

DIARY

Book 554

July 27 and 28, 1942

- A -

	Book	Page
Airplanes		
Aircraft despatched, week ending July 21, 1942 -		
British Air Commission report - 7/27/42.....	554	138
Shipments to British Forces, week ending July 28, 1942 -		
Hoflich report.....		358
American Bankers' Association		
Treasury prepares congratulatory letter for FDR for		
67th annual convention - 7/27/42.....		70
Appointments and Resignations		
Dodson, Albert: Cooper (Congressman, Tennessee) asks		
HMJr to take care of old friend in a modest job -		
7/27/42.....		44
(See also Book <u>555</u> , page 243 - 7/31/42)		

- B -

Business Conditions		
Haas memorandum on situation, week ending July 25, 1942 -		
7/27/42.....		101

- C -

Canada		
Forecast of United States dollar position, July 1942 -		
Plumptre memorandum given to White - 7/27/42.....		146
Navy promises to inform Treasury of any sizable orders		
placed in Canada - 7/27/42.....		156
Cochran, H. Merle		
White reports no word from Cochran in Latin America -		
7/28/42.....		370
Cooper, Jere (Congressman, Tennessee)		
See Appointments and Resignations: Dodson, Albert		
Corn		
HMJr picks four ears for the White House - Rosenman-HMJr		
conversation - 7/27/42.....		21, 28

- D -

Dodson, Albert		
See Appointments and Resignations		

- E -

Ecuador		
See Latin America		
Engraving and Printing, Bureau of		
Negro and White Employees: Situation in lunchroom, etc.,		
explained in Reynolds (Senator, North Carolina)		
correspondence - 7/28/42.....		291

	Book	Page
Farben, I. G.		
See Foreign Funds Control: Sydney Ross Company		
Financing, Government		
August program discussed by HMJr, Bell, Haas, and		
Buffington - 7/28/42.....	554	168
a) Victory Fund Committee suggestions.....		194,288
b) Sproul-HMJr conversation.....		184
c) Ransom-HMJr conversation.....		187
War Savings Bonds:		
Victory Fund Committees: Post Office asked to extend		
franking privilege to - 7/27/42.....		79
Payroll Savings Plan: Report of companies where		
deductions have reached more than 10% - 7/27/42...		84
Sales - May, June, July, 1942 - 7/27/42.....		90
Total daily shipments by denominations, July 1-24,		
1942 (last report) - 7/27/42.....		94
Mrs. FDR and HMJr discuss presentation by movies and		
radio - 7/28/42.....		259
a) "No more between-the-acts talkers" - 7/29/42:		
See Book 555, page 8		
b) Gamble memorandum after talk with Smith,		
Cohen, and Robinson: Book 555, page 56		
Roanoke, Virginia, meeting on August 23 instead of		
August 20 discussed by Carter Glass and HMJr -		
7/28/42.....		264
a) August 23rd not possible: Book 555, page 49		
b) August 20th agreed upon: Book 555, page 211		
Newsreels acknowledged for King and Queen of England -		
7/28/42.....		308
New York survey - Gamble report - 7/28/42.....		310
Payroll Savings Plan - report for June 1942 - 7/28/42..		352
Foreign Funds Control		
Sydney Ross Company: Exports to Latin America - Board		
of Economic Warfare report - 7/27/42.....		119

Germany		
Changes in war economy - Hoflich memorandum - 7/28/42...		362

Latin America		
Ecuador: White memorandum on report of drop in value of		
United States currency - 7/28/42.....		371
Lend-Lease		
Purchases, week ending July 25, 1942 - 7/28/42.....		294

- L - (Continued)

	Book	Page
Lend-Lease (in Reverse)		
HMJr discusses with Acheson - 7/27/42.....	554	25
British-American exchange of planes:		
General Meyers-HMJr conversation - 7/27/42.....		37
Conference; present: HMJr, Meyers, White, and Hicks - 7/28/42.....		217
Conference; present: HMJr, Meyers, Phillips, White, and Hicks - 7/28/42.....		230
a) Hicks memorandum.....		244
McCloy-HMJr conversation - 7/28/42.....		276
Phillips note on "Planes diverted off British contracts" - 7/30/42: See Book 555, page 228		
Phillips agrees to text - Acheson reports to HMJr - 8/4/42: Book 556, pages 146 and 176		
a) Conference; present: HMJr, Bell, White, Paul, and Cairns: Book 556, page 183		
b) Meyers (Brigadier General) memorandum on "Airplanes diverted from British contracts" - 8/4/42: Book 556, page 195		
Library of Congress		
Friends of Music give \$5000 plus for deposit in Permanent Loan Fund; HMJr OK's - 7/27/42.....		98

- M -

Military Reports		
British operations - 7/27/42, 7/28/42... ..		167,385

- N -

Negroes		
See Engraving and Printing, Bureau of New York		
See Financing, Government: War Savings Bonds		

- P -

Post Office Department		
See Financing, Government: War Savings Bonds		

- R -

Relief Activities, War		
See War Relief Activities		
Revenue Revision		
Ruml, Beardsley: Disapproves of Treasury "check-off" plan for collecting taxes; proposes "Pay-as-You-Go" plan - 7/27/42.....		66
a) Paul memorandum and Ruml testimony before Senate Finance Committee.....		68,69
Withholding Tax: Bureau of Internal Revenue's objections again reiterated by Cann - 7/28/42.....		285

- R -

Book Page

Reynolds, Robert R. (Senator, North Carolina)
See Engraving and Printing, Bureau of
Roanoke, Virginia
See Financing, Government: War Savings Bonds
Ross Company, Sydney
See Foreign Funds Control
Ruml, Beardsley
See Revenue Revision

- S -

Sterling Products
See Foreign Funds Control: Sydney Ross Company
Sydney Ross Company
See Foreign Funds Control

- V -

Victory Fund Committees
See Financing, Government

- W -

War Relief Activities
Davies (Joseph E.) report on agencies - 7/27/42..... 554 115
War Savings Bonds
See Financing, Government

1

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HENRY MORGENTHAU JR

SECY OF THE TREASURY

WOULD APPRECIATE YOUR CALLING ME YOUR CONVENIENCE ABOUT AN
AGRICULTURAL MATTER WHICH I WOULD LIKE TO CALL TO ATTENTION

TO THE PRESIDENT I BELIEVE IT TO BE EXTREMELY IMPORTANT

H E BABCOCK.

1000AM JULY 27.

8VS 31 W 8 20
27031 W 8 20
SECRET

July 27, 1942
12:20 p.m.

GROUP

Present: Mr. Buffington
Mr. Gamble
Mr. Thompson
Mr. Schwarz
Mr. Odegard
Mr. Paul
Mr. Cairns
Mr. Haas
Mr. Bell
Mr. White

H.M.JR: I want to ask a couple of questions. Where is Gamble? They gave out an announcement, "Over 1,000,000 persons on the War Department payroll have voluntarily set aside part of their pay to purchase War Savings Bonds." Do you think that is true?

MR. GAMBLE: A million persons?

H.M.JR: One million.

MR. GAMBLE: It is possible that is true.

H.M.JR: You might check up. From what the Navy says I doubt it - about the Army.

MR. BELL: I think that possibly includes the armed forces, not just the civilians.

H.M.JR: I would like to know how many civilians there are in the Army.

And then, Harry, I see on the ticker here, "An order limiting industrial use of silver in order to

- 2 -

divert larger quantities of other metals to war uses has been issued by War Production Board with approval from President Roosevelt." Were we at all consulted?

MR. WHITE: War Department?

H.M.JR: War Production Board. That is what we said we had no objection to - that I had no objection?

MR. WHITE: That you had no objection to it.

H.M.JR: O.K. I think we will do first this Executive Order, Mr. Paul. If you will sit up here, I can see you better. I can't tell whether you are smiling or frowning at that distance.

MR. PAUL: It is enough to make you frown. We had a conference yesterday. Mr. White was there, and Mr. Cairns, and Mr. Bernstein.

H.M.JR: Nice way to spend a Sunday.

MR. PAUL: Well, I didn't mind it because I had an empty Sunday, but they no doubt suffered. As a result of that, we drew two orders, one covering wages and the other covering agricultural prices, the latter being much the more difficult problem, for reasons I will give in a moment.

H.M.JR: Needless to say this is triple confidential.

MR. PAUL: All we can say is our orders are very much better than the order presented by Dave Ginsberg at the conference Saturday morning.

H.M.JR: Says you.

MR. PAUL: Well, I don't have any doubt of that; I think Dave would--

H.M.JR: Dave plus James Byrnes.

MR. PAUL: Well, we sent that order to Judge Rosenman yesterday afternoon, but I don't think that that did much good, because I later - I tried to get him on the telephone several times, and I later found that he had registered at the Willard, and I still later found that he wasn't in town yesterday.

H.M.JR: He is in town today because he was supposed to have lunch with me, and he said he was very sorry he couldn't but if I would send four ears of corn over to the President for lunch, he would be able to eat two of them. (Laughter)

MR. PAUL: That is better information. I had the information he wasn't going to get in until this afternoon.

H.M.JR: So I sent four ears of corn from the farm to the President so that Judge Rosenman could have two of them. (Laughter)

MR. PAUL: I have copies of these orders here; I don't know whether you want to go into them. The principal problem - the wage situation is much easier for the simple reason that there the question is only one of lack of authority. In connection with the agricultural prices we have a much harder problem because we have a definite edict in the Emergency Price Control Act that no existing law shall be in effect - shall be used.

H.M.JR: Supposing I called up the Judge and ask him when he wants to see some of us?

MR. PAUL: That would be a good idea. He planned a conference today, he told us Saturday, which would include Oscar Cox and Dave Ginsberg and somebody from Budget. I have to be at the--

H.M.JR: Which route do you take, the 5-B, or the--

- 4 -

MR. PAUL: We take route 5-B, primarily, yes, but we have a lot - we also sent the Judge a memo containing a number of other alternative routes, some of which we thought should be held in reserve, and there is - Huntington found one statute which may help. It is the military zoning statute, and it wasn't passed until after the other act. This military zoning statute was not passed until March 21, 1942, and it wasn't the existing law at the time of the Emergency Price Control Act. Now, it gives the President the right to establish zones, and on the theory that this is a total war you can establish a zone and have price control there - farm price control or wage control - on the theory that if you continue to do something like that your prices would get out of hand and that would hurt the war. But that, we thought, should be something that should be held in reserve.

H.M.JR: But that came subsequent to farm prices?

MR. PAUL: Yes, it wasn't existing law at the time.

H.M.JR: Does that help you in the courts?

MR. PAUL: It would certainly be one of our main points if we were briefed on it, but it seems more drastic as a practical, political problem than the other. We thought we ought to go out under 5-B and then perhaps use this argument to convince Senator Barkley, who is against this, saying we could do it by a more drastic means if we wanted but we take this pleasanter route.

H.M.JR: Tell him it is a pre-Pearl Harbor matter.

MR. PAUL: Now, I was up for a few minutes at the session this morning. Senator George asked me to be

- 5 -

up at two o'clock. I think he plans to have an executive session. I think he is going to ask us - after determining that you can't get this or that, maybe the State bond exemption or the joint returns or something, he is going to say, "Now, what are your alternative suggestions?" I am going to say, "We are not prepared to submit them today, but if it is clear that you are not going to give us the other, we will submit some further ideas to you in a few days."

H.M.JR: This thing that he questioned - that group of economists got something out a week ago from today which I never saw. Who saw that - twenty-seven economists signed something--

MR. WHITE: You mean a booklet on financial policy?

H.M.JR: Something criticizing the Treasury.

MR. WHITE: Financial policy. Well, if it is what I saw, it is a little booklet which had the effect only of making me thoroughly ashamed of my profession, if that is the same thing he refers to. That is my view of their comment.

H.M.JR: Well, they asked me at press a week ago today whether I had seen it. Do you want to dig it up and give it to me later?

MR. WHITE: Twenty-seven economists?

H.M.JR: Isn't that what they said, Chick? You were there.

MR. SCHWARZ: It was about that. It was a round-robin thing.

MR. WHITE: Excuse me, I am not certain - you would like the pamphlet with the comments?

H.M.JR: I would like to see the booklet itself.

MR. WHITE: Yes.

MR. PAUL: I think we probably have that.

MR. BELL: It was in the paper, I think, Monday. It sort of indicated you had had a conference with them.

H.M.JR: What?

MR. BELL: It sort of intimated that you had had a conference with them and had turned a deaf ear, or something, but I think the deaf ear came in your press conference of Tuesday - is that your press conference?

H.M.JR: The press conference was Monday, but anyway it appeared in some - dig it up, Chick, for heaven's sake, and tell him which one it is.

MR. SCHWARZ: We have a copy.

H.M.JR: Tell White which one it was that the boys were asking about. If you tell White which it is, he can find out.

- 7 -

H.M.JR: Norman?

MR. THOMPSON: I have nothing.

H.M.JR: Mr. Bell?

MR. BELL: I have two documents for your signature. One is a letter to the Postmaster General asking for the franking privilege for the Federal Reserve Banks.

H.M.JR: For the Federal Reserve Banks?

MR. BELL: Yes, for Treasury business. We had it during the last war, but they have never given it to us since.

(Letter to the Postmaster General, dated today, signed by the Secretary.)

MR. BELL: This is an amendment to an old Public Debt circular which incorporates a recent Act of Congress. (Document entitled "Department Circular No. 660" signed by the Secretary.)

H.M.JR: What else?

MR. BELL: I don't know whether you are interested in the final results of the Treasury campaign.

H.M.JR: Yes, sure. (Chart handed to the Secretary.) About ten, eight. Do you mind if I put on my dark glasses to look at this? (Laughter) I would like to study this. Who is this way out here - Monetary Research. That is rubbing it in - by gawd, that is rubbing it in. They go way out over thirteen percent, you see, on this thing, and here they are inside the Treasury fighting us tooth and nail on the War Bonds. But they just want to demonstrate that they are good sports.

MR. BELL: High-salaried people. (Laughter)

- 8 -

MR. WHITE: I hope it isn't a mistake in the computation. (Laughter)

MR. ODEGARD: Mr. Secretary, they have a lot of high-salaried people in Monetary Research. Maybe it ought to be more than thirteen. (Laughter)

H.M.JR: I think it is pretty good, knowing how they feel, from the top down, anyway. Incidentally, I think I told you that, along those lines - he asked me not to tell it outside - right after the argument was settled Leon Henderson wrote me a personal note that he was having ten percent taken out of his check each two weeks. He didn't want it publicized, but he just wanted to let me know that the fight was over and that is where he stood, which I thought was very nice.

MR. PAUL: He was very appreciative of your proposing the rate tax. I had dinner with him Thursday night and he mentioned it.

H.M.JR: I have got to see Leon. He needs a friend badly.

MR. PAUL: I don't know whether he understands it. He was in a fighting mood the other night; he didn't seem to understand he needed a friend.

MR. BELL: He is leaving tonight. (Memorandum concerning resignation of Mr. Mills handed to the Secretary.)

H.M.JR: I am seeing him at quarter of three.

MR. BELL: I think that is nice. I told him in view of the fact that he didn't want to accept these two or three jobs we had around here possibly it is better for him to go back and get up to date on what has happened in his bank, and then maybe we can call him back later, if that is all right. That is all I have.

- 9 -

H.M.JR: Harry?

MR. WHITE: Mr. McCloy called to say that they have to know, preferably today, whether anything is to be done about taking over more planes from the British, because they are right at the point where a decision has to be made, and pay for them with dollars. You remember the last time we canvassed the situation it was decided not to go ahead with anything more. Now they have some more contracts before them which they want to finish up or salt away, and they have got to have a decision, if possible. I said we would call them back today.

H.M.JR: I don't understand that.

MR. WHITE: Well, there are still some plane contracts and payments about which they have to know how we want them handled, because once a decision is made not to do any more it will be too late to do anything about it.

H.M.JR: I wonder if he couldn't drop over here and talk to me about it.

MR. WHITE: That would be General Meyers.

H.M.JR: Supposing I call them up on the phone.

MR. WHITE: He asked me to get in touch with General Meyers if we have an opinion.

H.M.JR: Who, McCloy?

MR. WHITE: McCloy.

H.M.JR: Supposing I talk to Mr. McCloy.

What else, Harry?

- 10 -

MR. WHITE: Here is a little note which might be of passing interest. The Lord Chancellor of the Exchequer said England is not going to return to the gold standard, and other things of that nature. I don't think it merits any importance. (Paper handed to the Secretary.)

H.M.JR: Chick?

MR. WHITE: I have one other. The final conference that we had with the Lend-Lease people has indicated that they definitely do not want to lend-lease for coins, and that leaves them willing to lend-lease for war purposes. I suggest a possible step--

H.M.JR: That is like saying a fellow needs a - if he is on a red meat diet, "Wouldn't you like to have some chicken?"

MR. WHITE: Of course that isn't true of England. To England coins are secondary. To Australia coins are primary, and to the South American countries they are primary.

I don't think they have very good reasons for not wanting to go along. It simmers down to this, that they feel that the public reaction to such a step would be adverse to them. They are reluctant to do it.

H.M.JR: I can't do it now, but let's have another silver session. I have got another idea. See?

MR. WHITE: Then we will hold everything up until you have that conference.

H.M.JR: I have got another idea. I think we could sit down with Mexico and possibly help Mexico make an arrangement with England and Canada, especially if they are going to be held down to thirty-five cents.

- 11 -

MR. WHITE: Did you want Mexicans in at that session?

H.M.JR: No, no, just Mexican Bell and Mexican you and Mexican me, that is all. (Laughter)

MR. WHITE: Then we will hold everything up.

H.M.JR: Just us three Mexicans.

MR. WHITE: Mr. Hays called up - he telephoned, and he for several minutes--

H.M.JR: Can you talk a little louder?

MR. WHITE: For several minutes he gave me what must be simply characterized as an awful lot of applesauce - to you and to me.

(The Secretary held a telephone conversation with Miss Zinsser, secretary to Mr. McCloy.)

H.M.JR: You know who she is? She is Lew Douglas's niece.

MR. BELL: Is she? He is Lew Douglas's brother-in-law.

H.M.JR: Well then, what's-his-name is her uncle - McCloy is her uncle. She is working for her uncle.

(Discussion off the record)

MR. WHITE: Hays said--

H.M.JR: I hope Meyers comes. He is a breath of fresh air.

MR. WHITE: Mr. Hays said that he was informed--

- 12 -

H.M.JR: Excuse me. I would like you here at three-fifteen, Bell, as well as White.

MR. WHITE: He was informed of all the details of the morning meeting which you had had.

H.M.JR: Who was?

MR. WHITE: Mr. Hays - of all the details. He emphasized that, and he said that he thoroughly approves and he is glad that you are doing it that way, and it is just fine and it is lovely, and he will want to cooperate.

H.M.JR: He is smart. O.K.?

MR. WHITE: That is all.

H.M.JR: Make any offers?

MR. WHITE: No.

H.M.JR: What?

MR. WHITE: No.

H.M.JR: Remember, fifty-fifty, Harry. (Laughter)

MR. WHITE: It depends on what it is. (Laughter)

H.M.JR: Chick? That is right, you are quite right. I might want a hundred percent. (Laughter)

MR. WHITE: It may be that kind of an offer. (Laughter)

MR. SCHWARZ: Variety ran, also, an inaccurate story on this Stage Door Canteen, and after talking with Charlie Bell, who said he had an assignment from you, we confirmed the fact that you were making space available in the Belasco.

H.M.JR: Making space available - my gawd, after they had been turned down one hundred percent by Reynolds, and told by him and the Treasury it couldn't be done, Norman Thompson got the inspiration and decided to do it. Is that right, Norman?

MR. THOMPSON: That is right.

MR. SCHWARZ: I thought that would backstop Ted's story.

H.M.JR: We just turned ourselves inside out on that for - what is his name, this actor?

MR. SCHWARZ: Douglas.

H.M.JR: Yes, Melvyn Douglas.

(The Secretary held a telephone conversation with Judge Rosenman.)

H.M.JR: He just got in. He hasn't even opened the envelope yet, Paul.

MR. PAUL: If he does call up this afternoon, I will get back from the Finance Committee just as soon as I can; and if I am not back here, or can't get back, Bernstein had better go over.

H.M.JR: All right.

MR. PAUL: He has been in on it before.

H.M.JR: Peter?

MR. ODEGARD: Just one or two things. The poll that you asked to have made on the workers' attitude toward the withholding of income at the source--

H.M.JR: Yes, can you talk a little louder? My ears are all stopped up.

MR. ODEGARD: We had a session on Friday with Friedman in John Sullivan's office on that, and decided on the questions for a resurvey of employers as to their specific attitude toward the effect this might have upon their

- 14 -

pay-roll savings operation. We also agreed upon a series of questions that we should put to employees and a preliminary test of that is already in the field, or should be today, through the Bureau of Intelligence of OWI. I thought you might like to know.

H.M.JR: Oh, through - will that go through Likert?

MR. ODEGARD: Likert sat in - I went over to OWI to go over the questions with him. He sat in on it.

H.M.JR: Good.

MR. ODEGARD: There is one matter--

H.M.JR: When will we get an answer on that?

MR. ODEGARD: Well, we ought to get some preliminary action from the field pretty quickly.

H.M.JR: On employees?

MR. ODEGARD: On employees, yes. There is a flag-raising ceremony at the Ford plant that I would like to talk with you about.

Then there is an editorial in the New Republic for this week that says something that I think is not quite accurate.

H.M.JR: You mean on the forced savings?

MR. ODEGARD: On forced savings.

H.M.JR: No, it is wholly inaccurate. I read it.

MR. ODEGARD: It says that the Treasury has been in favor of forced savings, but has been held off it by the President.

H.M.JR: The whole article is wrong, and while you are on that, if anybody is interested in the State Department, I highly recommend reading The Nation, July 25, on Mr. Hull.

- 15 -

MR. SCHWARZ: It called him an anachronism.

H.M.JR: The whole State Department.

MR. WHITE: Does anybody here listen to Cal Tinney? He broadcasts Monday, Wednesday and Friday. I strongly recommend it.

MR. PAUL: What time?

H.M.JR: An aunt of mine wrote me she listened to him Friday, a week ago, and couldn't I do something to stop him, but she didn't say what he said.

MR. WHITE: I forget what he said. He is very much worth listening to.

H.M.JR: Isn't he with the New York Evening Post?

MR. SCHWARZ: He used to be.

MR. WHITE: Used to be where?

MR. SCHWARZ: They tried to make a second Will Rogers out of him, but it didn't work.

H.M.JR: Isn't he the fellow that wrote that dirty article about me?

MR. SCHWARZ: Yes, sir.

H.M.JR: What does he say, Harry? (Laughter)

MR. WHITE: I didn't read the article. (Laughter) Between your aunt and the article I sort of stepped into something. He still is very good. I have heard him about three times. The last time he took Secretary Hull's speech and compared it with Secretary Hull's record, and he surely did a beautiful job.

H.M.JR: Again, if anybody is at all interested in Secretary Hull's speech and what was back of it, the tip-off was in Arthur Krock's article yesterday. Arthur Krock tipped the thing off yesterday. I mean, to me it

- 16 -

has been a great mystery, but if you read Arthur Krock yesterday, you will see what is behind it.

MR. BELL: Ernest Lindley gave him a good send-off this morning.

H.M.JR: Krock tips the hat. I think I am not exaggerating, in the one article - I think Krock said six times in his article, and the article is not very long, "Every single word of Hull's speech was approved by the President." No Utopias about a glass of milk a day, and all the rest of that stuff.

Do you want to see me later?

MR. ODEGARD: Just for a minute, only I would like to have Ted stay, too.

H.M.JR: You and Ted. As far as I know nobody else wants to see me after this meeting.

George, are you feeling all right?

MR. HAAS: I am feeling much better.

H.M.JR: You ought to take out cold insurance. You would make money on it.

MR. HAAS: The insurance company would certainly be out of luck.

H.M.JR: Are you all right?

MR. HAAS: I think I will be - as soon as the humidity goes away, I will be all right.

H.M.JR: Have you got to wait that long? (Laughter)

MR. HAAS: I think so.

H.M.JR: What else, George?

MR. HAAS: I have nothing.

- 17 -

H.M.JR: Huntington?

MR. CAIRNS: Elmer Davis is writing a letter to Petrillo because of his order as it affects the Treasury radio program. He wanted the Treasury lawyers to pass on it, but I refused to do it, and said he should get hold of Justice, because Thurman Arnold had announced he is filing suit, and anyway we are not his counsel. So I told him to get in touch with Cox, who knows most about the case.

H.M.JR: Who calls us up from there, just as a matter of curiosity?

MR. CAIRNS: I got the call from Callahan. I didn't talk to Davis' office.

H.M.JR: In other words, you figure we have enough troubles?

MR. CAIRNS: We couldn't approve the letter. We might make suggestions, but we certainly couldn't clear it.

H.M.JR: I think you are right. After all, we are not his counsel.

Anything else?

MR. CAIRNS: That is all I have.

H.M.JR: On that same subject, Mrs. Morgenthau said you were most helpful in that Robinson, the composer--

MR. CAIRNS: I am glad it worked out.

H.M.JR: She said you were most helpful on that.

MR. GAMBLE: The number of radio stations is up to six hundred and twenty-one, now. Mr. Callahan has made a very fine report on some of the outstanding work the early stations are doing. I thought you should have it, so I made it up for you.

(Paper handed to the Secretary.)

- 18 -

H.M.JR: What else, Ted?

MR. GAMBLE: Another matter you asked me to take up today was whether or not Wednesday or Friday would be a good day for you to go to New York.

H.M.JR: I will talk to you two guys about it.

Which, who, and how is it, in Ferdie Kuhn's absence - I know Ferdie Kuhn is supposed to read all the stuff that goes out from War Bonds, literature and so forth. Who does that during his absence?

MR. GAMBLE: Odegard.

MR. ODEGARD: I have been doing it.

H.M.JR: Will you take it over for Ferdie? You don't normally do it, do you?

MR. ODEGARD: I usually look over most of it.

H.M.JR: Well, when this cartoonist or artist comes down Wednesday or Thursday, whatever his name is--

MR. ODEGARD: Szyk.

H.M.JR: The one I had such difficulty in getting - I would like to see him when he first comes down. I would like to tell him why.

MR. GAMBLE: That is all.

MR. BUFFINGTON: I have asked the District Executive Managers to hold any publicity, the ones with whom I have talked, until you, at some later date - there seems to still be some of it in the paper. I don't know how it originated.

H.M.JR: Everybody finished?

MR. WHITE: Randolph, are you prepared to suggest to the Secretary the possibility of - the desirability

- 19 -

of preparing that supplementary tax measure to accompany this order?

MR. PAUL: I think that should be postponed until after we see what happens in the two o'clock session. The thought Harry has in mind is that we are limiting wages, or proposing to limit wages and agricultural prices. We have also got some mention in here of the wages end of it, the higher salaries, but we can't go any further than that. That is, we can't go into the question of dividends and corporate profits which is the capital end of it, through this instrumentality; we are convinced we have to do it through taxation.

Now, the question is whether these executive orders or any publicity in connection with them should contain some reference to the fact that you are proposing to go in with some supplementary tax proposals to tie in with this. I don't think we can decide that. We are undoubtedly going to have to go in with supplementary tax proposals, anyway, after this afternoon's session, and I think it would be much more in the clear when I see what happens up there at two o'clock.

MR. SCHWARZ: Could I raise a point, Mr. Secretary? We just about have ready now the annual salaries lists which we are required to give out, seventy-five thousand and over. I would like to time it when it will do us the most good.

H.M.JR: Talk it over with Paul.

MR. PAUL: I did say to the Judge the other day - he didn't know that this twenty-five thousand limitation of the President's had not been turned down, that it simply hadn't been voted on. He thought it had been turned down. I told him that produced a lot of problems, that particular way of doing it, but that you could do much by way of accomplishing the same general practical result by a heavy rate schedule in the higher brackets. He was quite interested in that.

H.M.JR: I will talk with Gamble and Odegard.

July 27, 1942.
12:25 p.m.

HMJr: Hello.
Operator: Judge Rosenman hasn't come in yet. They expect him in about ten or fifteen minutes.
HMJr: Well, leave word I'd like to talk to him as soon as he comes in.
Operator: All right.

12:38 p.m.

HMJr: Sam?
Judge Rosenman: Henry!
HMJr: I want you to know that I personally went out, with the dew on the ground, at five-thirty this morning, and picked four ears of corn.
R: Four?
HMJr: Well, I figured three for you and one for the President.
R: (Laughs) That's wonderful.
HMJr: And it's on the way over.
R: And is it raw or cooked?
HMJr: No, no, no, Mrs. Nesbitt is going to cook it with her little hands herself.
R: I - I - that's good, and I hope you sent a little note over that this is from Dutchess County.
HMJr: No, I figured that you'd make the speech for me.

- 2 -

R: I'll make the speech then.

HMJr: Are three ears for you enough? I know....

R: Three - three ears for me are enough, one for the President, and that makes four.

HMJr: That's right.

R: And they were flown down this morning, I take it.

HMJr: That's right.

R: Okay (laughs). I - we just landed.

HMJr: Oh, you just landed.

R: Yeah.

HMJr: I see.

R: And I hope - I hope he doesn't forget that I'm in on it.

HMJr: (Laughs)

R: (Laughs) He was met by so many people that he's liable to overlook me in the crowd. I'll have to go and stand in the door.

HMJr: Well, when are we going to get together on the prices of corn?

R: (Laughs) I don't know. Have your boys told you about our talk?

HMJr: Yeah, they've sent a lot of new bright ideas over to you.

R: Yes, well, I - I see something from the Treasury Department which I haven't opened yet.

HMJr: Yeah, and they sent it around to these other lawyers that you had in....

R: Uh huh.

HMJr:in order to save your time.

- 3 -

R: All right. Well, I'll - I'll get a hold of them. I'm going to spend this lunch on - the only reason is to work on this subject.

HMJr: Yeah, well - after lunch give me a ring, will you?

R: Yeah, all right.

HMJr: And be sure and tell the President that he only gets one ear.

R: Okay, I'll tell him.

HMJr: All right.

R: (Laughs) All right, thanks.

HMJr: I'll hear from you later.

R: Yeah.

HMJr: Goodbye.

R: Thanks, Henry.

July 27, 1942.
12:34 p.m.

HMJr:today or whether he wants to send somebody over. But I'm free at three-fifteen.

Miss Zinsser: All right. Now, Mr. Morgenthau, you particularly wanted him? It was....

HMJr: No.

Z:General Myers who started agitating about it, and I think he's the one who's been talking with Mr. White.

HMJr: He'd be adequate.

Z: He would be adequate. (Laughs)

HMJr: Yes.

Z: See him at three-fifteen....

HMJr: Right.

Z:if Mr. McGloy thought he knew more about it?

HMJr: I'll leave it to Mr. McGloy, and if I don't hear from you I'll expect either or both at three-fifteen. How's that?

Z: That's fine. I'll let your office know who - who's coming.

HMJr: That will be wonderful.

Z: All right.

HMJr: Thank you.

Z: Goodbye.

July 27, 1942.
2:37 p.m.

HMJr: Hello.

Dean Acheson: Hello, Henry. This is Dean Acheson.

HMJr: How are you? You sound a mile away.

A: Well, I - I'm right here.

HMJr: Dean, it's been quite awhile since we met in the office on this Lend-Lease in Reverse, and it seems to me that we ought to decide something pretty soon,

A: We - we have - are carrying out the decision which you reached in your office.

HMJr: Yes.

A: We ran into one trouble with the Australians....

HMJr: Yeah.

A:which I think is now straightened out.

HMJr: Yeah.

A: The British have accepted the principles which were laid down in that last discussion.

HMJr: Yes.

A: And we have - we worked all the language and everything out with them. We are now waiting for the Australians, to get a return cable.

HMJr: Yeah.

A: We've had three exchanges back and forth with Australia....

HMJr: Yeah.

A:and I expect on Wednesday or Thursday to have their final answer, and that they will go along with us.

- 2 -

HMJr: Now do you know, in the meantime, what the Army and Navy are doing?

