

DIARY

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, September 5, 1942.

Press Service
No. 33-13

Secretary Morgenthau today made the following statement:

In the coming week the Treasury is going to have to borrow another \$3,000,000,000 to help pay for the war. This is to be done by public offering of interest-bearing bonds for subscription through the Federal Reserve Banks. I have no doubt that institutional investors, commercial banks and other large purchasers will respond in the fine way in which they have responded to all offerings of Government securities since the war began.

Yet too much reliance on this conventional kind of borrowing has its dangers, and I feel that the American people should become more aware of its dangers. Specifically, we cannot hope to finance this war in an orderly manner and without a further serious rise in the cost of living unless our regular borrowing is supplemented by bold and resolute action in many directions, among them in the fields of taxes and savings.

My problem is not simply one of getting more money. It is a problem of enlisting the taxes and the savings of all the American people themselves. It is a problem of attacking unnecessary spending, which is now reaching boom proportions and which is threatening to drive the cost of living to heights which will affect every American home.

We have been at war for almost a year, yet we as a people are still spending for things we want and can get at a rate far higher than a war economy can afford. This cannot go on. Our war on the home front cannot be won unless this evil of unnecessary spending is checked and brought under control. We must realize that we are fighting a war for our very survival as a nation and that we cannot expect comforts as usual or spending as usual.

In every community in the land young men are going out to battle fronts all over the world to fight for us. It seems a small thing to do for them that we should give up temporarily some of the comforts we possess, the comforts that they are denied.

The spending that is going on today is a national danger and its continuance will have disastrous results for every American. We must attack unnecessary spending with stern remedies, through the fiscal field as well as through other devices, and there is no more time for delay.

With the double purpose of bringing billions of dollars into the Treasury and of discouraging unnecessary spending, the Treasury submitted to the Senate Finance Committee last Thursday a new form of tax to be known as the spendings tax. It is aimed at everything above what we need and what we save. It is a tax in two parts -- the first a flat levy of ten percent on spendings of everyone above a bare subsistence income, and the second a graduated tax on higher spendings which becomes frankly a penalty tax on those who spend thousands of dollars unnecessarily in these times when spending actually impedes the war effort. The first part, the flat 10 percent, will be regarded as a debt to the taxpayer and will be repaid in full after the war.

From the first part, the refundable ten percent, some \$4,500,000,000 will flow into the Treasury; from the second, about \$1,200,000,000, in revenue would be yielded each year. But this does not tell the whole story, for there is no way of estimating the amount of saving which will be encouraged by such a tax. It is the first tax measure I have seen which actually gives an incentive to thrift, to the purchase of War Bonds and the repayment of debt, to the payment of life insurance premiums and many other forms of true savings. All such expenditures will be deductible. The more you save, the smaller the tax you have to pay.

This is the principle of the spendings tax. To me it is as simple as grade school arithmetic. Yet I hear it described as "complicated" simply because there are many technical details in its structure. In its actual impact on the taxpayer, it will be severe, because severe measures are needed, but it will require no elaborate bookkeeping or computation. For the great majority of our taxpayers it will mean the filling out of one very simple form to be attached to the regular income tax form -- and this, I may point out, has already been vastly simplified for them.

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Every new tax seems "complicated" when it first appears. The income tax which we now take for granted, was regarded as complicated, unworkable and unsound when it was introduced a quarter of a century ago. Surely those who complain that the tax is "complicated" mean rather that it is new and unfamiliar. Its principle is simple, its logic is unassailable, and its operations can be handled through the normal income tax machinery.

The problem of financing the war without inflation is too grave and too pressing to let any major tax proposal be disregarded without the most serious thought and study. Accordingly, I regard it as a slur upon the Senate Finance Committee to suggest that the Committee is about to reject the spendings tax after only perfunctory consideration. Such a suggestion is not true. The Senate Finance Committee is as much aware of the gravity of this hour as we at the Treasury or anyone in a position of authority, and its members realize as I do, the need for additional fiscal measures to prevent unbearable increases in the cost of living. Senator George, the distinguished Chairman of the Committee, has discussed it in detail with me, and I know that he and his fellow members will consider it with all the earnestness and seriousness which a proposal of this magnitude deserves.

Moreover, I have been concerned at the disposition in some quarters to couple this spendings tax with a sales tax -- as if a sales tax were any answer to our problem. A retail sales tax of five percent on all goods not now subject to heavy Federal excise taxes would, according to our estimates, raise only \$1,635,000,000 even if it included sales of food, medicines, clothing and fuel. More than that, it would fail to tax many kinds of services, it would be grossly unfair in falling upon those with only \$5 or \$10 a week of earnings, it would play havoc with price ceilings, and it would have an utterly inadequate effect in discouraging consumer spending.

The spendings tax, on the other hand, will bring four times as much money into the Treasury in a single year. It will tax all spendings, whether goods or services, above necessities and above savings. It will not affect price

ceilings in any way. It will, I am convinced, exert such a restraining effect upon unnecessary spending that it will make thrift not only wise but fashionable. I know of no more effective way of insuring that the people tighten their belts in wartime and put their savings away until the war is over.

For these reasons it is my firm belief that, no matter what purely revenue devices Congress may adopt, we shall still face the necessity of enacting real and basic controls of spending along the lines I have suggested.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

September 5, 1942

TO Secretary Morgenthau

FROM Harold N. Graves

Attached is a report from Mr. Callahan covering bond sales by radio stations.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 4, 1942

TO Mr. Graves
FROM Mr. Callahan

Secretary Morgenthau asked me yesterday about the progress of our radio station Bond Sale Campaign. Herewith is a preliminary report up to and including today: 52 stations report a sale (through August 31) of \$1,004,899. Reports are coming in daily and there are nearly 700 more stations to be heard from.

Attached are clippings from NEWSWEEK and TIME which I am sure you will be interested in reading.

RADIO

Bond Marathon

It was like election night. All last Saturday night, Blue network stations across the country peppered their listeners with figures, but the figures covered War Bonds, instead of votes. When the marathon broadcast had ended—it lasted seven hours—the Blue chain had chalked up a total of \$10,475,000, the biggest day's sale of War Bonds ever made on the radio.

It was the first time that an entire network—127 stations—had gone on the air to sell bonds directly to listeners. The show got under way at 9 p.m. EWT, with a two-hour "I Pledge America" program starring Orson Welles as master of ceremonies. A fifteen-minute break followed for local appeals, and then the coast-to-coast broadcast continued with nineteen big-name bands. Throughout the night minute men and others appealed for orders by phone, mail, or wire (Western Union handled them free). From overseas points, American doughboys cut in with pleas.

Thus the radio industry sprang the first large-scale plug of its own bond drive, begun July 23. Described by the Treasury as "the first instance that a single industry as a whole has gone all the way outside of its direct field of action on the War Bond campaign," the project was made possible when the stations were directly licensed to sell bonds. To date, more than 750 of the nation's 880 stations have been made issuing agents, and most sales activity has been among them locally. For aside from sales appeals incorporated in sponsored programs, as well as the Treasury's own shows, the other big webs—NBC, CBS, and Mutual—have not yet on their own initiative staged programs along the lines of the Blue network-wide project.

Although only five weeks old, the drive has already evolved some distinctive sales stunts. Thus Arthur Godfrey, chatterer for WJSV in Washington, has his own 10 per cent club, making roll calls of bond buyers. WMCA in New York rings a cash register on the air every time a listener calls up to make a purchase. KMBC in Kansas City has a caravan of station artists on the road plugging bond sales.

Red Barber, baseball announcer, got \$100,000 in pledges from eighteen states in a broadcast of a Dodger-Giant game over WHN, using autographed baseballs and players' pictures as incentives. Martin Block sold \$8,000 worth in a day on his WNEW Make Believe Ballroom show. Five San Francisco stations took in more than \$280,000 in a day-long Victory Day auction of bonds. And WJZ, Blue's key outlet in New York, which cruised Broadway with a "bond buggy," collected \$3,427,000 in seventeen days.

experimental basis from a booth at the National Lawn Tennis championships at Forest Hills in September 1939. Engineers installed the listening equipment there because reception was good, and when Ted Husing was not giving a hushed account of the tournament, monitors used the direct wire to relay short-wave news from Europe back to Manhattan headquarters. CBS has been eavesdropping on the Axis—and on more friendly stations—ever since.

Under monolingual Director Gerber now work eleven listening linguists, each of whom knows at least three languages. For 19 hours a day the squad listens to both Axis and United Nations broadcasts. Each day the monitors compile a 20,000-word digest of news and propaganda slants, another 30,000 words of direct transcriptions. Carbons are turned over to the OWI, important stories are relayed to press associations by teletype, but the main purpose of the listening post is to aid CBS in its fight against Goebbels.

Miss Liberty, Saleswoman

Hollywood, which has sold glamor to the nation, and radio, which has sold it practically everything, are out to prove that they can sell the U.S. a billion dollars' worth of war bonds this month. Last week a sales crew of cinema ladies (a Ronald Colman), leaving Los Angeles for a tour of 300 cities, were photographed in a fetching frieze against a background of soldiers. Last week, too, seven comedians, six vocalists, four actors and 21 bands took part in one of the most successful broadcasts ever made.

I Pledge America, a six-hour, 45-minute show, was the longest in the Blue Network's history. The broadcast started at 9 p.m. Saturday and continued until 4 a.m. Sunday with only one 15-minute interruption (at 11, to let Ford's Earl Godwin repeat *Watch, the World Go By* for Western listeners).

At 9 o'clock the Statue of Liberty stepped off her pedestal and went to Manhattan's RCA building with Orson Welles. There, for two hours, she listened to Edward G. Robinson, Jane Cowl, Bob Burns, Jack Pearl, Red Skelton, Fanny Brice, Amos 'n' Andy and other comedians and actors snarl at the Axis, repeat the tales of U.S. heroes, past & present. Some heroes spoke for themselves, by short wave, from England, Hawaii, the Canal Zone.

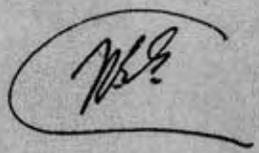
Often the listeners were asked to show pretty Miss Liberty they appreciated her by sending collect telegrams to their nearest Blue station ordering war bonds. The whimsey was profitable. By 11, when the Statue returned to her island, Blue had received orders for more than four million dollars in war bonds. When the program swung to dance music and picked up name bands, the orders kept pouring in. Blue's volunteer tabulators were nearly swamped, but at 4 a.m. could proudly announce the total: \$10,359,368. Wires were still coming in, a heavy mail-order business was expected. Blue officials, who would soon receive the bill for all telegrams, were far from blue.

September 9

Mrs. Klotz:

(For Secretary Morgenthau)

Walter Lippmann's home
advises that he has gone to
England and will be away until
about the 20th of this month.



FROM: MR. GASTON

Handwritten notes on the right margin, including the word "Home" written vertically.

Treasury Department

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TELEGRAPH OFFICE

VIA WESTERN UNION

1942 SEP 5 AM 9 08

M326N FR 18 NT COLLECT GOVT

TDWD BEACON NY SEP 4 1942

HERBERT GASTON

DLR 5TH 9 AM OFFICE OF SECY OF TREASURY WASH DC

PLEASE TRY SEE WALTER LIPMAN AND EXPLAIN TO HIM OUR

NEW TAX PROPOSAL COPY TO MRS KLOTZ

HENRY MORGENTHAU JR

900 AM.

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

OFFICE OF THE EXECUTIVE DIRECTOR

White

SEP 5 1942

The Honorable
The Secretary of Treasury

Dear Mr. Secretary:

The minutes covering the meeting of the Board of Economic Warfare, which was held on Tuesday, August 18, are enclosed. If there are any corrections which you care to suggest, please let me know.

