonds to the General Electric Corporation employees which are represented by the union. Nowhere in this entire booklet was there any mention of this Union or even of the existence of an anonymous Union. The clear implication is that the Bond Sales program was the product of management. In this case as in the General Motors case this involved a flagrant misrepresentation and distortion of the true facts. Actually, this Union through the cooperation of its International Officers, its Local Officers, its Stewards and members took the initiative in the drive and by their vigorous organized activity achieved the successful results.

My organization was distressed when they first saw the General Electric booklet. Consequently, I had a long discussion of the subject with Mr. Peter Odgaard and Mr. Ted Gamble of your department. Both of these gentlemen apologized for the obvious unfairness of the General Electric booklet. They indicated that the booklet had been prepared under circumstances which resulted in failure to properly show this aspect of the booklet's contents. There was complete agreement with the position I took on the matter and a definite specific statement that it would not happen again. I left this conference with the substantial representatives of the Treasury War Bond Drive, feeling that we could expect just treatment in further publications. You will understand my astonishment when I learned that the General Motors booklet was as unfair as the General Electric booklet.

July 22, 1942

267

The flagrant nature of the misrepresentations in this booklet is particularly high-lighted by the fact that you requested Mr. Walter Reuther and myself on behalf of our organizations to appear with Vice-President Anderson of the General Motors Corporation and yourself before the Ways and Means Committee to describe our joint efforts in the voluntary bond sale program. I leave it to Walter Reuther to represent the United Automobile Workers plants in this program. I can say, however, that in the case of the 30,000 UE employees of the General Motors Corporation Electrical Divisions it was the local union and its stewards organization which did the major job in putting across the bond sale. I do not believe that you will find this statement contradicted.

I have protested this matter again to Mr. Odgard and to Mr. Houghteling. Again I am confronted with apologies and with a complete agreement as to the justice of our feelings in these matters. I am not confronted, however, with any proposals whereby the Treasury Department will correct the situation that they have created.

I presume to bring this matter to your attention not primarily out of a feeling of indignation at the particular injustice done organized labor, but rather out of a real feeling of concern over the effects of such Treasury action on the confidence and enthusiasm of American workers in the Treasury Bond Drive. I hope that you fully appreciate the situation as it exists. Patriotic workers through their organizations have engaged in an all-out effort to buy war bonds to aid the war effort. The Treasury then releases elaborately prepared company propaganda which totally disregard the part played by the organization of the workers. Our membership has come to have a feeling of confidence in yourself as a just and progressive Cabinet member. In the interests of the war bond sale programs; in the interests of honesty and justice, it is our belief that a recall by the Treasury of these booklets together with a full apology and correction of the misrepresentation involved is required. Needless to say, steps should be taken to make sure that this unfortunate situation does not develop again. It is my hope that you can give your personal attention to this very important matter.

Very sincerely,

Russ Nixon

RN:EW
uopm 27

TREASURY DEPARTMENT

268

INTER OFFICE COMMUNICATION

DATE July 22, 1942.

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

This struck me as such a beautiful piece of color advertising for War Bonds that I thought you would like to see it. It will appear on the outside back cover of the August issue of the Farm Journal and Farmer's Wife, with a circulation of 2,600,000.

F. K.

WAR MESSAGE FROM THE U. S. TREASURY DEPARTMENT



The "MINUTE MAN" was a farmer too...

IT is not by chance that the symbol of America's War Bond drive . . . the "Minute Man" shown here . . . is a farmer. It was the farmers of Concord and Lexington who fired "the shot heard round the world" and gave this country the liberty it fights to preserve today. Now again the farmers of America are rallying to their country's call—by feeding the Army, Navy, and Marine Corps and by buying *U. S. War Savings*

Bonds to the limit of their powers. Are you putting your increased earnings to work for *you*—and for your country? It's a sure way to save up for the things you'll need when victory is ours. Your money will be safe, it will grow in value, and you can get it back—all of it—any time after 60 days from issue date. Go to your bank or post office—start buying *U. S. War Savings Bonds now!* Make every market-day your Bond day.

YOU GET A \$25.00 BOND FOR ONLY \$18.75

Brief Facts About U. S. War Savings Bonds (Series E)

<i>How much do they cost? You LEND Uncle Sam</i>	<i>Upon Maturity You Get Back</i>
\$18.75	\$25.00
37.50	50.00
75.00	100.00
375.00	500.00
750.00	1,000.00

What interest does my money earn? When held 10 years, Bonds yield 2.5% on your investment, compounded semi-annually. You get back \$4 for every \$3.

When can I get my money back? Any time after 60 days from the date the Bond was issued. Naturally the longer you hold the Bond, up to 10 years, the more money you'll get back. But you'll never get back less than you put in.

What is a War Savings Bond? It is a written promise by the United States Government to pay you for the amount of money stated in the Bond.

Can anyone cash the Bond? Only the person or persons whose names appear on the Bond as owners.



Why Farmers Everywhere are Buying U. S. War Savings Bonds

To help buy the guns, tanks, planes and ships America needs to win the war.



To provide an easily cashable reserve for future years.



To build a fund to put a boy or girl through school.



To accumulate the money to modernize property, make repairs, or to purchase additional land.



To have a nonshrinkable asset in case of sickness or emergency.