A: Yes. I was over in McCloy's office on Friday.

HMJr: What - what are they doing?

A: They are actually operating under this arrangement just as though it had been made.

HMJr: Yeah.

A: They are getting both in North Ireland and in Australia and in New Zealand....

HMJr: Yeah.

A:the materials which there are on the spot, some which the British have imported, and are just giving receipts for those, and the British are - are writing it down in their book and Lend-Lease is writing it down in theirs. But no - no money is passing and no promise to pay, just the credit.

HMJr: How about in England?

A: That's the same thing.

HMJr: Same thing.

A: Yes.

HMJr: So it's - I mean the fact that we've been at it so long, we haven't lost any ground.

A: Oh, no, we - we're actually operating under the thing now.

HMJr: Oh, good, good.

A: The only difficulty has been the - the Australians. The British have always accepted this.

HMJr: Oh. Well, when you do hear, will you let me know?

A: Yes, I'll - I'll let you know in any event this week. I'll give you a report on just where we are.

HMJr: Will you do that?

A: Yes, Henry.

- 3 -

HMJr: And on the personal side, sorry we couldn't come out to your farm.

A: Well, we will - we will do that again. We'll want....

HMJr: That's fine.

A:to get you out on the tennis court and see whether you're up to your old form.

HMJr: Well, I'm sure I'm not that (laughs), but at least I enjoy whenever I can get on the court.

A: All right, well, we'll - we'll try to do it, Henry.

HMJr: All right. My regards to your wife.

A: Thank you very much.

HMJr: Goodbye.

A: Goodbye.

July 27, 1942.
2:56 p.m.

Operator: Go ahead.

HMJr: Hello.

Judge
Rosenman: The corn was a very great social and gastro-
nomic success.

HMJr: Yeah, I suppose all I could do is to be permitted
to smell your breath. That's as close....

R: (Laughs) Well, the President, of course,
butchers his corn by cutting it off the cob.

HMJr:that's as near as I can get to the high and
mighty.

R: Yeah, well, I'll let you - I'll let you touch
me.

HMJr: Wonderful.

R: (Laughs) Ah....

HMJr: Did he enjoy it - did the President enjoy it?

R: Yeah, he did. I told him that at five o'clock
this morning this was on the....

HMJr: Yes.

R:on the - vine, I called it. I guess that's
wrong....

HMJr: What did he say?

R:in Dutchess County. (Laughs)

HMJr: (Laughs) Stalk.

R: Stalk, that's right. I said vine in Dutchess
County....

HMJr: Yeah.

- 2 -

R:picked by five-thirty....

HMJr: Yeah.

R:and flown here especially.

HMJr: Yeah. Was it good?

R: Oh, it was very good.

HMJr: Good.

R: And I'm sorry you only picked four.

HMJr: (Laughs)

R: (Laughs) I told him - I told him that you said three were for me and one for him.

HMJr: Good.

R: He said, "Well, Mrs. Nesbitt seems to have divided them more equally."

HMJr: I see.

R: So I only got two. They were damn good.

HMJr: Good.

R: Now, Henry, I - I got some ideas from him as to what he wants done, and I think I'm going to phone Bernstein to come over. I guess I better phone Paul, hadn't I?

HMJr: Yeah, Paul's on the Hill, but you could....

R: Well....

HMJr: I can do it for you. Save you time, if you'll tell me what you want.

R: Well, I was going to suggest that they come right over. I was going to get Ginsburg over too.

HMJr: Do you want them right away?

- 3 -

R: Yeah. Well, let's - let's make it at three-thirty, huh?

HMJr: Three-thirty.

R: Well, one or the other, you really - I really don't need both.

HMJr: Well, it's - I - he - as a matter of fact, he's on the Hill, you see?

R: Yeah.

HMJr: I don't think he can come, but I'll - I'll tell him that you're asking for him, how's that?

R: Okay.

HMJr: What?

R: But if he can't come, just send Bernie. That's enough really.

HMJr: That's right....

R: Okay.

HMJr:and....

R: Anything else?

HMJr: How did the President feel about it?

R: Well, he's got some brand-new ideas, but he - he wants to use this - he wants to enumerate 5-b in the list of - of weapons that he has.

HMJr: Good.

R: As a matter of fact, I think it was very ingenious.

HMJr: Yeah. Tell me....

R: I think it was damn good, and I - I went....

HMJr:did - did you go the whole hog on both agriculture and wages?

R: For your information, yes, sir.

HMJr: Good, good.

R: Yes, sir.

HMJr: Well....

R: He's got some new ideas of machinery but - but that's really unimportant. The idea is he's really going to work on it.

HMJr: Right. All right, Sam, what else?

R: That's all right now.

HMJr: How long - how long you going to be here?

R: Well, I think I'll be here right along now.

HMJr: Good.

R: Dorothy's coming down tomorrow, I think, and we'll be here except, I guess, for week-ends.

HMJr: Well, we'll get together soon.

R: All right, Henry.

HMJr: If I asked you for supper tonight, you'd think I was trying to influence you on the Executive Order.

R: No, you've got no interest in this Executive Order. (Laughs) But I - but I - any time you can bring any corn back, no offense.

HMJr: (Laughs) All right.

R: It's very good.

HMJr: All right, Sam.

R: We'll get together soon, boy.

HMJr: Right.

R: All right. You'll tell Bernie or....

HMJr: . I'll do it right away.

- 5 -

R:then I won't have to call him.

HMJr: Yeah.

R: Three-thirty, huh?

HMJr: Yeah.

R: All right. ~~am~~

HMJr: Yeah.

R: Thank you.

HMJr: Goodbye.

July 28, 1942.

MEMORANDUM

At the meeting at the White House on July 27, 1942, attended by Judge Rosenman, David Ginsburg, General Counsel for OPA, and myself. Judge Rosenman stated that he had discussed all the matters with the President and that the President had decided to out across section 3 of the Emergency Price Control Act and regulate agricultural prices and that he wanted the following action to be taken on the wage matters:

1. Designate a Wage Stabilization Moderator who would determine all policy questions with respect to wages. The Moderator would have an Advisory Committee consisting of representatives of the various interested agencies who will be satisfactory to the Moderator.

2. The War Labor Board would continue to handle the administrative matters that it is currently handling and will carry out the policy laid down by the Moderator.

3. There is to be set up a national average cost of living index based on absolute necessities of food, clothing and rent and excluding any luxury and anything on the borderline between luxury and necessity. The average is to be fixed as of August 1, 1942.

4. The Moderator is to take the average of wages paid in an industry on a nation-wide basis as of August 1, 1942. Where an employee is getting the average or in excess of this average wage, he will get no increase of wages for the balance of the war. Any employee receiving less than the average wage can by collective bargaining, etc., receive pay to the average paid in the industry.

5. Wages are then fixed until there is a 5 per cent increase in the cost of living index above referred to. It was pointed out to Judge Rosenman that the national average would be wages paid in the south together with wages paid in the north and that there is a considerable disparity in such wage rates, so that workers in the north would be getting little, if any, wage increases. Judge Rosenman said nevertheless the President wanted the average determined on a national basis rather than on a regional basis.

It was also pointed out to Judge Rosenman that in many industries such as perhaps steel, there is no great disparity between what is paid in one business and in another business and consequently it would mean very little, if any, wage increase.

- 2 -

Judge Rosenman stated that what the President wanted to do was to greatly curtail any wage increases and that the Treasury formula made it possible to carry out the War Labor Board decisions and perhaps be even more liberal with labor.

6. The President is very anxious to adopt the Treasury's suggestion of including salaries and bonuses under the system of control. The Moderator is also to investigate high bonuses paid on war contracts with a view to reducing the bonuses. In connection with this program, high salaries are to be studied from the point of view of the tax angle and also from the point of view of preventing further increases in salaries. Judge Rosenman was uncertain as to whether anything should be done to cut down existing high salaries.

The President wanted the Executive Order to recite specifically all his statutory authority including 5(b). It was anticipated that instead of delegating all of the statutory authority to the Moderator for the purpose of carrying out provisions of the Order, the Moderator would be authorized to use directives to those Government agencies already exercising these statutory powers, telling them to take action under such powers to carry out the program of this Order.

7. Although we asked Judge Rosenman about the matter several times, the President apparently said nothing concerning the problem of wage inequalities. We pointed out that wage inequalities might result in migration of labor from one important industry to another.

Miscellaneous. Question was raised as to whether we can tell U.S. Steel that it cannot for tax purposes deduct bonuses paid by it to persons obtaining Government contracts for U. S. Steel.

Oscar Cox has prepared a memorandum on the President's powers to deal with wage and agricultural problems and Ginsburg is to furnish a copy of it.

8. Judge Rosenman will want a memorandum outlining the defects in the President's wage proposal. However, he apparently does not want that memorandum just at this time. He stated that after an Order had been drafted, all the interested agencies will be called in together for a conference at the White House and at that time will have an opportunity to express their views. Judge Rosenman left open the question as to whether the labor unions would be consulted.

- 3 -

Agriculture

The President decided that despite the attitude of Judge Byrnes, Senator Barkley, and Leon Henderson, he wanted to cut across section 3 of the Emergency Price Control Act, and control agricultural prices. He had in mind having someone like the Wage Moderator fix the policies on agricultural prices but to have OPA administer the prices. Ginsburg said that although in the wage and labor field it was desirable to have a Moderator fix the policies and the existing agencies do the administrative work, this formula would not be sound in the agricultural field, since the Moderator of Agricultural Prices would simply have to duplicate all the work currently being done by the OPA.

The President had indicated that one of the senators had written to him and said that although section 3 fixed parity at 110 per cent, the real purpose was to assure farmers 100 per cent of parity. I pointed out that there was something in the legislative history to support this point of view and that the line we might take in the Order was to recognize that we were cutting across the literal words of the statute for the purpose of carrying out the substance of the Order, namely, assure to farmers 100 per cent of parity even if in certain instances it necessitated the paying of certain subsidies. In connection with subsidies, the OPA said they would have to be paid anyway and that the subsidies would not amount to a great deal if through this approach we were able to lop off the extra 10 per cent and only have to assure farmers 100 per cent of parity.

The President had in mind also changing the existing formula for determining parity. He wanted conception of parity revised so as to include not only the prices paid by farmers but also the prices paid by other persons. He wanted in effect to put the farmers on the same level with other persons. It was admitted by all that just what the President had in mind was unclear. Furthermore, Ginsburg said that it was very dangerous and undesirable to attempt to revise the conception of parity, since what was likely to result was a revision of the formula to the advantage of the farmer. Ginsburg is to submit a memorandum to Judge Rosenman on this problem of the parity formula showing why we do not want to redefine parity.

Ginsburg also made the point that most of the agricultural products had already gone above 110 per cent of parity or were so far below parity because of the great supply such as in the field of wheat and corn that these items presented no problem. He said that there were not more than

- 4 -

perhaps four items which were important from the point of view of having their prices fixed. These items were butterfat, some vegetables, some fruits, and milk in some areas. Ginsburg felt that fixing the prices on these items was not sufficiently important to justify the President running counter to the OPA statute and Henderson is seeing the President on July 28 to attempt to argue him out of going counter to the agricultural provisions of the OPA Act. Ginsburg said that in the field of poultry and meats, the prices were in excess of 110 per cent of parity. The difficulty that existed was that OPA normally fixed prices at the processor rather than prices on the farm and that as a result of the lend-lease program in which, for example, a huge amount of hogs are being bought for shipment abroad, the prices of hogs on the farm are higher than the price that the processor can charge for pork.

Ginsburg is to give Judge Rosenman and me a copy of a memorandum in which he lists the farm items that have not as yet reached 110 per cent of parity. Ginsburg is also to draft a new Order embodying the program discussed at the meeting and is to include in the Order certain of the provisions in the Treasury draft of Order. In this connection, it is to be noted that Ginsburg submitted at the meeting a revised draft of Order in which he had already included some of the provisions of the Treasury Order.

Judge Rosenman also indicated that when he discussed the matter with the President, particularly the problem of controlling agricultural prices, he pointed out to the President that instead of fixing prices directly, prices can be controlled through the medium of controlling credit to farmers. Judge Rosenman said the President saw the point immediately and agreed.

Bernard Bernstein.

July 27, 1942.
3:20 p. m.

AID TO BRITAIN

Present:

Mr. Bell
Mr. White
General Meyers
Mr. Hicks

H.M.JR: Now, do you want to buy some planes from England and pay them cash?

GENERAL MEYERS: No, sir.

H.M.JR: You didn't--

GENERAL MEYERS: I wasn't quoted that way, was I, sir?

H.M.JR: Well, you said you had to make up your mind.

GENERAL MEYERS: That is right. We have to make up our mind. We are taking over, under the recent Arnold-Towers-Portal agreement, certain airplanes that are on British contract. Likewise, we are giving England certain airplanes from America, U.S. contracts, both Air Corps and Lease-Lend.

Now, our thought on the matter was that it would be a credit to the Lease-Lend account if those airplanes could be taken over from British contracts.

H.M.JR: Talk to me in dollars, can you?

GENERAL MEYERS: Roughly, I would say that we are taking over a hundred million dollars worth of airplanes that the British are paying for.

H.M.JR: Dollar contracts?

- 2 -

GENERAL MEYERS: Dollar contracts.

H.M.JR: That the British have contracts for here?

GENERAL MEYERS: That they have contracts for here, and have substantially already paid for them. In some instances there are still some balances due on those contracts.

We are giving the British, under that agreement, from American contracts which the United States Government paid for, roughly, a hundred and fifty million dollars' worth of airplanes, substantially from Lease-Lend appropriations, however.

H.M.JR: But giving it?

GENERAL MEYERS: But giving it.

H.M.JR: A hundred and fifty?

GENERAL MEYERS: Yes, sir.

H.M.JR: Against a hundred?

GENERAL MEYERS: Yes, sir.

H.M.JR: Well, what other way—I mean, on the hundred and fifty that we are giving them, would the bulk be Lease-Lend?

GENERAL MEYERS: Substantially so, yes.

MR. BELL: Would they get the dollars for their hundred million - would the British get the dollars for the hundred million?

GENERAL MEYERS: No, no. Our thought was that we would credit the Lease-Lend account with the value of the airplanes that we took over from their contracts. That is the point at issue, of course.

MR. WHITE: That is in addition to the seventy million?

- 3 -

GENERAL MEYERS: Yes, this is entirely apart from that old deal that transpired in December.

MR. WHITE: Instead of paying a hundred million, your suggestion is to merely credit them against the Lease-Lend account?

GENERAL MEYERS: That is right.

MR. BELL: I don't see the advantage in it.

MR. WHITE: In one case they will get a hundred million dollars from us and in the other they won't. That is the advantage.

GENERAL MEYERS: That is all it is in a nutshell.

MR. BELL: Then I don't see the advantage in what he is proposing.

MR. WHITE: He is suggesting instead of paying a hundred million dollars, say to them, "We will regard that hundred million dollars' worth of planes which we are taking from you as part of your repayment on Lend-Lease obligations. We will credit you - the stuff we are giving you - against Lend-Lease."

MR. BELL: Yes, but I don't see that it makes any difference one way or the other as long as there aren't any dollars passing.

GENERAL MEYERS: The other way there would be. The other way we would actually refund, give to the British a hundred million dollars in cash.

MR. BELL: That was the reason, to get the refund and get the dollars. Wasn't that the purpose?

MR. WHITE: That was an additional amount. At the time of the conference they spoke of the three hundred million, roughly-they didn't know exactly-and then you did give them seventy million. There were a few million more which you were going to give them after you settled what

- 4 -

the value might be.

GENERAL MEYERS: Yes, and then there is an additional twenty-five million or so that they are getting out of the facilities.

MR. WHITE: Out of the facilities. Now, here is a hundred million, part of the additional two or three hundred million that we had been talking about, and which we agreed at the time to hold off, and the General is now raising the question: What is the decision? Shall we pay them dollars for this hundred million, or shall we just credit them and they won't get the hundred million?

H.M.JR: Well, is this hundred million dollars' worth of planes - has this been under consideration as a part of anything else?

GENERAL MEYERS: It is part of an agreement. There was no monetary consideration taken in in the agreement of Arnold, Towers, and Portal, which was approved by the combined Chiefs of Staffs.

That is, in other words, it was a distribution of American production of airplanes, and when that consideration was given to this distribution, there was no thought - it made no difference whatsoever in regard to who bought the airplanes. It was American production.

H.M.JR: Let me put it another way. This hundred and fifty which we are giving to them, is that something new - was that also part of this three-way agreement?

GENERAL MEYERS: It is part of the three-way agreement, sir, but it isn't something new, because if this agreement hadn't taken place we would have given them a considerable portion of those airplanes, anyhow, under the Lease-Lend.

MR. WHITE: You see, these are - we are going back, now, to the pre-Lend-Lease contracts.

H.M.JR: I think, in fairness to the English, I

- 5 -

ought to give them a chance to tell their side of the story.

MR. WHITE: They have, haven't they, Mr. Secretary?

H.M.JR: Not to me. When do you have to make up your mind?

GENERAL MEYERS: It is very critical right at the moment. I would like to do it by tomorrow.

H.M.JR: Do you want to do it tomorrow? We move fast here if we have to.

MR. BELL: Are the British expecting dollars for these?

MR. WHITE: The British are uncertain. They asked for it.

H.M.JR: I just want to be fair. What is the time factor?

GENERAL MEYERS: The time factor?

H.M.JR: Delivery of the planes?

GENERAL MEYERS: Delivery of the airplanes. For example, a company does not want to turn the British airplanes over to us until the British release them, and in some instances the British haven't made final payment, and the company wants to know where they can get their money from, of course.

H.M.JR: How can I identify this to Phillips so he will know?

GENERAL MEYERS: I should think if you would identify it by reference to the recent Arnold-Portal-Towers agreement which was confirmed by the combined Chiefs of Staffs--

H.M.JR: How recent?

GENERAL MEYERS: About three weeks ago.

- 6 -

H.M.JR: As recent as that?

GENERAL MEYERS: Yes, sir.

MR. WHITE: Wait a minute.

H.M.JR: This doesn't go back to that--

MR. WHITE: It doesn't refer back to that other deal at all.

H.M.JR: This is something new which I never heard of.

MR. WHITE: These are part of the planes which the British have bought and paid for, and which they hope we will take them out of.

H.M.JR: But this is another agreement that the Treasury never heard of.

GENERAL MEYERS: I am sure this never came up.

MR. WHITE: Doesn't that apply to planes prior to January first?

GENERAL MEYERS: That was the - no, that was even prior to the Arnold-Portal agreement. We commandeered, or requisitioned these airplanes between December seventh and January first. That was one thing. That was a clean-cut deal in which we made our decision to reimburse them for those airplanes that we took from their contracts, which was their property, in effect. We made that decision. We made them for them. Now, that was done, except for the final adjustment.

H.M.JR: I will tell you what I will do. I think the best thing is this. Have you heard of this agreement within the last three weeks?

MR. WHITE: No.

GENERAL MEYERS: I have a copy if you would like to look at it.

- 7 -

H.M.JR: Could White look at it, and Bell?

GENERAL MEYERS: Yes, sir.

H.M.JR: And could you come back at ten o'clock tomorrow morning and we will settle the thing then, and we will have the English here. How is that?

GENERAL MEYERS: That will be fine.

MR. BELL: I don't see that we are involved, Harry, if it isn't a question of taking these planes and giving these British actual dollars.

MR. WHITE: You are involved to the extent that if you do take these planes you give them a hundred million dollars instead of giving them a credit.

H.M.JR: Needless to say, the Army doesn't want to pay them the hundred million.

GENERAL MEYERS: I am sure that is the War Department's thought on the matter. I am sure it is Mr. Lovett's and Mr. McCloy's.

MR. BELL: No doubt about that.

H.M.JR: But I think we have got to be fair.

GENERAL MEYERS: I think we should, too.

H.M.JR: I think you had better step back a minute with Mr. White and unburden your soul on this agreement which we don't know about, this Arnold-Portal--

GENERAL MEYERS: Towers.

H.M.JR: --Towers agreement. Do you mind? If you have got another five or ten minutes--

GENERAL MEYERS: Yes, sir.

Mr. Thompson:

Please speak to the Secretary about
this in the morning.

appl. Pub. Date
#1440 Sec. Secy advised
7/31

July 27, 1942
3:38 p.m.

HMJr: Hello, hello.

Congressman
Jere Cooper: Hello, Henry.

HMJr: Hello, Jere?

C: All right. How are you getting along?

HMJr: How's the old campaigner?

C: All right, fine. I want to congratulate you on that statement you made over in the Senate Committee.

HMJr: Well, I'm glad you liked it. I think it's the only man of the Ways and Means that did.

C: Well, I - I thought it was fine.

HMJr: Yeah?

C: I - in fact, I've been using part of this afternoon calling Secretaries congratulating them. I called Cordell Hull and congratulated him on that big speech he made.

HMJr: That's good.

C: Henry?

HMJr: Yes, sir.

C: You told me any time I really needed help to come to you in person.

HMJr: That's right.

C: All right. I have an awfully good, old friend....

HMJr: Yeah.

C:that I want a little job for.

- 2 -

HMJr: Right.

C: He's an elderly man, but in splendid health, and he has a Civil Service status as a junior clerk.

HMJr: Yeah.

C: And I want to get a place for him.

HMJr: Is he over eighty?

C: No, no, he's not that old.

HMJr: (Laughs)

C: No, he's younger than Bob Doughton.

HMJr: He's younger than Bob Doughton. (Laughs)

C: Yeah.

HMJr: What's his name?

C: Mr. A - Albert....

HMJr: Yeah.

C:R....

HMJr: R.

C: Dodson - D-o-d-s-o-n.

HMJr: Yeah, and where does he live? I know it's Tennessee but what....

C: No, he's here in Washington.

HMJr: He's here in Washington.

C: Yeah, his address is 7208....

HMJr: 7208....

C:Blair....

HMJr: How do you spell that?

- 3 -

C: B-l-a-i-r.

HMJr: B-l-a-i-r.

C: Road.

HMJr: Road, yeah.

C: Washington, D. C.

HMJr: Now where is he working now, Jere?

C: Well, he's not working now.

HMJr: He's not working.

C: No, I tell you what the fact is, Henry, he....

HMJr: Can he spell?

C: Oh, my, he's - I want to tell you right now in just a word. He - he's one of the most competent, best qualified, and capable men I ever knew. He's a - he was the leading banker in my district for forty years.

HMJr: My God.

C: That's right - leading banker in my district for forty years and who had a big insurance business.

HMJr: Yes.

C: Really an outstanding, top-notch man.

HMJr: Well, I won't try to kid you because this is your serious day. But you'd like me to take care of him?

C: That's right. I want a little - oh, a fourteen, fifteen, sixteen hundred job for him.

HMJr: Well....

C: Now the situation is this, Henry, he has one - has a daughter whose husband is a commander in the Navy....

- 4 -

HMJr: Yeah.

C:and - the old man's been up here for some time living with them.

HMJr: Yeah.

C: But he's active and vigorous and energetic, and he wants a little job himself.

HMJr: Yeah, well, Jere, after what you did for us on the tax bill, this would be the - this is cheap.

C: Well, fine.

HMJr: And I - and I'd do it, if you hadn't done anything anyway.

C: I know that.

HMJr: Yeah.

C: You know I don't call on you unless I really....

HMJr: Well, the old friends are the best friends.

C: Well, thank you.

HMJr: I'll be - I'll - we'll - I don't know how we'll do it, but by hook or crook, we'll do it.

C: Well, I'm going to tell him that it'll be done, and he'll hear from you soon.

HMJr: You tell him it will be done. I don't know how but I'll do it.

C: All right, Henry.

HMJr: Thank you.

C: Thank you so much.

HMJr: Goodbye.

C: Bye-bye.

July 27, 1942
3:40 p.m.

INFLATION

Present: Mr. Bell
Mr. White
Mr. Haas
Mr. Friedman

H.M.JR: Now, where were we when we got this interruption?

MR. BELL: You started out with the statement that you wanted the three economic groups--

H.M.JR: I want the three economic groups to go to work on this memorandum which Harry White gave me in regard to rationing of money. (Memorandum referred to entitled "A New Program for Inflation Control and Government Borrowing," dated July 20, 1942.)

Now, we started on this thing last fall, and we had this man from New Jersey sitting here - you remember Viner - and this thing has been kind of aggravated in my mind by the challenge which Taft made to me that we would have to go to the banks and sell them about twice as many securities as they have now. That is what he said. As a matter of fact, I asked this man Warren here a month ago to make a study of everything that he could to criticize the Treasury financing, remember?

MR. HAAS: Yes, he is working on that.

H.M.JR: I asked that. Well, this is what I am doing. I can't over-emphasize the fact that I want this within the Treasury, and I don't want to read about it in the Wall Street Journal. But Harry has

- 2 -

raised the point - he raised it before, before I was interested. At that time I think Henderson said they couldn't do anything for six months, or something or other. I don't know, but, frankly, I want to look at this thing entirely fresh, you see. I don't know where it will lead us, but I am worried about after the first of January where we are going to go.

Now, as I said before, the hard thing to explain is that just increasing the bonds held by the banks - that alone doesn't necessarily mean we have inflation, if there are enough other curtailments around, ceilings, and so forth, and so on. But if this war is going to be a long one, and I say we in the Treasury have to figure on a five-year war - that is the only way we can figure the thing - then we have got to do something different than has ever been done before. And quoting Stewart, he told me two months ago, or a month or two ago - he said, "Mr. Morgenthau, you can go for the rest of this calendar year the way you are, but after that you will have to do something else." I don't know whether he told you that or not.

MR. BELL: Yes.

H.M.JR: Now, maybe this is it; maybe it isn't. I have got a completely open mind. I don't know, but I want you fellows to go full steam ahead. What is England's experience on this question of giving the man the books? He can spend so much on clothing, so much on food. If we did do rationing, what would we do about voluntary bonds, compulsory savings? And then, while this may not fit particularly in this group - you might tell Paul this because I would like Paul to hear the whole story - but what I am going to say now comes to Paul in his capacity in taxes rather than as General Counsel.

The thing that I can't get through my head is this. I think that if we were successful in getting deduction at the source through, that the man and woman when they do understand it would say, "Well, the

- 3 -

Treasury put one over on us, the dirty so and so" because they would wake up to the fact that they are paying about a year and a half of taxes in one year. Isn't that right, Friedman?

MR. FRIEDMAN: It is about a year and a quarter.

H.M.JR: Well, it will look like two years to them. And the thing, again, talking of taxes - the thing that I want to raise - and I raised this with Helvering before and he threw his hands up in holy horror - was instead of doing this tax anticipation business I would like to consider next year - I mean, let's say - well, it is irrespective of this rationing - that we might want to say to the people during '43, "We are going to ask you to pay your '42 taxes each month." See?

MR. BELL: Pay your '42 or '43?

H.M.JR: '42 taxes in '43, each month, and have that come along. "Now, maybe we can do it by sending you a bill or maybe we can deduct it at the source." You see what I mean? You follow me, Friedman?

MR. FRIEDMAN: Yes.

H.M.JR: There are two ways to do it and not try over a period of three years to catch up, so that you are trying to do the current thing, because I don't think you can - when I raised this question of going to employees, everybody - I mean, they said, "Well, if you did explain it, if they ever did understand, they would be against it." I mean that was the general idea, and I don't think you should do something like that - I mean that you are afraid to have the man explain it. But I am raising the point of getting a man to pay in '43 his '42 taxes either by sending him a bill, a notice once a month, or possibly deducting it at the source, you see, and not trying to catch up.

- 4 -

Now, this whole business, this question of volunteer savings, all rests there. We will let that go for the time being, but the rationing thing I want. Now, I have invited Dr. Viner to come back. I don't know anybody whose criticisms I would rather have on this thing, and also Stewart, to be here on this thing because it goes right down to the guts of the thing, Dan, doesn't it?

MR. BELL: It sure does. We ought to review anyway what we have been thinking about.

H.M.JR: Then I sent word to what is his name - Warren - fully a month ago. I wanted a criticism of what we have been doing. What is it, about a month ago?

MR. HAAS: In the neighborhood of that, three weeks ago.

H.M.JR: I haven't got it, but I don't want - personally I doubt very much if we do anything before election. Now, I did mention it to the President in connection with this message, and the President said, "Well, Henry, if I do this thing, frankly, I don't want to bring in any new idea. I don't want to get, you know, off on something else." So I did sort of plant the seed. I thought he should be thinking about it.

Now, I think as long as Harry has done more on the rationing, as far as I know, than anybody else, I will make him chairman of this committee of the three of you, Blough, Friedman, and he. But I would like the thing to go ahead full steam because - and I again emphasize that for the time being it is strictly Treasury family, with the exception of Viner and Stewart.

MR. HAAS: Warren.

H.M.JR: And Warren.

- 5 -

MR. HAAS: He is in.

MR. WHITE: Warren?

MR. HAAS: Robert Warren.

H.M.JR: He is with the Bamberger Institute. Now, do you want to add anything, Dan?

MR. BELL: No. You said Harry submitted a memorandum on it. Is that the memorandum you sent me a copy of?

MR. WHITE: Well, yes, but there were a lot of memoranda earlier on this particular point, none on this financing, but on the rationing. Is that what--

MR. BELL: The Secretary said he had a memorandum from you.

MR. WHITE: This is the one.

H.M.JR: This is the one. In that Harry talked about - he said if you did the rationing, you wouldn't have to do anything else.

MR. WHITE: As far as inflation is concerned, but not so far - there were a lot of other things in the memo, as far as that--

H.M.JR: You said you may not be able to do the rationing, and then you would have to do other things.

MR. WHITE: I think we understand each other. It didn't have to do - it had to do only with inflation. There were other things that bore on financing which you are not discussing.

H.M.JR: No, you distinctly said, Harry, if you could do the rationing, fine, but then if you couldn't do the rationing you had alternatives.

- 6 -

MR. WHITE: Possibly you didn't read it carefully.

MR. BELL: That is the way I understood it.

H.M.JR: That is what you said, Harry. Did you read it?

MR. BELL: Yes.

H.M.JR: Read it again, Harry. You said, "If you do the rationing, that is O.K.; but if for political or other reasons you can't do the rationing, then here are a lot of other suggestions."

MR. WHITE: "Then here are other suggestions" and then it went on. It was indented a little more and there were other things.

H.M.JR: Take another look at it.

MR. BELL: He is right. I think he had a program there which scares me a little.

MR. WHITE: That is right, but I just wanted to make it clear that this part has to do only with inflation.

H.M.JR: Well, the part that I am asking the three of you to do here is to explore this thing, rationing, in connection with inflation.

MR. WHITE: That is right. I just wanted to make it clear that there were other things in there that didn't relate to inflation.

H.M.JR: Anyway, are we clear on that? As I understand it from Harry, and I don't want you people to think anything at all - I mean I am completely of an open mind - if we did this rationing that would take care of the inflation.

MR. WHITE: That was our decision; everybody agreed with that.

- 6 -

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H.M.JR: That is what you said, Harry. Did you read it?

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- 7 -

MR. HAAS: If it works - I mean, that is the proviso.

MR. BELL: Well, it certainly leaves the money some place out there that can't be spent.

H.M.JR: Then the question is how are you going to get the money in.

MR. BELL: If they put it in the bank, borrow the bank money.

MR. WHITE: We don't need to get it so far as inflation, but we might so far as financing is concerned.

H.M.JR: Well, I agree that if you could take this money and keep it from being spent and it stays there in the people's pockets, then the question of getting it is that much easier; and of course I also agree that the first thing is to try to keep the people from spending it, and the thing that nobody yet has been willing to face is that somebody has got to go before the country and say we have to reduce our standard of living. We have to reduce it. We can't live as well as we have. Isn't that right?

MR. FRIEDMAN: It certainly is, absolutely.

H.M.JR: Now, somebody has got to go and say, "You can't have - if you are accustomed to two bathrooms, and twenty electric lights, and two ice boxes," and so forth and so on, "you have got to get along with one ice box and half as many lights," etcetera, etcetera. After all, it gets down to - and I heard somebody say - well, I was discussing this with somebody and they got out a pencil and paper and figured that we would spend less than we did in '32 on civilian goods. Of course I never said anything. Somebody threw that in my face.