Sincerely yours,

W. H. Perkins
Executive Director

Enclosure

Minutes of the Meeting of the Board of Economic Warfare
Held August 18, 1942 at 10:00 A. M.

A meeting of the Board of Economic Warfare was held in the Vice President's office in the Capitol Building at 10:00 A. M. on August 18, 1942.

Those present:

Mr. Dean Acheson, representing the Secretary of State
Mr. Charles Fahy, representing the Attorney General
The Secretary of the Navy
Mr. Paul Applby, representing the Secretary of Agriculture
The Secretary of Commerce
Mr. Nelson Rockefeller, Coordinator Inter-American Affairs
Mr. William Batt, representing Chairman, War Production Board
Mr. E. R. Stettinius, Jr., Lord Lease Administration

In addition, the following persons were present:

Mr. Wayne Taylor, Department of Commerce
Mr. W. L. Clayton, Department of Commerce
Mr. Wayne Coy, Bureau of the Budget
Mr. Leslie Whooler, Department of Agriculture
Mr. Robert Patterson, War Department
Mr. Harold H. Neff, War Department
Mr. Winfield Riefner, Board of Economic Warfare
Mr. Wm. T. Stone, Board of Economic Warfare
Mr. T. C. Achilles, Department of State
Mr. John Lockwood, Office of Inter-American Affairs
Mr. Adlai Stevenson, Navy Department
Mr. Milo Perkins, Board of Economic Warfare
Mr. E. W. Gaumnitz, Board of Economic Warfare

Mr. Perkins, acting as Chairman of the meeting until the arrival of the Vice President, referred to the plan for a united nations' relief and rehabilitation organization outlined in the draft, "Relief and Rehabilitation Administration", draft No. 2, dated August 13, 1942, copies of which had been circulated. Mr. Perkins stated that the draft had been prepared as a result of a series of discussions held by an informal committee for submission to the President, and if approved by him for submission to other governments. It is important that members of the Board should be in agreement as to the program and also that the judgment of the Board should be secured as to the time of release or publication.

Mr. Acheson reviewed the background of the development of the plan, stating that the President had requested the formulation of a plan which might be available when necessary. The question of time of public release or issuance was of course in the hands of the President.

SECRET

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In reviewing the background, Mr. Acheson stated that the British had formed an inter-allied relief committee headed by Sir Frederick Loith-Ross in the fall of 1941, partly because pressed by exiled governments and partly to give consideration to a program which might be placed in effect upon reoccupation. Some criticism having developed because the British Government was too largely the controlling factor, it was thought that a committee more international in character should be formed to deal with the problem. The State Department in May, 1942 requested that Sir Frederick Loith-Ross come to the United States for consultation.

In reviewing the plan as drafted, Mr. Acheson noted that in addition to laying the basis for an international organization to cope with temporary relief problems in regained areas, the plan provided an agency to serve as a focal point for centralizing the consideration of any plans which might be developed and for recommending action programs with regard to rehabilitation. He stated also that a program such as outlined might reduce the tendency of certain governments, principally the French and Dutch, and to a lesser extent the Norwegians, to acquire and stockpile products for later use.

Mr. Acheson stated that if the program met with general approval, the procedure would be to discuss it with the Russian, Chinese, and British Governments and after clearance with them to discuss it with a second group, probably the Dutch, etc. Later a general conference would be called.

There was considerable discussion of representation and procedure, with discussion centering mainly on whether the Director General assumed relief responsibility immediately upon reoccupation of any area (Article IV) and the question of time at which the general program should be made public.

It was agreed that Article IV should be clarified, so there would be no question as to the relationship of responsibility of the armed forces and the Director General following reoccupation. Under Secretary Patterson insisted that the problems of relief, including civilian relief, during hostilities and while they were still threatened, would have to be handled by the Military Commander probably with a staff for that purpose. He indicated that a Military Commander could not wait to consult with the Director General. This was generally agreed to and the Vice President asked Mr. Acheson to change the draft accordingly. On the question of time it was agreed that in view of the length of time that would be consumed in negotiating with other nations, no final action would be possible immediately. It was the consensus that negotiations should proceed, but that no public announcement should be made at this time.

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Leakage of Information

Mr. Perkins stated that information of value to the enemy was being made available through reinsurance documents which are going to foreign countries, the documents including data bearing on location and movement of goods. Mr. Perkins indicated that similar documents had been a source of information with reference to enemy factories in Board of Economic Warfare intelligence work. In various discussions everyone acquainted with the problem was agreed that action should be taken to stop the transmission of such information, but it was not clear what agency or agencies should assume the administrative responsibility.

Mr. Fahy stated that he had been acting as chairman of the committee to consider the extent of the problem and possible methods of coping with it. He stated that in the committee meetings, it had been generally agreed that it was the type of job which might be handled by the Board of Economic Warfare. However, within the last few days, the Office of the Censor had indicated that possibly it was in a position to handle the problem.

Several phases of the problem were discussed briefly by various members of the Board; the possibility that it would be necessary to establish a reinsurance corporation under R. F. C., for example, which might provide facilities in case transmission of information to foreign nations should be stopped; the possibility that arrangements might be made by such companies as Lloyds to establish offices in the United States so that it would not be necessary to send information out of the United States. It was finally decided that further conferences should be held under Mr. Fahy's direction before final action was recommended.

The meeting adjourned at 11:20 A. M.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 5, 1942.

TO Secretary Morgenthau

FROM Mr. White

Subject: Proposed Reduction in Import Duty on Beer.

1. The Trade Agreements Committee has approved granting a maximum reduction in the import duty on ale, porter, stout and beer in the proposed trade agreement with Mexico. This duty was \$1 per gallon under the Tariff Act of 1930, was reduced to 50 cents a gallon in 1935 by Presidential Proclamation under section 336 of the Tariff Act, and would be reduced to 25 cents a gallon under the proposed action.

2. The loss of customs revenue under the proposed reduction of duty will be a maximum of \$250,000 a year, on the basis of 1940 and 1941 imports. Actually, the loss will be even less because (a) previously large imports from the British Isles will be curtailed and imports from Japan have ceased, so in effect the duty cut will only apply to imports from Mexico, and (b) a lower duty is expected to stimulate larger imports from Mexico, with the result that the revenue might even be higher than if no cut were made.

The customs revenue from imported malt liquors is negligible compared to internal revenue taxation of domestic malt liquors, which yielded \$300 million in revenue during the fiscal year 1942.

3. On the basis of general economic considerations, the advantages of a lower import duty in this case overbalance the loss of customs revenue. The question of protection for private manufacturers is a matter on which other agencies have primary responsibility.

4. If you approve, therefore, the Treasury representative on the Trade Agreements Committee will not object to the proposed reduction in this duty.

QR/mm

September 5, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending August 20, 1942

1. Exports to Russia

Exports to Russia, as reported during the ten-day period ending August 20, 1942, amounted to \$23,325,000, as compared with \$33,940,000 and \$53,799,000 during the same periods in July and June, 1942, respectively. Among the military equipment exported during the period under review were 18 light bombers, 36 fighter planes and 27 tanks. (See Appendix G.)

2. Exports to Free China

Exports to Free China, as reported during the period under review, amounted to \$192,000, as compared with \$590,000 and \$2,707,000 during July and June, 1942, respectively. Military equipment accounted for about 79% of the total. (See Appendix B.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Sweden and Switzerland amounting to \$324,000 and \$167,000, respectively.

ISF/efs
9/5/52

W.H.H.

SUMMARY OF UNITED STATES DOMESTIC EXPORTS TO SELECTED
COUNTRIES AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED DURING
THE PERIOD INDICATED 1/

(In thousands of dollars)

	10-Day Period ended Aug. 20, 1942	10-Day Period ended Aug. 10, 1942	Total Domestic Exports August 1, 1942 to August 20, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. R.	\$23,325	\$14,970	\$38,295	\$742,941
China	192	208	400	97,720
India	48	30	78	2,858
Netherlands	167	357	524	11,537
Denmark	324	260	584	18,056
Portugal	5	1	6	9,743
French North Africa 2/	1,773	29	1,802	6,305

Treasury Department, Division of Monetary Research

September 2, 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.

Includes Morocco, Algeria, and Tunisia.

APPENDIX B

**Exports from the U. S. to Free China and U. S. S. R.
as reported to the Treasury Department
July 28, 1941 - August 20, 1942 1/**

(In Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to U. S. S. R.</u>
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,098	28,558
Mar. 20 - Mar. 31 4/	2	42,472
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Total	\$ 100,723	\$ 782,056

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1 figures are given for 10-day period instead of week except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of commerce this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research September 4, 1942

ISF/efs 9/4/42

APPENDIX C

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
August 20, 1942

	Unit of Quantity	Quantity	Value (Thousands of Dollars)
TOTAL EXPORTS			\$ 23,325
Principal Items:			
Aircraft			5,150
Light bombers (2 eng. A-20)	No.	16	
Fighters (P-39)	No.	21	
Fighters (P-40)	No.	15	
Aircraft accessories, including engine parts	-	-	2,449
Ammunition			2,261
.30 cal.	No.	10,000,000	
.32, .38 and .45 cal.	No.	3,000,000	
.50 cal.	No.	2,628,000	
37 mm. armor piercing	No.	8,860	
75 mm. armor piercing and high explosive	No.	25,497	
Anti-aircraft armor piercing	No.	21,840	
20 mm. tracers (aircraft)	No.	15,885	
20 mm. high explosive (Gerlikon)	No.	45,000	
Military tanks - medium (M-3)	No.	27	2,160
Military tank parts & accessories	-	-	1,242
Pork and sausage	Lb.	2,703,969	1,005
Iron and Steel plates, sheets and strip	M.Lb.	7,698	860
Motor trucks	No.	457	678
Steel bars and rods	M.Lb.	7,257	547

Treasury Department, Division of Monetary Research September 4, 1942

ISW/cfs 9/4/42

APPENDIX B

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
August 20, 1942**

(Thousands of Dollars)

TOTAL EXPORTS

\$ 192

Principal Items:

Military equipment	152
Relief supplies - drugs and biologics	15
Aluminum plates, sheets, bars and rods	10
Scientific instruments	6
Relief supplies - surgical and hospital	4

Treasury Department, Division of Monetary Research September 3, 1942

ISF/efs 9/4/42

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

For Miss Chauncey

September 5, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation of the week ended August 26, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.



lap-9/5/42

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FEDERAL RESERVE BANK
OF NEW YORK

September 3, 1942

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended August 26, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:vw:9-4-42

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended August 26, 1942

Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS			CREDITS					DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits (c)	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(e)	416.6(e)	449.7	1,095.3(e)	900.2	195.1(e)	
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	106.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.4	69.6	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4
1942															
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2
Jan. 29 - Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3
Feb. 26 - Apr. 1	121.4	86.4	35.0	171.4	-	-	171.4	+ 50.0	0.1	-	0.1	0.4	-	0.4	+ 0.3
Apr. 2 - Apr. 29	16.1	64.2	33.0	70.6	-	0.5	70.1	- 27.5	0.2	-	0.2	0.4	-	0.4	+ 0.2
Apr. 30 - June 3	204.0	81.4	22.6	165.7	-	-	165.7	+ 61.7	-	-	-	0.3	-	0.3	+ 0.1
June 4 - July 1	85.9	72.6	17.3	113.6	-	-	113.6	+ 23.7	-	-	-	0.3	-	0.3	+ 0.3
July 2 - July 29	66.1	45.9	20.2	84.4	-	-	84.4	+ 18.3	0.1	-	0.1	0.3	-	0.3	+ 0.2
WEEK ENDED:															
Aug. 5	19.6	16.7	2.9	23.3	0.9	-	22.4	+ 3.7	-	-	-	0.1	-	0.1	+ 0.1
12	15.7	12.2	3.5	9.6	-	-	9.6	- 6.1	0.2	-	0.2	0.1	-	0.1	- 0.1
19	13.0	10.8	2.2	20.5	-	-	20.5	+ 13.5	0.1	-	0.1	-	-	-	- 0.1
26	10.2	7.1	3.1	13.5	-	-	13.6(f)	+ 3.4	-	-	-	0.1	-	0.1	+ 0.1