To keep a part of their assets in liquid form instead of "putting all their eggs in one basket."



To earn 33 1/4% on their money in 10 years' time.

This Space is a Contribution to America's All-Out War Program by FARM JOURNAL AND FARMER'S WIFE

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 22 1942

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Daily sales of savings bonds in excess of \$50 millions.

In accordance with your request, we have listed in the following table the days on which cash deposits from the sale of savings bonds (Series E, F and G) exceeded \$50 millions.

<u>Date</u>	<u>Cash deposits</u> <u>(in thousands of dollars)</u>
<u>1941</u> - Dec. 26	\$53,140
<u>1942</u> - Jan. 5	53,352
Jan. 7	50,539
Jan. 12	65,853
Jan. 16	50,358
Jan. 19	68,380
Jan. 26	69,630
Feb. 2	68,571
Feb. 6	50,269
Feb. 9	50,176
July 20	53,257

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May	July as percent of June	
July 1942						
1	\$ 12,597	\$ 12,597	\$ 9,705	\$ 7,302	129.8%	
2	9,389	21,986	17,601	15,168	124.9	
3	10,455	32,441	26,235	25,516	123.7	
6	16,734	49,175	40,009	33,145	122.9	
7	13,386	62,561	49,353	48,751	126.8	
8	21,852	84,413	55,888	60,817	151.0	
9	17,172	101,585	67,414	67,213	150.7	
10	22,983	124,568	72,366	72,794	172.1	
11	17,050	141,618	82,310	80,845	172.1	
13	20,614	162,232	89,852	85,410	180.6	
14	14,358	176,590	95,254	94,391	185.4	
15	15,400	191,991	101,464	102,106	189.2	
16	13,842	205,833	108,715	108,923	189.3	
17	15,314	221,147	112,279	114,129	197.0	
18	9,696	230,842	119,749	123,534	192.8	
20	21,888	252,731	126,048	127,724	200.5	
21	9,447	262,178	134,062	138,908	195.6	

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

July 22, 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 July sales to date with sales during the
same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May	July as percent of June	
July 1942						
1	\$ 15,821	\$ 15,821	\$ 19,834	\$ 12,679		79.8%
2	14,880	30,701	27,841	24,263		110.3
3	16,822	47,523	40,811	46,532		116.4
6	29,797	77,320	58,199	55,460		132.9
7	17,724	95,044	82,988	73,824		114.5
8	21,599	116,643	98,197	97,049		118.8
9	22,746	139,390	125,245	114,218		111.3
10	24,772	164,161	134,157	128,670		122.4
11	19,077	183,238	154,242	151,956		118.8
13	26,550	209,787	169,920	161,346		123.5
14	15,744	225,532	186,470	177,133		120.9
15	18,407	243,938	201,700	194,047		120.9
16	17,828	261,766	225,684	208,939		116.0
17	22,345	284,111	233,218	223,242		121.8
18	12,233	296,344	249,033	247,532		119.0
20	31,368	327,712	261,321	257,374		125.4
21	12,239	339,951	280,742	271,079		121.1

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

July 22, 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 July sales to date with sales during the
same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May		
July 1942						
1	\$ 28,418	\$ 28,418	\$ 29,539	\$ 19,981		96.2%
2	24,269	52,687	45,442	39,430		115.9
3	27,277	79,964	67,046	72,048		119.3
6	46,531	126,495	98,208	88,605		128.8
7	31,110	157,605	132,341	122,575		119.1
8	43,451	201,056	154,085	157,866		130.5
9	39,918	240,974	192,659	181,431		125.1
10	47,755	288,729	206,523	201,464		139.8
11	36,127	324,856	236,552	232,801		137.3
13	47,164	372,020	259,772	246,756		143.2
14	30,102	402,122	281,724	271,525		142.7
15	33,807	435,929	303,163	296,152		143.8
16	31,670	467,599	334,398	317,861		139.8
17	37,659	505,257	345,497	337,371		146.2
18	21,929	527,186	368,782	371,066		143.0
20	53,257	580,443	387,369	385,098		149.8
21	21,686	602,129	414,804	409,987		145.2

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

July 22, 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 July 1 through July 21, 1942 ²⁷⁴
 Compared with Sales Quota for Same Period
 (At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales
	July 1	July 1	July 1	to Date	July 1	July 1	July 1	to Date	July 1	July 1	July 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	\$ 15.8	\$ 15.8	\$ 23.6	66.9%	\$ 12.6	\$ 12.6	\$ 19.4	64.9%	\$ 28.4	\$ 28.4	\$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9	22.7	139.4	189.8	73.4	17.2	101.6	129.5	78.5	39.9	241.0	319.3	75.5
10	24.8	164.2	216.0	76.0	23.0	124.6	139.9	89.1	47.8	288.7	355.9	81.1
11	19.1	183.2	236.6	77.4	17.1	141.6	147.7	95.9	36.1	324.9	384.3	84.5
13	26.5	209.8	273.2	76.8	20.6	162.2	160.6	101.0	47.2	372.0	433.8	85.8
14	15.7	225.5	287.6	78.4	14.4	176.6	168.0	105.1	30.1	402.1	455.6	88.3
15	18.4	243.9	311.6	78.3	15.4	192.0	181.8	105.6	33.8	435.9	493.4	88.3
16	17.8	261.8	335.5	78.0	13.8	205.8	193.5	106.4	31.7	467.6	529.0	88.4
17	22.3	284.1	358.7	79.2	15.3	221.1	202.8	109.0	37.7	505.3	561.5	90.0
18	12.2	296.3	377.4	78.5	9.7	230.8	210.5	109.6	21.9	527.2	587.9	89.7
20	31.4	327.7	411.8	79.6	21.9	252.7	223.9	112.9	53.3	580.4	635.7	91.3
21	12.2	340.0	425.9	79.8	9.4	262.2	231.8	113.1	21.7	602.1	657.7	91.5
22			451.1				247.0				698.1	
23			477.5				260.1				737.6	
24			503.8				270.7				774.5	
25			525.0				279.5				804.5	
27			562.7				295.1				857.8	
28			577.2				304.3				881.5	
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