MR. HAAS: Pretty close.

- 8 -

MR. WHITE: We will have to buy as little goods as in the depths of the depression, but they will be higher priced so there will be more money.

H.M.JR: But they will have to buy less. Somebody, I don't know--

MR. WHITE: That is the one problem.

H.M.JR: Some unkind soul threw that in my face, that we would have to have less civilian goods at the disposal of people than we had in '32.

MR. BELL: Less available.

MR. HAAS: And a different distribution of goods.

H.M.JR: Well now, it gets back to that whole business, and then if we block this thing off, then where do we end up? How much money would there be in the pockets and vaults and safes that I could borrow? Then the question of how we would get it, that is something else again.

MR. WHITE: That is a separate question.

H.M.JR: That can be put in a separate pocket.

MR. BELL: Yes.

H.M.JR: Do you agree?

MR. HAAS: Yes.

MR. WHITE: Yes, sir.

MR. FRIEDMAN: Yes, sir.

H.M.JR: What I am asking, if you can block off this money so it can't be spent, how I get it in the Treasury is something else again. Is that all right?

- 9 -

MR. WHITE: Or if you get it in the Treasury - either if or whether.

H.M.JR: I will get it in the Treasury, but how I get it in the Treasury is something else.

MR. FRIEDMAN: The only relation it has is that the more effectively you can get it in the Treasury the easier it will be to enforce the other controls. That is, if it is left lying around and not gotten into the Treasury directly, there will be more of a tendency for people to break the law with respect to the other money.

H.M.JR: In other words, you mean if the liquor is in the safe it is not as hard to say, "I won't drink" as if you have a glass in front of you and you say you won't drink it. You don't have much faith in humanity, do you?

MR. FRIEDMAN: Exactly.

H.M.JR: Harry, have I stated the thing?

MR. WHITE: The immediate task before us, I think, is clear.

H.M.JR: Now, George?

MR. HAAS: Yes, sir.

H.M.JR: Now, I can't overemphasize how anxious I am to have something within a couple of days, even if it is just an outline.

MR. WHITE: Yes, we will have something.

H.M.JR: An outline. After all, we have been at this since last October or November.

MR. WHITE: That is the reason we can have an outline.

- 10 -

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

MR. BELL: No. I think it is fine we are going over it.

H.M.JR: Now, ~~when~~ we get this outlined, and, as I say, we will all take a look at it, and we will have meetings here to decide what we are going to do with it.

MR. BELL: I think it is time to review the whole past six months to see where we have gone and where we ought to go from here.

H.M.JR: That is why I asked--

MR. HAAS: You started this thing a week or two ago when you raised that question on taxing idle balances - I mean, you raised the question again.

H.M.JR: It keeps popping up all the time, but I just--

MR. HAAS: I think next fall, beginning then, the real pressure is going to start. It looks like that to me.

H.M.JR: Next fall?

MR. HAAS: I think so, after the summer lull.

H.M.JR: Well, one of the things that bothers me and that I don't know enough about again, is they keep saying, "When the inventories are exhausted, that is the time."

MR. HAAS: That is right.

H.M.JR: And, of course, this is a good time to start this, now that the President is going to go ahead with some kind of an announcement on prices. Well, that again will temporarily take care of the

- 11 -

thing, and then we will have to come along, and I think after he does that the people will be shouting all the more, "Why doesn't the Treasury do something?"

Well, a couple of days, gents, and then you tell Blough and Paul, and please impress on them two things: One, the need of secrecy, and two, the question of speed.

MR. FRIEDMAN: I certainly shall.

H.M.JR: I don't want - for everybody I don't want to read about it in the Wall Street Journal. I am looking at the ceiling. O.K.

60

**THE WHITE HOUSE
WASHINGTON**

July 27, 1942.

MEMORANDUM FOR THE
SECRETARY OF THE TREASURY:

FOR YOUR INFORMATION.

F.D.R.

RESOLUTION OF
THE NATIONAL GRANGE
ON
INFLATION
ADOPTED AT 75th ANNUAL SESSION
AT WORCESTER, MASS.,
November 13, 1941.

INFLATION

The right to store up the results of skill and labor in the form of property is fundamental to the preservation of the American way of life. One of the greatest dangers this country faces is from inflation, which, unless controlled, may destroy the foundations of our democracy. There are two methods of control. First is the use of economic devices designed to lessen the pressure of surplus income on inadequate supplies. Second is the arbitrary control of prices, labor, rents, commissions, etc.

Among the economic devices are:

1. Encouraging savings and building individual reserves, to meet the shock of post-war adjustments.
2. Increase in income taxation, coupled with efficient and economical administration of government, which will serve to retard inflation and prevent the passing of an unnecessary debt burden to future generations.
3. Encouraging investment (by individuals in preference to banks) in government securities which finance the borrowing from which employment and excess income are derived.
4. Maximum production of all consumer goods, which can be produced without hampering production of needed defense materials.
5. Restricting credit to productive purposes and sound investments in order to discourage speculation.
6. Voluntary reduction of selling prices, when increased volume results in lower costs and increased profits. This will promote the benefits of a cycle of plenty by reducing living costs, reversing the trend of the evils leading to inflation, and laying a firm foundation for post-war adjustments.

If these measures do not serve to prevent prices advancing unreasonably, it may be necessary to resort to measures of arbitrary price control. In that event, certain definite principles should be borne in mind:

First, some advance in price is a natural accompaniment of the great destruction of wealth as a result of war. This advance is not inflation. It is an unavoidable cost which all must bear. Any adjustments of prices, wages, rents or commissions which relieve any group of bearing its share of the cost will result in increasing the burden of others, and are unsound.

Second, any effort to increase profits because of the increased demand is inflationary. If arbitrary control is necessary, it should be limited to profiteering.

Third, if control is necessary, further than well-defined cases of profiteering, all should be subject to control, so that equity among all groups will be assured. The administration of any price control legislation should be vested in a board with a chairman appointed by the President and any authority so granted should be terminated as of a specified date.

National Grange Resolution

- 2 -

Fourth, Congress should not allow the authority to fix prices to be vested in any agency which is not constantly subject to Congressional Control. Congress should require prompt reports on all actions of any price control body and should retain to itself (1) the right to review and revoke by joint resolution any order issued by such agency, and (2) the right to revoke by joint resolution any powers thus granted to such agency. The unlimited right to control prices is tantamount to the right to legislate.

Fifth, Congress should establish standards for the guidance of any price control agency and provide a court of appeals. The purpose should be to attain equitable income and equitable relationships between groups. No group should receive more or less than an equitable and just share of the national income. In the consideration of farm prices, farmers should not ask more nor agree to accept less than actual parity, but it is essential that a just rule be provided for determining parity. Some flexibility in administration will be necessary to assure actual parity.

Three facts bearing upon agriculture's place in this problem should be kept in mind:

FIRST, Not once in twenty years has agriculture's income reached parity. On the contrary, the farmer's proportionate share of the national income has declined alarmingly, and substantial increase in prices are necessary to bring farm purchasing power back to normal.

SECOND, With farmers receiving substantially less than half of the consumer's dollar, there is no justification for passing on to the consumer any increase further than the increase received by the farmer, unless justified by some other valid cause.

THIRD, Agriculture, with its 6½ million individual producing units, is the least likely of all industries to exact monopolistic prices from consumers. If farmers can get equitable prices for their products, they can and will produce in abundance. If they cannot get adequate prices, exhortation to raise food to win the war and write the peace will not suffice, not because of lack of will to serve, but because of financial inability to carry on.

The Grange, therefore:

1. Favors application of economic devices as the best means for holding down inflationary tendencies.
2. Opposes arbitrary price fixing unless necessary.
3. If arbitrary price fixing becomes necessary, demands:
 - (a) that all groups be included to assure equity,
 - (b) that the activities be devoted to preventing profiteering,
 - (c) that standards be provided, as far as possible, to assure equity for all,
 - (d) that Congress retain control.

The Grange will oppose arbitrary price fixing if these principles are not complied with.

July 27, 1942
4:40 p.m.

HMJr: Hello.

Operator: Sir Frederick Phillips hasn't returned. His assistant, Mr. Bewley, is there.

HMJr: Bewley?

Operator: Yes.

HMJr: I don't understand - all right, I'll put it in.

Operator: You want to talk to him?

HMJr: I'll talk to Bewley.

Operator: All right, I'll get him on.

HMJr: Hello.

Operator: Mr. Bewley.

HMJr: Hello.

T. K. Bewley: Hello, Bewley speaking.

HMJr: How are you?

B: I'm very well. How are you?

HMJr: Pretty well. I've been trying to get hold of Sir Frederick Phillips for over an hour now and....

B: Phillips isn't feeling well. I think he's probably in bed. I'm not sure.

HMJr: Oh, well, they told me he'd be back in the office in a few minutes when I called up a little after three.

B: Oh, really? Well, he hasn't come back yet. He wasn't feeling well this morning.

- 2 -

HMJr: Oh, I'm sorry.

B: Could I give him a message or anything?

HMJr: Yes - and if he's not going to be able to be here tomorrow - I wish you'd let me know.

B: I will.

HMJr: Or let my office know. Well....

B: Certainly.

HMJr:Mr. McCloy put up a proposal to me about - they're thinking of taking over a hundred million dollars of airplanes that the English have on - on order in this country.

B: Yeah.

HMJr: At the same time, there's a proposal to let you have a different lot of a hundred and fifty million of airplanes. Under the - they said that the agreement was signed three weeks ago between Portal and Arnold and our air man in the Navy, I can't remember his name.

B: Yeah.

HMJr: And - I said before I did anything about it, I wanted to hear the English side of the story.

B: Yeah.

HMJr: And that's what I wanted to see Sir Frederick about tomorrow morning at ten-fifteen.

B: All right. I - I should think he'd be likely to be available at ten-fifteen. I'll find out how he is, and what ought to be done.

HMJr: But if he can't come - maybe you could come.

B: Yeah. One of us will come at ten-fifteen anyhow.

HMJr: And you might post yourself on it.

- 3 -

B: Oh, I'll find out what I can.

HMJr: It's - it's - you - you got the story.

B: Yes - you're thinking of taking over a hundred million of the airplanes off our contracts and letting us have a different hundred and fifty millions worth.

HMJr: That's right.

B: Yes.

HMJr: The question is how they're going to be paid for.

B: Yes, yes.

HMJr: And the Army has one idea, and I thought that before I heard - decided it, I'd better hear your side of the story.

B: Yeah. Right you are.

HMJr: Thank you.

B: Thank you.

HMJr: I hope Sir Frederick - is he seriously ill?

B: Oh, I don't think so. He was feeling rather rotten this morning, and he went off. I haven't seen him since.

HMJr: Oh.

B: But he was only just feeling rather rotten. I don't suppose it's anything very serious.

HMJr: I see. All right.

B: I'll let him know anyhow.

HMJr: Thank you.

MR. PAUL:

PLEASE SPEAK TO ME ABOUT THIS SOON.

SECRETARY

*Mr Paul
talked with
Secy. this Am.
12:05
8/31/44*

... THAT TAXPAYERS BE PUT ON A CURRENT BASIS BY A
... PLAN WHICH WOULD, IN EFFECT, COMPLETELY ELIMINATE
... PAYMENTS FOR ONE YEAR.
... PLAN, HE EXPLAINED, A TAXPAYER WOULD PAY HIS TAXES
... IN THAT SAME YEAR INSTEAD OF PAYING THEM
... HIS RETURN IN ACCORDANCE WITH PRESENT LAW.
... INCOME, WHICH WOULD SUPPLEMENT THE ... SEARCH
... BE "WRITTEN OFF" BY THE ... THAT WOULD
... THE TAX CLOCK ...
... LOSS OF REVENUE TO THE ...

yes -
ADD TAXES, SENATE

✓ L - 676
soon

BEARDSLEY RUMEL, CHAIRMAN OF THE FEDERAL RESERVE BANK OF NEW YORK,
DENONCED THE TREASURY'S "CHECK-OFF" PLAN FOR COLLECTING INCOME TAXES
AT THE SOURCE AND PROPOSED A "PAY-AS-YOU-GO" PLAN WHICH WOULD, IN
EFFECT, ELIMINATE TAX PAYMENTS ON 1942 INCOME.

HE CHARGED THAT THE TREASURY'S PLAN WOULD REQUIRE TAXPAYERS IN THE
LOWEST BRACKETS TO PAY TO THE GOVERNMENT 24 PER CENT OF THEIR
INCOME IN 1943. THE WITHHOLDING TAX INCORPORATED IN THE HOUSE-
APPROVED BILL WOULD RESULT IN "DOUBLE TAXATION," HE TOLD THE
COMMITTEE, BECAUSE WAGE EARNERS WOULD HAVE TO PAY TAXES ON 1942 AND 1943
INCOME AT THE SAME TIME.

RUMEL PROPOSED THAT TAXPAYERS BE PUT ON A CURRENT BASIS BY A
"PAY-AS-YOU-GO PLAN" WHICH WOULD, IN EFFECT, COMPLETELY ELIMINATE
INCOME TAX PAYMENTS FOR ONE YEAR.

UNDER THE PLAN, HE EXPLAINED, A TAXPAYER WOULD START PAYING TAXES
ON 1943 INCOME IN THAT SAME YEAR INSTEAD OF WAITING UNTIL MARCH,
1944, TO FILE HIS RETURN IN ACCORDANCE WITH PRESENT LAW.

THE TAX ON 1942 INCOME, WHICH WOULD NORMALLY FALL DUE ON MARCH
15, 1943, WOULD BE "WRITTEN OFF" BY THE TREASURY, HE SAID. THAT WOULD
RESULT IN "SETTING THE TAX CLOCK AHEAD," HE ADDED, AND
WOULD MEAN NO LOSS OF REVENUE TO THE GOVERNMENT.

7/27--R1213P

MEMORANDUM

To: . Secretary Morgenthau

From: Mr. Paul

July 27, 1942

With reference to the Ruml testimony and the particular report which you sent to me, I am attaching it to a copy of the latest revision of the "Pay-As-You-Go Plan" as presented today by Ruml to the Senate Finance Committee. From several questions asked me informally by the Committee, I take it that Ruml aroused some interest.



Testimony

of

BEARDSLEY RUML

before the

FINANCE COMMITTEE *of the* SENATE

on the

Pay-As-You-Go Income Tax Plan

July, 1942

Statement of Beardsley Ruml

Mr. Chairman, my name is Beardsley Ruml. I am the Treasurer of R. H. Macy & Co., and also Chairman of the Federal Reserve Bank of New York and Advisor of the National Resources Planning Board.

The Committee is familiar with the weakness in the American scheme of things which is caused by the universal indebtedness of income taxpayers to the federal government. It is my purpose to emphasize the seriousness of this weakness, to point out briefly some of the consequences, and to make a suggestion as to what may be done about it at the present time. I should like, if I may have permission, to submit for incorporation in the record a printed statement which analyzes the problem and the suggested solution in some detail.

Every income taxpayer on the first of January of this year was in debt to the federal government for his income tax on his income for 1941. By the time he paid the first installment on March 15, 1942, he was already in debt for the tax on his income from the first of January, 1942 to the middle of March—so he is always in debt for the tax on about a year's income.

This situation is not a new one. The year before he was similarly in debt; and so also in the year before that, back to the first year after he had a taxable income. Generally speaking, this debt, the income tax on last year's income, was paid out of the next year's income, and by and large it didn't cause any difficulty—rates were low and most citizens weren't liable for any income tax anyway. But the days of low rates and general immunity from income tax have gone, and what was once a minor defect has become a serious and a growing weakness; and an obstacle to urgently required tax measures.

In general, the American taxpayer is counting on paying his 1941 tax out of 1942 income. Some few, to be sure, being accounting-minded, have accrued their income taxes, but these are few indeed. For most the desirability of accruing personal income taxes only became evident after rates became so high that it was impossible to double up—to accrue the tax on this year's income and to pay the tax on last year's income during the same year.

Nothing is to be gained by arguing that people *ought* to save this year's tax out of this year's income. The fact exists that they did not do it, and now they cannot do it. We need rather to adopt a plan which automatically shifts taxpayers to a current basis. It would have done little good to argue

with employers or employees that, in order to save power, everyone ought to go to work at eight o'clock in the morning instead of at nine; the same result in power saving was achieved much more simply by moving all the clocks forward an hour, so that we actually go to work at eight o'clock, although we nominally still go at nine.

And so as a matter of practical fact, most income taxpayers are counting on paying their year's debt to the federal government out of income they haven't yet received and which will itself be subject to income tax.

Some day, for each and every taxpayer, that counted-on-income to pay last year's income tax will not materialize. Already today, many an income taxpayer is in difficulties because of this income tax debt. Who are these taxpayers? First of all, there are the men in the armed forces and those who have gone into government service at lower income. Next, there are those who had been successfully employed in non-war industries, who have seen their income shrink because of priorities and allocations, and who have not completed their adjustment to war occupation. There are the thousands and thousands who every year suffer reduced income because of accident, sickness, old age. For all of these, their income tax debt, especially now because of the high rates, creates an intolerable situation.

And for the tens of thousands who are actually in distress, there are millions who are in danger, in danger of loss of income through being drawn into military or government service, through war-time industrial displacement, through accident, through sickness, through retirement because they can no longer keep up the pace. To be sure, the lightning will not strike all in 1942; but it is sure to strike some of us—which, we do not know, but we are all in danger.

This danger will be increasingly felt by the people as income tax rates go higher and as a friend here and an acquaintance there is engulfed by his income tax debt. For the welfare and morale of the country it is a situation which is not good. We should get our income taxes on a current basis and at once. We should get out of debt to the federal government.

There is a compelling reason for doing something about it now. Sooner or later we shall be demobilizing our war industries, and war time incomes will cease. There will be a period of readjustment. Suppose we are still a year behind, a year in debt on income tax. Can we imagine income taxes being paid by the unemployed out of their unemployment compensation?

Finally, this income tax debt makes difficult or impossible the full use of the withholding tax. If we did not have this debt, if we were currently

[4]

tax debt free, there would be no problem of paying two years' taxes in one, and a withholding tax could be imposed forthwith.

I believe I have said enough to demonstrate that the tax debt of income taxpayers is a dangerous weakness, that it causes widespread hardship and apprehension, that the danger is an increasing one, and that it obstructs desirable tax measures. I think all will agree that it would be highly desirable to get rid of this tax debt and that it is well worthwhile to attempt to solve this major problem even at the risk of a few minor imperfections.

The suggestion that I am offering is not being presented as the only or even as the best solution. It is the best that I and those with whom I have consulted have been able to devise. In any case, it may serve to emphasize the problem and to be a starting point for others who will have alternative and better suggestions.

The Pay-As-You-Go Income Tax Plan is intended to apply to individual income, not to corporations or to estates.

In order to get individuals free of tax debt to the federal government, and to keep them from that time on a current basis, we must solve three problems.

1. How can we get on to a current basis without paying two years' taxes in one year?

[5]

2. If we are to file a tax return near the beginning of a year, how can we estimate in advance the amount of the new year's income?

3. What tax rate should be applicable to the new year's income?

Taking up these problems in order, we make these suggestions:

1. How can we get on to a current basis without paying two years' taxes in one year? We are now paying a tax in 1942. It is considered a tax on 1941 income. Suppose we move the tax-clock ahead, suppose we re-define our tax and say that the tax we are paying in 1942 represents a tax on our income for 1942. In 1943 we continue to pay a tax which becomes a tax paid with respect to income which will be received in 1943. Although the tax on 1941 income drops out of existence, the Treasury continues to receive its revenue and the taxpayer continues to pay his taxes. The great difference is that the taxpayer is now on a current basis. He continues to pay his taxes every year on income received in that year. But when he dies or ceases to receive income, he does not owe a tax as he does under the present system. Reduction of tax payment by the taxpayer as a result of setting the tax-clock ahead occurs only at some future date when and as the taxpayer's income ceases or declines. The reduction is therefore spread over the lifetime of the

present income tax paying generation, and occurs beneficially for each taxpayer at the time when his income fails. As for the Treasury, the Treasury has never considered taxes receivable as an asset, and accordingly they can be written off the balance sheet of the government without the change of a single penny.

As to the second problem—if we are to pay in any given year a tax based on the income of that year, how are we to know the amount of the income? We make this suggestion. In March of each year the taxpayer should declare a tentative tax for that year—but because he does not yet know the exact amount of income for the current year, the tentative tax should be measured by the income of the preceding year; that is, a return filed on March 15, 1942 would be a return of tentative tax for 1942, based on 1941 income, rather than a tax for 1941. In the subsequent year's return, end-of-the-year adjustments would be made to correct the tentative tax to the actual tax liability. I will try to explain a little later the way in which these adjustments could be made.

The problem of how the taxpayer will know what tax rate is applicable can be solved by a technical change. Under the present system when the Congress changes the rates of tax this year, the new rates will be made applicable to 1942 income—but the tax on 1942 income will not be

paid until 1943. We suggest that under the Pay-As-You-Go plan the new rates, for taxpayers subject to the plan, be made first applicable to income received in 1943. In so far as the government is concerned, this change will make no difference in tax collections in 1943; under the present system, as well as under the proposal, the new rates first affect *payments* of income tax made in 1943.

The way in which the plan would work out in practice is perhaps made clearer by a simple example. Suppose a taxpayer received \$5,000 taxable income in 1941. His return filed on March 15, 1942 showed a tax measured by the 1941 income. Under the plan this tax instead of being his 1941 tax would be his tentative tax on 1942 income. This tentative tax is *paid* in 1942. If at the end of 1942 he finds that his taxable income in that year was actually \$5,000, the same amount as in 1941, his full tax has been paid and he owes the government nothing. If at the end of 1942 he finds instead that his 1942 income was actually \$5,500, he owes the government a tax on the additional \$500, but this is certainly better than his owing the government, as under the present system, a tax on the full \$5,500. This deficiency tax on the additional \$500 would be payable in March of 1943 at the time his tentative tax for 1943 is returned. If at the end of 1942 he finds that his 1942 income was actually \$4,500, the government

owes him a refund or a credit of the tax on the \$500 differential. The tax on that amount could be credited against the taxpayer's tentative tax liability for 1943. Continuing into 1943—the taxpayer would file a return in March 1943 showing tentative tax for 1943 based on his *actual* 1942 income. He would pay in 1943 this tentative tax plus any deficiency that was owed for 1942 or minus any credit for an overpayment of his 1942 tax. In the same way, in each succeeding year the taxpayer would pay a tentative tax for the current year plus or minus any differential between the tentative tax and the actual tax liability for the preceding year.

For taxpayers with stable income the plan means that they owe no taxes to the government at the end of the year. For taxpayers with increasing or decreasing income, there is ordinarily an adjustment to be made at the end of the year. However, there are some cases where it would seem to be unnecessary for the taxpayer whose income has *decreased* to pay his tentative tax at the high level of the preceding year and then claim a credit for the overpayment. Take, for example, the men who have gone into the armed services. Suppose a particular individual, who received \$7,500 in 1941, and who is now holding a commission in the army and receiving \$2,000. Under the plan as stated he would pay tentative tax for 1942 on the basis of the \$7,500; but since

his actual income in 1942 is only \$2,000, he would be entitled to a credit on the overpayment. We suggest that in cases such as this, where income has decreased and will clearly remain at the lower level, the taxpayer should, upon proper certification, be required to pay tax only on the lower income of the current year. In such cases provision could now be made for waiving collection of future installments payable in 1942 to the extent they exceeded the amended 1942 tax, or for crediting the taxpayer with amounts already paid in excess of that figure. We have called this the relief provision, and have suggested that it be made applicable only to income from personal services. In these cases the lower current income could be certified and tax paid only on that amount. This would give immediate relief to the taxpayer whose income has decreased, and eliminate the necessity for unnecessary payment and crediting. The relief provision could probably not be extended beyond income from personal services as the administrative difficulties might outweigh the advantages.

When income has increased in the current year over the level of the preceding year, we suggest that the taxpayer should be given the *right* to, and be encouraged to, make a voluntary declaration of the increase and pay tentative tax at the higher current level. At the present time it is impos-

[10]

sible for a taxpayer to pay his tax on a high income in the year it is received, and the higher income is never reflected in tax receipts until the following year. Certain taxpayers with fluctuating income might be glad of the opportunity to pay their taxes on the high income currently and certainly the option to do so could never operate to the disadvantage of the revenues.

I do not want to take the Committee's time to go into any detailed consideration of the general effects of the plan on taxpayers and on the government—these are outlined in the printed statement of the plan. The advantages of the plan to taxpayers are self-evident. All taxpayers would be largely freed of tax debt immediately since the larger part of their tax liabilities would be paid in the years in which the income was received. When a taxpayer died, or ceased to receive income, or came to a period when his income had markedly decreased, there would not be the additional burden of a tax debt based on the full earnings of a previous year.

We do not believe that the adoption of the plan would prejudice the revenues. Every taxpayer will continue to pay income tax every year—the only difference is that under the plan he would be paying a tax on this year's income rather than on last year's income. The skipping of a year's tax actually occurs only when the taxpayer dies

[11]

or he ceases to receive income. This resulting loss of revenue is spread over the years as the current generation of taxpayers cease to be taxpayers. This loss of revenue, spread perhaps over a period of fifty years, would be partially offset by certain increases in tax collections under the plan; and in any case could be made up by slightly higher rates over this long period of time.

Balancing any possible net loss in revenue to the government are certain important advantages. It is as essential for the government to collect taxes currently as it is for the taxpayer to pay them currently. The problem of delinquencies in tax collections, although it has not been serious in past years of higher exemptions and lower rates, is certain to become serious in the future if taxes are not paid on a current basis. The entire problem of tax collection in general becomes more difficult as we widen the income tax base. The collection problem has brought to the forefront the desire for some type of withholding tax. Yet a withholding tax implies current tax collections—it does not fit well into our present tax system. In one sense, as a withholding tax becomes more desirable, our present tax collecting system becomes more cumbersome.

The Pay-As-You-Go plan, although it is primarily designed as a method of getting taxpay-

ers out of tax debt and on to a current taxpaying basis, does, however, also solve the great difficulty encountered under the present system in the imposition of a withholding tax. Under the present system it is extremely difficult to institute a withholding tax without some amount of double taxation during the transition period. The difficulty lies in the fact that under the present system taxpayers will be paying in 1943 a full year's tax on 1942 income. If withholding is instituted in 1943 against 1943 income (and therefore credited against 1943 tax which is not payable until 1944), the taxpayer will have to pay in 1943 not only the full year's tax on 1942 income, but also the amounts withheld out of 1943 income. Even under the provision in the Bill as it was passed by the House under which the withholding rate in 1943 would be 5 per cent instead of 10 per cent, there would still be a 5 per cent additional tax during both of the transition years 1943 and 1944. With the rate schedule of the House Bill this will mean that the taxpayer will be paying in 1943 a rate of 24 per cent on the lowest bracket of taxable income.

Under the Pay-As-You-Go plan the tax paid in 1943 would be a current tax on 1943 income; therefore, amounts withheld against 1943 income could be directly credited against the installments of tentative tax on 1943 income. Further, since

the amounts withheld in 1943 could be directly credited against the installments of tentative tax, the withholding rate could be set at the rate equivalent to the sum of the normal tax rate plus the lowest bracket surtax rate—19 per cent, under the rates of the Bill as it was passed by the House. Under the Treasury's proposal it would be impossible to set the withholding rate so high since withholding superimposed on the present system necessarily involves to a considerable extent an additional tax burden during the transition period.

In our discussions during recent months, we have sincerely looked for objections and criticisms, and the plan as it now stands has profited greatly from these conversations. One criticism that the plan does not meet should be mentioned and answered.

It has been pointed out that under the Pay-As-You-Go plan there will be a certain number of individuals who will benefit unduly because of the fact that for them 1941 happened to be a year of unusually large income, larger than that of the years that preceded or that followed. Consequently, in selecting 1941 as the year to be omitted, they receive unintended benefits.

We concede the fact. In answer, we point out that no tax program will cut with the precision of a surgical knife. Furthermore, these few in-

dividuals could not have built up their 1941 incomes with prevision that this plan would be suggested or adopted and therefore no deliberate manipulation of income for this purpose is involved. In so far as there is inequity in the plan on this account, it resides in being too beneficial to some few taxpayers; but since the plan is beneficial to all and harmful to none, inequity of this kind, though regrettable, is an imperfection of a minor order as compared with the great good that will be achieved.

We believe that the problem of tax debt must be solved in some manner. As I have pointed out, the problem is an intensely personal one affecting every taxpayer. The suggested solution offered in the Pay-As-You-Go plan gives relief to the taxpayer and yet does not embarrass the revenues. Whether the solution of the problem of income tax debt takes the form suggested in the Pay-As-You-Go plan or some other form is not important; what is important is that the problem should be solved.

JUL 27 1942

MEMORANDUM FOR THE PRESIDENT:

In accordance with your request of July 15, I take pleasure in handing you herewith a draft of a letter for your signature to Mr. H. W. Koeneke, President of the American Bankers Association, congratulating that Association on the occasion of its sixty-seventh annual convention.

(Signed) H. Morgenthau, Jr.

Photostatic file to NMC
Orig. File to Thompson

*Delivered by Secret Service
Agent 7/27/42 4:45*

My dear Mr. Koenske:

Please extend my hearty congratulations to the members of the American Bankers Association on this their sixty-seventh annual convention. It is appropriate that the manner of your meeting in this year of historic decision should reflect the determination of American bankers to leave nothing undone that can in any way contribute to the object we all have in view--the defeat of our enemies. By holding this "convention in print" instead of assembling together as you have done for more than half a century, you are helping to conserve vital transportation and other facilities at a time when they are taxed to the utmost by the demands of war.

The bankers of America have a great obligation and a great opportunity to serve our beloved Country in this hour of peril and they have answered the call to service joyfully and with stout hearts. For over a year they have played a distinguished role as volunteers in the promotion and sale of War Savings Bonds. They have met unprecedented demands from industry for the expansion and conversion necessary to win the battle of production. They have been in the forefront of the fight against inflation not only through the sale of savings bonds to the people but by putting into effect restrictions on consumer credit and combatting unnecessary expenditures of all kinds. They have been indispensable in the freezing of foreign funds to prevent their use directly or indirectly by the enemy. I mention all this in the past tense not because the job is done but because even now it represents a record of accomplishment of which you all may be justly proud.

But no one knows better than American bankers that we have only just begun to fight. American fighting forces are moving into battle on lines that encircle the globe. If we on the home front are to be worthy of them, we must carry on the battle of production, wage war on inflation, combat complacency and fear with the same spirit of courage

-2-

and sacrifice with which they meet the enemy on land and sea and in the air. We like they can have no other thought than to win the war. All considerations of private interest or personal comfort must give way to a single-minded devotion to that aim. As community leaders, bankers have a unique opportunity to promote that unity and teamwork which is so necessary to success.

Involved in this conflict are values too precious to be expressed in economic or financial terms. They include all those intangibles which make the name America a synonym for freedom throughout the world. Faith in freedom, in the honor and integrity of the common man, is what sustains us as a Nation. United in this faith we are invincible.

With best wishes, and again congratulations,

Sincerely yours,

Mr. H. W. Koenigs,
President, The American Bankers
Association,
Ponca City, Oklahoma.

PHO/mff

July 18, 1942.

Dear Mr. Koeneke:

Secretary Morgenthau has asked me to thank you for your letter of July 10th and for the compliment which you have paid him in asking him to address a message to the bankers of the country through the medium of the magazine "Banking".

It will be a pleasure for the Secretary to address the members of the ABA through this "Convention in Print". I wonder if you will let me know the approximate length of the message you wish and also the latest date on which you can receive it for publication in the September issue.

Mr. Morgenthau has received word from the White House that the President will be very glad to send the letter which you requested. You will receive this in plenty of time for publication in the September issue.

Sincerely,

Ferdinand Kuhn, Jr.,
Assistant to the Secretary.