Average Weekly Expenditures Since Outbreak of War
France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) 27.6 million
England (since June 19, 1940) 35.6 million

*For monthly breakdown see tabulations prior to April 23, 1941.
**For monthly breakdown see tabulations prior to October 8, 1941.
(See attached sheet for other footnotes)

Transfers from British Purchasing Commission to
Bank of Canada for French Account

Week ended August 26, 1942 \$ -
Cumulation from July 6, 1940 \$ 162.7

million
million

- [REDACTED]
- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
 - (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
 - (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
 - (d) Includes payments for account of French Air Commission and French Purchasing Commission.
 - (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
 - (f) Includes:
 - 3.3 million deposited by British Ministry of Supply Mission
 - 2.0 " for credit of U. S. Army
 - 2.1 " transferred from Commonwealth Bank of Australia account here.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Strictly
Week Ended August 26, 1942 Confidential

PERIOD	BANK OF CANADA (and Canadian Government)									COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)						
	DEBITS			CREDITS			DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	For Own A/C	For French A/C	Other Credits	Total Debits	Transfers to Official British A/C	Other Debits		Total Credits	Proceeds of Gold Sales	Other Credits
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	20.1	12.3	+ 4.5
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 4.0
Aug. 28 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2
Oct. 30 - Dec. 3	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 1.3
Dec. 4 - Dec. 31 1941	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1
Jan. 1 - Jan. 28 1942	39.5	-	39.5	33.0	27.0	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3
Jan. 29 - Feb. 25	34.1	-	34.1	35.7	12.4	-	-	23.3	+ 1.6	8.4	5.3	3.1	1.6	-	1.6	- 6.8
Feb. 26 - Apr. 1	45.5	-	45.5	99.3	20.5	7.7	-	71.1	+ 52.8	7.8	1.3	6.5	3.6	-	3.6	- 4.2
Apr. 2 - Apr. 29	37.4	-	37.4	35.0	14.2	-	-	21.7	- 1.5	10.9	2.0	2.9	16.8	-	16.8	+ 5.9
Apr. 30 - June 3	54.2	-	54.2	47.9	15.7	-	-	32.2	- 6.3	13.2	9.5	3.7	14.6	-	14.6	+ 1.4
June 4 - July 1	47.2	-	47.2	75.9	14.7	-	-	58.2	+ 25.7	2.5	0.5	2.0	3.0	-	3.0	- 0.5
July 2 - July 29	40.8	-	40.8	37.7	9.0	-	-	28.7	- 3.1	19.1	15.0	4.1	19.5	-	19.5	+ 0.4
WEEK ENDED:																
Aug. 5	4.0	0.2	3.8	15.1	3.1	-	-	12.0	+ 11.1	2.5	1.0	1.5	0.4	-	0.4	- 2.1
12	7.4	-	7.4	11.6	7.3	-	-	4.3	+ 4.2	0.8	-	0.8	0.7	-	0.7	- 0.1
19	9.4	-	9.4	17.5	3.3	-	-	14.2	+ 8.1	-	-	3.2	-	-	3.2	+ 3.2
26	17.8(a)	-	17.8(a)	34.0(a)	0.1	-	-	3.3(b)	- 14.4	2.1	2.1	-	1.0	-	1.0	- 1.1

Weekly Averages of Total Debits Since Outbreak of War

Through August 26, 1942 \$ 8.1 million

* For monthly breakdown see tabulations prior to April 23, 1941.

** For monthly breakdown see tabulations prior to October 8, 1941.

(a) Does not reflect Treasury bill transactions.

(b) Includes \$3.2 million of proceeds of U. S. Government checks deposited by as Supplier Ltd.

**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. 48 - Aircraft Despatched
- for week ended August 25th, 1942.

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

September 5, 1942.

MOST SECRET

STATEMENT NO. 48
AIRCRAFT DESPATCHED FROM THE UNITED STATES
WEEK ENDED AUGUST 25th, 1942

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>Consolidated</u> PBX - 5B	United Kingdom	United Kingdom		11	
<u>Fairchild</u> Cornell PT 26					9
<u>Curtiss</u> Cittyhawks	Middle East	Port Sudan	20		
<u>Lockheed</u> 28 Hudson VI A	Middle East	Middle East		1	
<u> Ventura</u>	South Africa	South Africa		4	
<u> Glenn Martin</u> B26A Marauder	Middle East	Middle East		4	
<u> Grumman</u> Martlet IV	United Kingdom	United Kingdom	6		
<u> Northrop</u> Vengeance	India	Bombay	16		
<u> North American</u> Harvard	India	Bombay	13		
"	Middle East	Port Sudan	4		
TOTALS -			59	20	9

NOTE:-

Statement No. 47 should be amended to show 14 Northrop Vengeance despatched to India not U.K., making a total of 40 Northrop Vengeance to India for week ended August 18th, 1942

BRITISH AIR COMMISSION
August 29, 1942.

**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. 49 - Aircraft Despatched
- for week ended September 1st, 1942.

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

September 5, 1942.

MOST SECRET

STATEMENT NO. 49AIRCRAFT DESPATCHED FROM THE UNITED STATES
WEEK ENDED SEPTEMBER 1ST, 1942

E	DESTINATION	ASSEMBLY POINT	BY		FLIGHT DEL'D FOR USE IN CAN.
			SEA	AIR	
<u>WATER</u>					
Canada	United Kingdom	United Kingdom	1		
<u>SOLIDATED</u>					
5B	U.K.	Canada en route		8	
<u>ISS</u>					
Whawk	M.E.	Suez		16	
"	"	Alexandria		30	
<u>CHILD</u>					
Bill P.T. 26	Can.	Can.			10
9	U.K.	U.K.		12	
"	M.E.	Suez		5	
<u>CKHEED</u>					
B Hudson VI A	M.E.	M.E.			1
tura	South Africa	South Africa			1
	U.K.	Canada en route			4
<u>WEN MARTIN</u>					
EA Marauder	M.E.	M.E.			5
timore III	M.E.	Suez		4	
<u>MMAN</u>					
rtlet IV	U.K.	U.K.		34	
<u>TH AMERICAN</u>					
ward II	New Zealand	New Zealand		12	
"	M.E.	Alexandria		6	
tang	U.K.	U.K.		1	
<u>THROP</u>					
geance	India	Bombay		17	
<u>TALS</u>			138	19	10

British Air Commission
September 5th, 1942.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: September 5, 1942, 2 p.m.

NO. : 1009, Section One

This is a message for the Secretary of the Treasury from Mr. Adler, and is TF56.

1. I am confidentially informed that a committee in the Ministry of Finance appointed to draft central bank charter is adopting a draft which has a general trend to strengthen the control of the government over the central bank's position and over banking policy. It is reported that bankers are (?) draft of reforms reported in TF44 of June 6 and TF 48 of July 6 which went into effect July 1, 1942 and which made the central bank the sole bank of issue and the sole fiscal agent of the government.

GAUSS

Copy:bj:9/8/42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China.

DATE: September 5, 1942, 2 p.m.

NO. : 1009, Section Two

The Central Bank would also be required by the draft to fix the discount rate and the reserve rate of commercial banks; branches of Central Bank in provincial centers acting in a consultation with specially appointed (?) advisory committees will be allowed to fix higher discount rates, the Chungking rate being the minimum rate. It appears that this recommendation would be the only concession to those who propose adoption of a decentralized system along the lines of our own Federal Reserve System.

The Government would own all the capital of the Central Bank and would appoint (?) two deputy Governors, the nine directors. (All banks and individuals could buy shares under the 1935 Charter but none actually did). For final approval the draft after submittal to Ministry of Finance must go to Legislative Yuan.

GAUSS

Ceyw:bj:9/8/42

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31

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: September 5, 1942, 3 p.m.

NO. : 1012

This is a message for the Secretary of the Treasury from Mr. Adler.

This is telegram no. TF57 and refers to paragraph one of telegram no. TF55 dated August 24, 1942.

The Board's proposal that the two million pounds, approximately, which have accrued to the Government of China as a result of purchases of sterling (?) currencies from Chinese refugees be turned over to the Board has been agreed to by Dr. Kung.

GAUSS

BRITISH MOST SECRET.
U.S. SECRET.

OPTEL 307.

Information received up to 7 a.m. 5th September, 1942.

(1) The operation against the Channel Islands Lighthouse reported on the 3rd was carried out by 2 Officers and 10 men of the Special Service Brigade. Complete surprise was effected and the 7 prisoners taken were German naval personnel.

2. NAVAL.

An enemy convoy of 3 ships escorted by destroyers bound for North Africa was attacked by Liberators on the 3rd when south of Crete; results were not observed, but one ship was torpedoed by H.M. Submarine. During the night torpedo aircraft sank one ship and the following morning a ship was seen to be on fire.

3. MILITARY.

Egypt. 3rd. The main enemy concentration moved gradually west in the southern sector, enemy patrols were active and artillery exchanges took place.

3/4. United Kingdom and New Zealand troops made a slight advance in the southern sector. 4th. 2 enemy counter attacks were repulsed by the New Zealand division and our forces continued to attack the enemy, who was still withdrawing.

Russia. The Germans have gained further ground in their attack towards Stalingrad from the south west. In Caucasia, however, they have made little fresh progress either in their advance towards Grozni or in the area of the river Terek. The enemy has reached to within 25 kilometres northwest of Novorossisk, which is under artillery fire from the north-east.

4. AIR OPERATIONS.

Western Front. 3/4th. There was thick cloud over Emden. 15 tons of H.E. were dropped on the estimated position of the town. 4th. 3 single Mosquitos bombed Munster, the railway station near Cologne and Krupps Essen. 4/5th. 251 aircraft were sent to Bremen and 3 to lay mines. 11 are missing and one is down in the sea.

Egypt. 2nd/3rd. Our bombers continuously attacked enemy concentrations in the Central Sector, claiming a large number of direct hits. U.S. medium bombers attacked landing grounds near El Daba and Liberators bombed Tobruk Harbour. 3rd. Our light bombers flew 202 sorties and Fighters 574. Enemy concentrations were again heavily attacked, the accuracy of bombing being confirmed by the enemy's attempts to disperse on the arrival of our bombers. 5 tanks and one armoured car were destroyed by Hurricanes. Our Fighters destroyed 3 enemy aircraft, probably destroyed 10 and damaged 8 for the loss of 12 of our own.

5. HOME SECURITY.

4th. 19 persons were killed and 28 seriously wounded by bombs dropped at dusk in the Torquay-Paignton area.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL NO. 308

Information received up to 7 a.m., 6th September, 1942.

1. NAVAL

ATTACKS ON SHIPPING. From 2nd to 4th September (inclusive) 6 ships were reported torpedoed. 2 British ships sunk off coast of PORTUGAL and 1 British ship in Canadian waters on 3rd September, a U.S. ship and a Norwegian tanker sunk northeast of TRINIDAD on 30th August, and a British ship torpedoed in GULF OF GUINEA on 2nd September. A Dutch ship was reported overdue and a U.S. ship, previously reported overdue, has arrived.

2. MILITARY

EGYPT. 5th. The enemy continues his withdrawal in the Southern sector. His forces are being harassed day and night by our artillery and armoured formations and by the R.A.F. We have advanced approximately 7 miles towards QARET EL HEMEIMAT and have destroyed a large quantity of armoured vehicles and M.T. which is still being counted. In the Northern sector our patrols were active, an attempt by a small party of enemy to land from boats behind our lines and sabotage the railway was frustrated. All were captured.