July 22, 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.

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.

UNITED STATES SAVINGS BONDS, SERIES E

TOTAL DAILY SHIPMENTS BY DENOMINATIONS FROM JULY 1 TO JULY 21, 1942

Date of Shipment	Denominations - Number of Pieces					Total Pieces
	\$25	\$50	\$100	\$500	\$1,000	
July 1	441,453	79,590	78,344	2,256	2,527	604,170
2	515,964	94,404	93,481	3,068	3,510	710,427
3	464,350	80,760	79,220	8,320	3,565	636,215
6	736,205	82,647	89,767	8,475	2,235	919,329
7	678,221	163,951	160,712	24,510	13,894	1,041,288
8	558,650	106,000	115,461	15,039	3,790	798,940
9	440,389	89,212	112,623	7,807	5,816	655,847
10	672,288	117,122	107,512	5,508	5,967	908,397
11	643,310	121,615	135,412	5,062	15,649	921,048
13	654,983	118,591	98,816	6,314	8,528	887,232
14	673,000	109,750	102,000	7,775	10,000	902,525
15	548,501	156,626	152,361	12,270	14,535	884,293
16	384,250	91,600	107,800	13,010	19,955	616,615
17	555,023	138,080	124,232	8,378	10,066	835,779
18	599,366	109,552	98,646	6,052	9,777	823,393
20	629,367	60,200	98,900	4,150	9,885	802,502
21	603,350	57,130	93,272	11,947	10,035	775,734
Total	9,798,670	1,776,830	1,848,559	149,941	149,734	13,723,734

July 22, 1942.
MRL/kwk



276

Treasury Department
Division of Monetary Research

Date Aug. 6, 1942 19

To: Mrs. McHugh

This was taken up orally
with the Secretary at a couple
conferences over the past two
weeks.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

Treasury ²⁷⁷ Department
Division of Monetary Research

Date July 23 19 42

To: Mr. White

From: L.S.

Miss Chauncey returned attached, with message:

"The Secretary is going to have a conference on silver -- doesn't think it will be today. He wants Dr. White to bring the attached memo in to the silver meeting."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 22, 1942

TO Secretary Morgenthau
FROM Mr. White
Subject: The WPB Silver Import Order.

American fabricators of non-essential products containing silver have recently been acquiring silver in the Mexican market, bidding up the price to 60 cents and more an ounce. As a considerable part of the silver required for essential war purposes is imported from Mexico, the WPB found it necessary to control imports of silver to assure an adequate supply for war purposes. The proposed order was discussed by WPB representatives with Treasury people at a meeting in Mr. Bell's office recently.

General Imports Order M-63, as amended, now restricts the purchase of silver by private importers except by special authorization. The effect of this amendment will be to prevent the bidding up of the price of silver in Mexico by non-essential users of silver. WPB authorizations for the import of silver will be limited to the export supply available in Mexico and will contain provisions safeguarding the imported supply for essential war purposes.

The silver import order will be supplemented by a conservation order--M-199--which will restrict the use of foreign silver. The present draft of this proposed order provides that after October 1, 1942, no foreign silver will be made available for non-essential uses except for orders bearing a preference rating of A-10 and higher. Non-essential uses, under this conservation order, include the use of silver for such purposes as silverware, watch cases and jewelry, photography, zippers, pens and pencils, ornamental electroplating, mirrors and reflectors, silverclad metal, and solders and electrical contacts.

The General Imports Order as supplemented by the Conservation Order will assure the allocation of the available supply of foreign silver for essential war purposes at the ceiling price. Such foreign silver as will be available for non-essential uses will be distributed on the basis of preference ratings. Non-essential uses bearing no preference rating or inadequate preference ratings will have to use newly-mined domestic silver.

Division of Monetary
Research

- 2 -

Since these orders can prevent avoidance of OPA price ceiling now in effect ($35 \frac{3}{8}$ cents) by preventing American firms from using silver purchased abroad at prices higher than $35 \frac{3}{8}$ cents, it is a matter directly related to the subject of the conference between Mr. Beteta and yourself last week.

I sent you a memorandum about it yesterday. I think that you ought to have a conference on it as soon as possible since the W.P.B. is urging us to comment on their order and inasmuch as Mr. Beteta is eagerly awaiting our comments on his proposal.

July 22, 1942

My dear Mr. President:

In response to your letter of July 15th, regarding the customs treatment of war materials moving between the United States and Canada, I am enclosing herewith a memorandum from Commissioner of Customs Johnson and a draft of a proposed bill.