Mr. H. W. Koeneke, President,
The American Bankers Association,
Ponca City, Oklahoma.

FK:eg

TO:

Mr. Kuhn 74

I believe he
should make a
good statement of
the problem just the
same as if he were
making a speech.

SWB

7-16

Office of the Under Secretary

TO:

Mr. D. W. Bell ⁷⁵

• Will you think the Secretary should send a really good statement to the A.B.A. - something more than just a bond plug or a thank-you note? I'd be glad to have your ideas on this.

F.K.

MR. KUHN

JUL 13 1942

76

THE AMERICAN BANKERS ASSOCIATION
OFFICE OF THE PRESIDENT

THE SECURITY BANK
OF PONCA CITY
PONCA CITY, OKLAHOMA

July 10, 1942

W. KOENEKE
PRESIDENT

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

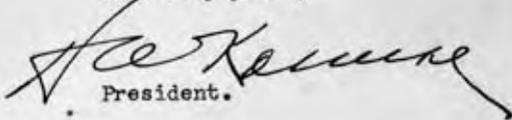
My dear Mr. Secretary:

We have often had reason to feel appreciative of your understanding attitude toward banks and the job they are trying to do for the winning of the war.

If it were possible to hold our convention this year in the usual way, I should regard it as a high honor to have you come and speak to us on the financing problems of the Treasury. Because of the transportation situation and the need for conserving facilities in every way, we are substituting this year a "convention in print" through our magazine BANKING.

It gives me great pleasure, therefore, to invite you to address a letter or message of some kind to the bankers of the country, calling attention to the ways in which they can help the national effort. A word also about the size of the job still to be done might be appropriate. The bankers of the country will appreciate hearing from you, and I shall be deeply grateful.

Sincerely yours,


President.

THE WHITE HOUSE
WASHINGTON

July 15, 1942

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

With the return of the accompanying letter from H. W. Koeneké, President, The American Bankers Association, will you be good enough to write for the President's signature an appropriate letter in response to Mr. Koeneké's request.

William D. Hassett
WILLIAM D. HASSETT

JUL 16 1942

78

W. H. Koeneke

THE AMERICAN BANKERS ASSOCIATION
OFFICE OF THE PRESIDENT

THE SECURITY BANK
OF PONCA CITY
PONCA CITY, OKLAHOMA

July 10, 1942

H. W. KOENEKE
PRESIDENT

Mr. Franklin D. Roosevelt
The President
Washington, D. C.

My dear Mr. President:

We are holding our annual convention in an unusual way this year. It is the first time since the organization was founded sixty-seven years ago that we have missed meeting together. For several months we have been in conference with Mr. Joseph B. Eastman of the Office of Defense Transportation. In line with his suggestions, the American Bankers Association cancelled its annual meeting, which was to be held in Detroit, and we propose to do the next best thing under the circumstances.

Our monthly magazine BANKING goes to all members of the Association, and we want to present in the September issue of this publication some kind of substitute for the discussions that usually take place at our conventions. We desire very earnestly to include a message from our Commander in Chief. I have the honor, on behalf of our member banks, to invite you to be present at this wartime "conference in print."

Knowing that you have many things to do, I suggest a message or letter to the banks of the country, perhaps calling attention to the necessity of every individual and every organization putting war needs first and giving a secondary place to everything else, including the time-honored institution of conventioning.

I feel that I can assure you, Mr. President, that your words will be read with appreciation by the bankers of the country who are giving their fullest effort to the successful prosecution of the war.

Sincerely yours,

H. W. Koeneke
President.

HWK:mfb

July 27, 1942

My dear Mr. Postmaster General:

In order to finance the War expenditures, it is necessary to borrow enormous sums of money, and in such connection it is desirable to borrow directly from the people of the United States so far as possible, rather than from the banking institutions of the country, which has been the usual practice.

With this objective in mind, a War Savings Organization was specifically charged with promoting the sale of War Savings Bonds and Stamps. The organization is a part of the Treasury Service and comprises the War Savings Staff, at the Treasury in Washington, and State organizations in the field.

As a result of the promotional efforts it was found necessary to complement the Postal Service and Federal Reserve Banks as agencies for the sale of War Savings Bonds of Series E. About 25,000 private concerns have qualified as official issuing agents, including many commercial organizations, offering plans which permit their employees systematically to buy Savings Bonds through deductions from pay. These agents are subject to the direction of the Treasury, through the Federal Reserve Banks as fiscal agents of the United States, for the issuance of the bonds.

At the outset of the program the Treasury realized that these agents would be put to considerable expense in acting as issuing agents and it has been gratified by their generous and patriotic response in absorbing these costs. Many of the agents spent and are spending relatively large sums of their own funds not only to perform the duties of an issuing agent but for advertising the program. However, there has always been an undercurrent of discontent among the agents, sometimes expressed openly, because of their being required to assume postage and registration costs for mailings required in connection with their bond activities. Generally, they cannot understand why they should be required to pay a Governmental establishment for mailings effected for the Government. This was a particularly troublesome matter for the Treasury.

Accordingly, when the pay roll savings plan was sponsored, requiring greatly increased mailings of bonds, this Department believed it could no longer request the agents to continue to absorb the costs and agreed to reimburse issuing agents for postage and registry fees involved where personal delivery is impractical. Subsequently, the

-2-

agents were given reimbursement for postage and fees on returns of stubs and bonds to Federal Reserve Banks on shipments made in accordance with your instructions. These reimbursement items have become material charges against the Treasury appropriation.

There has been much criticism, too, of the use of the registered mails in the delivery of the bonds, both from the agents because of the work involved and from the public because of the cost. The postal charge for the delivery of a \$25 bond, which is the unit for the greater part of the mailings, is 18 cents, which charge is hard to explain to a person receiving his bond from the Government. The same situation is true regarding mailings by Federal Reserve Banks. Many requests have been received for simplification and saving by use of ordinary mail. I should dislike to effect the change and believe that general satisfaction might be obtained both from the Treasury appropriation and issuing agent and public viewpoints if the franking privilege and free registration were permitted for the mailing of bonds. Of course, a statement of the mailings would be rendered your Department for credit purposes. It is believed that a real saving will accrue to agents by eliminating the function of affixing necessary postage or metering mail. This Department, of course, would be glad to consider any simplified plan for mailing and delivery of savings bonds affording the protection of establishing delivery of the bonds to the postal service and receipt by the addressee.

Aside from the War Savings program, but as a part of the Treasury's effort to borrow money from non-inflationary sources and at the same time to take advantage of and coordinate the generously offered services of the commercial banking institutions and the investment bankers of the country, I have established Victory Fund Committees under the Presidents of the Federal Reserve Banks. The organization and its purposes are briefly set forth in my statement of May 14, a copy of which I am enclosing.

There is established in each Federal Reserve District, headed by the President of the Federal Reserve Bank, a Victory Fund Committee. Under this Committee, other committees are being formed to cover each Federal Reserve District. The service for the most part is voluntary but a paid organization in each district has been authorized to perform essential organization work. Under the Federal Reserve Banks, in addition to the restricted paid personnel, out-of-pocket expenses, including official postage required for dispatching publicity matter and for rendering reports and generally for establishing and maintaining contacts, are authorized and reimbursed by the Treasury. Accounting for postage is troublesome and vexatious, and again it is difficult to explain to the Victory Fund Committees that, although they constitute official agencies of the Treasury, they may not exercise the franking privilege in the conduct of their promotional efforts for the Treasury for the sale of Government securities. In this connection, I am enclosing a copy of a letter from Mr. L. R. Rounds, First Vice President of the Federal Reserve Bank of New York which, in measure, presents the situation. I might add that other Federal Reserve Banks have made personal representations to the same effect.

-3-

At this point I wish to emphasize that the organization of Victory Fund Committees to promote the direct sale to investors of Government obligations will continue during the War emergency. The War Savings program and the Victory Fund program are complementary and taken as a whole, in measure, serve the same end as did the Liberty Loan Committee Organization during the last War. It is of the utmost importance to the welfare of the country that promotional efforts of the Victory Fund Committees be facilitated in every possible way. In such connection, I hope you will find it possible to grant the franking privilege to the Federal Reserve Banks and to the Victory Fund Committees for the dissemination of official publicity matter and generally for the conduct of their efforts to promote the sale of Government securities.

The foregoing matters are presented for your consideration and I hope you will find it possible to rule that during the emergency these privileges may be extended in such connection. An early reply would be appreciated.

Very truly yours,

Secretary of the Treasury

The Honorable,

The Postmaster General,

Washington, D. C.

Enclosures

W3B:M 7/13/42

Copy for Secretary's files

TREASURY DEPARTMENT
Washington

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

Press Service
No. 31-59

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

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

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

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

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

-000-

FEDERAL RESERVE BANK
of New York

June 5, 1942.

Honorable D. W. Bell
Under Secretary of the Treasury
Treasury Department
Washington, D. C.

Dear Mr. Bell:

We have recently been giving particular thought to the matter of controlling expenses which will arise incident to the operations of the Victory Fund Committee. One point to which we have been giving thought in this connection is the desirability of using franked envelopes for mailing purposes. As you know, committees of this kind are likely to do a very large amount of mailing and a good deal of this work may be decentralized with local committees. This imposes considerable difficulty in the control of the use of postage. We believe this burden would be considerably reduced if arrangements could be made so that these committees could use the franked penalty envelopes for this purpose.

You will doubtless recall during the First World War the Liberty Loan Committees and the Federal Reserve Banks as well were permitted to use the Treasury Department frank for all mailing connected with the fiscal agency work, and this continued to the end of 1920 when use of the franking privilege was discontinued.

We are not familiar with the reasons which may have led to this discontinuance, but since they were not discontinued until long after the end of the war, it occurs to us that the conditions which now exist may again justify the use of this frank in connection with the war effort. There may be reasons why it would not seem advisable to extend this privilege to the Federal Reserve Banks for use in all fiscal agency work, and if so we would not be inclined to press a request for that privilege. We do think, however, that there are such greater reasons arguing for the franking privilege for use in connection with the general publicity effort, advertising, etc. as it will be carried on by the Victory Fund Committees. Also the problem of controlling the use of postage by these committees is much greater than it is in connection with the control of postage actually used by the Reserve Banks.

May we ask that you give consideration to the granting of the franking privilege for use either in all matters having to do with fiscal agency operations, or at least for the use of the Victory Fund Committee in its advertising and promotional program.

Very truly yours,

(Signed) L. R. Rounds
First Vice President

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 27 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Operation of payroll savings plan in companies where deductions have reached 10 percent of payroll.

In accordance with your request to Mr. Graves, the State Administrators of the War Savings Staff are reporting to us each week the names of organizations which have reached the goal of 10 percent of payroll deducted under the payroll savings plan.

These reports cover plants, units, branches, or subdivisions of companies as each of these reaches the goal of 10 percent of payroll deducted for the purchase of war savings bonds.

As of July 25, 1942, 7,343 companies, firms, plants, branches, units or subdivisions were reported to have reached the goal of 10 percent of payroll. These organizations employed 488,000 persons according to the reports or approximately 2.2 percent of the 22 million persons employed in companies that have installed the payroll savings plan. Details on the amount deducted in the organizations with more than 1,000 employees which were included in the reports are shown in the table attached.

Attachment

Firms with 1,000 or More Employees Reported to be deducting 10 Percent or More
of Aggregate Payroll Under Payroll Savings Plans

(As Reported by the War Savings Staff's State Administrators July 22, 1942)

Name of firm and state	Number of employees	Approximate aggregate monthly payroll (in thousands)	Percent of aggregate pay deducted	Average monthly deduction per employee
General Electric Co., N. Y.....	132,340	\$ 27,600	10	\$ 20.86
Oregon Shipbuilding Co., Ore.....	30,000	*	10	*
Westinghouse Elec. and Mfg. Co., Pa.....	26,000	6,247	11	26.43
Ex-Cell-O Corp., Mich.....	6,796	*	11	*
McLellan Stores Company, N. Y.....	6,034	337	10	5.58
Carbide and Carbon Chemical Corp., W. Va.....	4,500	*	10	*
Kaiser Co., Inc., Ore.....	4,200	*	13	*
Arma Corporation, N. Y.....	3,200	814	12	30.52
Morrells, S. D.....	3,000	406	11	14.88
Barber Colman Co., Ill.....	2,800	540	10	19.28
Westinghouse Electric and Mfg. Co., Ohio.....	2,500	601	10	24.03
Dry Dock Association, Pa.....	2,386	689	12	34.65
Owl Drug Co., Calif.....	2,383	294	10	12.34
Meler and Frank Co. Inc., Ore.....	2,284	278	10	12.17
Continental Roll and Steel Foundry Co., Ind.....	2,195	497	12	27.17
Wilson and Co., Inc., Okla.....	2,000	450	10	22.50
Hiram Walker and Sons, Ill.....	1,994	346	10	17.35
Keystone Steel and Wire Co., Ill.....	1,880	344	10	18.30
Munsingwear, Inc., Minn.....	1,685	191	10	11.34
Dixie Mercerizing Co., Tenn.....	1,660	141	10	8.49
Stockham Pipe and Fitting Co., Ala.....	1,619	223	10	13.77
Oliver Iron and Steel Corp., Pa.....	1,567	237	10	15.12
National Supply Co., Ohio.....	1,550	298	10	19.26
Albina Engine and Machine Works, Ore.....	1,512	*	12	*
American Hoist and Derrick Co., Minn.....	1,450	300	12	24.82
Gibbs Gas Engine Co., Fla.....	1,400	277	14	27.70
Geo. H. Buckler, Ore.....	1,400	*	10	*
R. K. Le Blond Machine Tool Co., Ohio.....	1,329	324	10	24.38
Chicago Mill and Lumber Co., Ill.....	1,325	*	10	*
E. B. Badger and Sons, Mass.....	1,308	333	14	35.64
O. D. Furlington Co., R. I.....	1,300	180	13	18.00
I. Miller and Sons, N. Y.....	1,300	180	13	18.00
Colonial Radio Corp., N. Y.....	1,279	216	11	18.58
Stinson Aircraft, Mich.....	1,228	290	10	23.61
W. A. Handley Mfg. Co., Ala.....	1,225	*	10	*
T. Stuart and Son Co., Mass.....	1,200	297	10	24.75
Bayonne Associates, N. J.....	1,176	409	10	34.78
Magee Carpet Co., Pa.....	1,156	165	13	18.55
Magma Copper Co., Ariz.....	1,128	206	10	18.26
Continental Steel and Foundry Co., Pa.....	1,000	226	10	22.64
United Aircraft Corp., Hamilton Standard Propellor Div., Conn.....	*	*	10	*

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

July 25, 1942

* Not available.

Regraded Unclassified

TREASURY DEPARTMENT

86

INTER OFFICE COMMUNICATION

DATE July 27, 1942

TO Secretary Morgenthau

FROM Vincent F. Callahan

Re: DIRECT SALE OF BONDS BY RADIO STATIONS

As of today 621 out of 856 radio stations have agreed to become direct agents of the Treasury Department in the sale of War Savings Bonds. These stations are being qualified daily. Following are early reports from a number of cities:

BALTIMORE, MARYLAND

WBAL (50,000 watts) starts off campaign with a series of full page advertisements in Baltimore News Post. Proof of first advertisement which runs today is attached.

PITTSBURGH, PENNSYLVANIA

KDKA (50,000 watts) launches campaign tonight with a half-hour program. Officially inaugurates campaign tomorrow with public celebration on steps of City Hall. Speakers include the Mayor, local War Savings Committee representatives, and others. KDKA directing campaign to listeners outside city, particularly in small communities in Ohio, Pennsylvania, and West Virginia. KDKA is printing special envelopes in which Bonds will be sent to purchasers.

-2-

BUTLER, PENNSYLVANIA

WISE (250 watts) started campaign Friday, July 24. Stocked up with \$5,000 in Bonds and sold out first day - total sales \$6,500.

PHILADELPHIA, PENNSYLVANIA

WFIL inaugurated announcers' contest with announcers making direct personal appeal to listeners. Announcer selling most Bonds in each week will be given a \$25.00 Bond by the station. Station also has built "chuck wagon" manned by volunteer workers who will tour city.

CHICAGO, ILLINOIS

WBEN devoting one and one-quarter hours daily in the afternoon to sell Bonds.

POUGHKEEPSIE, NEW YORK

WKIP selling Bonds by series of radio auctions. Feature was so successful that the first Bond supply was sold out in several days. Have asked Federal Reserve Board for more Bonds.

CINCINNATI, OHIO

WCPO (250 watts) has made tie-up with RKO theater chain and has enlisted aid of Junior League Girls. Promoting Bonds on all programs.

BANGOR, MAINE

WOBI offering \$5.00 prize to person writing best suggestion as to how station can sell more Bonds. Touring Band Wagon through streets, and have arranged to have Western Union boys deliver Bonds.

-3-

NEW YORK, NEW YORK

WJZ (50,000 watts) selling Bonds direct over the air and have erected a booth in Radio City with tie-up with American Women's Volunteer Service. This station has hired one person to handle Bond sales.

WASHINGTON, D. C.

WINX making direct sales in cooperation with Blue Light Taxi Company Drivers of taxicabs are delivering Bonds.

BUFFALO, NEW YORK

WGR and WKEM inaugurated youth movement called "Commando Corps of the Court of Honor". Awards are made during week to local youngsters for their sale of Bonds. \$25.00 sale makes boy a Corporal and \$50.00 sale a Sergeant.

SAN ANTONIO, TEXAS

KTSA, in cooperation with local women's club, is setting up lobby in city's leading hotel. Listeners are urged to buy Bonds and Stamps at the hotel booth.

DES MOINES, IOWA

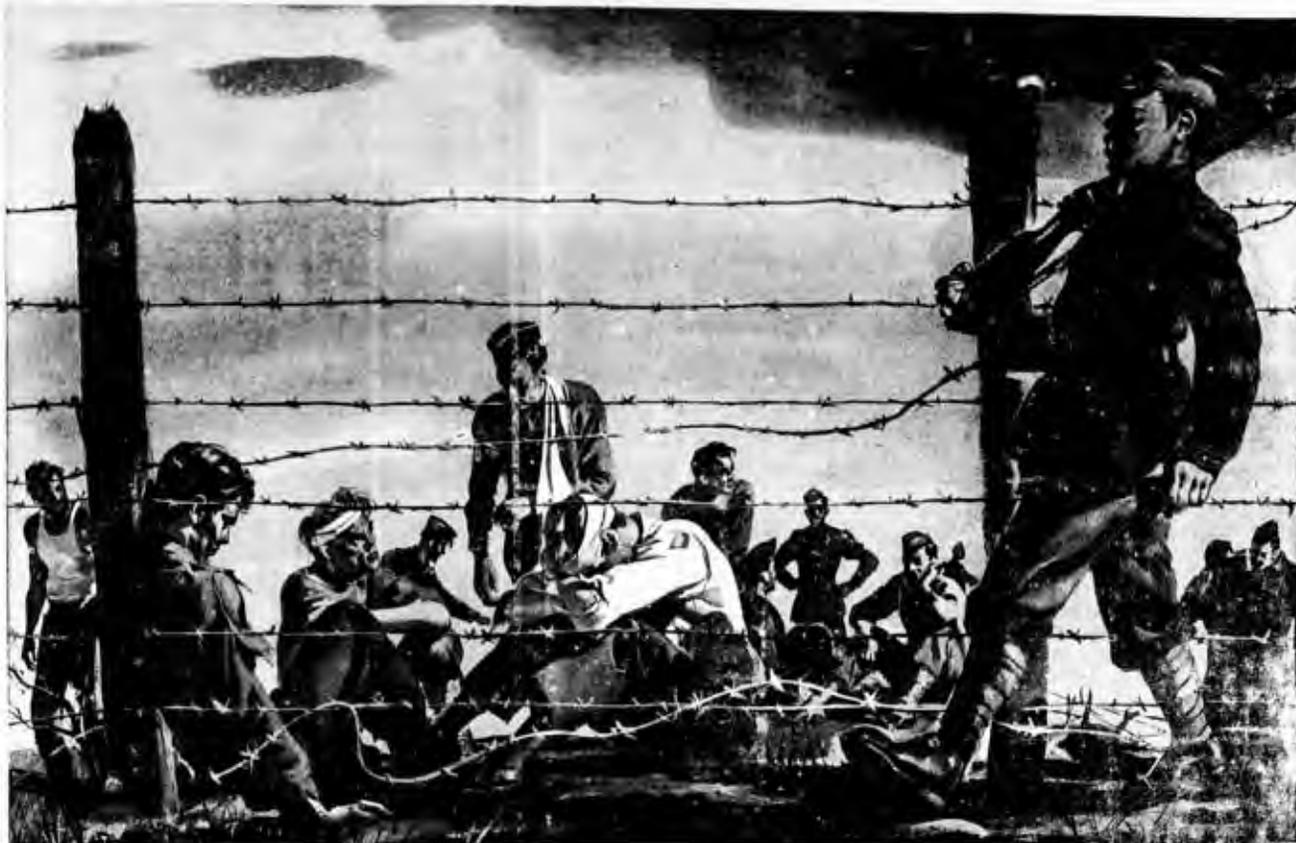
WHO sent in following message:

"Starting July 23 Herb Flambeck, Farm News Editor, and Bob Burlingame, Assistant News Editor in charge of night side, will sell War Bonds. Each has large and loyal following. Will build up competition between them. Announcers will take sides. Urge listeners to support their favorite. Send order at once Flambeck or Burlingame. Orders will be acknowledged on air."

CHICAGO, ILLINOIS

WLS (50,000 watts) opening campaign this week with all-night program. Station talent divided into two teams with artists making direct appeal over the air. Prizes for team selling most Bonds.

Vincent F. Callahan



Sure, it Makes You Mad!

DO YOU REALIZE that thousands of our good American soldiers are behind barbed wire—with Jap sentries marching up and down outside?

Do you know that American women and children, too, are in Jap concentration camps?

How long do you want them there—and what are you willing to do to get them out?

You can't do it by flag-waving, by slogans, and by cheers. It takes planes - tanks - guns - bombs - shells - ships. And these don't grow on trees.

You - and you - and you - must *buy* these things. Not the Jap way, nor the Nazi way, nor the Fascist way. The *American* way - freely and gladly. In War Bonds. And *your money* will buy the stuff to beat the Axis - to attack them - to bomb them, to make them wish they'd never picked a scrap with Uncle Sam!

Now You Can Buy War Bonds Thru WBAL



ONE OF AMERICA'S GREAT RADIO STATIONS

THE STATION MOST PEOPLE LISTEN TO MOST—1000 ON YOUR DIAL

By Mail...

It's super easy to buy War Bonds thru WBAL by mail. Just send a money order or a bank or personal check together with your name and address to WBAL, Lexington Building, Baltimore, and your bond will be sent you by registered mail.

By Phone...

Just call Lexington 4600, tell the WBAL operator your name and address, denomination of bond you wish and your bond will be delivered to you. You can pay for the bond on delivery either in cash or by check.

In Person...

Just bring cash or money order to WBAL's studio (1616 East—Lexington Building—Lexington and Liberty Streets) and your bond will be inscribed, dated and validated while you wait.

Listen to the WBAL Honor Roll Next Monday at 6.30 P. M.

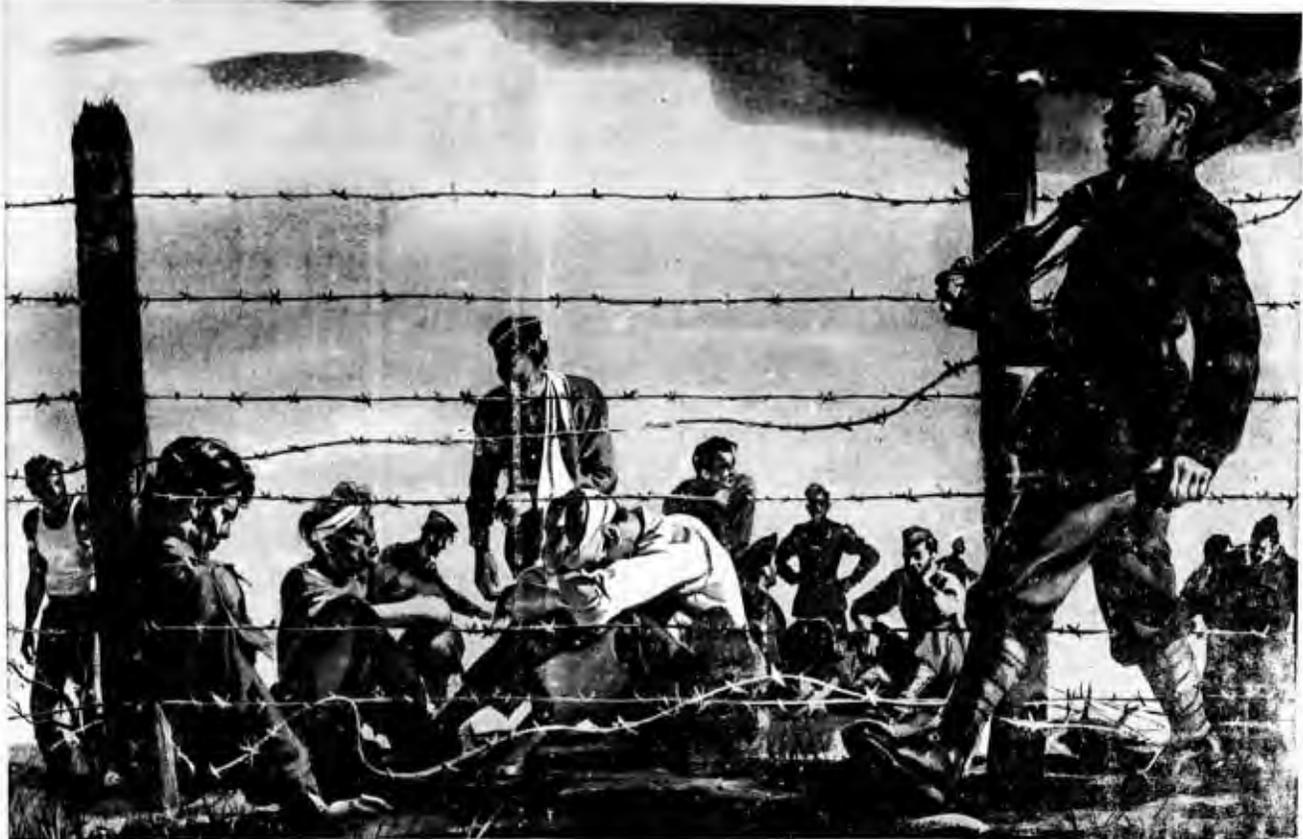
You'll hear news of WBAL'S War Bond drive, the best in band music, and names of people who have purchased bonds thru WBAL.

Bonds or Bonds? Make This Your Answer!

Fill in this form, right now, and bring it to WBAL, mail it with cash or money order. Be sure to add name and address of beneficiary and spouse, if any, and address address to which bonds are to be mailed.

Denom.	Number	Wanted	Balance	Excess	Bonds	Issue	Price	Amount
\$10	\$10	.....				
\$20	\$20	.....				
\$50	\$50	.....				
\$100	\$100	.....				
\$500	\$500	.....				
\$1,000	\$1,000	.....				
Total \$								

Name: _____
 Mr. _____
 Mrs. _____
 Miss _____
 Address: _____



Sure, it Makes You Mad!

DO YOU REALIZE that thousands of our good American soldiers are behind barbed wire—with Jap sentries marching up and down outside?

Do you know that American women and children, too, are in Jap concentration camps?

How long do you *want* them there—and what are you willing to do to get them *out*?

You can't do it by flag-waving, by slogans, and by cheers. It takes planes—tanks—guns—bombs—shells—ships. And these don't grow on trees.

You—and you—and you—must *buy* these things. Not the Jap way, nor the Nazi way, nor the Fascist way. The *American* way—freely and gladly. In War Bonds. And *your money* will buy the stuff to beat the Axis—to attack them—to bomb them, to make them wish they'd never picked a scrap with Uncle Sam!

Now You Can Buy War Bonds Thru WBAL



ONE OF AMERICA'S GREAT RADIO STATIONS

THE STATION MOST PEOPLE LISTEN TO MOST—1000 ON YOUR DIAL

By Mail...

It's *easy* way to buy War Bonds thru WBAL by mail. Just send a money order or a bank or personal check together with your name and address to WBAL, Lexington Building, Baltimore, and your bond will be sent you by registered mail.

By Phone...

Just call Lexington 4900, tell the WBAL operator your name and address, denomination of bond you wish and your bond will be delivered to you. You can pay for the bond on delivery either in cash or by check.

In Person...

Just bring cash or money order to WBAL's studio (8th floor—Lexington Building—Lexington and Liberty Streets) and your bond will be inscribed, dated and validated while you wait.

Listen to the WBAL Honor Roll Next Monday at 6.30 P. M.

You'll hear news of WAL'S War Bond drive, the best in band music, and names of people who have purchased bonds thru WBAL.

Bonds or Bonds? Make the Most of Yours!

Put in this form, right now, and bring it to WBAL with it with cash or money order. Be sure to add name and address of beneficiary and amount, if any, and indicate address to which bonds are to be mailed.

Number	Wanted	Interest	Savings Bonds	Issue Price	Amount
.....	\$10	\$1.75	.....	.....	.....
.....	\$20	\$3.50	.....	.....	.....
.....	\$50	\$8.75	.....	.....	.....
.....	\$100	\$17.50	.....	.....	.....
.....	\$1,000	\$175.00	.....	.....	.....
Total					.....

Name _____
 No. _____
 Mailing _____
 Address _____

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 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
22	18,184	358,135	291,729	290,485	122.8
23	18,261	376,396	321,114	309,584	117.2
24	18,588	394,984	331,806	323,705	119.0
25	10,695	405,679	347,673	347,494	116.7

July 27, 1942.

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

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of 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	
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
22	16,327	278,505	137,429	149,502		202.7
23	15,174	293,679	147,698	156,587		198.8
24	14,399	308,077	153,532	161,404		200.7
25	8,816	316,893	162,774	171,335		194.7

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

July 27, 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	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
21	21,686	602,129	414,804	409,987	145.2
22	34,511	636,640	429,158	439,987	148.3
23	33,434	670,075	468,812	466,171	142.9
24	32,987	703,062	485,338	485,109	144.9
25	19,510	722,572	510,446	518,829	141.6

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

July 27, 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 25, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales
	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
21	31.4	327.7	411.8	79.6	21.9	252.7	223.9	112.9	53.3	580.4	635.7	91.3
22	12.2	340.0	425.9	79.8	9.4	262.2	231.8	113.1	21.7	602.1	657.7	91.5
23	18.2	358.1	451.1	79.4	16.3	278.5	247.0	112.8	34.5	636.6	698.1	91.2
24	18.3	376.4	477.5	78.8	15.2	293.7	260.1	112.9	33.4	670.1	737.6	90.8
25	18.6	395.0	503.8	78.4	14.4	308.1	270.7	113.8	33.0	703.1	774.5	90.8
27	10.7	405.7	525.0	77.3	8.8	316.9	279.5	113.4	19.5	722.6	804.5	89.8
28			562.7				295.1				857.8	
29			577.2				304.3				881.5	
30			601.3				322.1				923.4	
31			625.8				337.5				963.3	
			650.0				350.0				1,000.0	

July 27, 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.

July 27, 1942

The Secretary today directed that
this report be discontinued.

7/25/42

UNITED STATES SAVINGS BONDS, SERIES B

TOTAL DAILY SHIPMENTS BY DENOMINATIONS FROM JULY 1 TO JULY 24, 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
22	583,946	82,850	92,000	6,535	9,777	775,108
23	527,745	90,120	114,838	13,001	15,751	761,455
24	450,650	109,600	65,800	11,275	9,300	646,625
Total	11,361,011	2,059,400	2,121,197	180,752	184,562	15,906,922

July 25, 1942
NRL/kwk

July 27, 1942

Dear Jake:

I am sending you herewith, by air mail, a very confidential memorandum prepared by Harry White. I wish you would read it and carefully consider the contents.