RUSSIA. In Eastern Caucasia German forces advancing along the Northern bank of the River TEREK have effected a crossing to the South with the evident intention of wheeling southeastwards towards the GROZNI oil field some 50 miles away. In Western Caucasia, the Germans have made little fresh progress in their attack towards NOVOROSSISK from the North but are approaching the town from the Northwest.

3. AIR OPERATIONS

WESTERN FRONT. 4th/5th. Bremen and Focke Wulfe Works. 209 aircraft, including 133 heavy, dropped 478 tons of H.E. and incendiaries, including one 8,000 lb., 49 4,000 lb. and 105 1,900 lb. H.E. bombs. Visibility was good with no cloud and only slight haze but in the later stages of the attack, smoke obscured the objective. Fires appeared large and well concentrated. Late arrivals reported the town well alight. Photographs taken the following morning show heavy damage with fires still burning in various parts of the town and smoke rising to 20,000 feet.

- 2 -

5th. 37 U.S. Fortresses dropped about 70 tons of bombs on ROUEN railway centre, where engine sheds, rolling stock, permanent way and probably a railway bridge were hit. 12 Bostons bombed HAVRE. Allied fighters provided escort and cover and destroyed 2 enemy fighters. 6 of ours are missing. Spitfires shot down one enemy aircraft off SOUTHEND. 5th/6th. Nothing of importance.

EGYPT. 3rd/4th. TOBRUK was bombed and objectives in the Southern sector were attacked. About 92 sorties, including naval aircraft, were involved. 4th. 90 bomber and 270 fighter sorties were flown over the battle area. Four separate good attacks were made on enemy forces in the Southern sector, 2 of them in support of our troops resisting counter attacks, 2 enemy aircraft were destroyed. We lost one Hurricane. 12 enemy aircraft dropped bombs near AMIRIYA on the 4th and at night 10 operated over our landing grounds in the ALEXANDRIA area, 3 of them were destroyed.

MEDITERRANEAN. 4th/5th. 2 naval aircraft attacked an enemy 6,000 ton ship previously damaged by our aircraft and beached and escorted by a destroyer. Each aircraft scored a hit, one with torpedo on the ship and the other with bomb on the destroyer's stern.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 6, 1942

TO Mr. Gaston
FROM Mr. Friedman

Re: Consumer Spending

In dollar terms, consumer spending in the second quarter of calendar 1942 was at near-peak levels. According to the Department of Commerce, total consumer expenditures on goods and services ^{was} at an annual rate of \$79 billion, a level exceeded only in the first quarter when consumer expenditures ~~reaching~~ reached the record high of \$81 billion. ^{during the second quarter of 1942} These expenditures were at an annual rate more than \$3 billion higher than in calendar 1941, itself a record year.

Even these figures understate the seriousness of the spendings problem. The sharp curtailment in the production of durable goods, particularly automobiles, that has occurred since the middle of 1941 has removed important categories of consumer goods entirely from the market. The sharp rises in spending occurred despite a drop in the sales of consumer durable goods from an annual rate of \$11 billion in the ^{first} ~~second~~ quarter of 1941 to \$6½ billion in the second quarter of 1942.

Sales of non-durable goods and services have risen from an annual rate of less than \$62 billion in the first quarter of 1941 to almost \$73 billion in the second quarter of 1942. Expenditures for non-durable goods and services in the second quarter of 1942 were at an annual rate more than \$7 billion higher than in calendar 1941.

These rapid rises in the dollar volume of sales in large part reflect price increases resulting from the combination of a strong demand by consumers and a limited supply of goods. But even in physical terms, the volume of consumption is extremely high. Aside from durable goods, the supply of which has been halved, the volume of goods and services is as high as it has ever been in the history of this country, having remained stable, or even risen slightly, during 1941 and the first half of 1942.

Unless strong measures are taken to stem consumer spending, the prospect is that consumers will try to spend even larger amounts during the coming year. Even if wages and farm prices are kept at their present levels, consumer incomes are bound to increase as a result of increased employment, longer hours, and up-grading. Moreover, savings^{by consumers} cannot be expected to continue at their present abnormal levels. During the second quarter of 1942, individual savings were at the amazing rate of \$24 billion per year. - about \$5 billion higher than the highest previous^{ly} recorded level. The figures of the Securities and Exchange Commission reveal that much of this saving was in extremely liquid form. Almost one-third of all individual saving took the form of increases in currency and bank deposits. Savings of this type are probably transitory, having been accumulated by individuals who have not yet adjusted their standard of living to their larger incomes. The combination of increasing incomes, on the one hand, and reduced savings, on the other, inevitably spells an attempted spendings boom of unprecedented magnitude, unless strong steps are taken immediately to channel off purchasing power and to induce savings.

The increased volume of purchasing power coming on the market will be faced with a sharply reduced supply of goods and services. The increasing use of our resources for war purposes will necessarily leave less to satisfy consumer demands. Even if war expenditures do not exceed the budget estimates, the volume of goods and services available to consumers in terms of present prices will decline from \$79 billion in the second quarter of calendar 1942 to less than \$67 billion in the second quarter of calendar 1943. It is already clear that the budget estimates will be exceeded, and that, as a consequence, even less will be available for civilians.

TABLE X 1

38

Actual consumer expenditures; seasonally adjusted annual rates

Year and quarter	<u>Current Prices</u> ^{1/}			<u>First quarter, 1941, prices</u> ^{2/}
	Total consumer expenditures	Consumer expenditures on Durable goods	Non-durable goods and services	Consumer expenditures on non-durable goods and services
	(billions of dollars)			
Calendar 1941				
Quarter I	72.8	10.9	61.9	61.9
" II	75.6	11.1	64.5	63.1
" III	78.1	10.4	67.7	64.2
" IV	76.6	8.8	67.8	62.2
Calendar 1942				
Quarter I	80.6	7.3	73.3	65.4
" II	78.8	6.5	72.3	63.0

^{1/} Survey of Current Business, August, 1942, p. 14.^{2/} Figures in current prices deflated by Bureau of Labor Statistics cost of living index number.

TABLE 2

Prospective supply of consumer goods at August, 1942, prices; seasonally adjusted annual rates

Year and quarter	Total supply of consumer goods ^{1/} (billions of dollars)
Calendar 1942	
Quarter III	73.0
" IV	69.0
Calendar 1943	
Quarter I	68.5
" II	66.5

^{1/} Estimates by Oscar Gass.

September 7, 1942

Herbert Gaston came to our house in Washington tonight with a letter which I was to send to George. I read it and didn't like it - I mean I liked the letter but I didn't like the idea of sending it, particularly in view of the fact that the President omitted saying anything about the spendings tax.

Gaston told me he thought George had had a meeting Sunday afternoon with the Democratic members of his Committee. So I went upstairs and got George on the phone, and he said, "Yes." I asked him if he had anything he wanted to say, and he said, "Yes." He said that he had gotten all the Democratic members of his Committee together with the exceptions of Senator Walsh and Senator Barkley, and none of them favor the principle of the spendings tax, and that the various members had various ideas. He said that they had taken great offense at what the President had said about their being slow on the tax bill, and that they would go ahead now and finish voting on the tax bill within the next couple of days, and get it into the hands of the drafting experts. He said also that they had been influenced by the fact that they had talked with Doughton and several other members of the Ways and Means Committee who said they couldn't dream of considering the spendings tax without having hearings. (We all made a great mistake by not talking with Doughton and Jere Cooper. It was an oversight but a stupid one.)

I went downstairs and reported the conversation to Gaston, and said, "There is no use sending any letter now," and Herbert Gaston agreed with me.

9-7-42



ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

To H. M. Jr.:

Here is a rough draft of a letter. Griswold has worked with me on revising it. I think it might help.

I want to suggest to Randolph that he ask ~~me~~ George to call in some people from other Departments and agencies before the Committee votes. I think we might get Henderson, Lubin and Loch Currie to help us and at least stall a decision to let the leaven work. The Times-Herald today indicates LaFollette is swinging to our side.

MSG.

P.S. - Randolph had ~~an~~ 15-minute on the Blue network today. Chic arranged it.

The Honorable Walter F. George,
Chairman Committee on Finance
United States Senate

My dear Senator George:

Supplementing the brief statement I made when I appeared before the Finance Committee on Thursday of last week and the later statements of Mr. Paul and his associates on the subject of the spending tax proposed by the Treasury Department, I desire to express again to you and through you to the members of the Committee my very great concern with respect to ~~the~~ consumer spending and its effect on the cost of living and the problem of financing the war.

So great is my concern over this problem that I felt compelled to issue a statement to the public on Saturday, a copy of which I am attaching to this letter.

You will recall that in addressing the Committee last Thursday I said:

"Revenue is not the sole purpose nor even the primary purpose of these proposals. Their main purpose is to restrict consumer spending so that, as far as possible through fiscal means, we may avoid the perils of inflation in the huge financing program we have ahead of us."

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In my statement on Saturday I said that the Nation as a whole is now spending at a rate far greater than a war economy

can afford. In his message to the Congress yesterday the President made plain in these words the urgency of finding a solution to this problem:

"But even if the process of stabilization of all prices and all wages at present levels were to be brought about, there would still remain the great upward pressure on the cost of living created by the vast amount of purchasing power which has been earned in all sections of the country. The National income has been increasing since January 1, 1941, at the average rate of 2% a month. This purchasing power now exceeds by an estimated twenty billions the amount of goods which will be available for purchase by civilians this year. The result obviously is that people compete more and more for the available supply of goods; and the pressure of this great demand compared with the small supply--which will become smaller and smaller--continually threatens to disrupt our whole price structure."

The facts of the rate at which consumer spending is now actually going on abundantly support the President's statement and his appeal for action. Department of Commerce figures show that expenditures in April, May and June of this year were at an annual rate three billions higher than in the calendar year 1941, which was itself a record high expenditure year. But this comparison includes consumer durable goods such as automobiles and mechanical appliances which are not now available. Comparison of purchases of non-durable goods and services shows that they have risen from an annual rate of less than 62 billions in the first quarter of 1941 to almost 73 billions in the second quarter of 1942. Expenditures for these available consumer goods in the second quarter of this year were at a rate 7 billions higher than for the record year 1941.

The supply of goods simply will not be available for us to continue expenditures at this rate. It is estimated that there will be a drop of not less than 12 billions on an annual basis in the supply of goods available in the second quarter of 1943 as compared to the same quarter in 1942.

We have to choose whether the adjustment between an increasing demand and a shortening supply is to be made by the painful, unequal and costly method of inflation--with all the injustice and unrest, the hardships upon the poor and those with small fixed incomes--which ^{this} method will entail, or is to be made through the adoption of adequate methods, including fiscal methods, to achieve a less expensive and less perilous solution.

It is to accomplish this result that we have proposed the spending tax. That tax combines the merits of an increase in the income tax with those of a sales tax, without the demerits of either. It strikes squarely at the major source of economic pressure. It takes money directly out of the spending stream, and it gives our citizens an inducement not to spend so that much more of the spending pressure will be held back. I have heard of no other proposal which deals so straightforwardly and so effectively with the problem which confronts us. The extreme gravity of the situation requires

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the fullest consideration of a fiscal program which will provide a frontal attack against the enemy of inflation.

It is a problem that we cannot evade. It cannot be met by any easy or half-way measures.

Sincerely,



THE DIRECTOR GENERAL
PAN AMERICAN UNION
WASHINGTON, D. C.

September 7, 1942

My dear Mr. Secretary:

Permit me to congratulate you on the admirable statement on taxation which I am certain will contribute much to the enlightenment of public opinion.

I beg to remain, my dear Mr. Secretary,

Very sincerely yours,

L. S. Rowe
Director General

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

HOLD FOR RELEASE

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September 7, 1942.