We shall be glad to clear the bill with the Joint War Production Committee, contact the Navy to assure coverage of its problem, submit the bill to Congress, and draft appropriate regulations, if it meets with your approval.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

(2 complete sets of enclosures)
Delivered by SS Agent 7/22/42
at 3:35 PM

File - NMC

MSF

July 22, 1942

Secretary Morgenthau,

W. R. Johnson,

The only export inspections or restrictions required under laws administered by the Treasury are for censorship purposes, when drawback of duties is claimed, and certain other minor cases not likely to apply to emergent shipments of war materials.

Export declaration requirements of the Department of Commerce and export license requirements of the Board of Economic Warfare and the State Department are enforced by customs officers under regulations of these agencies.

Imports are subject in every case to customs entry and examination requirements, and in many cases to the payment of duty, even though imported by the Government. Foods, drugs, and some other commodities are subject to import requirements of other agencies. All these are required by law.

Some relief could be granted by relaxing regulations, particularly in the case of exports. Satisfactory relief can be granted only if new legislation is enacted.

The attached draft of a bill would enable us to eliminate, under adequate safeguards, inspection, duties, and every import or export restriction or requirement in the case of any class of shipments to or from Canada. It does not apply to shipments to or from any other country.

Shipments to be exempted would be identified by certificates issued by the Navy, Army, or such other authority or authorities as the President

- 2 -

may designate. The extent of exemption would be controlled by regulations to be issued by the President, which could be changed from time to time as new situations arise. The President could delegate his powers.

If you approve, we shall clear the bill with the Joint War Production Committee, contact the Navy to assure coverage of its problem, submit the bill to Congress, and draft appropriate regulations.

(Signed) W. R. Johnson

Approved:

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

WRJ/mc 7/17/42

(H. R.)

A BILL

To provide for more effective prosecution of the war by carrying out the recommendation with respect to the elimination of certain customs barriers by the Joint War Production Committee of the United States and Canada.

1. Be it enacted by the Senate and House of Representatives
2. of the United States of America in Congress assembled, That
3. notwithstanding any other provision of law, any shipment
4. imported into the continental United States (including
5. Alaska) from Canada for which a certificate provided for
6. in section 3 of this Act is presented to the collector of
7. customs concerned, or his representative, shall be exempt
8. from any duty, tax, or other charge or exaction

Public
625.

- 2 -

1. imposed upon, or by reason of, importation.

2. SEC. 2. Notwithstanding any other provision of
3. law and subject to such exceptions or conditions as the
4. President in his discretion may prescribe from time to
5. time, any shipment imported into the continental United
6. States (including Alaska) from, or exported from the
7. continental United States (including Alaska) to, Canada
8. for which a certificate provided for in section 3 of this
9. Act is presented to the collector of customs concerned, or
10. his representative, shall be exempt from any inspection,
11. restriction, or requirement which would otherwise be
12. required by federal, state, municipal, or other authority.

13. SEC. 3. Certificates for the purposes of sections 1
14. and 2 of this Act shall be issued in the United States by
15. such authority, under such regulations, and in such form

- 3 -

1. as the President shall prescribe. Certificates issued
2. by authority of the Dominion of Canada shall be accepted
3. for the purposes of such sections 1 and 2 when they
4. comply with such requirements as the President shall
5. specify. Such certificates shall be issued in the United
6. States only for shipments of articles specified by the
7. President as being essential or desirable for the
8. prosecution of the war by the United States and its allies
9. or associates, and before specifying the requirements
10. with which such certificates issued in Canada shall comply
11. the President shall satisfy himself that those certificates
12. will be issued only for such shipments.

13. SEC. 4. (a) The President may, from time to time,
14. promulgate such rules and regulations as may be necessary
15. or appropriate to carry out any of the provisions of this Act.

- 4 -

1. (b) The President may exercise any power or
2. authority conferred on him by the foregoing provisions
3. of this Act through such officer or officers, or agency
4. or agencies, as he shall direct.

5. SEC. 5. Notwithstanding any "most-favored-nation"
6. or other provision in any treaty, convention, agreement,
7. or compact, no exemption authorized by this Act shall be
8. extended to importations from, or exportations to, any
9. country or place other than Canada.

10. SEC. 6. This Act shall become effective on the day
11. following its enactment and shall remain in force until
12. the day following the date of a Proclamation by the
13. President that the war has ended, or until such earlier
14. time as the Congress by concurrent resolution, or the
15. President by Proclamation, may designate.

THE WHITE HOUSE
WASHINGTON

July 15, 1942

My dear Mr. Secretary:

On December 23rd, 1941, I approved a declaration of policy adopted by the Joint War Production Committees of Canada and the United States. That policy, calling for a combined all-out war production effort, included the following statement:

"Legislative and administrative barriers, including tariffs, import duties, customs and other regulations or restrictions of any character which prohibit, prevent, delay or otherwise impede the free flow of necessary munitions and war supplies between the two countries should be suspended or otherwise eliminated for the duration of the war."

To further the implementation of the declaration, I asked the affected departments and agencies in our Government to abide by its letter and spirit, so far as lay within their power. I further requested Mr. Milo Perkins, the Chairman of the American Committee, to investigate, with the aid of the Tariff Commission and other interested agencies, the extent to which legislative changes would be necessary to give full effort to the declaration.