(7-20-42)

I think I remember correctly that you said you would be willing to stay as long as I needed you, so I think you had better bring enough collars and shirts to last you a week.

Yours sincerely,

(Signed) Henry

Dr. Jacob Viner,
5554 Kenwood Avenue,
Chicago, Illinois.

7171C
Air mail Special.
Taken to
air post 4:45
by Ch. Clk
Messenger

July 27, 1942

Dear Walter:

I am enclosing herewith a
very confidential memorandum from (7-20-42)
Harry White, which I shall want to
discuss with you Wednesday and Thurs-
day when you are here.

Yours sincerely,

(Signed) Henry

Dr. Walter W. Stewart,
Gladstone, New Jersey.

nmc

Air mail Spec Del.
Taken to the Airport by Mess.
5 PM - 27-42

JUL 27 1942

Dear Mr. MacLeish:

There is returned herewith your letter of July 16, 1942, recommending acceptance of the offer of The Friends of Music in the Library of Congress to give \$5,340.69 to the Library of Congress Trust Fund Board for deposit in the Permanent Loan Fund, upon which Secretary Morgenthau has indicated his agreement with your recommendation.

Very truly yours,

(Signed) D. W. BELL

Under Secretary of the Treasury.

Honorable Archibald MacLeish,
Librarian of Congress,
Library of Congress,
Washington, D. C.

CC Miss Chauncey.
Enclosure.

WTH:mlb 7-25-42

THE LIBRARY OF CONGRESS
TRUST FUND BOARD

Washington

July 16, 1942

CHAIRMAN
THE SECRETARY OF THE TREASURY
HENRY MORGENTHAU, JR.
SECRETARY
THE LIBRARIAN OF CONGRESS
ARCHIBALD MACLEISH

Dear Mr. Secretary:

I have the honor to submit to your attention a photostat copy of a letter received from Mr. Myron W. Whitney, President of the Friends of Music in the Library of Congress, dated June 15, 1942. This letter proposes a gift to the Library of Congress, to be credited to the permanent loan account of the Library of Congress Trust Fund Board, the income therefrom to be applied to the purposes of the Music Division.

In accordance with the Act entitled "An Act to create a Library of Congress Trust Fund Board and for other purposes" as amended, this offer is hereby submitted for your approval as a member of the Board.

I recommend that this offer be accepted.

Faithfully yours,

Archibald MacLeish
Archibald MacLeish

The Librarian of Congress
Secretary of the Library of Congress
Trust Fund Board

Enclosure

I vote in favor of acceptance *H.M.J.*

I vote against acceptance _____

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

LIBRARY OF CONGRESS
RECEIVED
JUL 1 1942
POSTAL OFFICE

~~UNITED STATES GOVERNMENT~~
ADMINISTRATIVE ASSISTANT

100

The Friends of Music in the Library of Congress

CHIEF ASST. WASHINGTON, D. C.
LIBRARIAN

JUL 1 - 1942



Please reply to
301 MUNSEY BUILDING, WASHINGTON, D. C.
Telephone: National 0945
Miss Elizabeth E. Hill, Secretary in the Secretary

June 15, 1942

President
MR. MYRON W. WHITNEY

Vice Presidents
MR. CARL ENGEL
MRS. ROBERT WOODS BLUM
MR. EDWIN HUTCHINSON
MRS. NICHOLAS LONGFORTH
HON. FREDERIC C. WAGGONER

Secretary
MISS GRACE DUNHAM GURRY

Treasurer
MR. CLARENCE A. ARDREWALL

Ex officio
The Chief of the Music Division
Library of Congress
DR. HAROLD SVETKEY

Dr. Luther H. Evans
Acting Librarian of Congress
The Library of Congress
Washington, D. C.

Dear Dr. Evans,

The Friends of Music in the Library of Congress, after much deliberation, has decided to suspend its activities and operations for an indefinite period. The times are difficult for a society of its nature, and its out-of-town members at present receive little or no benefit from their membership. The primary purpose of the organization, of course, is to make possible the acquisition of rarities by the Music Division of the Library of Congress, but this becomes increasingly difficult in the light of present day circumstances.

In entering its period of indefinite suspension, the Friends of Music desires to transfer its financial resources, with no obligations outstanding, to the permanent loan fund of the Library of Congress. This gift amounts to \$5,340.69 and will be subject to increase by voluntary contributions. From the interest it will bear, it should insure to the Music Division our permanent support and cooperation. The income from the fund may be applied to purchases of rare books, pieces and manuscripts or may be used to defray any expenses incurred by the Music Division in promoting activities congenial to us in the past.

It is our hope that our suspension will be of relatively short duration. If so, we can again resume our work for music and our furtherance of increasing the Library's musical collections. Meanwhile we trust that the proposal stated in this letter will be satisfactory to you and will keep alive the relationship between your institution and our Society.

Very sincerely yours,

Myron W. Whitney
President, The Friends of Music
in the Library of Congress

MWW:bd

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 27, 1942

TO Secretary Morgenthau
FROM Mr. Hass
Subject: The Business Situation,
Week ending July 25, 1942.

Summary

(1) Industrial activity in June fell behind earlier Federal Reserve Board estimates but still forged ahead to record levels. The FRB seasonally-adjusted index of industrial production for the month rose to 177 from 174 (revised) in May. Since our entry into the war the index has risen 11 points.

(2) Steel shortages are now reported to be holding up truck production and forcing curtailment of electric utility expansion plans, in addition to hampering shipbuilding. In view of the very heavy demand for steel, it now appears likely that the projected 10 percent expansion program for the steel industry will not be curtailed as much as expected a short time ago. An expansion of 9,700,000 tons by June 1943 is now being recommended by the Steel Branch of the WPB.

(3) Contrary to earlier indications, the cost of living rose further after price ceilings were imposed. The BLS cost-of-living index (revised) for June shows a gain of 0.4 percent over the previous month, due to increased food prices.

(4) The BLS index of basic commodity prices showed a further moderate decline last week and touched the lowest level since mid-June. However, butter prices moved higher as the Agricultural Marketing Administration raised the support level 3 cents per pound.

(5) Factory employment and payrolls continued to expand to new record highs in June, according to confidential BLS indexes. Factory payrolls stood 28 percent above year-earlier levels while employment was 8 percent higher.

(6) Construction contract awards in June, as reported by the F. W. Dodge Corporation, jumped 57 percent above the highest previous month on record. All categories except residential construction showed wide gains over year-earlier levels.

- 2 -

Industrial production index for June revised downward

Industrial activity rose to a new high in June, but the level attained was somewhat below earlier estimates of the Federal Reserve Board. The seasonally-adjusted FRB index of industrial production advanced to 177 from 174 (revised) in May. (See Chart 1, upper section.) These figures compare with previously reported estimates of the Federal Reserve Board of 180 for June and 176 for May. In contrast with the new peak of 177 reached in June, the index stood at only 106 in the pre-war month of August 1939. Last November, prior to our entry into the war, the index stood at 166.

The 11 point rise in the production index since last November has been due, as might be expected, to expansion in the armament industries. It has been estimated that in June almost 50 percent of industrial output (as measured by the FRB index) was war production, taking into account also the machinery, supplies, etc., necessary to produce the war materials. A year earlier only 20 percent of the index is estimated to have been accounted for by war production.

The dominant industries in the further rise in industrial activity last month were machinery and transportation equipment (including shipbuilding and aircraft). (Refer to Chart 1, lower section.) Nondurable goods output on the whole showed little change from the previous month. Soft coal output receded, but still attained high levels, while lake shipments of iron ore continued in very heavy volume. On the other hand, steel production declined somewhat.

Steel plant expansion program reconsidered

Press reports last week indicated that a shortage of steel is slowing up truck output and is causing a cut in the expansion program of the electric utility industry, and Chairman Nelson of the WPB was quoted as saying "The lack of steel is so great that we must shorten our production lines." Against this background, the WPB is apparently reconsidering a program for a major expansion in steel capacity. Originally an expansion program designed to step up steel capacity by nearly 10,800,000 tons was approved by SPAB. Early in June it was said that probably only 65 to 70 percent of the program would be carried out, due to a desire to save critical raw materials by cutting down on plant expansion projects. However, during the past week it was disclosed that the Steel Branch of the WPB has now recommended an expansion of over 9,700,000 tons, or only about 10 percent less than the original proposal.

If carried out, this would increase the industry's total

- 3 -

capacity to 98,300,000 tons by June 30, 1943 as compared with 88,600,000 tons at the end of 1941. Among other features the program would require an increase of nearly 11,000,000 tons in pig iron capacity, involving the construction of 20 new blast furnaces and the restoration or enlargement of 15 others.

Steel operations fail to reach capacity

Despite the contentions made in the Gano Dunn report last year that a steel operating rate of 102-1/2 percent of capacity could be maintained under emergency conditions, the highest rate attained this year was 99.6 percent of capacity during two weeks in May. During June the average operating rate slumped to 96.4 percent of capacity. While some improvement has been shown recently, the rate scheduled for this week is again down to 97.0 percent. (See Chart 2.)

However, operating rates are still being calculated on the basis of capacity last December 31, and it is estimated that by the end of June the steel capacity had been increased by about 1,000,000 tons. Thus recent operating rates are even lower than indicated, and eventually will be revised downward to conform to the expansion in capacity since the end of last year.

Living costs continue to rise

The cost of living, contrary to earlier indications, shows an increase since price ceilings were imposed. The BLS cost-of-living index has been revised back to April, and now shows an increase rather than a decrease. (See Chart 3.) As of June 15, the combined index had increased 0.4 percent above that of a month earlier, due to a continued rise in food prices. The cost of clothing, on the other hand, has declined since April, and the weighted average of rent, fuel, and light has declined also in that period. Housefurnishings and other costs were unchanged in the past month.

Basic commodity prices decline

Commodity prices declined somewhat last week on reports of the possibility of more aggressive action being taken against inflation. The BLS price index of 28 basic commodities declined for the second successive week, and touched its lowest level since mid-June. (See Chart 4.)

The component indexes of controlled and uncontrolled commodities have been revised back to June 26 to transfer the price of gum rosin from the controlled to the uncontrolled group, because of its exemption from OPA control.

- 4 -

The index of 9 uncontrolled commodities declined moderately last week, but was still within its range of the last two months. Barley prices were sharply lower, due to an increased Government crop estimate. Rosin prices continued to lose some of the previous sharp gain. Cotton declined for the third successive week. Wheat and corn prices increased somewhat.

The price of butter increased to 39¢ from 37¢, owing to the Department of Agriculture's raising of the support level by 3¢ a pound. Prices of steers increased to the highest since April 28. Hog prices declined on the Secretary of Agriculture's announcement that Lend-Lease purchase prices would be lowered.

The index of 19 controlled commodities was also somewhat lower. Tallow prices declined sharply as a result of a revision in the fats and oil ceiling structure.

In the week ended July 18, the BLS all-commodity index declined 0.2 percent, continuing to move within its range of the past four months. At 98.3, the index stands 31.1 percent above the August 1939 pre-war level.

Retail price levels maintained by OPA "rollbacks"

As rising production costs continue their pressure on prices, various rollback orders are being issued by the OPA to keep retail prices below the ceilings. The net result in most cases is to relieve the pressure on retailers' and distributors' profit margins by reducing the margins at some earlier stage. Among recent measures are the following:

- (1) Cannery prices for Maine sardines have been reduced 11 percent below March prices in an order designed to eliminate the squeeze on distributors.
- (2) An extensive revision of the price structure of fats and oils will partly compensate the soap industry for its earlier cancellation of price increases made before the price regulation became effective. The rollback on inedible tallow was planned to restore soap manufacturers' profit margins to normal.
- (3) Manufacturers' maximum prices for Kraft wrapping paper are to be reduced, and distributors' mark-ups have been lowered from March levels to those prevailing during the first half of 1941.

- 5 -

- (4) Pulpwood prices are to be fixed below current market levels to enable wood pulp producers and paper manufacturers to maintain their established ceiling prices.
- (5) Maximum prices on rice at the milling level may be reduced 10 percent to allow wholesalers to maintain their ceilings without loss.

Price ceilings breached for canned fruits

The OPA has announced increases of 15 to 25 percent in canners' ceiling prices on the 1942 fruit pack, effective July 29, to compensate for increases in costs of labor and raw materials. At the same time wholesalers and retailers were promised corresponding price increases. The increases granted are somewhat more than had been implied in the OPA's first announcement several weeks ago.

Agriculture moves to remedy meat packers' difficulties

As the impact of the Government's meat purchases and meat price control came to a climax last week in vanishing profit margins for packers and shortages of pork and beef in retail markets, the Secretary of Agriculture took cognizance of conditions in the meat markets by announcing a program designed to help alleviate the situation. The three points of the program are as follows:

- (1) Effective this week, the maximum prices to be paid for most meat products being purchased for Lend-Lease will be revised downward.
- (2) In connection with Lend-Lease purchases, adjustments in price differentials in different areas will be made to bring prices more nearly in line with the actual cost to packers there, and to favor shipments to the East.
- (3) Small packers squeezed between the higher cost of livestock and the ceiling prices for meat may continue to operate by purchasing and processing livestock to be bought by the Department of Agriculture. Press reports indicate that this project will be financed by a subsidy from Lend-Lease funds.

- 6 -

The Secretary stated that in all probability purchases of meat for Lend-Lease will be reduced somewhat during the next few weeks. The shortage was ascribed by the Secretary to a continuation of the unusually high demand for meat for domestic requirements, for the Army and Navy, and for Lend-Lease during the period when marketings of meat animals are the smallest of the season. He pointed out that later such marketings will increase, especially of hogs, which will ease the situation.

The meat shortage is reported to be confined to pork and beef. The price ceiling on beef has operated to encourage the shipping of cattle to market without fattening, because packers refuse to pay sufficiently high prices for heavy cattle.

Although packers operating under Federal inspection (and therefore eligible to supply Lend-Lease requirements at premium prices) have so far been able to operate under the OPA ceiling for Government orders, the margins between the price of live hogs and pork products have declined close to zero. (See Chart 5.) Localities formerly supplied mainly by intra-state packers, however, are now failing to receive their customary share of meat deliveries, because those packers are being forced out of the market by the high prices for live animals. As there is a tendency to allocate restricted shipments in accordance with past sales distribution, shortages may easily appear in war-production centers where the number and purchasing power of consumers have risen sharply.

Government purchases drop as receipts decline

Purchases of pork products by the Department of Agriculture were suspended during the week ended July 11, when hog slaughter declined seasonally to a new low for the year, but were resumed in the following week. Chart 6 shows weekly purchases of canned, cured and frozen pork by the Department of Agriculture since last December, in comparison with hog prices at Chicago and with slaughter under Federal inspection at 27 markets.

Factory employment and payrolls rise to new peaks

The expansion in factory employment and payrolls continued last month and reached new record levels, according to preliminary and confidential BLS indexes just made available,

- 7 -

which will be published later in the week. (See Chart 7.) Payrolls continued to rise more rapidly than employment, but the disparity was less marked than in earlier months. During the year ending in June, payrolls rose 28 percent as compared with a gain of only 8 percent in employment. Estimated average weekly earnings of factory workers showed but little further gain in June, but stood 18 percent above year-earlier levels. (Refer to Chart 7.)

Further steps in the direction of enlarged factory payrolls occurred last week, as the Bethlehem Steel Corporation and the Weirton Steel Company granted factory workers wage increases of 44 cents per day in line with the recent WLB decision in the "Little Steel" wage case.

Construction contract awards at record high

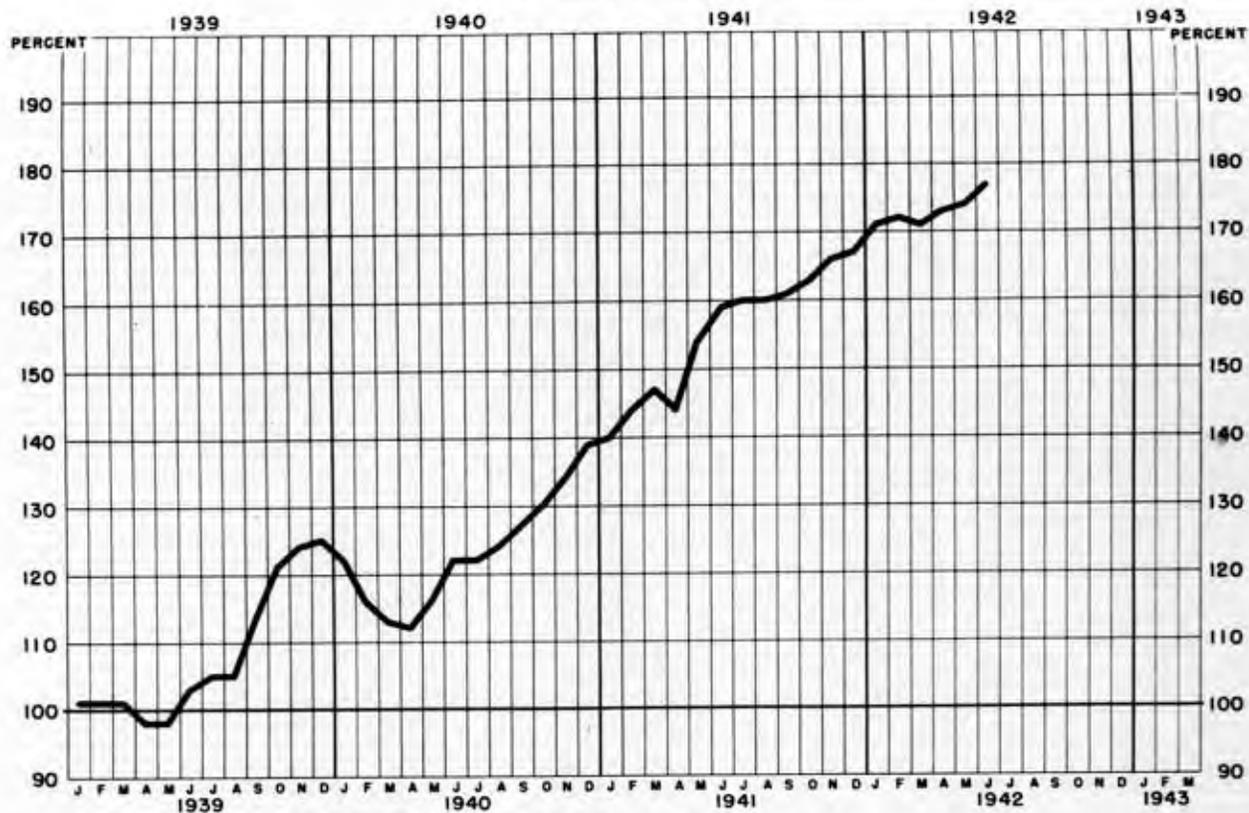
Despite the various restrictions on building activity and recent steps toward cutting down plant expansion programs, construction contract awards in June, as reported by the F. W. Dodge Corporation, jumped sharply to a new record high. In fact the monthly total for 37 eastern states, amounting to \$1,190,000,000, was 57 percent above the previous record set in August 1941. The gain over the corresponding month in 1941 was 121 percent, with all major classifications except residential construction showing wide gains, as will be seen in the following table:

	June 1942	June 1941
	(Millions of dollars)	
Residential	186	206
Non-residential	568	200
Public works	203	100
Utilities	233	33
Total	1,190	539

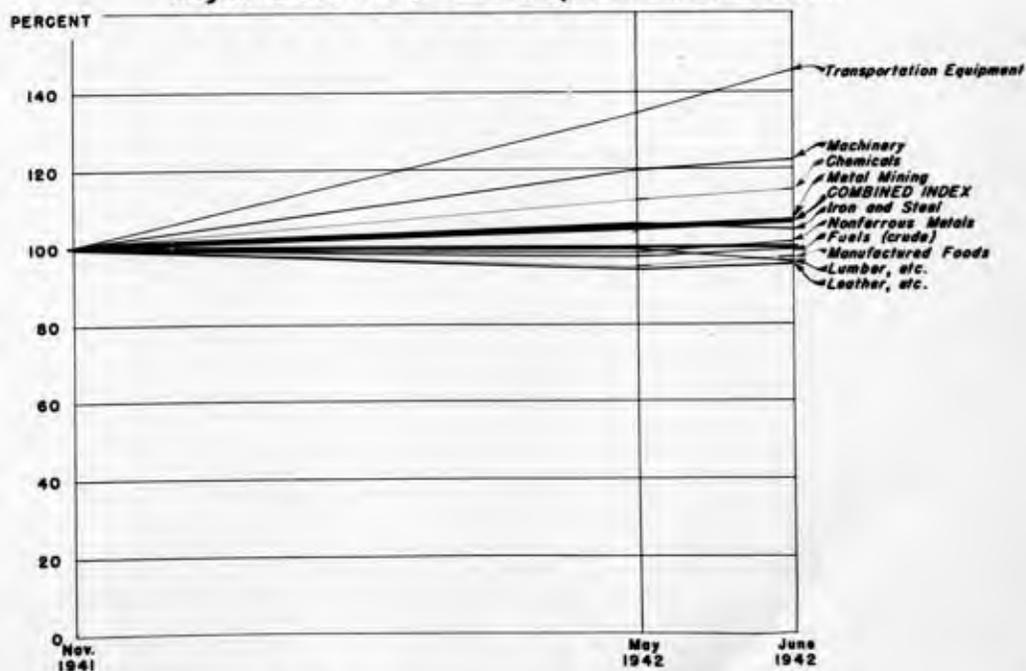
The non-residential total included manufacturing buildings aggregating \$272 millions. Contracts for "automobile and aircraft" building construction rose to \$90 millions, while chemical construction work jumped to \$65 millions.

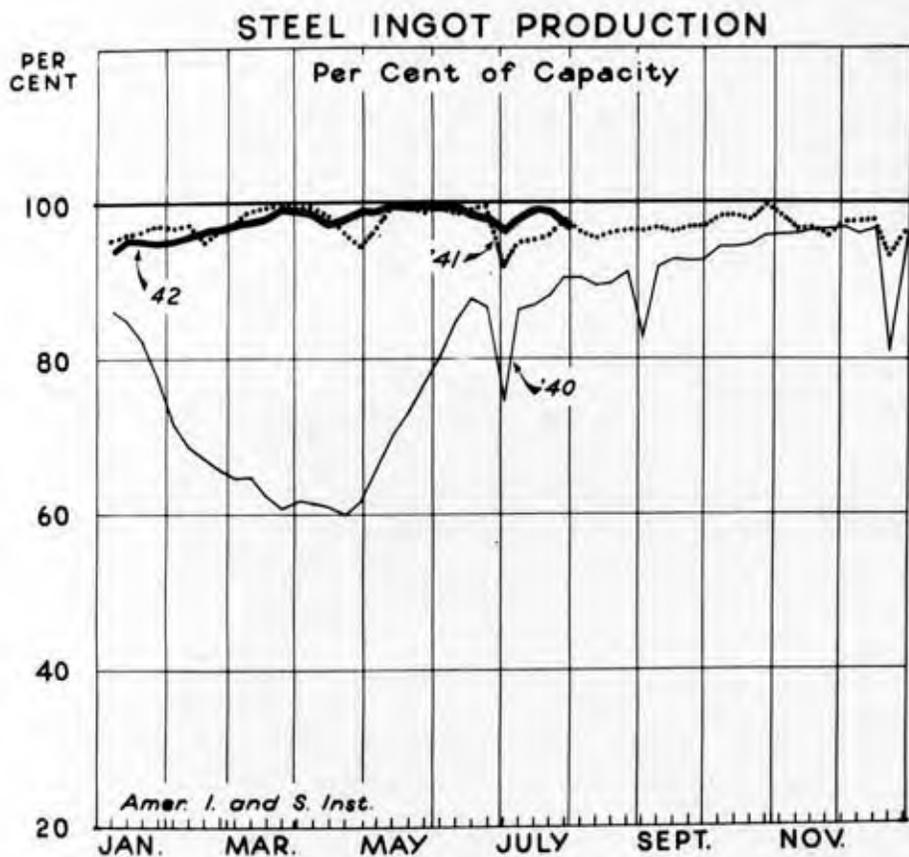
F.R.B. INDEX OF INDUSTRIAL PRODUCTION

1935-'39=100, Seasonally Adjusted



Selected Components
May 1942 and June 1942 Compared with Nov. 1941



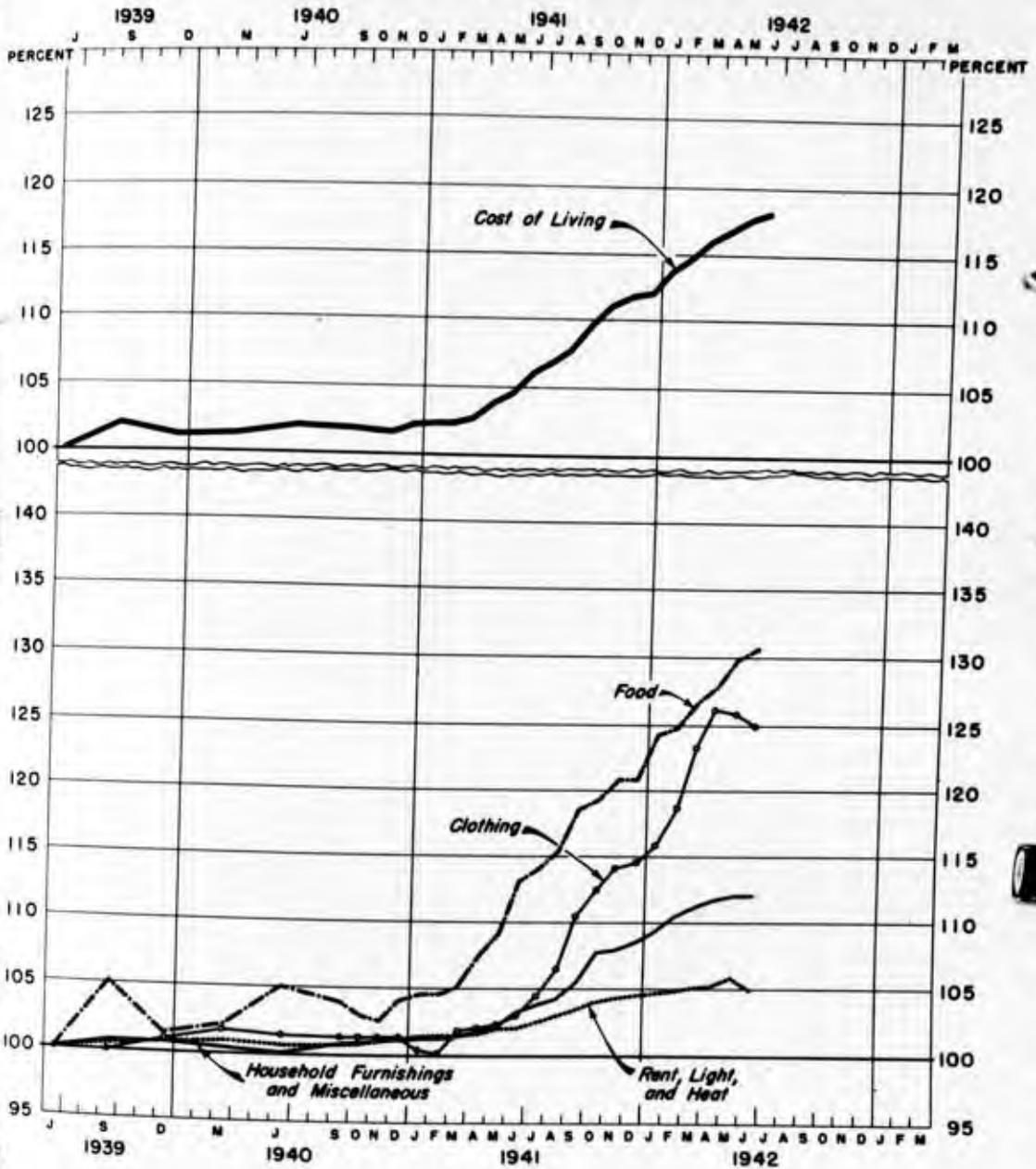


Office of the Secretary of the Treasury
Division of Research and Statistics

C-419

COST OF LIVING AND SELECTED ITEMS

June 1939=100

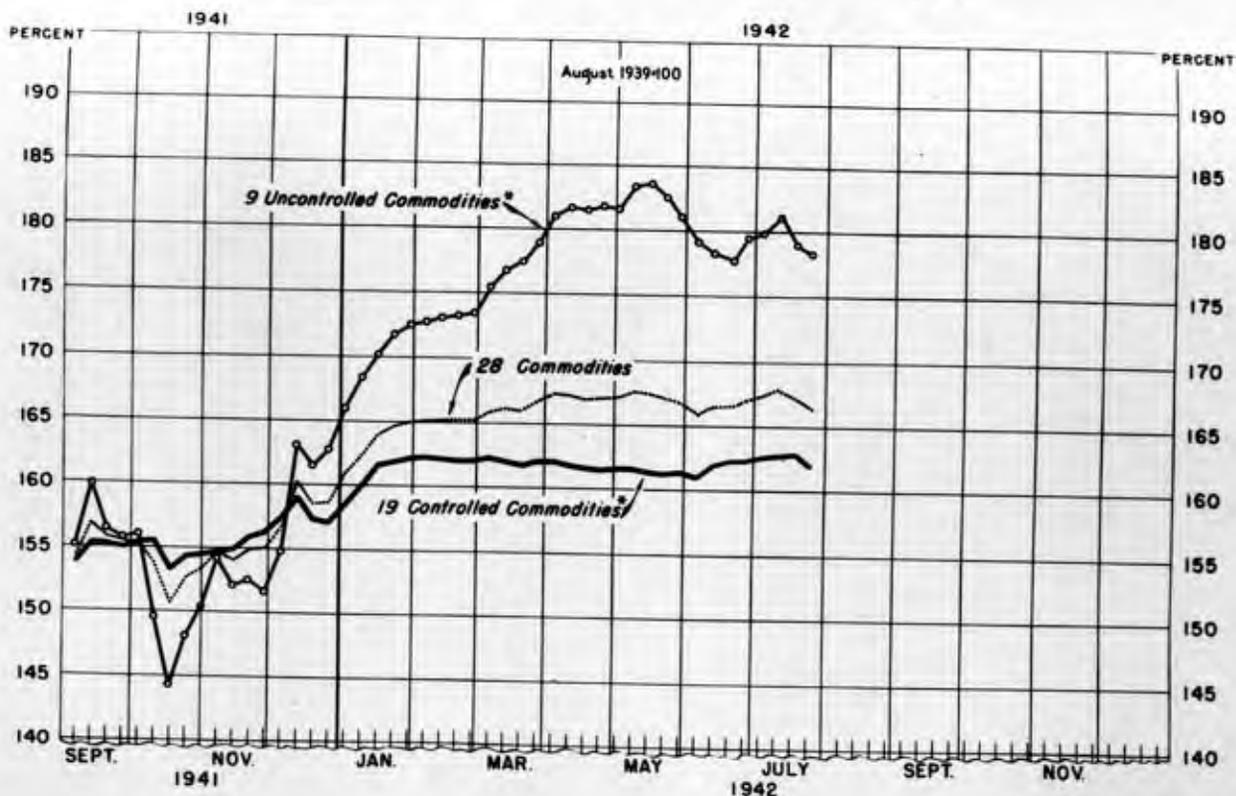


Office of the Secretary of the Treasury
Division of Research and Statistics

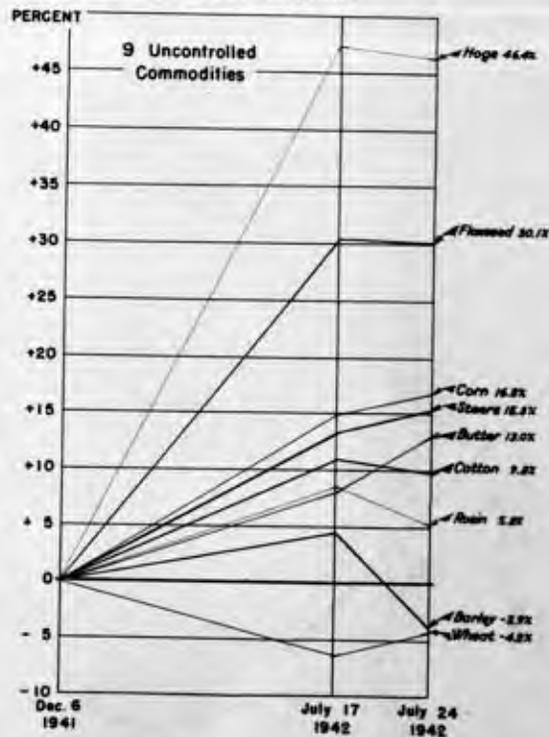
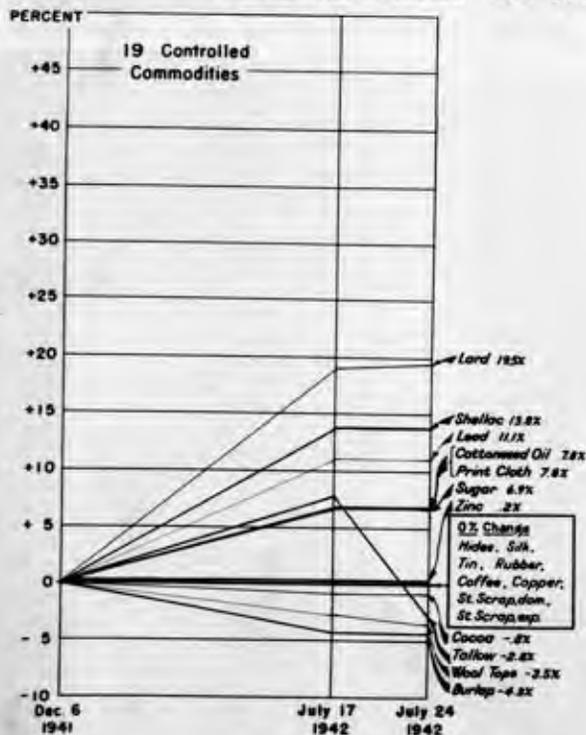
Source: B. L. S.