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until the READING of the President's Message has begun in the Senate or the House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

Four months ago, on April 27, 1942, I laid before the Congress a seven-point national economic policy designed to stabilize the domestic economy of the United States for the period of the war. The objective of that program was to prevent any substantial further rise in the cost of living.

It is not necessary for me to enumerate again the disastrous results of a runaway cost of living -- disastrous to all of us, farmers, laborers, businessmen -- the nation itself. When the cost of living spirals upward, everybody becomes poorer, because the money he has and the money he earns buys so much less. At the same time the cost of the war, paid ultimately from taxes of the people, is needlessly increased by many billions of dollars. The national debt, at the end of the war, would become unnecessarily greater. Indeed, the prevention of a spiraling domestic economy is a vital part of the winning of the war itself.

I reiterate the seven-point program which I presented April 27, 1942:

1. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.
2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers, retailers, wholesalers and manufacturers pay for the things they buy; and ceilings on rents for dwellings in all areas affected by war industries.
3. To keep the cost of living from spiraling upward, we must stabilize the remuneration received by individuals for their work.
4. To keep the cost of living from spiraling upward, we must stabilize the prices received by growers for the products of their lands.
5. To keep the cost of living from spiraling upward, we must encourage all citizens to contribute to the cost of winning this war by purchasing War Bonds with their earnings instead of using those earnings to buy articles which are not essential.

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6. To keep the cost of living from spiraling upward, we must ration all essential commodities of which there is a scarcity, so that they may be distributed fairly among consumers and not merely in accordance with financial ability to pay high prices for them.
7. To keep the cost of living from spiraling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying and adds to the amount available to the creditors for the purchase of War Bonds.

In my message of four months ago, I pointed out that in order to succeed in our objective of stabilization it was necessary to move on all seven fronts at the same time; but that two of them called for legislation by the Congress before action could be taken. It was obvious then, and it is obvious now, that unless those two are realized, the whole objective must fail. These are points numbered one and four: — namely, an adequate tax program, and a law permitting the fixing of price ceilings on farm products at parity prices.

I regret to have to call to your attention the fact that neither of these two essential pieces of legislation has as yet been enacted into law. That delay has now reached the point of danger to our whole economy.

However, we are carrying out, by executive action, the other parts of the seven-point program which did not require Congressional action.

Price ceilings have been fixed on practically all commodities (other than certain exempted agricultural products), and on rents in war production areas of the United States.

This process of keeping prices and rents at reasonable levels constitutes one of the most far-reaching economic steps that this nation has ever taken — in time of peace or war.

Our experience during the last four months has proved that general control of prices is possible — but only if that control is all inclusive. If, however, the costs of production, including labor, are left free to rise indiscriminately, or if other major elements in the costs of living are left unregulated, price control becomes impossible. If markets are flooded with purchasing power in excess of available goods, without taking adequate measures to siphon off the excess purchasing power, price control becomes likewise impossible.

Our entire effort to hold the cost of living at its present level is now being sapped and undermined by further increases in farm prices and in wages, and by an ever-continuing pressure on prices resulting from the rising purchasing power of our people.

Annual wage and salary disbursements have increased from 43.7 billion dollars in 1939 to an estimated 75 billion dollars in 1942. This represents an increase of 71%. To obtain a full appreciation of what that increase means, we should remember that 75 billion dollars is more than our total national income was during any single year in the 1930's. Due to constantly increasing employment, overtime, and wage rate increases, the annual wage and salary bill for the entire country has been rising by more than a billion dollars a month.

It is impossible for the cost of living to be stabilized while farm prices continue to rise. You cannot expect the laborer to maintain a fixed wage level if everything he wears and eats begins to go up drastically in price. On the other hand, it is impossible to keep any prices stable — farm prices or other prices — if wage rates, one of the most important elements in the cost of production, continue to increase.

But even if the process of stabilization of all prices and wages at present levels were to be brought about, there would still remain the great upward pressure on the cost of living created by the vast amount of purchasing power which has been earned in all sections of the country. The national income has been increasing since January 1, 1941, at the average rate of 2% each month. This purchasing power now exceeds by an estimated twenty billions the amount of goods which will be available for purchase by civilians this year. The result obviously is that people compete more and more for the available supply of goods; and the pressure of this great demand compared with the small supply -- which will become smaller and smaller -- continually threatens to disrupt our whole price structure.

A recent study by the Bureau of Labor Statistics has shown very strikingly how much the incomes of the average of families have gone up during the first quarter of 1942. If we assume that the income for the first quarter of 1942 is a fair basis for estimating what the family income will be for the entire year, the results of the study show that whereas less than one-fourth of all families in the United States received as much as \$2,500 in 1941, more than one-third will have \$2,500 or more in 1942. This shows how much the purchasing power of the average American family has gone up as a result of war production and how essential it is to control that purchasing power by taxation and by investment in war bonds.

We also know that as the war goes on there will not be an adequate supply of all civilian goods; that only through strict rationing, wherever necessary, will these goods be equitably distributed. We are determined that no group shall suffer a shrinkage of its normal quota of basic necessities because some richer group can buy all the available supply at high prices.

In normal peace times the ordinary processes of collective bargaining are sufficient in themselves. But in war times and particularly in times of greatly increasing prices, the Government itself has a very vital interest in seeing to it that wages are kept in balance with the rest of the economy. It is still the policy of the Federal Government to encourage free collective bargaining between employers and workers; and that policy will continue. Owing to the fact that costs of production are now, in so many cases, being passed on to the government, and that so large a percentage of profits would be taken away by taxation, collective bargaining between employers and employees has changed a great deal from what it was in peace times. In times of danger to our economy the government itself must step into the situation to see to it that the processes of collective bargaining and arbitration and conciliation are not permitted to break up the balances between the different economic factors in our system.

War calls for sacrifice. War makes sacrifice a privilege. That sacrifice will have to be expressed in terms of a lack of many of the things to which we all have become accustomed. Workers, farmers, white collar people and businessmen must expect that. No one can expect that, during the war, he will always be able to buy what he can buy today.

If we are to keep wages effectually stabilized, it becomes imperative, in fairness to the worker, to keep equally stable the cost of food and clothing and shelter and other articles used by workers.

Prices and rents should not be allowed to advance so drastically ahead of wage rates that the real wages of workers as of today -- their ability to buy food and clothing and medical care -- will be cut down. For if the cost of living goes up as fast as it is threatening to do in the immediate future, it will be unjust, in fact impossible, to deny workers rises in wages which would meet at least a part of that increase.

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The cost of all food used by wage earners -- controlled and uncontrolled -- has been going up at the rate of $1\frac{1}{2}\%$ per month since the price ceilings were set in May, 1942. If this rise should be permitted to continue, the increased cost of food to wage earners next May would be more than 15% over the level which existed when the ceilings were set.

This would be equal to imposing a 15% sales tax on all food purchased by wage earners. Obviously no one would consider imposing such a tax.

This drastic increase has been caused, and will be caused, chiefly by the fact that a number of food commodities are exempt under existing law.

In the case of these exempt commodities the increases are even more startling. The cost of such food used by wage earners has been rising at an average of $3\frac{1}{2}\%$ per month since May 1, 1942.

Prices received by farmers have risen 85% since the outbreak of the war in September, 1939, and these prices are continuing to rise. Cash farm income, including government payments, has increased from 8.7 billion dollars in 1939 to substantially more than 15 billion dollars in 1942. This is an increase of about 75%.

The movement of uncontrolled food prices since May 18, 1942, the date when price regulation became effective, has been so drastic as to constitute an immediate threat to the whole price structure, to the entire cost of living, and to any attempt to stabilize wages.

Within two months after the date that price regulation became effective, the prices of controlled foods actually fell $7/10$ of 1%. But uncontrolled foods advanced 7.3% during the same period, and are still going up.

To give some specific examples: From May to August of this year round steak and pork chops, which are controlled, showed a slight decline; but during the same period lamb, which was uncontrolled up to July, advanced more than 10%, and chickens have advanced more than 16%.

To take another example: Lard, which is a controlled product, dropped nearly 5%; whereas butter, which is uncontrolled, went up more than 8% or twice the normal seasonal rate. Oranges have gone up more than 25%, although the normal seasonal increase is only about 6 or 7%.

Uncontrolled agricultural commodities include some of the most important of the foods and include the grain foods necessary for livestock. When you consider that in this category are wheat, corn, oats, barley, rye, dry beans, cotton, sweet potatoes, apples, sheep, butter fat, wholesale milk, chickens, eggs and oranges, you can realize how important these products are to the pocketbook of the housewife.

The greatest danger is in dairy products, which are, as you know, most important items in the American diet. Butter, cheese or evaporated milk are exempt under the Price Control Act. The prices for these have been going up so fast that they constitute a serious threat to an adequate supply of fluid milk. Unless we are able to get control of butter, cheese and other dairy products in the very near future, the price of milk in large cities is certain to go up.

If wages should be stabilized and farm prices be permitted to rise at any rate like the present rate, workers will have to bear the major part of the increase. This we cannot ask. The Congress must realize that unless the existing control over farm prices is strengthened, we must abandon our efforts to stabilize wages and salaries and the cost of living. If that occurs, workers and farmers alike will not only suffer a reduction in real income, but will bring upon themselves and the Nation the unparalleled disaster of unchecked inflation.

The reason why price ceilings have not already been imposed on all food products is, as you know, that paragraph 3 of the Emergency Price Control Act prohibits such ceilings until farm prices as a whole have gone up beyond parity prices -- far beyond -- as high as an average of 16% beyond.

Although that restriction upon establishing ceilings for farm products usually is referred to as the 110% of parity limitation, it is much worse than that. The statute provides other limitations which are more drastic. Ceilings cannot be imposed, under the statute, on any product at a level below the market price on October 1, 1941, or December 15, 1941, or the average price for the period July 1, 1919 to June 30, 1929, or below 110% of current parity, whichever of those four levels is highest. As a result, the lowest average level for all farm commodities at which ceilings may be imposed is not 110%, but 116% of parity -- some of the commodities going almost as high as 150% of parity.

Even more important is the psychological effect of such unfair privilege. It provides fuel for fires of resentment against farmers as a favored class. After all, parity is, by its very definition, a fair relationship between the prices of the things farmers sell and the things they buy. Calculations of parity must include all costs of production including the cost of labor. As a result parity prices may shift every time wage rates shift. Insisting that the ceilings on no farm commodity shall ever be lower than 110% of parity is asking for more than a fair price relationship with other prices.

In fact, the limitations on agricultural ceilings are now being cited by other groups as a reason for resisting economic controls that are needed in their own fields. The limitations will be a rallying point for such opposition as long as they are in effect.

As I urged in my message of April 27, 1942, "the original and excellent objective of obtaining parity for the farmers of the United States should be restored".

Our policy with respect to farm products should be guided by three principles: First, to hold the line against inflationary price increases. Second, to get the required production of necessary farm products. Third, to maintain the principle of parity for agriculture.

Agricultural ceilings should be permitted at either parity or at the price levels which prevailed at some recent date, whichever is higher. In most cases the formula would preserve the general structure of wholesale and retail price controls, and would also call out the volume of production needed. Also, it would preserve the parity principle.

In regard to increasing the total of our food production, one of the worries that a farmer has today is the shortage of labor for cultivating and harvesting crops. The time is soon coming when in many parts of the country we shall have to use seasonally the help of women and grown young people. I feel certain the nation will cooperate wholeheartedly.

It not only would be unfair to labor to stabilize wages and do nothing about the cost of food; it would be equally unfair to the farmer. For we must all remember that the farmer's wife buys many articles of food at the store for the use of her own family, and high prices hurt her pocketbook as much as that of the city housewife.

What is needed, therefore, is an over-all stabilization of prices, salaries, wages and profits. That is necessary to the continued production of planes and tanks and ships and guns at the

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present constantly increasing rate.