It has come to my attention, through the Permanent Joint Board on Defense, United States - Canada, that barriers to the free flow of materials between Canada and the United States still exist. Specifically, the shipment of materials, blue-prints, specifications, etc., from the United States to Canada, in connection with the building in Canada of airplanes for the United States Navy, is slowed down by customs inspections, licensing, and other restrictions. Please use your utmost endeavors promptly to eliminate all formalities that possibly can be removed. If legislative or other measures are required by your department further to facilitate the prompt shipment of materials between the two countries, please take immediate action to bring about early enactment thereof.

I have directed the Secretary of the Navy to furnish you such information or other assistance you may require.

Very sincerely yours,



The Honorable,

The Secretary of the Treasury.

THE WHITE HOUSE
WASHINGTON

July 15, 1942

My dear Mr. Secretary:

On December 23rd, 1941, I approved a declaration of policy adopted by the Joint War Production Committees of Canada and the United States. That policy, calling for a combined all-out war production effort, included the following statement:

"Legislative and administrative barriers, including tariffs, import duties, customs and other regulations or restrictions of any character which prohibit, prevent, delay or otherwise impede the free flow of necessary munitions and war supplies between the two countries should be suspended or otherwise eliminated for the duration of the war."

To further the implementation of the declaration, I asked the affected departments and agencies in our Government to abide by its letter and spirit, so far as lay within their power. I further requested Mr. Milo Perkins, the Chairman of the American Committee, to investigate, with the aid of the Tariff Commission and other interested agencies, the extent to which legislative changes would be necessary to give full effort to the declaration.

It has come to my attention, through the Permanent Joint Board on Defense, United States - Canada, that barriers to the free flow of materials between Canada and the United States still exist. Specifically, the shipment of materials, blue-prints, specifications, etc., from the United States to Canada, in connection with the building in Canada of airplanes for the United States Navy, is slowed down by customs inspections, licensing, and other restrictions. Please use your utmost endeavors promptly to eliminate all formalities that possibly can be removed. If legislative or other measures are required by your department further to facilitate the prompt shipment of materials between the two countries, please take immediate action to bring about early enactment thereof.

I have directed the Secretary of the Navy to furnish you such information or other assistance you may require.

Very sincerely yours,



The Honorable,

The Secretary of the Treasury.

(GOVT)

THE WHITE HOUSE

WASHINGTON

July 15, 1942

My dear Mr. Secretary:

On December 23rd, 1941, I approved a declaration of policy adopted by the Joint War Production Committees of Canada and the United States. That policy, calling for a combined all-out war production effort, included the following statement:

"Legislative and administrative barriers, including tariffs, import duties, customs and other regulations or restrictions of any character which prohibit, prevent, delay or otherwise impede the free flow of necessary munitions and war supplies between the two countries should be suspended or otherwise eliminated for the duration of the war."

To further the implementation of the declaration, I asked the affected departments and agencies in our Government to abide by its letter and spirit, so far as lay within their power. I further requested Mr. Milo Perkins, the Chairman of the American Committee, to investigate, with the aid of the Tariff Commission and other interested agencies, the extent to which legislative changes would be necessary to give full effect to the declaration.

It has come to my attention, through the Permanent Joint Board on Defense, United States - Canada, that barriers to the free flow of materials between Canada and the United States still exist. Specifically, the shipment of materials, blue-prints, specifications, etc., from the United States to Canada, in connection with the building in Canada of airplanes for the United States Navy, is slowed down by customs inspections, licensing, and other restrictions. Please use your utmost endeavors promptly to eliminate all formalities that possibly can be removed. If legislative or other measures are required by your department further to facilitate the prompt shipment of materials between the two countries, please take immediate action to bring about early enactment thereof.

I have directed the Secretary of the Navy to furnish you such information or other assistance you may require.

Very sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

The Honorable,

The Secretary of the Treasury.

290

July 16, 1942

COPIES TO: Commissioner Johnson
Mr. Bell
Mr. White
Mr. Gaston

THE WHITE HOUSE
WASHINGTON

July 15, 1942

My dear Mr. Secretary:

On December 23rd, 1941, I approved a declaration of policy adopted by the Joint War Production Committees of Canada and the United States. That policy, calling for a combined all-out war production effort, included the following statement:

"Legislative and administrative barriers, including tariffs, import duties, customs and other regulations or restrictions of any character which prohibit, prevent, delay or otherwise impede the free flow of necessary munitions and war supplies between the two countries should be suspended or otherwise eliminated for the duration of the war."

To further the implementation of the declaration, I asked the affected departments and agencies in our Government to abide by its letter and spirit, so far as lay within their power. I further requested Mr. Milo Perkins, the Chairman of the American Committee, to investigate, with the aid of the Tariff Commission and other interested agencies, the extent to which legislative changes would be necessary to give full effort to the declaration.

It has come to my attention, through the Permanent Joint Board on Defense, United States - Canada, that barriers to the free flow of materials between Canada and the United States still exist. Specifically, the shipment of materials, blue-prints, specifications, etc., from the United States to Canada, in connection with the building in Canada of airplanes for the United States Navy, is slowed down by customs inspections, licensing, and other restrictions. Please use your utmost endeavors promptly to eliminate all formalities that possibly can be removed. If legislative or other measures are required by your department further to facilitate the prompt shipment of materials between the two countries, please take immediate action to bring about early enactment thereof.