C-413-A

MOVEMENT OF BASIC COMMODITY PRICES



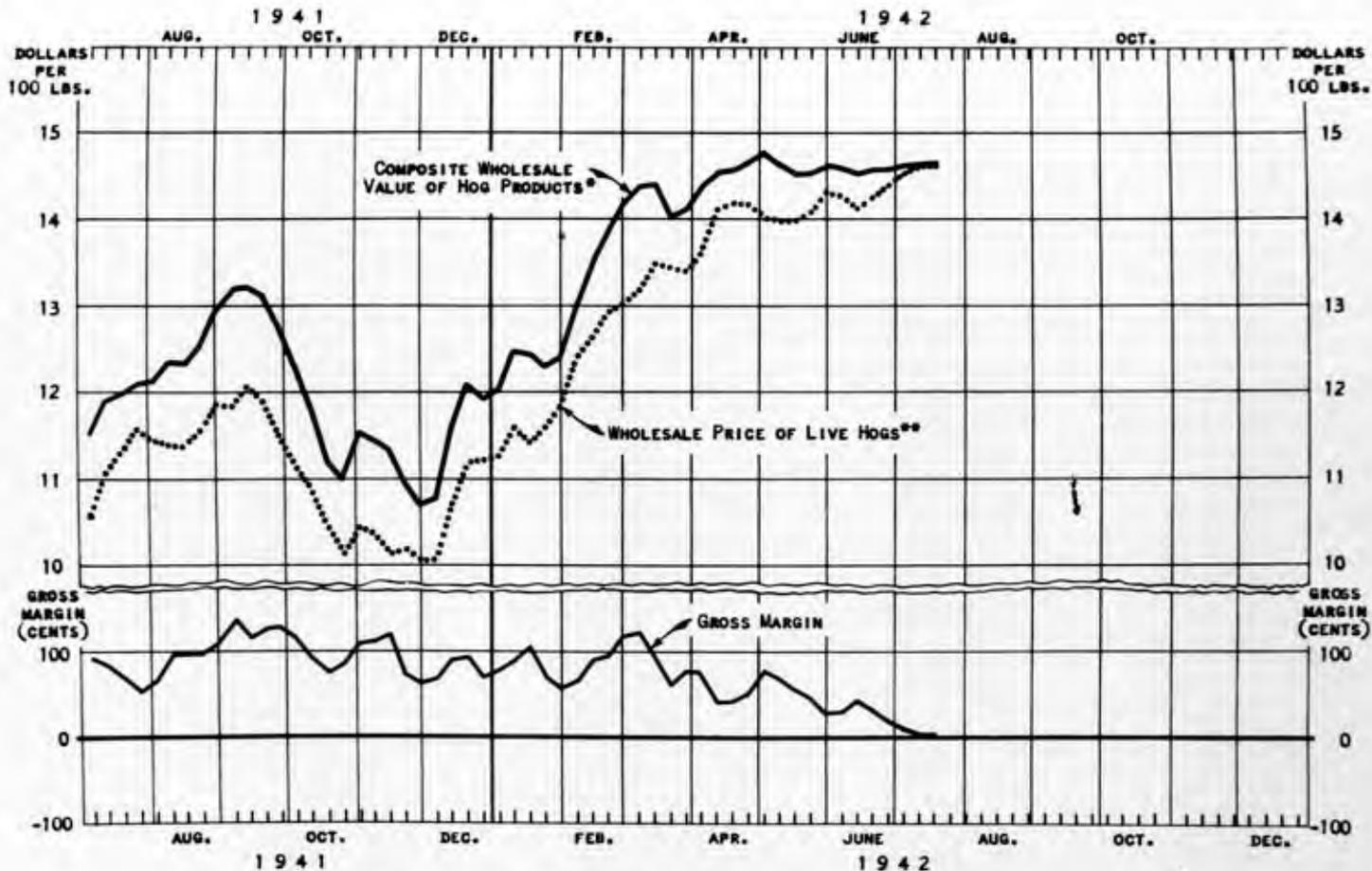
PERCENTAGE CHANGE DEC. 6, 1941 TO JULY 17 AND JULY 24, 1942



* 20 Controlled and 8 Uncontrolled previous to June 28

HOG PRICES, VALUE OF PORK PRODUCTS, AND GROSS MARGINS

Weekly, July 1941 to date



* WHOLESALE VALUE OF ALL EDIBLE PRODUCTS IN 100 LB. OF LIVE HOGS.

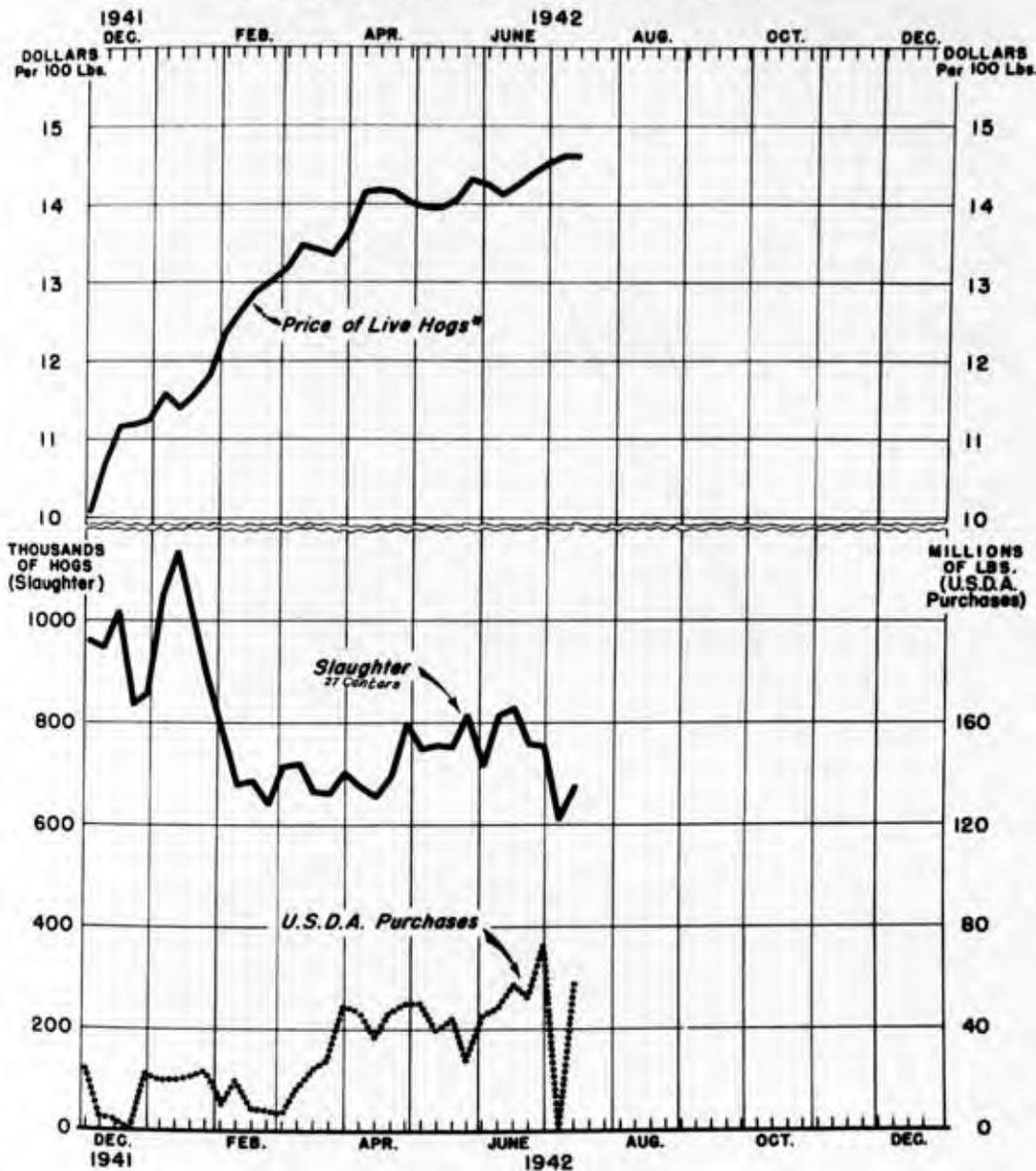
** GOOD CHOICE, 180-200 LBS.

SOURCE: U.S.D.A.

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

Chart 5
112

HOG PRICES COMPARED WITH HOG SLAUGHTER AND U.S.D.A. PURCHASES



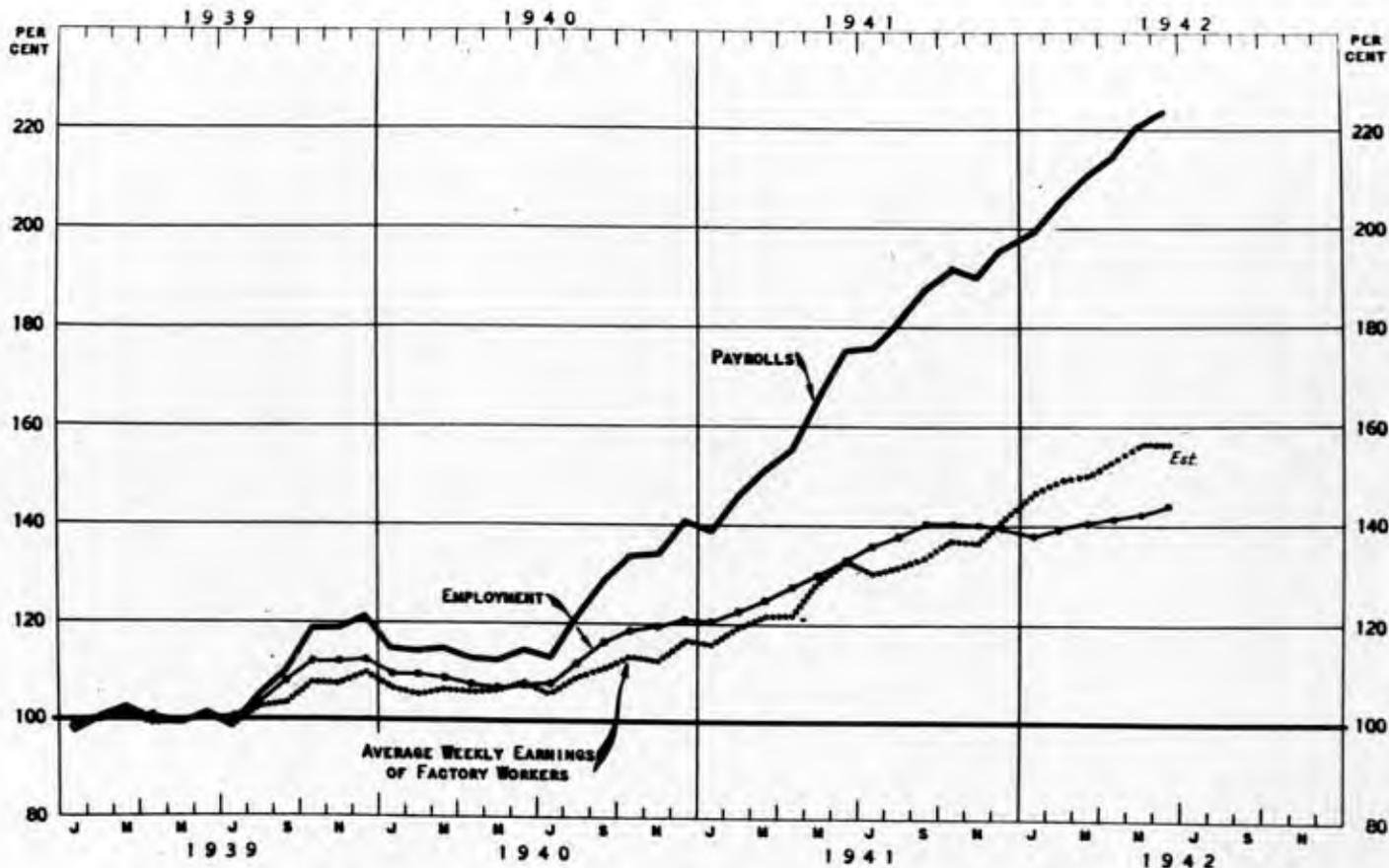
*Chicago, good to choice, 180-200 pounds

Source: Department of Agriculture

FACTORY EMPLOYMENT, PAYROLLS AND WAGES

FIRST 6 MONTHS OF 1939 = 100, UNADJUSTED

CONFIDENTIAL



SOURCE: B.L.S.

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

Chart 7
114

C - 414

Regraded Unclassified

JULY 27, 1942

Joseph E. Davies, Chairman of the President's Committee on War Relief Activities, today submitted to the President a report, the text of which follows:

"Your Committee on War Relief Agencies respectfully submits the following report.

"In the foreign relief field, a degree of success has been achieved in reducing the number of agencies and coordinating the activities of those remaining. The number of active foreign relief agencies is now approximately 300 as compared with some 700 or more during the peak period in early 1941. While this is a definite improvement, further coordination and consolidation is desirable in the public interest.

"Funds and contributions in kind raised by agencies registered with the Department of State from the beginning of the war to the end of May 1942 have totalled over \$71,000,000. During the same period other foreign relief agencies raised a total estimated at \$25,000,000. It is significant that the administrative and other costs of the agencies registered with and subject to supervision by the Department of State have averaged only 10 percent of total receipts while those of other foreign relief agencies have averaged, on the basis of somewhat incomplete information, 30 percent or more. It is also significant that administrative expenses of the latter group have shown an appreciable decrease since the President's Committee requested periodic reports from them, even though the Committee has been able to exercise only advisory supervision. The present rate of collections by foreign relief agencies, other than the Red Cross, is substantially below the peak, with a resulting increase in the percentage of overhead costs, but this decrease in collections is far more than offset by the increase in domestic relief solicitations.

"In the domestic relief and welfare field, the entry of the United States into the war has quite naturally resulted in the establishment of a very large number of new agencies appealing to the public for funds and contributions for the relief and welfare of our own civilian population and armed forces. As there is at present no central registration or other regulatory authority, these organizations are subject to no coordinated supervision or control and even their number can only be estimated.

"While actuated by the highest humanitarian motives, these agencies tend to duplicate each other's efforts causing public confusion and uncertainty. Undue competition among themselves and between them and the foreign relief agencies leads to a waste of financial resources and manpower and thus tends to hamper the national war effort. There is a lack of correlation between the programs of the private agencies in both the domestic and foreign relief fields, and those of the Red Cross and of the several governmental agencies concerned with various phases of relief and welfare.

"Certain important objectives of the Committee have not so far been accomplished, because of lack of authority. There remain, as indicated above, two important factors affecting national unity of effort in these times of emergency--(a) the public is subject to solicitation from far too many agencies representing an excessive amount of duplication and (b) the limited amount of leadership that exists for charitable, welfare and Government war bond campaigns is overly occupied and its effectiveness seriously diminished and dissipated.

"The Committee believes that these facts call for a central authority with general jurisdiction and powers to bring about coordination of effort and elimination of duplication and waste. Pursuant thereto, the Secretary of State, upon whose recommendation this Committee was originally appointed, has suggested that, as the domestic relief field is now dominant, it would be in the national interest to consolidate, in such a central authority, supervision over both domestic and foreign relief agencies, including the administration of Section 8(b) of the Neutrality Act, 1939, now vested in the Secretary of State.

- 2 -

"The Committee recommends, therefore, that adequate powers be delegated to a central authority and suggests that this might be done by the issuance of an Executive Order."

In accordance with the recommendation of the Committee the President has signed an Executive Order, the text of which follows:

EXECUTIVE ORDER

ESTABLISHING THE PRESIDENT'S WAR RELIEF CONTROL BOARD AND
DEFINING ITS FUNCTIONS AND DUTIES

By virtue of the authority vested in me by the Constitution and statutes of the United States, as President of the United States of America and Commander-in-Chief of the Army and Navy, because of emergencies affecting the national security and defense, and for the purpose of controlling in the public interest charities for foreign and domestic relief, rehabilitation, reconstruction, and welfare arising from war-created needs, it is hereby ordered as follows:

1. The President's Committee on War Relief Agencies, appointed by me on March 13, 1941, is hereby continued and established as the President's War Relief Control Board, hereinafter referred to as the Board. The Chairman of the Board shall be responsible to the President.

2. The Board is hereby authorized and empowered--

(a) to control, in the interest of the furtherance of the war purpose, all solicitations, sales of or offers to sell merchandise or services, collections and receipts and distribution or disposition of funds and contributions in kind for the direct or implied purpose of (1) charities for foreign and domestic relief, rehabilitation, reconstruction and welfare arising from war-created needs in the United States or in foreign countries, (2) refugee relief, (3) the relief of the civilian population of the United States affected by enemy action, or (4) the relief and welfare of the armed forces of the United States or of their dependents; Provided, that the powers herein conferred shall apply only to activities concerned directly with war relief and welfare purposes and shall not extend to local charitable activities of a normal and usual character nor in any case to intra-state activities other than those immediately affecting the war effort;

(b) (1) to provide for the registration or licensing of persons or agencies engaged in such activities and for the renewal or cancellation of such registration or licenses; (2) to regulate and coordinate the times and amounts of fund-raising appeals; (3) to define and promulgate ethical standards of solicitation and collection of funds and contributions in kind; (4) to require accounts of receipts and expenditures duly and reliably audited, and such other records and reports as the Board may deem to be in the public interest; (5) to eliminate or merge such agencies in the interests of efficiency and economy; and (6) to take such steps as may be necessary for the protection of essential local charities; and

(c) to prescribe such rules and regulations not inconsistent with law as the Board may determine to be necessary or desirable to carry out the purposes of this Order.

- 3 -

3. The provisions of section 2 of this Order shall not apply to (a) the American National Red Cross or (b) established religious bodies which are not independently carrying out any of the activities specified in section 2 of this Order.

4. Under the authority given me by Section 13 of the Joint Resolution of Congress approved November 4, 1939 (54 Stat. 8, 11) and Title I of the First War Powers Act, 1941, approved December 18, 1941 (Public Law No. 354, 77th Congress), and pursuant to the suggestion of the Secretary of State, it is ordered that the administration of any and all of the provisions of Section 8 (b) of the said Joint Resolution relating to the solicitation and collection of funds and contributions for relief purposes, heretofore by me vested in the Secretary of State, be and it hereby is transferred to the said Board. All rules and regulations and forms which have been issued by the Secretary of State pursuant to the provisions of said Section 8 (b) and which are in effect shall continue in effect until modified, superseded, revoked or repealed by the Board.

5. Any and all matters within the jurisdiction of said Board which may be affected with a question relating to the foreign policy of the Government of the United States in connection with the administration of the powers vested in the Board by this Order shall be determined only after conference with the Secretary of State, to the end that any action with respect to such matters shall be consistent with the foreign policy of the United States.

6. For the purpose of economy in administration, the Board is authorized to utilize the services of available and appropriate personnel of the Department of State and other Government departments and Agencies and such other services, equipment, and facilities as may be made available by these departments and agencies.

7. For the purpose of effectively carrying out the provisions of this Order, the Board may require that all war relief and welfare policies, plans, programs, procedures and methods of voluntary agencies be coordinated and integrated with those of the several Federal departments, establishments and agencies and the American Red Cross; and all these organizations shall furnish from time to time such information as the Board may consider necessary for such purposes.

8. The Board shall from time to time submit to the President such reports and recommendations regarding war charities, relief and welfare in foreign countries and in the United States and the relationship of public and private organizations, resources and programs in these and related fields, as the public interest may require.

9. The members of the Board shall serve as such without compensation, but shall be entitled to necessary transportation, subsistence, and other expenses incident to the performance of their duties.

10. This Order shall remain in force during the continuance of the present war and for six months after the termination thereof, unless revoked by Presidential order.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

July 24, 1942.

BOARD OF ECONOMIC WARFARE
~~ECONOMIC DEFENSE BOARD~~

WASHINGTON, D. C.

OFFICE OF THE EXECUTIVE DIRECTOR

July 27, 1942

A G E N D A

FOR THE MEETING OF THE BOARD OF ECONOMIC WARFARE TO BE
HELD THURSDAY, JULY 30, AT 10:00 A.M. IN THE OFFICE OF
THE VICE PRESIDENT IN THE CAPITOL

There is attached a brief report on export licenses issued to the Sydney Ross Company allowing shipments of certain drugs to Latin America.

It is requested that each affected agency arrange to have available such additional information as it may have bearing on the general subject of drug exports to Latin America, and particularly exports by the Sydney Ross Company.

Attachment

July 27, 1942

SYDNEY ROSS COMPANY EXPORTS TO LATIN-AMERICA

Export licenses for drugs to the Sydney Ross Company have been to assist that company in maintaining its trade war in Latin America against Nazi controlled producers and distributors of pharmaceutical goods.

The salient facts in the matter follow:

1. The company's trade war is being waged mainly against the German aspirin and caffeine compound called "Cafiaspirina". Sydney Ross competed against this "commercial swastika" with its own aspirin and caffeine compound called "Mejoral".

Apparently its trade war strategy has been expertly conceived and vigorously executed. The June issue of "Fortune" gives the company a big "hand" for its aggressive campaign. The article deplors the Government's lack of initiative in not itself seizing the opportunity to strike vigorously at I. G. Farben through the Sterling controlled companies.

2. In May of this year Sydney Ross faced an increasingly critical supply problem, and requested BEW to expedite the licensing of the company's minimum requisites of supply and shipping.

Since the Sydney Ross Company had originally been part of the I. G. Farben cartel group, a meeting was promptly called of the interested agencies to review the status of the Sydney Ross Company and to decide what, if any additional aid should be extended. The meeting held on June 5, 1942, was attended by representatives of the Treasury Department, the Department of State, the Coordinator of Inter-American Affairs, and the Alien Property Custodian.

As a result of this meeting -- at which the company was given a substantially clean "bill of health" by the Treasury Department* -- a decision was reached to extend further aid to the company in its trade war.

* A 500 page investigation report of the Treasury Department completed early in July concluded that in general and subject to investigation of purchasers and personnel abroad the Sterling Products group "has apparently made a sincere effort to fill its obligations under the Representations it made to the Foreign Funds Control Committee on August 15, 1941".

SECRET

3. After this decision, the company's applications for additional export licenses were granted. The chief items involved were the acetyl salicylic acid and caffeine needed by Sydney Ross for "Mejoral", the big competitive item against the similar German compound "Cafiaspirina". The licenses also covered advertising matter, labels and other material necessary in the effective sales distribution of "Mejoral".

4. The decision to grant the licenses obviously involved considerations of economic warfare as well as those of requirements and supplies. South America is becoming increasingly dependent upon us for drugs. However, the amounts actually licensed were within the quantities indicated for export to the countries in question by the Drug Branch of the War Production Board.

5. In adopting this program of increased assistance at the inter-departmental conference on June 5, it was specifically understood:

- a. That the Sydney Ross Company would keep the Board fully informed at all times as to its operations, activities and affairs; and,
- b. That similar aid would be made available to any other American companies in good standing, engaged or proposing to engage in similar economic warfare against Axis firms in Latin America.

- 3 -

ASPIRIN (Tablets and Bulk)Licenses Granted for Export to Latin-America
January 1, 1942, to Date

	<u>Licenses Granted</u> <u>to Others</u>	<u>Licenses Granted to</u> <u>Sterling Products</u> <u>and Subsidiaries</u>
	<u>Pounds</u>	<u>Pounds</u>
January	2,700	
February	39,894	
March	147,454	3,500
April	71,336	
May	34,282	
June	3,556	
July	<u>44,137</u>	<u>270,525*</u>
TOTALS	343,359	274,025

* 3-6 months' supply

The Drug Branch, War Production Board, has indicated that exports should not exceed 50,000 pounds a month, and also an additional annual reserve of 200,000 pounds could be made available.

QUININE SULPHATE - EQUIVALENT

Licenses Granted for Export to Latin-America
January 1, 1942 to Date

	<u>Licenses Granted to Others</u>	<u>Licenses Granted to Sterling Products and Subsidiaries</u>
	<u>Ounces</u>	<u>Ounces</u>
January	42,080	
February	101,456	
March	167,889	
April	75,364	73
May	156,606	1,331
June	44,187	3,695
July	28,850	3,367*
TOTALS	616,432	8,466

* 3-6 months' supply

The Drug Branch, War Production Board, has requested that individual shipments be cleared with it. It is realized, however, that 2 million ounces will be needed in 1942 in Latin America, but local inventories are not accurately known. Since April no quinine has been exported except for antimalarial control unless it was compounded in other medicines and in stock prior to April. This is in strict compliance with War Production Board Order No. M-131.

- 5 -

CAFFEINELicenses Granted for Export to Latin-America
January 1, 1942, to Date

	<u>Licenses Granted</u> <u>to Others</u>	<u>Licenses Granted to</u> <u>Sterling Products &</u> <u>Subsidiaries Includ-</u> <u>ing Sydney Ross Co.</u>
	<u>Pounds</u>	<u>Pounds</u>
January	1,472	
February	2,873	
March	5,959	
April	5,267	750
May	2,190	
June	914	
July	402	15,750*
TOTALS	19,077	16,500

The caffeine content of compounds is not included in the table. Compounds containing 191 lbs. of caffeine were licensed to the Sterling Products Company and subsidiaries during the period.

The Drug Branch, War Production Board, has indicated that exports should not exceed 10,000 pounds monthly.

* 3-6 months' supply.

JUL 27 1942

My dear Mr. President:

I am enclosing report on our exports to some selected countries for the period ending July 10, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,
The White House.

Enclosure.

2D W

HW/af's
7/27/42

cc Dr White
TMC

Delivered by Secret Service
Agent # 45 7/27/42

FILE COPY

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 \$56,000,000 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.

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7/23A 2

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	2/	45	12,480
France 3/	56	—	2/	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	2/	—	6,283

Treasury Department, Division of Monetary Research

July 21, 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.

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125

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 1/
(Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to Burma 1/</u>	<u>Exports to U.S.S.R.</u>
July 28 - Aug. 2	395		4,525
Aug. 4 - Aug. 9	-		551
Aug. 11 - Aug. 16	309		986
Aug. 18 - Aug. 23	2		2,735
Aug. 25 - Aug. 30	1		1,023
Sept. 2 - Sept. 6	204		4,280
Sept. 8 - Sept. 13	2,281		5,217
Sept. 15 - Sept. 20	3,822		752
Sept. 22 - Sept. 27	110	449	2,333
Sept. 29 - Oct. 4	1,223	684	323
Oct. 6 - Oct. 11	5,312	1,157	6,843
Oct. 13 - Oct. 18	5	53	1,924
Oct. 20 - Oct. 25	269	465	5,623
Oct. 27 - Nov. 1	4,772	58	4,484
Nov. 3 - Nov. 8	1,672	342	4,532
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	1,344	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	4,480
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	1,693	447	5,874
Jan. 19 - Jan. 24	-	-	3,883
Jan. 26 - Jan. 31	6,938	923	9,608
Feb. 1 - Feb. 10 1/	4,889	1,054	13,315
Feb. 10 - Feb. 20 5/	4,853	583	28,174
Feb. 20 - Feb. 28 5/	2,921	-	28,119
Mar. 1 - Mar. 10	2,879	23	32,509
Mar. 10 - Mar. 20	8,098	3	28,658
Mar. 20 - Mar. 31 6/	2	2	42,134
Apr. 1 - Apr. 10	4,836	447	51,698
Apr. 11 - Apr. 20	5,335	639	66,906
Apr. 21 - Apr. 30	2,827	-	50,938
May 1 - May 10 7/	296	-	28,642
May 11 - May 20	1,672	5	18,000
May 21 - May 31 6/	2,533	-	26,180
June 1 - June 10	3,399	234	12,764
June 11 - June 20	2,797	-	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

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
.50 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.	22,804	
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			825
Motor trucks	Lb.	12,299,030	762
	No.	502	
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

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128

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	6,654
Other iron and steel manufactures	458
Printed matter	369
Surgical and medical instruments	125
Relief supplies - surgical and hospital	115

Treasury Department, Division of Monetary Research July 22, 1942

ISF/cfs 7/22/42

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129

APPENDIX B

**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

645

Principal Items:

Steel sheets, black

45

Treasury Department, Division of Monetary Research

July 22, 1942

ISF/efs 7/22/42

JUL 27 1942

My dear Mr. Secretary:

I am enclosing copy of report on our exports to some selected countries for the period ending July 10, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,
The Secretary of State,
Washington, D. C.

Enclosure.

cc - Dr. White
TMC

HDM/cfs
7/22/42

Delivered by Messenger
on 7/27/42 5:15 (Handy)

FILE COPY

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 \$56,000,000 as compared with approximately \$50,000,000 during the previous ten-day period. Military equipment accounted for more than one-half of the total. (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.

ISP/efs
7/25/42

**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 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	849,919	835,618	\$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.