We cannot hold the actual cost of food and clothing down to approximately the present level beyond October first. But no one can give any assurances that the cost of living can be held down after that date.

Therefore, I ask the Congress to pass legislation under which the President would be specifically authorized to stabilize the cost of living, including the price of all farm commodities. The purpose should be to hold farm prices at parity, or at levels of a recent date, whichever is higher.

I ask the Congress to take this action by the first of October. Inaction on your part by that date will leave me with an inescapable responsibility to the people of this country to see to it that the war effort is no longer imperiled by threat of economic chaos.

In the event that the Congress should fail to act, and act adequately, I shall accept the responsibility, and I will act.

At the same time that farm prices are stabilized, wages can and will be stabilized also. This I will do.

The President has the powers, under the Constitution and under Congressional Acts, to take measures necessary to avert a disaster which would interfere with the winning of the war.

I have given the most thoughtful consideration to meeting this issue without further reference to the Congress. I have determined, however, on this vital matter to consult with the Congress.

There may be those who will say that, if the situation is as grave as I have stated it to be, I should use my powers and act now. I can only say that I have approached this problem from every angle, and that I have decided that the course of conduct which I am following in this case is consistent with my sense of responsibility as President in time of war, and with my deep and unalterable devotion to the processes of democracy.

The responsibilities of the President in war time to protect the Nation are very grave. This total war, with our fighting fronts all over the world, makes the use of executive power far more essential than in any previous war.

If we were invaded, the people of this country would expect the President to use any and all means to repel the invader.

The Revolution and The War Between The States were fought on our own soil but today this war will be won or lost on other continents and remote seas.

I cannot tell what powers may have to be exercised in order to win this war.

The American people can be sure that I will use my powers with a full sense of my responsibility to the Constitution and to my country. The American people can also be sure that I shall not hesitate to use every power vested in me to accomplish the defeat of our enemies in any part of the world where our own safety demands such defeat.

When the war is won, the powers under which I act automatically revert to the people - to whom they belong.

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In March and April, 1933, this nation faced a threatening domestic situation calling for the most drastic measures. The Congress, alive to the needs of that day, formulated and enacted whatever was required to do the job before it — without long debates, without party politics and without heed to the pressures of any special group looking for advantages for itself.

I need not argue the point that the situation facing the nation today is infinitely more critical than it was ten years ago. We are fighting a war of survival. Nothing can yield to the over-all necessity of winning this war, and the winning of the war will be imperilled by a runaway domestic economy.

As a part of our general program on farm prices, I recommend that Congress in due time give consideration to the advisability of legislation which would place a floor under prices of farm products, in order to maintain stability in the farm market for a reasonable future time. In other words, we should find a practicable method which will not only enable us to place a reasonable ceiling or maximum price upon farm products but which will enable us also to guarantee to the farmer that he would receive a fair minimum price for his product for one year, or even two years — or whatever period is necessary after the end of the war. Every farmer remembers what happened to his prices after the last war. We can, I am sure, if we act promptly and wisely, stabilize the farmers' economy so that the post-war disaster of 1920 will not overtake him again.

The farmer, instead of looking forward to a new collapse in farm prices at the end of the war, should be able to look forward with assurance to receiving a fair minimum price for one or two years after the war. Such a national policy could be established by legislation.

In computing parity, we should continue to use the computations of the Bureau of Agricultural Economics made under the law as it stands today. And in determining whether a commodity has reached parity, we should include all the benefits received by the farmer from his government under the AAA program, allocable to the particular commodity. For it is unfair to give a farmer a parity price, and, in addition, to pay him benefits which will give him far more than parity.

I have confidence that the American farmer who has been doing so much in the battle of production of food will do as much in this struggle against economic forces which make for the disaster of inflation; for nobody knows better than the farmer what happens when inflationary, wartime booms are permitted to become post-war panics.

With respect to point seven of the program of April 27, 1942, we have made certain credit rulings designed to curtail unnecessary buying; and whatever else has to be done along these lines will be done.

With respect to point six, rationing is now in effect on some commodities, and, when necessary, will be extended to others.

But with respect to point one — a fair tax program — that still waits upon the Congress to act.

One of the most powerful weapons in our fight to stabilize living costs is taxation. It is a powerful weapon because it reduces the competition for consumers' goods — especially scarce foods.

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The cooperation and self-restraint of the whole nation will be required to stabilize the cost of living. The stabilization of the cost of living cannot be maintained without heavy taxes on everyone except persons with very low incomes. With such increases in the tax load, unfair tax distribution becomes less and less tolerable. We can rightfully expect the fullest cooperation and self-restraint only if the tax burden is being fairly levied in accordance with ability to pay.

This means that we must eliminate the tax exemption of interest on State and local securities, and other special privileges or loopholes in our tax law.

It means that in the higher income brackets, the tax rate should be such as to give the practical equivalent of a top limit on an individual's net income after taxes, approximating \$25,000. It means that we must recapture through taxation all wartime profits that are not necessary to maintain efficient all-out war production. Such provisions will give assurance that the sacrifices required by war are being equitably shared.

Next to military and naval victory, a victory along this economic front is of paramount importance. Without it our war production program will be hindered. Without it we would be allowing our young men, now risking their lives in the air, on land, and on the sea, to return to an economic mess of our own making.

The least that we at home can do for them is to see that our production increases every day so as to give them the weapons of war with which to fight, and to make sure that our economy at home continues to be one to which they can return with confidence and security.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

September 7, 1942.

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September 7, 1942

CAUTION: The following address of the President MUST BE HELD IN CONFIDENCE until released.

NOTE: Release to editions of all newspapers appearing on the streets NOT EARLIER THAN 9:30 O'CLOCK, P.M., EWT., Monday, September 7, 1942. The same release also applies to radio announcers and news commentators.

CARE MUST BE EXERCISED TO PREVENT PREMATURE PUBLICATION.

STEPHEN EARLY
Secretary to the President

I wish that all the American people could read all the citations for various medals recommended for our soldiers, sailors and marines. I am picking out one of these citations which tells of the accomplishments of Lieutenant John James Powers, United States Navy, during three days of the battles with Japanese forces in the Coral Sea.

During the first two days, Lieutenant Powers, flying a dive-bomber in the face of blasting enemy anti-aircraft fire, demolished one large enemy gunboat, put another gunboat out of commission, severely damaged an aircraft tender and a twenty thousand ton transport, and scored a direct hit on an aircraft carrier which burst into flames and sank soon after.

The official citation describes the morning of the third day of battle. As the pilots of his squadron left the ready room to man their planes, Lieutenant Powers said to them, "Remember, the folks back home are counting on us. I am going to get a hit if I have to lay it on their flight deck".

He led his section down to the target from an altitude of 18,000 feet, through a wall of bursting anti-aircraft shells and swarms of enemy planes. He dived almost to the very deck of the enemy carrier, and did not release his bomb until he was sure of a direct hit. He was last seen attempting recovery from his dive at the extremely low altitude of two hundred feet, amid a terrific barrage of shell and bomb fragments, smoke, flame and debris from the stricken vessel. His own plane was destroyed by the explosion of his own bomb. But he had made good his promise to "lay it on the flight deck".

I have received a recommendation from the Secretary of the Navy that Lieutenant James Powers, of New York City, missing in action, be awarded the Medal of Honor. I hereby and now make this award.

You and I are "the folks back home" for whose protection Lieutenant Powers fought and repeatedly risked his life. He said that we counted on him and his men. We did not count in vain. But have not those men a right to be counting on us? How are we playing our part "back home" in winning this war?

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The answer is that we are not doing enough.

Today I sent a message to the Congress, pointing out the overwhelming urgency of the serious domestic economic crisis with which we are threatened. Some call it "inflation", which is a vague sort of term, and others call it a "rise in the cost of living", which is much more easily understood by most families.

That phrase, "the cost of living", means essentially what a dollar can buy.

From January 1, 1941 to May of this year, the cost of living went up about 15%. At that point we undertook to freeze the cost of living. But we could not do a complete job of it, because the Congressional authority at the time exempted a large part of farm products used for food and for making clothing; though several weeks before, I had asked the Congress for legislation to stabilize all farm prices.

At that time I had told the Congress that there were seven elements in our national economy, all of which had to be controlled; and that if any one essential element remained exempt, the cost of living could not be held down.

On only two of these points -- both of them vital however -- did I call for Congressional action. These were: first, taxation; and, second, the stabilization of all farm prices at parity.

"Parity" is a standard for the maintenance of good farm prices. It was established as our national policy in 1933. It means that the farmer and the city worker are on the same relative ratio with each other in purchasing power as they were during a period some thirty years ago -- at a time when the farmer had a satisfactory purchasing power. 100% parity, therefore, has been accepted by farmers as the fair standard for their prices.

Last January, however, the Congress passed a law forbidding ceilings on farm prices below 110% of parity on some commodities. On other commodities the ceiling was even higher, so that the average possible ceiling is now about 116% of parity for agricultural products as a whole.

This act of favoritism for one particular group in the community increased the cost of food to everybody -- not only to the workers in the city or in the munitions plants, and their families, but also to the families of the farmers themselves.

Since last May, ceilings have been set on nearly all commodities, rents and services, except the exempted farm products. Installment buying has been effectively controlled.

Wages in certain key industries have been stabilized on the basis of the present cost of living.

It is obvious, however, that if the cost of food continues to go up, as it is doing at present, the wage earner, particularly in the lower brackets, will have a right to an increase in his wages. That would be essential justice and a practical necessity.

Our experience with the control of other prices during the past few months has brought out one important fact — the rising cost of living can be controlled, providing all elements making up the cost of living are controlled at the same time. We know that parity prices for farm products not now controlled will not put up the cost of living more than a very small amount; but that if we must go up to an average of 11 1/2% of parity for food and other farm products — which is necessary at present under the Emergency Price Control Act before we can control all farm prices — the cost of living will get well out of hand. We are face to face with this danger today. Let us meet it and remove it.

I realize that it may seem out of proportion to you to be worrying about these economic problems at a time like this when we are all deeply concerned about the news from far distant fields of battle. But I give you the solemn assurance that failure to solve this problem here at home — and to solve it now — will make more difficult the winning of this war.

If the vicious spiral of inflation ever gets under way, the whole economic system will stagger. Prices and wages will go up so rapidly that the entire production program will be endangered. The cost of the war, paid by taxpayers, will jump beyond all present calculations. It will mean an uncontrollable rise in prices and in wages which can result in raising the over-all cost of living as high as another 20%. That would mean that the purchasing power of every dollar you have in your pay envelope, or in the bank, or included in your insurance policy or your pension would be reduced to about eighty cents. I need not tell you that this would have a demoralizing effect on our people, soldiers and civilians alike.

Over-all stabilization of prices, salaries, wages and profits is necessary to the continued increasing production of planes and tanks and ships and guns.

In my message today I have told the Congress that this must be done quickly. If we wait for two or three or four or six months it may well be too late.

I have told the Congress that the Administration can not hold the actual cost of food and clothing down to the present level beyond October first.

Therefore, I have asked the Congress to pass legislation under which the President would be specifically authorized to stabilize the cost of living, including the price of all farm commodities. The purpose should be to hold farm prices at parity, or at levels of a recent date, whichever is higher. The purpose should also be to keep wages at a point stabilized with today's cost of living. Both must be regulated at the same time; and neither can or should be regulated without the other.

At the same time that farm prices are stabilized, I will stabilize wages.

This is plain justice — and plain common sense.

I have asked the Congress to take this action by the first of October. We must now act with the despatch which the stern necessities of war require.

I have told the Congress that inaction on their part by that date will leave me with an inescapable responsibility to the people of this country to see to it that the war effort is no longer imperiled by the threat of economic chaos.

As I said in my message to the Congress:

In the event that the Congress should fail to act, and act adequately, I shall accept the responsibility, and I will act.