I have directed the Secretary of the Navy to furnish you such information or other assistance you may require.

Very sincerely yours,



The Honorable,

The Secretary of the Treasury.

JUL 22 1942

STRICTLY CONFIDENTIAL

My dear Mr. Secretary:

Receipt is acknowledged of a letter dated July 20, 1942 (Eu), signed for you by Assistant Secretary Berle, requesting my views on whether the United States Government would be willing to facilitate the passage through American territory of persons who may be evacuated from Victoria and the southern end of Vancouver Island because of an emergency.

I concur in the view of your Department that, should such an emergency arise, this Government should be of all possible assistance to the Canadian authorities in this matter. In the event of such an emergency, appropriate instructions will be given to the United States Customs authorities that arrangements should be made to supervise the transit of the baggage and effects of evacuees from the point of landing in the United States to the port of exit into Canada. Customs officers will

Photostat file - NMC
Orig. File - Thompson

- 2 -

also be instructed to render any additional assistance in their power.

In order that appropriate instructions of the kind referred to above may be prepared for possible future use, it will be appreciated if you will advise us of the response made by the Attorney General regarding the measures to be taken by Immigration authorities.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of State.

Delivered by Simmons 5:35
7/22/42

HC/fn
7/21/42



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Bu

July 20, 1942

STRICTLY CONFIDENTIAL

My dear Mr. Secretary:

There is enclosed a copy of a memorandum dated July 9, 1942, from the Canadian Legation at Washington inquiring whether the United States Government would be willing to facilitate the passage through American territory of persons who may be evacuated because of an emergency from Victoria and the southern end of Vancouver Island.

This Department feels that should such an emergency arise this Government should be of all possible assistance to the Canadian authorities in this matter. Before so informing the Canadian Legation, however, I should appreciate receiving an indication of your views on the subject. I am also sending a copy of the enclosed memorandum to the Secretary of War, the Secretary of the Navy and the Attorney General.

Sincerely yours,

For the Secretary of State:

Adolf A. Berle, Jr.
Assistant Secretary

Enclosure:

From Canadian Legation,
July 9, 1942.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

FOR DEFENSE

BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

Confidential.

MEMORANDUM

The Canadian authorities have prepared plans for such evacuation of the civil population as may be required by military necessity. In particular, plans have been laid for the evacuation of women and children from Vancouver Island. The medium of transportation will be a fleet of small boats most of them pleasure boats, tow-boats, fishing boats and other typical small craft to be found in coastal waters.

In the event of evacuation from Victoria and the extreme southern end of Vancouver Island, it will be necessary to transport large numbers of people to points on the United States mainland, such as Bellingham and Anacortes. It will be recognized that the distances involved in bringing people from Victoria to points on the mainland north of the International boundary will involve extra time and distance and quite possibly additional navigational hazards for the smaller vessels that would be utilized.

In view of these circumstances, the Canadian Government wishes to know whether the competent authorities of the United States Government would be prepared to facilitate the acceptance and transference back into Canadian territory of any persons whom it is found necessary to disembark in United States territory. It is hoped that a procedure can be established which will enable the Canadian authorities to carry out this movement expeditiously in the event of an emergency.

CANADA LEGATION,

WASHINGTON, D.C.

July 9, 1942.

296

Treasury Department
Division of Monetary Research

Date..July.23.....1942

To: Secretary Morgenthau

From: Mr. White

Original of this report appended
to prepared letter to President.

July 22, 1942

Exports to Russia, Free China, Burma, France and other blocked countries, as reported to the Treasury Department during the ten-day period ending July 10, 1942.

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending July 10, 1942 amounted to about \$36,000,000 as compared with approximately \$50,000,000 during the previous ten-day period. Among the military equipment exported during the period under review were 60 P-40 pursuit fighters, 39 light bombers, 4 medium bombers and 77 tanks. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China as reported during the ten-day period under review amounted to \$7,900,000. Military equipment accounted for nearly 85% of the total. (See Appendix D.)

Exports to Burma as reported during the period under review amounted to about \$45,000. (See Appendix E.)

3. Exports to France

Exports to France during the period under review amounted to less than \$500.

4. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A. Exports to Portugal were most important, amounting to \$162,000.

ISF/lc
7/23A 2

STRICTLY CONFIDENTIAL

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 July 10, 1942.

(In thousands of dollars)

	July 28 to June 20	Period ended June 30	Period ended July 10	Total Domestic Exports
U. S. S. R.	\$587,872	\$49,919	\$35,618	\$673,409
Free China	84,500	1,664	7,900	94,064
Burma 2/	12,435	5/	45	12,480
France 3/	56	—	5/	56
Spain	2,849	—	—	2,849
Switzerland	10,710	591	93	11,394
Sweden	17,778	2	82	17,862
Portugal	9,036	165	162	9,363
French North Africa 4/	6,283	5/	—	6,283

Treasury Department, Division of Monetary Research

July 21, 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.