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133

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 ✓
(Thousands of Dollars)**

	<u>Exports to Free China</u>	<u>Exports to Burma ✓</u>	<u>Exports to U.S.S.R.</u>
July 28 - Aug. 2	395		4,525
Aug. 4 - Aug. 9	-		551
Aug. 11 - Aug. 16	309		986
Aug. 18 - Aug. 23	2		2,755
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	5,822 ✓		752
Sept. 22 - Sept. 27	110	610	2,555
Sept. 29 - Oct. 4	1,225	624	525
Oct. 6 - Oct. 11	5,512	1,197	6,815
Oct. 13 - Oct. 18	5	35	1,924
Oct. 20 - Oct. 25	269	405	5,625
Oct. 27 - Nov. 1	4,772	58	4,484
Nov. 3 - Nov. 8	1,672	362	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	5,239	1,544	2,136
Dec. 1 - Dec. 6	791	64	3,609
Dec. 8 - Dec. 13	2,557	18	12,040
Dec. 15 - Dec. 20	111	8	4,580
Dec. 22 - Dec. 27	1	196	1,829
Dec. 29 - Jan. 3	35	2	3,995
Jan. 5 - Jan. 10	91	1,075	3,247
Jan. 12 - Jan. 17	1,695	447	3,874
Jan. 19 - Jan. 24	-	-	3,885
Jan. 26 - Jan. 31	6,338	925	9,608
Feb. 1 - Feb. 10 ✓	4,889	1,024	12,315
Feb. 10 - Feb. 20	4,855	583	28,174
Feb. 20 - Feb. 28 ✓	2,321	-	28,119
Mar. 1 - Mar. 10	2,879	25	32,509
Mar. 10 - Mar. 20	8,058	22	28,556
Mar. 20 - Mar. 31 ✓	2	22	42,455
Apr. 1 - Apr. 10	4,836	447	51,694
Apr. 11 - Apr. 20	5,255	639	64,906
Apr. 21 - Apr. 30	2,827	-	50,958
May 1 - May 10 ✓	296	-	28,652
May 11 - May 20	1,872	5	18,000
May 21 - May 31 ✓	2,555	-	26,180
June 1 - June 10	3,599	234	12,764
June 11 - June 20	2,707	-	55,799
June 21 - June 30	1,664	.06	49,919
July 1 - July 10	7,900	45	35,697
Total	496,667	11,367.06	674,151

APPENDIX B

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**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 35,697
Principal Items:	
Military equipment	29,582
Copper wire	1,218
Pork and sausage, canned and not canned	1,194
Tracklaying tractors	1,126
Iron and steel bars and rods	825
Motor trucks	762
Tallow and lard	699
Relief supplies - surgical and hospital	598
Brass and blanks, plates and sheets	581
Telephone instruments and parts	485
Refined copper in bars, billets and cathodes	482
Wheat flour	473
Diesel marine engines	419
Relief supplies - clothing	346
Linseed oil	307
Wheels of artificial abrasives	301

Treasury Department, Division of Monetary Research

July 22, 1942

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APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
July 18, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 7,900
Principal Items:	
Military equipment	6,614
Other iron and steel manufactures	428
Printed matter	169
Surgical and medical instruments	124
Relief supplies - surgical and hospital	115

Treasury Department, Division of Monetary Research July 22, 1942

ISP/efe 7/22/42

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

0 45

Principal Items:

Steel sheets, black

45

Treasury Department, Division of Monetary Research July 22, 1942

ISP/cfs 7/22/42

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission
who enclose Statement No. 43 - Aircraft Despatched
- for week ended July 21, 1942.

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

July 27, 1942.

STATEMENT NO. 43

AIRCRAFT DESPATCHED FROM THE UNITED STATES WEEK ENDED JULY 21st. 1942

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DEL'D FOR USE IN CAN.
<u>CONSOLIDATED</u>					
Liberator II	U.K.	Canada en route		1	
B 24 D	U.K.	" " "		7	
PBY 5 B	Middle East	Middle East		3	
<u>FAIRCHILD</u>					
PT 26 Cornell	Canada	Canada			4
24 R 9	Middle East	Suez	2		
<u>LOCKHEED</u>					
(a) A 28	Hudson VI	Middle East	Middle East		2
A 28	" "	" "	" "		2
A 28	" " U.K.		Canada en route		2
(b) A 28	" VIA	Middle East	Middle East		2
" "	" "	" "	" "		3
C 60 Lodestar	"	"	"		1
Hudson VI	New Zealand	Auckland	4		
Ventura	Canada	Canada			1
"	U.K.	Canada en route		12	
"	South Africa	South Africa		9	
"	U.K.	Canada en route		1	
(c) "	South Africa	South Africa		7	
<u>GLENN MARTIN</u>					
Baltimore		Middle East	Port Sudan	2	
B 26A Marauder		Middle East	Middle East		12
<u>NORTH AMERICA</u>					
B 250	U.K.		Canada en route		1
<u>VULTEE</u>					
Vengeance	India	Bombay	6		
TOTALS			14	65	5

NOTE

- (a) Were exported week ended July 7th but were not reported at that time.
- (b) Were exported week ended July 7th, but were not reported.
- (c) Were exported week ended July 14th but were not reported.

British Air Commission
July 25th, 1942.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 27, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Official British Statements on International Financial Organization after the Armistice (Cable from London, July 24, 1942, No. 4124)

You may be interested in the debate in the House of Lords on July 22, during which Lord Simon gave the Government's views on the restoration of the gold standard and the re-adoption of other orthodox economic policies.

1. In summing up a long debate, the Lord Chancellor stated:

"The whole object of our post-war financial policy must be to do all that is possible to give practical and lasting effect to the admittedly general language of the Atlantic charter.....I am speaking with the authority of the Treasury when I say that it may well be that in the course of our common discussions we shall find that new and far-reaching international measures are called for. We do not intend to be bound by the orthodoxies of the nineteenth century. We shall, at all times, be ready to join with our allies in following a course which may be, as far as past experience goes, comparatively uncharted, if it is going to lead us to the greater welfare of all the people whom the Atlantic charter seeks to serve."

2. The Lord Chancellor quoted frequently from the President's fifth report to Congress on Lend-Lease operations, the concluding paragraphs of which develop Article VII of the Master Lend-Lease Agreement as follows:

"All the United Nations are seeking maximum conversion to war production, in the light of their special resources. If each country devotes roughly the same fraction of its national production to the war, then the financial burden of war is distributed equally among the United Nations in accordance with their ability to pay....."

3. In answer to a direct question from the floor, asking for the prevailing opinion in Treasury and banking circles, Lord Simon said that he had heard "no whisper and no echo" of any intention to repeat the return to the gold standard after the end of this war.

4. The pronouncement on the gold standard is similar to pre-war statements. More interesting is Lord Simon's emphasis on joint Anglo-American policy statements, which indicates that traditional canons of international finance will not interfere with the British Government's readiness to take cooperative action in order to attain the desired objectives.

MEC

PLAIN

London.

Dated July 24, 1942

Rec'd 8:30 p.m.

Secretary of State,
Washington.

4124, July twenty-fourth.

FOR DEPARTMENT AND TREASURY FROM CASADAY

In the House of Lords on July 22 (where the debates of late have attracted more attention than usual) there was a discussion of post-war financial problems. In the Lord Chancellor's winding-up speech, two important declarations were made, besides a number of significant references to and quotations from the President's fifth report to Congress on lease-lend operations. The official report of the debate, which covers 40 pages, is being forwarded by air pouch. The following are the more important points from Lord Simon's speech:

1. During the debate, Lord Strabolgi asked the Lord Chancellor to reply to a direct question as to whether there is "any hankering now in treasury circles - meaning banking, financial and money-lending circles in the city who all work together - for a return to

-2- #4124, July twenty-fourth, from London.

return to the gold standard after the war". He also urged that the dollar and pound must be linked together and said that the policy must be an informational one and "should be under close study now and the results be made known to the people". He added "I hope this is not being discussed in secret treasury conclave, as Lord Perry suggested, but as openly as possible between the leaders of the great alliance".

Lord Simon, in his replying speech said that Lord Strabolgi had, as he was entitled to do, asked him a specific question, which he would answer as well as he could. The Lord Chancellor continued "he asked this question: is there any prospect of our returning to the gold standard? Now, I am not a prophet or the son of a prophet, but we have had our experience of returning to the gold standard last time. That experience did not turn out to be a very happy one, and I have heard no whisper and no echo, from these secret conclaves on which the noble Lord looks with some suspicion, of any intention to repeat our former experience in that matter. I trust that that will be regarded as a straightforward answer; I can hardly be expected to say more".

2. In the

-3- #4124, July twenty-fourth, from London.

2. In the course of the debate, more than one speaker, and in particular Lord Addison who opened the debate, and Lord Strabolgi later, stressed the importance of realizing that there should be no going back to the pre-war financial system. Lord Simon made the following statement regarding this: "The whole object of our post-war financial policy must be to do all that is possible to give practical and lasting effect to the admittedly general language of the Atlantic charter. Lord Strabolgi raised a question, very naturally, as to whether we were after the war simply going to return to the old ways and to employ the old methods and limitations in economic policy. Let me try to answer that in a sentence or two. I am speaking with the authority of the Treasury when I say that it may well be that in the course of our common discussions we shall find that new and far-reaching international measures are called for. We do not intend to be bound by the orthodoxies of the nineteenth century. We shall, at all times, be ready to join with our allies in following a course which may be, as far as past experience goes, comparatively uncharted if it is going to lead us to the greater welfare of all the people whom the Atlantic charter seeks to serve."

3. In his

-4- #4124, July twenty-fourth, from London.

3. In his speech, the Lord Chancellor also laid particular stress on the passage in the President's speech regarding equality of sacrifice so far as the money cost of the war is concerned, as well as to article VII of the lease-lend agreement, stating with regard to the President's reference to this article that here the President is "making precisely the same affirmation as I have ventured to make on behalf of His Majesty's Government this afternoon".

Besides also referring to recent pronouncements of Mr. Wallace, Hull, Sumner Welles, the Lord Chancellor welcomed in laudatory terms the visit of Mr. Stettinius on behalf of the Government.

4. With regard to the debate in general, it is perhaps notable that, though all the speakers, namely Lord Addison, Stanhope, Percy, Moyne, Bennett and Strebolgi, stated that they spoke with diffidence to a body which includes many distinguished financial experts, none of the "financial experts" contributed to the debate. Notably Lord Keynes, Kindersley and Wardington for example, were absent or silent. Nevertheless the fact that such a debate was held in the House of Lords at this time is significant. It may not be a coincidence that such an opportunity was afforded to

-5- #4124, July twenty-fourth, from London.

efforded to the Government through the Lord Chancellor's speech in reply, to offer an official response to the numerous recent speeches by American statesmen which have received wide publicity here and have prompted at least one journal - viz. THE ECONOMIST on July 18 - to deplore the absence (up to that time) of any official response on this side. In fact, Harcourt Johnston (Parliamentary Secretary of the Board of Trade) and Mr. Eden have since made speeches which can be regarded as additional official expressions on questions of post-war economic aims.

WINANT

CSB

JULY 1942

146

SECRET

TABLE I. Financing Canada's Needs for United States Dollars.

- II. Canada's Deficiency of United States Dollars on Current Account Transactions with the United States.
- III. Capital Account Transactions with the United States.
- IV. Effect of Hyde Park Transactions, GROSS.
- V. United States Dollars obtained from Newfoundland and other Non-Sterling Area Countries.
- VI. Canada's Liquid Reserves.

Note: These estimates embody only such changes in present trends as can be estimated now with reasonable accuracy. It will be noted (Table I, Item 14) that they point to an increase in Canada's stock of United States dollars during the calendar year 1942 and for the first quarter of 1943. But the actual increase is not likely to be nearly as large as the present estimate for the following reasons:

1. The import of United States capital into Canada may cease. The sale of securities in the United States, which has been running at a high level, may dry up for any one of several reasons. This alone would reduce our net credits by the \$35 million which has been included in Table III, Item 3, as the probable size of this sale of Canadian securities in the United States should present trends continue.
2. Further shortages of materials would reduce our imports from the United States but they would reduce much more the value of our exports to the United States of both war and non-war products. The probable dimension of the consequent worsening of our position is impossible now to estimate. It might conceivably wipe out much of the rest of the increase in our U.S. dollar balances which is estimated in Table I, Item 14.
3. There is a further minor factor to be considered. These estimates do not include any item estimating the change in our net indebtedness to the United States on current account. When imports have been increasing rapidly, as in the immediate past, there may be a delay in paying for them which results in a current, but purely temporary, addition to our exchange reserves. There is some evidence also that purchases of exchange to transfer the earnings on American capital invested in Canada are lagging markedly behind the actual earnings themselves. For both these reasons the immediate future might see the use of American dollars somewhat in excess of the estimates here set down, thus further reducing the net acquisition of United States dollars here estimated.

Handed by Mr. Plumptre to Mr. White in Mr. White's office, July 27, 1942, at 2:30 P.M.

SECRET

TABLE I. Financing Canada's Needs for United States Dollars

(Millions of U.S. Dollars)

Present Forecast

Forecast compiled in March 1942

	Present Forecast							Forecast compiled in March 1942						
	1941 Calendar Year	1942 Calendar Year	Quarters of 1942				1943	1941 Calendar Year	1942 Calendar Year	Quarters of 1942				
			I	II	III	IV	I			I	II	III	IV	
I. Canada's Needs for U.S. Dollars:														
(a) Excess of current payments over receipts (excluding Hyde Park transactions).....1.	286	545	87	146	156	174	142	286	491	111	146	111	123	
Chief items in this excess are (Table II)-														
Imports for war production and military equipment.....2.	292	488	106	117	130	135	130	292	494	112	125	128	129	
Other imports.....3.	550	556	135	153	138	130	119	550	505	135	135	120	115	
Total of all current payments.....4.	1,191	1,443	319	380	365	379	335	1,191	1,358	384	364	333	337	
Exports.....5.	506	539	140	159	131	129	126	506	526	131	128	131	136	
Total of all current receipts.....6.	905	900	332	254	229	205	193	905	867	213	218	222	214	
(b) Bond maturities and other debits on capital account (Table III).....7.	33	25	5	7	8	5	5	33	45	8	8	11	18	
(c) Imports of goods Lend-Leased to the U.K. and transferred to Canada under Hyde Park agreement.†.....8.	3	69	6	22	22	19	18	2	48	4	9	19	16	
(d) Total needs for United States dollars (1,778).....9.	322	637	98	175	166	198	165	321	584	123	163	141	157	
II. Ways of meeting these needs:														
(a) Hyde Park transactions gross (Table IV).....10.	51	467	51	107	142	157	174	53	398	85	72	107	136	
which includes the U.S. dollar content of Hyde Park exports amounting to.....11.	5	47	6	12	14	15	15	6	19	5	4	5	5	
(b) U.S. dollars obtained from Newfoundland and other non-sterling area countries (Net) (Table V).....12.	24	62	11	18	15	20	10	24	22	8	8	5	3	
(c) Sales of securities and other credits on capital account (Table III).....13.	94	1637	52	52	277	327	327	94	85	30	17	22	16	
(d) Loss (or gain †) in stocks of gold and United States dollars †† (Table VI).....14.	142	†637	†42	†14	†167	†117	†517	142	79	2	65	9	2	
(e) Total (10,12,13,14).....15.	321	609	82	163	166	196	165	323	584	123	163	141	157	
III. Errors and omissions (9 of. 15).....16.	1	237	16	12	-	-	-	2	-	-	-	-	-	

† This item is introduced in Section I of this Table because it is included in Section II(a) below and because in the absence of the Hyde Park agreement Canada presumably would need United States dollars to cover the imports in this item.

†† This amount includes \$35 million as the estimated net sale of Canadian and U.S. securities in the United States by residents of Canada during the last half of 1942. Should this flow dry up the increase in Canada's U.S. dollar balances for the calendar year 1942 would be less by that amount.

TABLE II. Canada's Deficiency of U.S. Dollars on Current Account Transactions with the United States.

(Millions of U.S. Dollars)

	Present Forecast							Forecast compiled in March 1942						
	1941	1942	Quarters of 1942				1943	1941	1942	Quarters of 1942				1943
	Calendar Year	Calendar Year	I	II	III	IV	I	Calendar Year	Calendar Year	I	II	III	IV	I
I. Payments by Canada to U.S.														
(a) Imports:														
War production and military equipment (excl. Lease-Lend).....1.	292	488	106	117	130	135	130	292	494	112	125	128	129	
Other.....2.	550	556	135	153	138	130	119	550	505	135	135	120	115	
Total Imports.....3.	842	1,044	241	270	268	265	249	842	999	247	260	248	244	
(b) Freight payable in U.S. dollars.....4.	86	125	21	34	35	35	25	86	96	20	28	28	20	
(c) Tourist & other travel in the U.S.....5.	15	15	4	4	4	3	4	15	15	4	4	4	3	
(d) Interest.....6.	85	87	19	24	19	25	20	85	85	19	24	18	24	
(e) Dividends & profits.....7.	118	112	20	32	24	36	22	118	118	23	36	24	35	
(f) Miscellaneous.....8.	45	60	14	16	15	15	15	45	45	11	12	11	11	
Total Payments (3+4+5+6+7+8).....9.	1,191	1,443	319	360	365	379	355	1,191	1,358	324	364	333	337	
II. Receipts by Canada from the U.S.														
(a) Exports of merchandise by Canada (excl. Hyde Park)..... 10.	506	539	140	139	131	129	126	506	526	151	128	131	136	
(b) Exports of newly mined gold..... 11.	185	148	44	42	35	27	20	185	160	42	43	39	36	
(c) Freight receipts in U.S.\$..... 12.	54	64	16	16	16	16	16	54	60	14	15	15	16	
(d) Tourist & other travel by the U.S. in Canada..13.	73	42	7	11	17	7	6	73	40	6	10	17	7	
(e) Interest, dividends and profits from the U.S..... 14.	47	50	12	12	15	11	9	47	41	10	12	10	9	
(f) Miscellaneous..... 15.	40	57	13	14	15	15	16	40	40	10	10	10	10	
Total Receipts (10+11+12+13+14+15). 16.	905	900	238	234	229	205	193	905	867	213	218	222	214	
III. Excess of Payments over Receipts														
Item 9 minus Item 16..... 17.	286	543	87	146	136	174	142	286	491	111	146	111	123	

/ Including net expenditures by the United States Government in northern Canada.

SECRET

TABLE III. Capital Account Transactions with the United States.

(in millions of U.S. dollars)

	Item No.	Calendar Years		Quarters of 1942				1943
		1941	1942	I	II	III	IV	I
<u>Receipts:</u>								
Sales of U.S. securities and other U.S. assets held in Canada.....	1.	40	41	19	8	7	7	7
Sale of Canadian securities and other Canadian assets.....	2.	54	122	35	44	20	23	25
Total capital imports (1/2).....	3.	94	163	52	52	27	32	32
<u>Payments:</u>								
Bond maturities.....	4.	26	21	4	6	7	4	4
Other debt repayments.....	5.	7	4	1	1	1	1	1
Total capital export (4/5).....	6.	33	25	5	7	8	5	5
Excess of capital inflow from the U.S. (3-6).....	7.	61	138	47	45	19	27	27

TABLE IV. Effect of Hyde Park Transactions, Gross[#]

(in millions of U.S. dollars)

	Item No.	Calendar Years		Quarters of 1942				1943
		1941	1942	I	II	III	IV	I
Total Hyde Park Exports.....	1.	8	327	15	56	117	141	161
<u>Deduct</u> exports against prepayments.....	2.	-	27	2	5	7	15	16
<u>Add</u> prepayments and capital advances.....	3.	30	78	44	34	-	-	-
Total current yield of U.S. dollars from Hyde Park exports (1-2/3).....	4.	38	378	59	85	110	126	145
<u>Add</u> petroleum products purchased by the United States on account of the United Kingdom for the British Commonwealth Air Training Plan.....	5.	-	20	-	-	10	10	11
<u>Add</u> imports of goods Lend-Leased to the United Kingdom and transferred to Canada under the Hyde Park Agreement.....	6.	3	69	6	22	22	19	18
Total contribution of Hyde Park transactions gross [#] (4/5/6).....	7.	61	467	61	107	142	157	174

[#] As the United States dollar content of Hyde Park exports is included under war imports (Table II Item 1) in the current account, it has not been deducted here from the Hyde Park contribution; hence the use of the term "gross" to describe the total arrived at in this table. The amount of this U.S. content is estimated for Hyde Park exports as follows:

3	47	6	12	14	15	15
---	----	---	----	----	----	----

The petroleum products purchased by the United States on behalf of the United Kingdom for the B.C.A.T.P. will also require purchases of crude petroleum by Canada in the United States. The amount likely to be involved cannot be estimated yet.

SECRET

TABLE V. United States Dollars obtained Outside the United States (Net)
(in millions of U.S. dollars)

Item No.	Calendar Years		Quarters of 1942				1943	
	1941	1942	I	II	III	IV	I	
Receipts of U.S. dollars from Non-sterling area countries outside the U.S.....	1.	88	71	18	21	15	19	11
Payments in U.S. dollars to non-sterling areas outside the U.S.....	2.	79	45	14	13	10	8	8
Receipts from non-sterling areas (Net) (1-2).....	3.	9	26	4	8	5	11	3
Receipts from Newfoundland (net).....	4.	15	36	7	10	10	9	7
Total receipts from Newfoundland and non-sterling areas (net) (3+4).....	5.	24	62	11	18	15	20	10

TABLE VI. Canada's Liquid Reserves
(in millions of U.S. dollars)

	Gold #	U.S. \$ Balances #	Total Official #	Private Balances ##	Total	
I. Amounts						
(a) Actual -						
September 15, 1939.....	205	56	261	130	391	
December 31, 1940.....	136	194	330	-	330	
December 31, 1941.....	136	52	188	-	188	
March 31, 1942.....	126	104	230	-	230	
June 30, 1942.....	125	119	244	-	244	
(b) Estimated-						
September 30, 1942.....			260	-	260	
December 31, 1942.....			271	-	271	
March 31, 1943.....			322	-	322	
II. Changes in amounts from previous period-						
(a) Actual -						
September 15, 1939.....	-	-	-	-	-	
December 31, 1940.....	-69	\$138	\$69	-130	-61	
December 31, 1941.....	-	-142	-142	-	-142	61
March 31, 1942.....	-10	\$52	\$42	-	\$42	47
June 30, 1942.....	-1	\$15	\$14	-	\$14	45
(b) Estimated -						
September 30, 1942.....			\$16	-	\$16	19
December 31, 1942.....			\$11	-	\$11	27
March 31, 1943.....			\$51	-	\$51	27

LEMO:
Estimated net
capital import

Total "official" holdings - Foreign Exchange Control Board, Minister of Finance and Bank of Canada.

Total holdings of U.S. dollars by all other residents of Canada, excluding Canadian banks and insurance companies whose holdings of U.S. dollars are required for the purpose of their U.S. business. The totals shown are exclusive of \$20 million in minimum working balances.

COPY

EX-1593

July 23, 1942.

3:10 p.m.

Following for Plumptre from Knox, begins:

Sales of Canadian bonds with a foreign payment feature accounted for \$65 million of the total sales of \$67 million of Canadian bonds in the six months ending in June 1942. Sales of Dominion Guaranteed Canadian National Railway issues represent \$35 million of this total. Most of these were concentrated in "three way" issues payable in United States or Canadian dollars or sterling. Sales of outstanding Dominion issues of \$14 million and of provincial issues of \$14 million make up most of the remainder.

It appears that there has been a reappraisal of investment opportunities in Canada by United States investors (primarily institutional investors) since the entry of the United States into the war. No doubt internal conditions in Canada as well as curtailed possibilities for investment in other foreign countries were factors influencing strengthened markets and higher prices in the United States for high grade Canadian issues payable optionally in U.S. dollars.

With markets favorable for trading, Canadian insurance companies and others sold substantial amounts of their holdings of Canadian optional-pay issues in the United States. During the Victory Loan Campaign important blocs of such Canadian issues were sold out of the deposits of U.S. insurance companies with the Receiver General, to be replaced with Victory Bonds.

U.S. dollar forecast being sent this afternoon. July 22/42.

Ends.

rtr,

JUL 27 1942

MEMORANDUM FOR THE PRESIDENT:

I have gone over Dr. Currie's memorandum on Canadian affairs which you sent to me on July 15. The problems he touched upon are followed closely by the Treasury. I have recently held a meeting in my office of representatives of all the agencies concerned with the placing of contracts in Canada -- War, Navy, Reconstruction Finance Corporation, the Maritime Commission, Lend-Lease Administration, War Production Board, the Board of Economic Warfare, State Department, and the Treasury.

The discussion at the meeting revealed that this Government, in pursuance of the general policy laid down in the Hyde Park Agreement, has placed an aggregate of over \$1 billion of contracts in Canada for munitions, ships, critical and strategic materials. As a consequence, Canada's U. S. dollar position has improved during recent months and Canada may close the current year with an official gold and U. S. dollar reserve roughly equivalent to the amount held in September 1939.

Canada entered the war with gold and available U. S. dollar balances aggregating \$390 million. Present indications are that Canada will end 1942 with an official gold and U. S. dollar reserve of \$350-\$500 million -- or \$100-\$250 million more than on July 1.

If the present trend continues, Canada's holdings of U. S. dollars may reach a level which would be difficult to justify under present circumstances. The situation, however, is not yet out of hand. We will continue to watch developments closely and will inform you if the situation seems to call for a modification of the purchasing program being carried under the Hyde Park Declaration.

(Signed) H. Morgenthau, Jr.

File - TMC

HDW:TMK:dsl
7-23-42

*Delivered by Secret Service
Agent 2:45 7/27/42*

153

THE WHITE HOUSE
WASHINGTON

July 15, 1942.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

To read and return for my
files.

F.D.R.

THE WHITE HOUSE
WASHINGTON

July 1, 1942.

MEMORANDUM FOR THE PRESIDENT:

Re: Canadian Affairs.

I have been spending a good deal of time on Canadian-American relations in the past year and I should like to indicate some of the things that have been done and some of the emerging problems.

You will recall the Hyde Park Agreement. The flow of orders to Canada following it was petering out by last December when the Joint War Production Committee, U. S. and Canada, which you set up on my recommendation, began to function. It has, in many respects, accomplished much more than I had dared hope. Some 500 million of orders have been placed in Canada in the past five months, exclusive of the \$175 million ship deal. Much of this represents production that would not otherwise have been undertaken. Hundreds of millions are pending or under negotiation. Considerable progress has been made in integration and in standardization. Work is proceeding on the exchange of information on best production techniques. A very competent Canadian has been added to the Anglo-American Ordnance Technical Committee (I worked this out with General Somervell). A general report on accomplishments will be submitted to you shortly by the Chairman.

The problem now looming is the conversion of a shortage of U. S. dollar exchange into a surplus. I have suggested to Secretary Morgenthau that we re-examine the exchange picture. Various possibilities suggest themselves:

1. We might slacken off on new orders.
2. We might continue orders provided the Canadians cut down on their production of gold and divert the resources freed to the war.
3. We might do the same with other exports such as newsprint.
4. We might place new orders for ourselves and arrange that certain existing orders to Canada under lend-lease to Britain be shifted directly to Britain.
5. We should maintain a close watch that the surplus of dollar exchange is not used up through an increase of non-essential imports from us by Canada.

Memorandum for
the President

-2-

July 1, 1942.

Re: Canadian Affairs

I explored the situation informally with Clarence Howe, Minister of Munitions in Canada, over the weekend. I got the impression that neither he nor the Minister of Finance would object in the slightest to cutting down Canadian gold production. Of the various alternatives, this appeals to me most as it would result in an actual increase in the overall war effort.



Lauchlin Currie

JUL 27 1942

Dear Jim:

Thank you for your note of July 21, 1942, enclosing a copy of the memorandum of the same date which you sent to all Bureau Chiefs in the Navy and in which you asked for a report on contracts placed by the Navy in Canada.

I appreciate the promptness with which you acted. The requested information should be adequate for Treasury purposes.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable James Forrestal,
Under Secretary of the Navy,
Department of the Navy,
Washington, D. C.

Photostatic file to NMC
Orig. File to Thompson

TMK:ds1
7-26-42

DEPARTMENT OF THE NAVY
OFFICE OF THE UNDER SECRETARY
WASHINGTON

SO:LLS

21 July 1942

Dear Henry:

I have a full account of the meeting in your office this morning, which I very much regret I was unable to attend. I am enclosing a copy of memorandum which I have sent to all the Bureau Chiefs in the Department, and which will enable me to advise you from time to time of any sizeable orders which we may contemplate placing in Canada.

Sincerely,

Forrestal

James Forrestal

Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury

(COPY)

DEPARTMENT OF THE NAVY
OFFICE OF THE UNDER SECRETARY
WASHINGTON

July 21, 1942

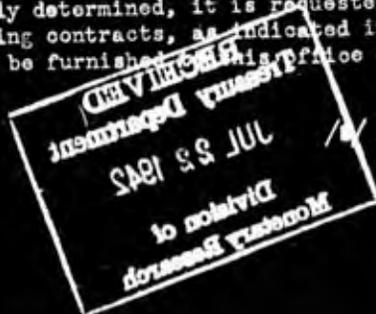
From: The Under Secretary of the Navy
To: The Chief of Office of Procurement and Material
The Chief of the Bureau of Aeronautics
The Chief of the Bureau of Ordnance
The Chief of the Bureau of Ships
The Chief of the Bureau of Supplies and Accounts
The Chief of the Bureau of Yards and Docks

Subject: Canada - Procurement of Materiel from.

1. The Secretary of the Treasury has requested information with respect to all contemplated contracts for purchase of material by the Navy Department in Canada.

2. Information should include (a) name and location of contractor; (b) whether affiliated with a U. S. company; (c) dollar value of contract; (d) general character of items to be purchased; (e) whether raw or semi-finished materials required will be imported from U.S.; and (f) an opinion from the contracting Bureau or Office as to whether the Canadian facilities used to manufacture such items would otherwise be idle.

3. In order that the present status of contracts may be accurately determined, it is requested that information, with respect to existing contracts, as indicated in paragraph 2, with the exception of 2(f), be furnished at this price as of 25 July 1942.



Forrestal

JUL 27 1942

Gentlemen:

Attention: H. L. Sanford

Reference is made to my letter of February 28, 1936, enclosing a form of letter which I approved and which I authorized and requested you, as fiscal agent of the United States, to write to the Bank of Canada, Ottawa, Ontario, Canada, respecting the purchase of newly-mined Canadian silver, and also to my letters of May 13, 1936, November 5, 1936, January 26, 1938, March 29, 1940 and September 14, 1940, in this connection.

It is my understanding that the Bank of Canada has advised you that it wishes to renew, for the month of August, 1942, the arrangement provided for by your letter to it of February 29, 1936 as amended and clarified by your letters of May 27, 1936, November 10, 1936, January 27, 1938, March 30, 1940 and September 24, 1940. This is to advise you that you are authorized and requested, as fiscal agent of the United States, to renew such arrangement for the month of August, 1942, all as stated in your letter to the Bank of Canada above mentioned, as amended and clarified, except that during August, 1942, you may purchase newly-mined Canadian silver which according to the production date marked on the bars was produced in Canada during July, August or September, 1942, and so to advise the Bank of Canada, and to carry out during such month the transactions contemplated by your letters of February 29, 1936, May 27, 1936, November 10, 1936, January 27, 1938, March 30, 1940 and September 24, 1940.

It is understood that the terms of the Department's letter to you of June 19, 1934, regarding the purchase for the account of the United States of silver, at home or abroad, shall apply to the action taken by you pursuant to the foregoing, except that the silver purchased pursuant to this authorization need not be of the degree of fineness, or carry the marks, required for "good delivery" in the market of the place where the purchase is made or where delivery is to be taken.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Federal Reserve Bank of New York,
33 Liberty Street,
New York, New York.

RH:imo:7/17/42

nmc

mailed by Mrs Dietrich's office

167
JUL 27 1942

Gentlemen:

Attention: E. L. Sanford

Reference is made to my letter of November 19, 1941, enclosing a form of letter which I approved and which I authorized and requested you, as fiscal agent of the United States, to write to Banco de Mexico, S. A., Mexico City, Mexico, respecting the purchase of newly-mined Mexican silver.

It is my understanding that Banco de Mexico has advised you that it wishes to renew, for the month of August, 1942, the arrangement provided for by your letter of November 21, 1941, to it. This is to advise you that you are authorized and requested, as fiscal agent of the United States, to renew such arrangement for the month of August, 1942, all as stated in your letter to Banco de Mexico above mentioned, except that during August 1942, you may purchase newly-mined Mexican silver which according to the production date marked on the bars was produced in Mexico during July, August or September, 1942, and so to advise Banco de Mexico, and to carry out during such month the transactions contemplated by your letter of November 21, 1941.

It is understood that the terms of the Department's letter to you of June 19, 1934, regarding the purchase for the account of the United States of silver, at home or abroad, shall apply to the action taken by you pursuant to the foregoing, except that the silver purchased pursuant to this authorization need not be of the degrees of fineness, or carry the marks, required for "good delivery" in the market of the place where the purchase is made or where delivery is to be taken.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Federal Reserve Bank of New York,
33 Liberty Street,
New York, New York.