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The President has the powers, under the Constitution and under Congressional Acts, to take measures necessary to avert a disaster which would interfere with the winning of the war.

I have given the most thoughtful consideration to meeting this issue without further reference to the Congress. I have determined, however, on this vital matter to consult with the Congress.

There may be those who will say that, if the situation is as grave as I have stated it to be, I should use my powers and act now. I can only say that I have approached this problem from every angle, and that I have decided that the course of conduct which I am following in this case is consistent with my sense of responsibility as President in time of war, and with my deep and unalterable devotion to the processes of democracy.

The responsibilities of the President in war time to protect the Nation are very grave. This total war, with our fighting fronts all over the world, makes the use of executive power far more essential than in any previous war.

If we were invaded, the people of this country would expect the President to use any and all means to repel the invader.

The Revolution and the War between the States were fought on our own soil but to-day this war will be won or lost on other continents and remote seas. I cannot tell what powers may have to be exercised in order to win this war.

The American people can be sure that I will use my powers with a full sense of responsibility to the Constitution and to my country. The American people can also be sure that I shall not hesitate to use every power vested in me to accomplish the defeat of our enemies in any part of the world where our own safety demands such defeat.

When the war is won, the powers under which I act will automatically revert to the people -- to whom they belong.

I think I know the American farmers. I know that they are as wholehearted in their patriotism as any other group. They have suffered from the constant fluctuations of farm prices -- occasionally too high, more often too low. Nobody knows better than farmers the disastrous effects of war time inflationary booms and post-war deflationary panics.

I have today suggested that the Congress make our agricultural economy more stable. I have recommended that in addition to putting ceilings on all farm products now, we also place a definite floor under those prices for a period beginning now, continuing through the war, and for as long as necessary after the war. In this way we will be able to avoid the collapse of farm prices which happened after the last war. The farmers must be assured of a fair minimum price during the re-adjustment period which will follow the excessive world food demands which now prevail.

We must have some floor under farm prices, as we have under wages, if we are to avoid the dangers of a post-war inflation on the one hand, or the catastrophe of a crash in farm prices and wages, on the other.

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Today I have also advised the Congress of the importance of speeding up the passage of the tax bill. The Federal Treasury is losing millions of dollars a day because the bill has not yet been passed. Taxation is the only practical way of preventing the incomes and profits of individuals and corporations from getting too high.

I have told the Congress once more that all net individual incomes, after payment of all taxes, should be limited effectively by further taxation to a maximum net income of \$25,000 a year. And it is equally important that corporate profits should not exceed a reasonable amount in any case.

The nation must have more money to run the War. People must stop spending for luxuries. Our country needs a far greater share of our incomes.

For this is a global war and it will cost this nation nearly one hundred billion dollars in 1943.

In that global war there are now four main areas of combat; and I should like to speak briefly of them, not in the order of importance, for all of them are vital and all of them inter-related.

(1) The Russian front. Here the Germans are still unable to gain the smashing victory which, almost a year ago, Hitler announced he had already achieved. Germany has been able to capture important Russian territory. Nevertheless, Hitler has been unable to destroy a single Russian Army; and this, you may be sure, has been, and still is, his main objective. Millions of German troops seem doomed to spend another cruel and bitter winter on the Russian front. The Russians are killing more Nazis, and destroying more airplanes and tanks than are being smashed on any other front. They are fighting not only bravely but brilliantly. In spite of any setbacks Russia, will hold out, and with the help of her Allies will ultimately drive every Nazi from her soil.

(2) The Pacific Ocean Area. This area must be grouped together as a whole — every part of it, land and sea. We have stopped one major Japanese offensive; and have inflicted heavy losses on their fleet. But they still possess great strength; they seek to keep the initiative; and they will undoubtedly strike hard again. We must not over-rate the importance of our successes in the Solomon Islands, though we may be proud of the skill with which these local operations were conducted. At the same time, we need not under-rate the significance of our victory at Midway. There we stopped the major Japanese offensive.

(3) In the Mediterranean and the Middle East area the British, together with the South Africans, Australians, New Zealanders, Indian troops and others of the United Nations, including ourselves, are fighting a desperate battle with the Germans and Italians. The Axis powers are fighting to gain control of that area, dominate the Mediterranean and Indian Ocean, and gain contact with the Japanese Navy. The battle is now joined. We are well aware of our danger, but we are hopeful of the outcome.

(4) The European area. Here the aim is an offensive against Germany. There are at least a dozen different points at which attacks can be launched. You, of course, do not expect me to give details of future plans, but you can rest assured that preparations are being made here and in Britain toward this purpose. The power of Germany must be broken on the battlefields of Europe.

Various people urge that we concentrate our forces on one or another of these four areas, although no one suggests that any one of the four areas should be abandoned. Certainly, it could not be seriously urged that we abandon aid to Russia, or surrender all of the Pacific to Japan, or the Mediterranean and Middle East to Germany, or give up an offensive against Germany. The American people may be sure that we shall neglect none of the four great theatres of war.

Certain vital military decisions have been made. In due time you will know what these decisions are — and so will our enemies. I can say now that all of these decisions are directed toward taking the offensive.

Today, exactly nine months after Pearl Harbor, we have sent overseas three times more men than we transported to France in the first nine months of the first World War. We have done this in spite of greater danger and fewer ships. And every week sees a gain in the actual number of American men and weapons in the fighting areas. These reinforcements in men and munitions will continue to go forward.

This war will finally be won by the coordination of all the armies, navies and air forces of the United Nations operating in unison against our enemies.

This will require vast assemblies of weapons and men at all the vital points of attack. We and our allies have worked for years to achieve superiority in weapons. We have no doubts about the superiority of our men. We glory in the individual exploits of our soldiers, our sailors, our marines, our merchant seamen. Lieutenant John James Powers was one of these — and there are thousands of others in the forces of the United Nations.

Several thousand Americans have met death in battle. Other thousands will lose their lives. But many millions stand ready to step into their places — to engage in a struggle to the very death. For they know that the enemy is determined to destroy us, our homes and our institutions — that in this war it is kill or be killed.

Battles are not won by soldiers or sailors who think first of their own personal safety. And wars are not won by people who are concerned primarily with their own comfort, their own convenience, their own pocket-books.

We Americans of today bear the gravest of responsibilities. All of the United Nations share them.

All of us here at home are being tested — for our fortitude, for our selfless devotion to our country and our cause.

This is the toughest war of all time. We need not leave it to historians of the future to answer the question whether we are tough enough to meet this unprecedented challenge. We can give that answer now. The answer is "yes".

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 309

Information received up to 7 A.M., 7th September, 1942.

1. NAVAL

Two Russian gunboats, converted 350 ton steamers, were blown up by their crews on the 2nd since they were unable to break out of the SEA OF AZOV.

2. MILITARY

EGYPT. 5th. Our mobile columns from the East and South continued to harass the retreating enemy throughout the day. The bulk of his forces in the Southern sector have withdrawn West of the minefields and now appear to be on the general line DEIR EL MUNASSIB - QARET EL HEMEIMAT.

3. AIR OPERATIONS

WESTERN FRONT. 6th. 41 U.S. Fortresses dropped about 64 tons of H.B. on the Potez airframe factory at MEAULT. Two of them are missing. They destroyed five enemy fighters, probably destroyed 13, and damaged 25. Photographs confirm numerous hits on the target. A further 13 U.S. Fortresses and 12 U.S. Bostons attacked aerodromes at ABBEVILLE and ST. OMER and 11 Bostons attacked a merchant vessel at BOULOGNE. Allied fighters provided escort and cover and probably destroyed 2 F.W. 190's and damaged 5 for the loss of 3 Spitfires. 1 Mosquito sent to FRANKFURT is missing. Typhoons shot down 2 Me. 210's (new type fighter-bomber) over YORKSHIRE.

6th/7th. 207 aircraft were sent to DUISBURG. 9 were sea mining and 5 dropped leaflets. 8 are missing and 1 crashed. Preliminary reports indicate no cloud at DUISBURG but ground haze. The attack is considered moderately successful. 17 Hudsons including 9 R.C.A.F. of which one is missing and 5 Naval Swordfish were sent to attack a merchant vessel in BOULOGNE Harbour and shipping off the FRISIAN ISLANDS.

EGYPT. 4th/5th. Our aircraft bombed M.T. in the Southern Sector.

5th. Escorted light bombers scored several hits on M.T. passing through a minefield. Five fighters were lost during the day but three pilots are safe.

4. HOME SECURITY

6th/7th. Scattered bombing occurred on TEESIDE. Damage to electricity mains at MIDDLESBOROUGH caused a partial and temporary stoppage of industry.

Regraded Unclassified

September 8, 1942
9:35 a.m.

GROUP

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

H.M.JR: I am sorry I didn't hear you on the radio, but nobody notified me. I thought you were going to telegraph me.

MR. PAUL: Well, maybe I should have, but I was--

H.M.JR: Remember, that was the last--

MR. PAUL: I was struggling with a rewrite all the morning, and it was being changed on me until five minutes before. I didn't have time to do a thing. I forgot.

H.M.JR: Remember?

MR. PAUL: I think I did say I was going to telegraph.

H.M.JR: I would like to have listened.

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MR. PAUL: It was in the process - you see, I had to cut it from thirty to fifteen minutes, which was some job.

MR. SCHWARZ: We will have a record in a day or so if you would like it.

H.M.JR: What time do you go on the Hill?

MR. PAUL: Ten o'clock.

H.M.JR: Paul, just to bring you up to date, I called up George last night and asked him how things were going. He said that he had met with all the Democratic members except Barkley and Walsh, and nobody in the group was in favor of the principles of this tax recommendation which we have just made. He said he had a plan of his own. He said he didn't know how good it was, but it was a gross tax exempting people, I think he said, of six hundred twelve dollars or less. I don't know how he arrived at the six hundred twelve.

Then he said that they consulted with Doughton and some other people of Ways and Means, and they wouldn't hear of it unless they had a public hearing, and I said that was the last straw because all of us made a mistake here in the room that we never spoke to Doughton and Cooper. It was a grave error on our part that we didn't, but nobody--

MR. PAUL: George said he was going to talk it over with him.

H.M.JR: We should have. Everybody overlooked that, and it is unfortunate. Didn't I suggest, Herbert, Doughton and Cooper tomorrow at this luncheon - didn't I?

MR. GASTON: Yes, you did.

H.M.JR: If they are coming, would you, between you and Stephens, pass it along?

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MR. GASTON: They haven't been invited yet so I will speak to Stephens this morning about inviting them.

H.M.JR: Who is to be invited?

MR. GASTON: Those that have been invited are George, Barkley, and Prentiss Brown.

H.M.JR: Well, I would add Doughton and Cooper--

MR. PAUL: All right.

H.M.JR: ... because what is going to happen is they are going to vote us down today. He said that they want to vote the whole bill out the next two or three days and get into the drafting stage. That is what he said. So we might just as well have Doughton and Cooper here and say - well, I think by tomorrow they will have voted us down - say, "Well, here we are."

Now, my attitude is, and I would like everybody else to take the same attitude, instead of having sort of a hang-dog attitude, tail between the legs - the way I feel is this, I am delighted that we had the courage and the foresight to make this recommendation. The only thing I would have regretted is that before the bill went to the drafting stage we hadn't made a suggestion like this. So, as far as I am concerned I have not only no regrets, but I am very happy that we made it, and I don't want anybody around to take the attitude that we have been licked or anything else. It is the public who will get the licking.

MR. PAUL: That is right.

H.M.JR: And so my head is up.