JMW:rl 7/21/42

APPENDIX B

Exports from the U. S. to Free China, Burma and
U.S.S.R. as reported to the Treasury Department
July 28, 1941 - July 10, 1942 $\frac{1}{2}$
(Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to Burma $\frac{3}{4}$</u>	<u>Exports to U.S.S.R.</u>
July 28 - Aug. 2	395		4,523
Aug. 4 - Aug. 9	-		551
Aug. 11 - Aug. 16	309		986
Aug. 18 - Aug. 23	2		2,735
Aug. 25 - Aug. 30	1		1,025
Sept. 2 - Sept. 6	204		4,280
Sept. 8 - Sept. 13	2,281		5,217
Sept. 15 - Sept. 20	3,822 $\frac{2}{3}$		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	1,324
Oct. 20 - Oct. 25	269	403	5,623
Oct. 27 - Nov. 1	4,772	58	4,484
Nov. 3 - Nov. 8	1,672	342	4,332
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	4,589
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 $\frac{1}{2}$	4,889	1,054	13,315
Feb. 10 - Feb. 20	4,853	583	26,174
Feb. 20 - Feb. 28 $\frac{5}{8}$	2,921	-	28,119
Mar. 1 - Mar. 10	2,879	23	32,509
Mar. 10 - Mar. 20	8,058	3	28,596
Mar. 20 - Mar. 31 $\frac{6}{8}$	2	2	42,435
Apr. 1 - Apr. 10	4,836	447	51,698
Apr. 11 - Apr. 20	5,355	639	64,906
Apr. 21 - Apr. 30	2,827	-	50,958
May 1 - May 10 $\frac{7}{8}$	296	-	28,652
May 11 - May 20	1,872	5	18,000
May 21 - May 31 $\frac{6}{8}$	2,533	-	26,180
June 1 - June 10	3,399	234	12,764
June 11 - June 20	2,707	-	53,799
June 21 - June 30	1,644	.06	49,919
July 1 - July 10	7,900	45	35,657
Total	\$96,667	\$11,367.06	\$674,151

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.

APPENDIX C

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
July 10, 1942

	<u>Unit of</u> <u>Quantity</u>	<u>Quantity</u>	<u>Value</u> <u>(Thousands</u> <u>of dollars)</u>
TOTAL EXPORTS			\$ 35,657
Principal Items:			
Aircraft			10,326
Fighter, pursuit (P-40)	No.	60	
Light bomber (A-20)	No.	39	
Medium bomber (B-25)	No.	4	
Ammunition			2,675
.30 caliber	No.	7,222,829	
.32, .38 and .45 caliber	No.	1,286,000	
.50 caliber	No.	1,528,700	
20 mm. Oerlikon	No.	106,500	
37 mm. anti-aircraft	No.	102,330	
75 mm. high explosive and armor piercing	No.	22,884	
81 mm. mortar shells	No.	21,168	
Links and belts for small arms ammunition	No.	1,165,000	
Military tanks			2,665
Light tanks	No.	57	
Medium tanks	No.	20	
Aircraft parts and accessories			1,942
Copper wire	Lb.	3,853,946	1,218
Submachine guns (.45 cal.)	No.	5,700	1,212
Pork and sausage, canned & not canned	Lb.	3,027,219	1,156
Tracklaying tractors	No.	181	1,126
Iron and steel bars and rods	Lb.	12,299,030	825
Motor trucks	No.	502	762
Combat vehicles			722
Scout cars	No.	97	
Light armored cars	No.	80	
Ordnance combat vehicles, n.e.s.	No.	39	

Treasury Department, Division of Monetary Research

July 22, 1942

ISF/efs 7/22/42

APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
July 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS **\$ 7,900**

Principal Items:

Military equipment	6,674
Other iron and steel manufactures	428
Printed matter	369
Surgical and medical instruments	123
Relief supplies - surgical and hospital	115

Treasury Department, Division of Monetary Research **July 22, 1942**

ISP/efs 7/22/42

SECRET

303

APPENDIX E

**Principal Exports from U. S. to Burma
as reported to the Treasury Department
during the ten-day period ending
July 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 45
Principal Items:	
Steel sheets, black	45

Treasury Department, Division of Monetary Research **July 22, 1942**

ISF/cfs 7/22/42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 22, 1942

TO Secretary Morgenthau
FROM Mr. Heflich
Subject: Shipment of Planes to British Forces

1. In the week ending July 14, 1942, a total of 81 planes of all types (80 combat planes) were shipped to British forces from the United States. This is substantially lower than the previous week's shipments of 141 (111 combat) planes, and the average of 117 (99 combat) per week during the first six months of 1942.

2. Of the week's shipments of 81 planes, 51 were sent to the British Isles, 23 to the Middle East, six to India, and one trainer to Canada.