RH:inc:7/17/42

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mailed by Mr. Dietrich's Office

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WAR DEPARTMENT

WASHINGTON

CONFIDENTIAL

July 27, 1942

WD 560.31 (7-24-42)MS-AFDAS

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

In regard to your letter of July 24, 1942, I am able to advise you that the Air Force will fly the gold from Nome, Alaska to Denver, Colorado. However, it is believed essential that a representative of the Treasury Department accompany this flight to take charge of the shipment.

I will appreciate it if you will advise me as to the name of this representative. I believe that this representative will then be able to arrange all later details regarding this flight directly with the Air Force authorities.

Sincerely yours,

/s/ Henry L. Stimson

Secretary of War.

CONFIDENTIAL

Copy:vw:8-12-42

My dear Mr. Secretary:

I have been informed that a shipment of 25 cases of gold shipped by the Government of the Union of Soviet Socialist Republics has arrived at Brooklyn, N. Y. Please arrange with the Federal Reserve Bank of New York to have the gold transported, uninsured, from Brooklyn to the United States Assay Office in New York where it is to be deposited for the account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics. The gold contained in this shipment is to be applied against the amount sold under the agreement of January 3, 1942. Please request the Federal Reserve Bank of New York to communicate with the State Bank of the U.S.S.R., Moscow, relative to any expenses which it may incur in connection with the transportation of this gold.

Sincerely yours,

The Honorable

The Secretary of the Treasury,

Washington, D. C.

Initialed: FD
Approved by B.E.

FD:lap-7/27/42

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163

EMBASSY OF THE
UNION OF SOVIET SOCIALIST REPUBLICS
WASHINGTON, D. C.

July 27, 1942

My dear Mr. Secretary:

I have been informed that a shipment of 28 cases of gold shipped by the Government of the Union of Soviet Socialist Republics has arrived in Brooklyn, N. Y. Please arrange with the Federal Reserve Bank of New York to have the gold transported, uninsured, from Brooklyn to the United States Assay Office in New York where it is to be deposited for the account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics. The gold contained in this shipment is to be applied against the amount sold under the agreement of January 3, 1942. Please request the Federal Reserve Bank of New York to communicate with the State Bank of the U.S.S.R., Moscow, relative to any expenses which it may incur in connection with the transportation of this gold.

Sincerely yours,

/s/ Maxim Litvinoff

The Honorable

The Secretary of the Treasury

Washington, D. C.

Copy:lc:8/10/42

Stabilization Fund

July 27, 1948

Federal Reserve Bank of New York,
New York, New York.

Attention: L. V. Enke

Confirming telephonic conversation, you are authorized and directed, as fiscal agent of the United States, to accept delivery of 25 cases of gold at the point of arrival, to transport the gold uninsured to the United States Assay Office in New York and to deposit it there for account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics. Appropriate instructions will be given by the Treasury to the Assay Office regarding the disposition of the gold. You will be advised by letter as to reimbursement of your expenses.

(SIGNED) D. W. BELL

Acting Secretary of the Treasury.

Filed: FD EMB ED WH WHT

FD:vwj7-27-48

July 27, 1942

Memorandum

To: U. S. Department of Commerce,
Division of Foreign Trade Statistics,
Attention: Mr. Simpson

Will you kindly include in your Weekly Statement of Gold and Silver Exports and Imports for the week ending July 29, 1942 an import into New York of 54,254.119 fine ounces of gold valued at \$1,896,194.16. This shipment came from Russia. It will not be covered by any other entry papers.

(Signed) D. W. BELL

D. W. Bell
Under Secretary of the Treasury

FD-207-42

Initialed: FD EMB

TREASURY DEPARTMENT

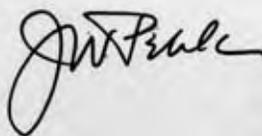
INTER OFFICE COMMUNICATION

DATE
July 27, 1942

TO Secretary Morgenthau
FROM J. W. Pehle

You may be interested in the following item broadcast by Tokyo radio and picked up by the Federal Communication Commission's monitoring service.

Tokyo radio says today, July 27, is really the first anniversary of the war between the U. S. and Japan. The Japanese arrive at this conclusion by alleging that "it was on this day that Japan was subjected to the freezing order which cut off long standing (commercial) ties between the two nations.....and was actually driven into a state of war with the U. S. by none other than the crucial declaration of President Roosevelt".



BRITISH MOST SECRETU.S. SECRETOPTEL No. 257

Information received up to 7 A.M., 27th July, 1942.

1. NAVAL

Two AA trawlers were engaged by four of our steam gun boats off NORMANDIE during the night 25th/26th. One trawler was left sinking and one damaged. A French ship, 3,350 tons, suspected of carrying cobalt for the enemy was stopped north of ORAN yesterday and is being escorted into GIBRALTAR.

2. MILITARY

EGYPT. 25th. No change. Enemy continuing to dig in.

3. AIR OPERATIONS

WESTERN FRONT. 25th/26th. DUISBURG--about 550 tons of H.E. and incendiaries including fifty-seven 4,000 pound bombs were dropped over the area. A Mosquito operating in the vicinity on the following day reported smoke drifting from DUISBURG and four large fires burning.

26th. In the early morning a Spitfire off LE TOUQUET sighted a 2,000 ton vessel which had been attacked the previous night by Hurricane bombers smoking heavily. It is believed to have sunk later. Three sweeps by Spitfires over THE PAS DE CALA produced a reaction of about 80 enemy aircraft. During these and other operations nine FW 190's were destroyed, 3 probably destroyed and ten damaged. A T-boat was sunk. Three Spitfires are missing. Mosquitos dropped bombs on three places in the RUHR. A merchant vessel attacked by a Sunderland off SAN SEBASTIAN was later seen making for the Spanish coast at much reduced speed.

26th/27th. 433 aircraft were sent out - HAMBURG 404 including 189 heavy, aerodromes 29. Weather at HAMBURG was perfect being cloudless with bright moon. The objective was easily identified and numerous large fires were caused in the target area. Preliminary reports indicate an outstanding success. 29 bombers are missing, including 12 heavy. 20 Coastal Command aircraft were sent to attack a convoy off the FRISIAN ISLANDS. One 4,000 ton vessel was hit. 27th. In the early morning about 25 enemy aircraft taking advantage of cloud and rain flew overland and dropped some bombs over a wide area.

EGYPT. 24th/25th. Our bombers attacked TOBRUK EL DABA landing ground and aerodromes in CRETE. Torpedo aircraft scored one hit on an escorted merchant vessel off BOMBA.

MALTA. Between 1240/25th and 1215/26th about 40 enemy bombers and 60 fighters operated. One fighter was destroyed and 3 aircraft were damaged.

4. HOME SECURITY

25th/26th. BILLINGHAM. There will be some loss of production at I.C.I. works. At MIDDLESBOROUGH there was no serious damage to key points but 10 persons were killed.

July 28, 1942
9:15 a.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Buffington

MR. BELL: We will need two billion two hundred and fifty million dollars of new money in August, and that is based on the assumption that we will get one billion dollars in Savings Bonds, three hundred million in tax notes, and five hundred million, Treasury bills. We recently sent out a telegram to the chairmen of the Victory Fund Committees asking them for their suggestions on the August financing, and if they wanted, to give us some ideas on the full three months. I can give you sort of a summary of that if you would like to have it.

H.M.JR: Yes, I would.

MR. BELL: Two and a half percent, '62-'67, it was suggested by Boston, New York, Philadelphia, Richmond - well, all of them except one - that we reopen that issue, and the estimates ran anywhere from five hundred to seven hundred and fifty million dollars.

H.M.JR: That is the so-called tap issue?

MR. BELL: That is the so-called registered tap, yes. There were some suggestions that we reopen - that it be made available for estate taxes and that it be made a coupon bond so that it could transfer freely in the markets. They said there was a great deal of sales resistance to the registered security. Now, we have an amendment to the circular drawn which would permit its acceptance or its redemption, rather, in connection with the estate taxes, but George and I both feel that to make it a coupon bond would certainly make it sell

- 2 -

a good deal higher on the market, and we ought to give consideration to extending the term from '62 - '67 up nearer the '67-'72, wouldn't you say, George - maybe not quite that. But we don't think that ought to be done.

H.M.JR: I don't think you want to sell more of the same one--

MR. BELL: You do, you say?

H.M.JR: I don't; I think if we make it a coupon that the price will be too high.

MR. HAAS: Yes.

H.M.JR: Why would a coupon bond sell - you mean, with no limitations?

MR. BELL: You would have a limitation that the banks couldn't own it, but how you would police that would be through your supervisory authorities, whereas now we police it through our registered records.

MR. HAAS: It would be difficult to tell a bank examiner that a bank couldn't hold United States Government bonds.

MR. BELL: Practically all of them suggested that you do your August financing, that is, your major financing, by a certificate of indebtedness from six months to a year. Two or three of them suggested - one of them suggested three-quarters percent, May 1943; and one, seven-eighths, August '43, but they all practically suggested a certificate.

Philadelphia suggests that we increase bills from four hundred million dollars - from three hundred fifty million dollars to four hundred million dollars in August and raise them to five hundred million dollars a week in September.

Richmond and St. Louis also made that suggestion.

- 3 -

Kansas City made a rather novel suggestion, that many of these country banks still don't know how to bid on Treasury bills, and they suggest that each week they remain on sale, Treasury bills, at the highest bid; in other words, sort of a tap Treasury bill, so that the banks can come in and buy at that rate rather than bidding in competition with the larger banks.

Philadelphia, Minneapolis, and Dallas suggested the so-called short tap issue.

H.M.JR: Now who made this survey?

MR. BELL: This is the Victory Fund Committees'.

H.M.JR: I see.

MR. BELL: St. Louis said there was a divergence of opinion on this tap issue, but it is recommending that, in order to get some of the funds and keep the financing out of the banks. Boston suggested that we have periodic drives on financing rather than an attempt that we have now to sustain steady sales efforts. They thought that we ought to have, say, a big financing program and everybody all out for it and then stop maybe for a month or two. We had two suggestions, one coming from New York and the other from Richmond, that in connection with the refunding early in September of the eight hundred ninety-four million securities maturing this fall, we do that with a Treasury note and we raise a half a billion dollars in cash in connection with that refunding, which would make your billion and a half issues about what we are trying to hold to.

New York suggests that we give consideration to a four or five billion dollar issue late in September, or early in October, and that an early decision on this should be made in order that proper preparation should be made for it.

There were several suggestions that we raise the limit on series A tax notes from twelve hundred to five

- 4 -

thousand. New York even suggested we might put it at ten thousand, and that the rate on series B be raised from forty-eight hundredths to seventy-two hundredths. Philadelphia and Minneapolis suggest that same thing.

There are miscellaneous suggestions, such as New York still thinks that the responsibility for the sale of F and G's ought to be given to the Victory Fund Committee, that all market bond issues under war financing should be at fixed rates rather than giving the Treasury an option. I don't know why. It seems to me to be more important to give an optional date in war financing because of its size than any other plan.

Philadelphia says that shortcomings in the organizational set-up are responsible for the lack of greater success in the sale of F and G Savings Bonds. They said also that there is sales resistance in the discount features of series G Bonds.

St. Louis thought that the two and a quarter percent bond might be considered. They don't necessarily recommend it, but they thought that if the Treasury certificate was not wanted that the two and a quarter percent bond - that is what was wanted before, and there still is a lot of interest in that in the District.

Minneapolis suggested, by the way, that we increase the F and G to a two hundred and fifty thousand limit instead of a hundred thousand; and we have one man who particularly wanted his views known to you that we should eliminate F and G's altogether, that they were a demand obligation on the Treasury, and the people who invested in those should go to a two and a half long tap.

H.M.JR: Who is that?

MR. BELL: No particular name; it just said one individual in the group wanted you to particularly know how he felt about it.

- 5 -

Dallas suggested you might have a seven to ten year bond issue. It would be well received in their District.

H.M.JR: You had better give me those.

MR. BELL: Yes, I can give you the letters if you want them. (Paper handed to the Secretary.)

H.M.JR: No.

MR. BELL: They are quite long. There are one or two yet to hear from.

Now, in your - I think maybe we ought to draw up a little agenda for your discussion on--

H.M.JR: This is from the Victory Fund?

MR. BELL: Yes. We will have a better analysis of that, Mr. Secretary, when they are all in. That is very brief.

H.M.JR: That is all right.

MR. BELL: For your three o'clock meeting tomorrow afternoon, I think maybe we ought to draw up a little agenda and try to stick to it. If we don't, we will get all over the lot, and we are getting now so that we can't talk to the Federal on the subject that we don't switch and get back to the tap issue. We submitted to them our tax note.

H.M.JR: I was going to ask you that.

MR. BELL: Well, they didn't like it. The Board didn't like it particularly, but I think Allan Sproul and Bob Rouse said that they thought it was a good suggestion.

MR. HAAS: And Williams, Al Williams.

- 6 -

MR. BELL: He thought it was a good suggestion. They didn't like it as well as the short tap.

H.M.JR: Sure, their copyrighted idea.

MR. BELL: I think there was some author's pride in it, but nevertheless they said that they thought it was important that we go ahead on a short tap of some kind, and they would go along with this one that we could get together on.

H.M.JR: I think we ought to do it right away.

MR. BELL: If we are going to do it, it ought to be announced before the first of August, before anybody begins to invest in that tap, the old tax note, in August. We can get the notes ready, I think, by the fifteenth. I think you ought to do it.

H.M.JR: The thirty-first is a Friday. Why couldn't we settle it before Friday?

MR. BELL: I think we can. I think maybe you will be able to settle it this week - this week, Friday.

H.M.JR: This is only Tuesday.

MR. BELL: But, you shouldn't settle it, I don't think, until after the meeting tomorrow.

H.M.JR: Pardon?

MR. BELL: I don't think you should settle it until after the meeting tomorrow and give them a chance to argue against it. They said that there was no inducement like there was in their tap issue. In other words, they had a beginning three-eighths percent rate and it graduated up, and the longer a man held it, there was inducement to hold on to it.

- 7 -

Now, I asked Henry to look into the question of leaving the rate on the tax note for the first six months like it is, forty-eight hundredths, increasing it one cent every six months up until nine cents in the last six months, and that would give an average of about three-quarters.

MR. HAAS: That makes new series every month.

MR. BELL: No, I don't think so. It is the same thing. We can put a schedule on there.

H.M.JR: Supposing there was a new series every month?

MR. HAAS: The mechanical - I mean, that is--

MR. BELL: We would have to issue it like Treasury bills. The trouble with tax notes is they are so hard for a collector to handle. The computations on the face of the note have got to be simple; if the collector has ten notes of one denomination - he can't look through each denomination and see the amount. He has to look at one on a certain date and multiply by ten. It has to be simple for him, but I thought tomorrow--

H.M.JR: Well, I personally think we ought to go ahead now with this tax note. That answers that argument about if there are - how long would it be, two years, three years?

MR. BELL: We thought that we would make them December thirty-one, 1943 - I mean '45. That is a little over three years. We had it in your memorandum three years, but we thought we would complete the calendar year, go to December thirty-one, '45, instead of August.

H.M.JR: But you will have to advance them a cent a month.

- 8 -

MR. BELL: No. Then on January first of this next year we would have a new series and go to December thirty-first, 1946. Each January we would have a new series, and just extend it out three years from that date. That is what we do now.

H.M.JR: Do we?

MR. BELL: Yes, we have a new series every January.

H.M.JR: It seems to me if you are going to have the sliding scale you ought to have one every three months.

MR. HAAS: You like a sliding scale rather than - that seventy-two is sweet. We put it that way.

H.M.JR: No, I would like - the thing that Bell has been talking about, the first six months at this same rate, then increase it a cent a month.

MR. BELL: I think that would be attractive. Just figuring it out roughly, I think you would get around seventy-five, wouldn't you, three-quarters percent on that basis?

MR. HAAS: Off-hand I don't see any objection.

H.M.JR: Well, you fellows have got all day today to study it.

MR. BELL: Well, I thought tomorrow that you might put down something to talk about - would be first the reopening of the two and a half's, when we ought to do that.

H.M.JR: Yes.

MR. BELL: It has been suggested that we do that August third. That is Monday. And then the next thing I think you ought to discuss, probably, is this tax note,

- 9 -

one, raising the limit from twelve hundred on A to some figure - it has been suggested five - one fellow said ten - and then go and change the B to take in both the idle funds and the tax funds. And then I think you ought to consider what you ought to do in the major job.

H.M.JR: Well now, just a second, if we reopen the tap issue, how much do you think we would get out of it?

MR. BELL: Well, it is estimated anywhere from five to seven fifty. I thought six hundred million.

H.M.JR: Let's say six hundred million; and if we did this new tax note, how much would we get?

MR. BELL: Gosh, that is hard to say. We are getting now around three hundred or three hundred and fifty million dollars a month, and that might go to seven or eight hundred million.

H.M.JR: Let's say six hundred on that. What?

MR. BELL: That is a billion two.

H.M.JR: Which would leave a billion.

MR. BELL: No, because in the two billion two hundred fifty I have considered three hundred million tax notes, so it is really a billion three.

H.M.JR: How much do you think we would have to raise outside of that?

MR. BELL: I was thinking we ought to raise about a billion and a half - a billion six outside of this new tap issue; and I would be inclined to go ahead and raise the billion six - billion and a half or billion six - and then test the new note. That would cut down on your September financing.

- 10 -

H.M.JR: If you ask for more than a half and took five percent over, you would get--

MR. BELL: That is all right.

H.M.JR: You asked for a billion and a half - five percent is what, seven fifty?

MR. BELL: Seventy-five million.

H.M.JR: You could run a little--

MR. BELL: We took eighty-eight million on the last certificate.

H.M.JR: I mean, don't you think about a billion and a half?

MR. BELL: That suits me fine.

H.M.JR: Then you could take six or seven percent over.

MR. BELL: And we are sure to get some funds here on this new tax.

H.M.JR: Then it gets down to how we are going to do the billion and a half.

MR. BELL: That is right, and it has been suggested by all of them that you do another certificate; some have suggested nine months, May, at three-quarters, and some have suggested a year at seven-eighths.

H.M.JR: You mean another certificate? We have two out now.

MR. BELL: Yes, sir, and most all of them would like six billion dollars of certificates outstanding. Eccles would like eight. He would like eight billion dollars in certificates and six billion dollars--

- 10 -

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- 11 -

H.M.JR: What was the last? Excuse me, I didn't mean to interrupt. What did you say?

MR. BELL: I say Eccles would like eight billion dollars of certificates, that is, two billion dollars on each of the maturity dates, and he would like six billion dollars of Treasury bills.

H.M.JR: He is going up.

MR. BELL: He has gone up a little. But most of them suggest that we have eventually six billion dollars of Treasury certificates.

H.M.JR: Well, we always figured, didn't we, in August on doing a billion and a half?

MR. HAAS: I thought you were figuring on that.

H.M.JR: In certificates.

MR. BELL: Either in August or September we said we would have another certificate issue.

MR. HAAS: November - was it February, May, August - I mean it is even quarters.

MR. BELL: Those are maturity dates. We set February first, May first, August first, and November first.

H.M.JR: I think, particularly if we are going to do the tap issue, this will be the time to do the certificate.

MR. BELL: I think you are right.

H.M.JR: That doesn't sound too difficult, does it?

MR. HAAS: No. It would be difficult if you tried to do a big job in August, but I guess that is out.

- 12 -

MR. BELL: I think it is too early to do a big job. Then the next thing I think you ought to discuss at the meeting would be the longer term program as to whether or not we want to do a big job some place along here, say in September, and get their views on that, and get them thinking about it. If we decide that we want to give consideration to - I think we ought to give consideration to whether or not we ought to announce that we are considering it so as to let the market talk--

H.M.JR: You are going to have trouble with me on that with all this other stuff in the wind until we see what the President does on the cost of living and rationing.

MR. BELL: He would be pretty well out by that time. Isn't he coming out next week? By the way, is that going to hurt our financing?

H.M.JR: Help it.

MR. BELL: Ought to help it, ordinarily.

H.M.JR: Ought to help it, if he does the--

MR. BELL: The right thing.

H.M.JR: If he does what they were talking about up to seven o'clock last night, it would help us. Now, the question is - everybody is going to go at him, and the question is how much he will water it down. But I know that Henderson is going over there today to try to get him to change, but he certainly was tough-minded yesterday.

MR. BELL: Who is that - Henderson is going to try to get him to change?

H.M.JR: Yes, it is too tough for Henderson; even Henderson couldn't stomach it.

- 13 -

MR. BELL: I think he has got to get tough.

H.M.JR: I think whatever he does would help us, Dan.

MR. BELL: Certainly we shouldn't announce that we are considering it until after our books are closed and there is some distribution of the C/I's probably around the tenth or fifteenth of August.

H.M.JR: You won't get me to commit myself until I come back.

MR. BELL: Not commit, just announce to the market that you are considering it.

H.M.JR: You won't get me to do anything on this until I come back from my week's holiday.

MR. HAAS: If you discuss it here, the Fed will have it all out anyway.

MR. BELL: It was in the paper Sunday.

H.M.JR: We will slap them down. We slapped them down before.

MR. BELL: Yes, that the Treasury was considering it. I think that came from the Victory Fund Committees. I wonder if you want to discuss that in the meeting tomorrow.

H.M.JR: No.

MR. BELL: They will bring it up.

H.M.JR: Let them bring it up.

MR. BELL: Allan Sproul will.

H.M.JR: That is all right.

- 14 -

MR. BELL: Then you ought to discuss the Treasury bill program as to whether the three fifty is enough. Allan Sproul thought that you ought to go to four hundred million on September ninth. I think that is the maturity date of the three hundred million dollars. That is the beginning of the maturity date. That would be a good time to go to four hundred, he thought, and then you would have in the picture also the reserves. The reserves are down, what is it, two ninety?

H.M.JR: Yes, I wish you would certainly put something in on that.

MR. HAAS: I think you have to. It has gone down where you have to.

MR. BELL: Allan Sproul suggested the other day at the meeting that possibly we ought to lower reserve requirements in New York and Chicago by two percent. That would give about four hundred million, wouldn't it, George?

MR. HAAS: That is right.

MR. BELL: And then in September and October do the same thing.

H.M.JR: I wish you would put that up to the head of the list because I have got to do something about that and quit fooling about it.

MR. HAAS: You have reached the stage where you have to.

H.M.JR: They have got to do something. I wish you would put that up as number one. Please put that number one on the agenda.

MR. BELL: Well, I--

MR. HAAS: Don't they realize that, Dan? I thought Sproul discussed it.

- 15 -

MR. BELL: I think Sproul feels that if you are going to do financing from month to month, just like we have been putting out bank issues, that you have got to put out some additional reserves, but he thinks that two percent a month would do it. He thinks that - I believe he thinks that you can go by August and no harm will be done.

H.M.JR: What are the reserve requirements in New York?

MR. BELL: Twenty-six percent. They want to lower it to twenty eventually.

H.M.JR: Why not do it at once? Why this niggardly business--

MR. BELL: I think if you do it at once you throw a billion two hundred dollars' worth of money into the market which is going to seek investment and probably rush the price of securities up, which I don't think should be done. You certainly have heard no kick on the reserves. No one is worried about the reserves any more because they have got flexibility.

H.M.JR: I am worried; it tightens the money market.

MR. BELL: I don't think it is tight.

H.M.JR: Why do they want to raise the short-term money rate?

MR. BELL: That is for a different reason. I think that also ought to be on the agenda.

H.M.JR: Is Sproul ready to go ahead on the two percent?

MR. BELL: I think he is. Wouldn't you say - I don't think--

- 16 -

MR. HAAS: He will ask - coupled with that, he will ask to raise the three-eighths on bills to a half, which I agree with the Secretary on, no.

MR. BELL: I don't think he was free to talk, but he did suggest we do the two percent a month.

H.M.JR: I will see how serious he is. They begin doing that when?

MR. BELL: In August.

MR. HAAS: It ought to be done before this financing.

MR. BELL: Announce it about the time--

H.M.JR: They ought to announce it this week.

MR. HAAS: They ought to announce it so the banks know where they are at before you offer it, several days before.

MR. BELL: I should think if you announced it the first of the week it would be all right. Don't announce it far enough in advance so they go into the market and start buying. That is what you don't want them to do.

(The Secretary held a telephone conversation with Mr. Allan Sproul as follows:)

July 28, 1942.
9:50 a.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan Sproull: Good morning, Mr. Secretary.

HMJr: How are you?

S: Fine.

HMJr: You going to have lunch with me tomorrow?

S: Yes, I just got the message, and I've planned to.

HMJr: Good. I was just sitting here with Bell and Haas talking about the financing, and Bell tells me that you have a plan to lower the reserves two percent a month in New York and Chicago till you get them down to twenty?

S: I suggested that, yeah.

HMJr: Well, are you going to - you're serious about that?

S: Well, I'm serious about it, but that's something that's in the Board's hands, not in the Open Market Committee's or the banks, so it's that the Board has to act on that.

HMJr: Yeah, but as far as you're concerned, you're serious.

S: That's right.

HMJr: I see. Well, I just wanted to - I just wanted to make sure....

S: Yeah.

HMJr:because I think it should be done.

- 2 -

S: Well, it's tied up with some other things.
It's not a separate thing by itself.

HMJr: Yeah. Well, you're - what are you going to
try to do, deal with me?

S: Well, I'm not - no, I - I - my suggestion is a -
is a complete - a complete program, more or less
a complete program, not isolated action. I can't
deal with you. (Laughs)

HMJr: Well, you make a good stab at it.

S: (Laughs) Well, I try sometimes.

HMJr: (Laughs) All right. Okay. All right.

S: All right.

HMJr: Thank you.

- 17 -

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

July 28, 1942.
9:53 a.m.

HMJr: Hello.

Operator: Mr. Ransom.

HMJr: Hello.

Ronald
Ransom: Good morning.

HMJr: How are you, Ronald?

R: Fine. I hope you're well.

HMJr: Are you in your own office?

R: I am.

HMJr: Good. Ronald, I hope that the Board will entertain a suggestion of lowering the reserves now. As I understand it, Proul - Sproul's made the suggestion two percent a month till you get it down to twenty for New York and Chicago.

R: Yes.

HMJr: Well, I think to run along with \$200 million dollars reserve in New York is just plain dumb - hello?

R: Yes, I'm listening to you.

HMJr: And I hope I'm not going to have to have a row about it.

R: I don't see why you should ever have a row with us or we with you.

HMJr: No, and I don't know where you stand, but I know - you told me that you saw no reason to increase the three-eighths rate, and of course this is tied up with that.

R: Well, may - may I take just a minute of your time?

- 2 -

HMJr: Sure.

R: I was sitting here trying to dictate a memorandum....

HMJr: Sure.

R:on this general subject....

HMJr: Yeah.

R:to relieve my own mind.

HMJr: Yeah.

R: I came out of the last meeting between the Treasury people and ourselves....

HMJr: Yeah.

R:in a most unhappy frame of mind, as did everyone there so far as I know....

HMJr: Yeah.

R:and trying to analyze the cause for that, I came to several conclusions, first, that the Board itself should deal much more directly with you....

HMJr: Yeah.

R:that, secondly, that we should try to hold staff discussions to the staff level....

HMJr: Yeah.

R:and I'm not including Dan as staff because he is principal, of course....

HMJr: Yeah.

R:but to try to get our respective staffs to clarify the questions that we are both jointly interested in....

HMJr: Yeah.

- 3 -

R:and when they come out at a point, then let you and the Board, respectively, reach some understanding as to the staff recommendation. It seems to me we - we wholly lack that direct contact with you which I think in this emergency period is of the utmost importance.

HMJr: Well, let's be frank with each other. Is it my fault?

R: No, I don't know that it's anybody's fault, Henry. I think it's - I think we all have failed to quite realize that in this situation it's - is of the utmost importance that you and we--you and Dan, I'll say, and the Board--should have direct contact....

HMJr: Well....

R:to discuss these things face-to-face rather than....

HMJr: Yeah.

R:in the perplexing, round-about way we have followed.

HMJr: I think....

R: It's not your fault. I....

HMJr:that all of the initiative of asking the Board to meet with me, I think, comes from me.

R: Yes.

HMJr: I think every time that we want to get together, it's I'm asking the Board to sit down with me and advise me....

R: Yes.

HMJr:with me....

R: Yes.

HMJr:and I'm not conscious of the fact that the Board wants to see me except when I ask for it.

R: Well, I - I think there's something in that.

HMJr: What?

R: I think there's something....

HMJr: Just stop and think, I mean now....

R: Yes.

HMJr:I don't know when the Board's asked to see me.

R: Well, perhaps we've been - that's a possibility.

HMJr: But I agree with you. I - I think we ought to meet regularly once a week.

R: Well, that would be fine.

HMJr: Yeah, whether we have a financing or not. Now this week I'm starting a week earlier with you fellows.

R: Yes.

HMJr: But I'd be delighted to meet once a week.

R: Yes. Well, I think that's a grand idea.

HMJr: Yeah.

R: I really do, because this is no time to have any differences.

HMJr: But I didn't know that you fellows were upset over there.

R: Well, we're not upset. I said I came out of the meeting....

HMJr: Yeah.

- 5 -

R:quite unhappy, not on account of anything that was said or not said, but I thought it was apt to be - it was the - we had reached the point of utter futility. We were not getting anywhere, you see? That's what's worrying me.

HMJr: Yeah. Well, of course, I wasn't conscious of that - I mean....

R: No, I know that's clear out of your....

HMJr:but I must say, I - as far as my relationship with the Board, I've got a clear conscience.

R: Your conscience is pretty clear now, isn't it?

HMJr: Yeah, it's - it's - yeah, I - I think so.

R: I think it is. Now....

HMJr: But anyway....

R: Let me - let me - let me go just a minute....

HMJr: Yes.

R:further if I may. I suggested that tomorrow after that meeting--in fact, I wasn't on the Executive Committee but I made a motion and got somebody else to put it, and the Executive Committee to tentatively agree--that we ask Goldenweiser and Williams, John Williams, on our part, to ask Dan to put two fellows from your senior staff, Haas or - anybody that you fellows wanted, and ask those four to sit down and state points of agreement, points of doubtful agreement, and points, if any, not in agreement....

HMJr: Yeah, yeah.

R:and that we take a look at it. Well, Dan said that looked to him as if we were moving it only one step further from you, and that it was a pretty good way to go at it, so I said, "All right," when Marriner reported that to me, "let's just have our own staff to pass such a statement and let us take a look at it."

HMJr: Well, Dan has been bringing to my attention that - I want to - don't want you to think that he hasn't....

R: Yes.

HMJr:that there should be closer working - I mean, he has told me that....

R: Yes.

HMJr:and that's why we're having these meetings this week. Dan's responsible for that.

R: Yes.

HMJr: But I'll have to stop now, but I - I'm more than pleased to work - and see you fellows just as often as possible and talk to you as often as possible.

R: Well, that's fine. Now....

HMJr: And you think over these reserve requirements, will you?

R: Yes, sir, it's tangled up in so many other things, I'd like to discuss the whole thing face-to-face with you.

HMJr: Well, we'll - we'll do that tomorrow.

R: Fine.

HMJr: Okay.

R: Okay.

- 18 -

MR. BELL: Of course I didn't say that you shouldn't discuss it; I said you should, but I thought we were moving one point further.

(Mr. Buffington entered the conference.)

H.M.JR: George, I want to ask you one question. Do you know - could you give me an estimate, if we decide to make this tax anticipation note, your old friend and pal, which you once used to sell - if we made that more available or more popular along the lines we have been talking, not today, but other days, whether your boys - how much they could sell? Have you any way of getting or making an estimate?

MR. BUFFINGTON: It would be difficult to make an accurate estimate. I think from what Dan has told me, and I have heard in those Federal Reserve meetings it would be much more flexible, therefore much more salable to corporations where they wouldn't have to accurately estimate their tax requirements but could carry them for other purposes. I will make an effort to make an estimate. I don't know how accurate it will be.

H.M.JR: Make an estimate, and then sometime tomorrow morning let me have it, will you?

MR. BUFFINGTON: O.K., sir.