Table A - Shipments by Area

	Week Ending <u>July 14, 1942</u>	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>To the United Kingdom</u>			
Light and medium bombers	16	508	1,669
Heavy bombers	11	122	226
Naval patrol bombers	0	8	110
Pursuit	24	849	1,160
Army Cooperation	0	71	102
Trainers	<u>0</u>	<u>0</u>	<u>24</u>
Total to the United Kingdom	51	1,558	3,291
<u>Total to the Middle East</u>			
Light and medium bombers	20	331	661
Heavy bombers	0	0	5
Naval patrol bombers	3	3	3
Pursuit	0	344	1,192
Army Cooperation	0	12	12
Trainers	<u>0</u>	<u>8</u>	<u>150</u>
Total to the Middle East	23	698	2,023
<u>To the Canadian Forces</u>			
Light and medium bombers	0	48	216
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	<u>1</u>	<u>500</u>	<u>1,741</u>
Total to Canadian Forces	1	602	2,061
<u>To the British Pacific Forces</u>			
Light and medium bombers	0	141	241
Naval patrol bombers	0	0	27
Pursuit	0	200	363
Trainers	<u>0</u>	<u>0</u>	<u>105</u>
Total to Pacific Forces	0	341	736
<u>To the British Indian Forces</u>			
Light and medium bombers	6	32	32
Pursuit	<u>0</u>	<u>40</u>	<u>40</u>
Total to Indian Forces	6	72	72
<u>Totals</u>			
Light and medium bombers	42	1,060	2,819
Heavy bombers	11	123	232
Naval patrol bombers	3	34	171
Pursuit	24	1,463	2,827
Army Cooperation	0	83	114
Trainers	<u>1</u>	<u>508</u>	<u>2,020</u>
Grand Total	81	3,271	8,183

Table B - Shipments by Types

	Week Ending July 14, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
Bell Airacobra	0	315	469
Boeing B-17	10	41	61
Boston III	1	15	39
Brewster Buffalo	0	0	168
Cessna Grane I-A (AT-17)	0	65	65
T-50	0	86	700
Consolidated Catalina	3	34	171
Liberator	1	82	171
Curtiss Kittyhawk	0	575	957
Tomahawk	0	0	544
Douglas Boston I, II and III	0	0	492
Fairchild 24 R-9	0	73	95
PT-26 Cornell	0	7	7
Glenn Martin B-26 A (Marauder)	2	4	4
Baltimore	6	255	323
Maryland	0	0	150
Grumman Martlet II	0	47	88
Lockheed A-29 A AC 151	1	1	1
Hudson	14	437	1,407
Lightning	0	3	3
Ventura I	0	12	12
Ventura Bomber	3	197	197
North American B-25	9	105	105
Harvard II	1	53	950
Mustang	24	518	598
Northrop Vengeance	0	5	5
Pitcairn Autogiro	0	0	5
Stearman PT-27	0	297	298
Vought-Sikoraky Chesapeake	0	0	50
Vultee-Stinson O-49	0	10	14
Vultee Vengeance	<u>6</u>	<u>34</u>	<u>34</u>
Grand Total - All Types	81	3,271	8,183

Table C - Plane Shipments to the British by Weeks

Weekly average of shipments in 1941	Light and medium bombers	Heavy bombers	Naval patrol bombers	Pursuit	Army Cooperation	Trainers	Total
36	2	3	26	1	30	100	
Weekly average of shipments in first six months of 1942	36	4	1	55	3	18	117
July 7, 1942	<u>77</u>	<u>17</u>	<u>0</u>	<u>17</u>	<u>0</u>	<u>30</u>	<u>141</u>
July 14, 1942	<u>42</u>	<u>11</u>	<u>3</u>	<u>24</u>	<u>0</u>	<u>1</u>	<u>81</u>
Total shipments since January 1, 1941 to date *	2,619	232	171	2,527	114	2,020	5,163

* Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 250

Information received up to 7 A.M., 22nd July, 1942.

1. NAVAL

MEDITERRANEAN. 2 of H.M. Cruisers and 4 destroyers bombarded shipping and the harbour at MERSA MATRUH.

On 21st 28 Spitfires arrived MALTA from one of H.M. Aircraft Carriers.

2. MILITARY

EGYPT. Apart from a slight local advance south of EL ALAMEIN there has been no change.

RUSSIA. A strong Russian attack against bridgehead formed by Germans across River DON at VORONEZH has met with some success. The German thrust southward towards the River DON continues to make progress particularly east of River DONETS.

3. AIR OPERATIONS

WESTERN FRONT. 21st. 6 Mosquitos bombed targets in northwest GERMANY, results not observed owing to thick cloud. Military targets, factories, railways and shipping in BELGIUM were attacked by 12 squadrons of Spitfires. Goods trains attacked in Northern FRANCE by 2 Mustangs. 7 aircraft missing, 3 pilots safe. 4 enemy aircraft crossed south coast and a few bombs were dropped in ISLE OF WIGHT, damage slight, no casualties.

21st/22nd. Aircraft despatched: DUISBURG 299, sea mining FRISIAN ISLANDS and Dutch Coast 11, Aerodromes 8, leaflets, occupied FRANCE 6. DUISBURG was attacked in good weather and several large fires reported. 13 aircraft missing, 22 enemy aircraft crossed east coast. Bombs, mainly incendiary, dropped in EAST ANGLIA, little damage, no casualties reported. 1 aircraft destroyed by night fighter.

EGYPT. 19th/20th. Bombers attacked shipping and laid mines in TOBRUK Harbour. On 20th light and fighter bombers attacked landing grounds and M.T. in FUKA Area, several aircraft on the ground and a large number of vehicles being either destroyed or damaged.

MALTA. 20th/21st. LUQA aerodrome attacked by 16 JU 88's of which 3 were destroyed by A.A. fire.

MEDITERRANEAN. 21st. A 7,000 ton ship, escorted by 2 destroyers and a DO. 18 was attacked by 9 Beauforts south of CORFU. 3 hits claimed on this ship and 1 destroyer also probably hit.