MR. PAUL: There are two questions that are apt to arise. One is, what is your attitude toward the reduction of the exemptions to a thousand, where the reduction is not associated with the spendings plan? The other is, what is your attitude toward a pure and unadulterated sales tax without being hooked--

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H.M.JR: Well, Randolph, I can't answer that. I have never yet seen the recommendations that you made on the sales tax. Nobody has given them to me, and I haven't seen them. I can't - it is like we started last Monday to do these things and I said I couldn't do them that fast, and nobody has given me a copy of what you read from before the Committee when you appeared. I mean, I haven't gotten a thing. I don't know the arguments for and against it. Certainly somebody in the big staff you have got could have given me a copy to read over the week end.

MR. PAUL: The arguments for and against it are all set forth in that statement of mine given the same day as yours.

H.M.JR: Yes, but I didn't see it before, and I haven't seen it since.

MR. PAUL: I am sorry.

H.M.JR: So I mean, I don't know whether the arguments were good or bad, because certainly you couldn't gather it from the paper.

MR. PAUL: No, the papers played it down.

H.M.JR: Well, anyway, if Roy, when you leave the room will you please go out and get me the thing - will you?

MR. PAUL: I will send it right in from my room.

H.M.JR: I can't give you the answer on the other thing.

MR. PAUL: I think the answer is pretty clear.

H.M.JR: What is your answer?

MR. PAUL: My answer is that we are not for a sales tax if it is not associated with some kind of

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progressive spendings tax or something that takes the curse off putting that additional burden on the lower income groups without putting it anywhere else. And on the reduction of the exemptions, I think we should take the view that we are not for it un-associated with our spendings tax program because those two things, if you take those things or either of them, you select certain aspects of our program that are opposed by our only friends in the world, the labor groups; and if you don't put in anything else, it bears down on the other group.

H.M.JR: I would go along with you on that if you are cornered.

MR. PAUL: I am not going to bring it up, naturally, but--

H.M.JR: I can go along with you on that. What else?

MR. PAUL: Those are the two points.

H.M.JR: All right. Well, let me know during the day what happens, will you?

MR. PAUL: Yes, I will call you at noon. Can I call you when I get through with the morning session?

H.M.JR: Yes. What?

MR. BLOUGH: I just said I had nothing on my mind.

H.M.JR: Lucky man. (Laughter)

MR. PAUL: Here is a speech by Vandenberg. (Speech handed to the Secretary.)

(Mr. Paul and Mr. Blough left the conference.)

H.M.JR: Herbert?

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MR. GASTON: No, I haven't anything.

MR. KUHN: I haven't anything.

H.M.JR: Buffington?

MR. BUFFINGTON: No, sir.

MR. GAMBLE: I have nothing, sir.

MR. HAAS: I have nothing this morning.

MR. SCHWARZ: Nothing.

H.M.JR: White?

MR. WHITE: You remember several weeks ago - a month ago - I spoke about the preparation of an order to take a census of foreign property owned by Americans, the American-owned property in foreign countries.

H.M.JR: That goes back months, doesn't it?

MR. WHITE: It originally goes back many months. At the time I spoke to you about it, I said the order would be ready within a month or six weeks, but the lawyers insisted that there was a difference between this census and the one we took for this country in that this was not going to be a Presidential order, but just a Treasury regulation. Therefore, they wanted the documents all ready before you issued the regulation, rather than issuing the document subsequent to the order. They have been working on it busily. They are now ready. The next step is to clear this with other agencies, which will probably take a week, or possibly two. There are a number of agencies who are intimately interested in the detail. We can go ahead with that if you say it is all right, unless you first want to speak to the President.

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H.M.JR: No. He is not interested.

MR. WHITE: Then we will go ahead with it.

H.M.JR: Sure.

MR. WHITE: And when the other agencies will have made such detail changes as they suggest, it will then be ready for regulation, and it will go into effect.

Frederick Phillips just called Mr. Fitzgerald after he had heard that the appointment you gave him was for Thursday, and said he would like it this afternoon, if possible.

H.M.JR: It is impossible. I am doing the financing for two days. For two days, I am doing the financing.

MR. WHITE: I have here a letter from Puleston giving you some figures on trade between South America and Sweden. (Letter dated July 31, 1942, addressed to the Secretary.) You asked me to speak to you about it. This is part of the larger problem. We are preparing a report on all the trade to neutrals, which you might want to present before the Board of Economic Warfare. It will be ready, probably, this week.

I asked Mr. Cairns, pursuant to a discussion we had a couple of weeks ago, to look over the powers of the WPB, and he prepared a memorandum which he gave me and I will pass on to you. It is a preliminary one which indicates that they have all the legal power one can possibly think of. As Cairns put it, one would have to think a long time before he could think of a power which they do not legally have, although they are buried in a number of orders which, in turn, refer to other laws, and so on. So it really would be a long task. He is writing a memo which will be ready for you.

Some time before you see Mr. Phillips, inasmuch as I gather he is going to see you about this memo of Keynes, I think that you ought to spend fifteen minutes or so going over that document with me.

That is all I have.

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H.M.JR: O.K. What else? Tell Stephens I would like to see you before I see Phillips.

Harold, you may have thought of this, or some of your associates may have, but I think, if you haven't done it - you know I suggested when the women were here that you explain this thing, the change in my position, what it meant, and so forth. You didn't want to do that.

MR. GRAVES: At that time.

H.M.JR: Yes. Now, I think not only for them, but for your whole war bond group, a careful explanation should go out over my signature to them, just where I stand, and what this means, and then what changes, if any, it would mean in the organization, and where they should direct their fire power.

MR. GRAVES: Well, I think we have pretty well taken care of that. You remember you asked me to send a copy of your statement, by wire, to each administrator, and that was done. We asked, when we did that, to have their comment by mail, and we are just getting those in. They are all very friendly to your statement, and all are saying that this means simply that they have got more work to do. In that telegram, also, we told our administrators that we were planning, as soon as things got clarified a little bit more, to have a meeting of all of our administrators and chairmen, and I think that would be the better time to go into this thing further with them.

H.M.JR: I would like, sometime this week, if you will give me what you and Odegard and Gamble and Kuhn think about the thing - I would like to see it this week, on how you are going to reorient yourselves.

MR. GRAVES: Of course, as matters stand, I doubt that there is any occasion for us to make any change at all. I think we ought to go right ahead on our payroll allotment.

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H.M.JR: Yes, but let's be a little bit forehanded. You do not know what the Committee may slip you this week.

MR. GRAVES: That is right. I think it would be well for us to wait until things have clarified a little more before we say anything to our people about any change in program.

H.M.JR: They are not particularly disturbed in the field?

MR. GRAVES: The men who have replied - I think I have about ten answers - have all considered it as good - as a thing that calls the attention of the people to the need for something more drastic; and they all say that they are going right ahead without any abatement in their efforts. I think we ought not to change any part of our program until something has happened more definitely.

H.M.JR: O.K.

MR. GRAVES: That seemed to be the attitude of those who have responded to our telegram.

H.M.JR: Anything else?

MR. GRAVES: That is all.

MR. WHITE: By the way, Mr. Secretary, I would like to comment - I thought that statement that was issued by you on Sunday was an excellent one. I would like to compliment whoever prepared it. I heard several favorable comments about it.

H.M.JR: I agree with you. I had nothing to do with it. Those two gentlemen there, between them-- (Kuhn and Gaston)

MR. WHITE: I was glad to see you fight back.

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MR. KUHN: Mr. Secretary, the radio boys are making little announcements with the direct quotations from the President's speeches and from that statement, bearing on the subject of spending, and they are sending them over this afternoon. If they are good they will be put on the Washington stations this evening.

H.M.JR: Who is doing that?

MR. KUHN: Callahan and his boys.

MR. GASTON: There is another phase of that being worked on.

H.M.JR: Taking it for granted that that is what the President meant?

MR. KUHN: No, I simply thought, first of all, this reference to spending at the end of his speech, the reference to war bonds in the Congressional message, the reference to what we, on the home front, are not doing, and your references to spending.

H.M.JR: I don't know whether you want to do it, or whether you should do it, or I should do it, or Gaston, but the New York Times editorial today absolutely misrepresented the facts. Right at the end of their editorial they said that neither the President nor the Treasury has made any recommendations which will lower the standard of living in this country - flat. Did you read it?

MR. KUHN: Yes.

H.M.JR: I wish - I don't think we ought to let them get away with a statement like that. On the one hand, they don't like my statement for many reasons, but then they come out with an absolutely - they say that neither the President nor I - nor the Treasury - has made any recommendations which will lower the standard of living. It is a falsification.

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MR. KUHN: There are several like that.

H.M.JR: But in this thing - I don't know, talk about it with Herbert. I am perfectly willing to write a letter to Merz.

MR. GASTON: Or Sulzberger.

H.M.JR: He is in England. He is not here. But it just isn't true. Talk about it.

Bell?

MR. BELL: Nothing.

MR. THOMPSON: On the subject of taxes, I wonder if there is a possibility of another Donald Duck next March. If so, perhaps Mr. Paul ought to get authority before this pending tax bill--

H.M.JR: I think we will just brush off Donald Duck and change the figures and use the same thing over again. That is what we will do.

Dan, I will be ready for you and Haas and Buffington and Henry Murphy at ten o'clock.

I would like to see Graves and Gaston a minute.

September 8, 1942
10:10 a.m.

FINANCING

Present: Mr. Bell
Mr. Buffington
Mr. Haas
Mr. Murphy

H.M.JR: George, after having a week end to think, what do you think?

MR. HAAS: I think it is one of these things where you have to tie them down rather specifically that they would take care of the short-term market. They make it, and they can take care of it if they want to. If they can't give that assurance, this would ruin it, I think - even the Szymczak rate.

H.M.JR: Wait a minute, George, we are talking about the wrong thing. Let's let this tax note thing go. Let's talk about the financing.

MR. HAAS: On the financing--

H.M.JR: Let's do the financing first.

MR. HAAS: On the financing I would make the certificates at about sixty-five - the certificates at sixty-five into May 1.

H.M.JR: I am not concentrating. What did you say?

MR. HAAS: The certificate, May 1, at a rate of sixty-five, and one and a quarter percent note to run to about March, '45. I think that is about two years and six months.

H.M.JR: Have you got a sheet to show me?

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(Mr. Haas handed chart to the Secretary.)

H.M.JR: What is there around May 1? Let's look at that first. When do you want to run the other note?

MR. HAAS: Down to March.

MR. BELL: There is a CCC on May 1 of two hundred eighty-nine million.

H.M.JR: Of what?

MR. BELL: May 1, of two hundred eighty-nine million.

H.M.JR: That is peanuts these days. Where would this go?

MR. HAAS: March '45. You will probably pull those up prior to that time.

H.M.JR: I don't want to make it April.

MR. HAAS: April would be pretty thin, wouldn't it?

MR. MURPHY: April in '45?

MR. HAAS: Yes.

MR. MURPHY: I don't think one month would make much difference there. It is pretty thin already. There is only a premium of maybe three thirty-seconds, but I don't think one month would make you or break you there. We have hitherto priced them, that is, had the maturities - distant maturities on tax dates, with the feeling that it would be better to only have to do a financing every three months at that time rather than perpetuate monthly financing throughout the whole post-war period.

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H.M.JR: You are an optimist.

MR. MURPHY: The President said last night that he thought 1943 was the victory year.

H.M.JR: Did he say that? I did not hear him say that. He didn't say that.

MR. MURPHY: He didn't say it last night, you are right, but I read it - it attributed it to the President - I guess it was in a letter I was reading yesterday. I misspoke myself. I am optimistic though, Mr. Secretary.

H.M.JR: Are you? What do you base your optimism on?

MR. MURPHY: I base my optimism on the slowness but the massiveness of the roundabout method of production, the fact that we are putting five billion dollars in the end of the horn now, which only has the effectiveness of perhaps a half a billion dollars now. We have so much in the early stages of production that will come through; it cannot be hurried a great deal, but it will come through with a massiveness that I don't think anything the enemy has can meet when it gets there - '43, I think it was.

It was very unfortunate that I said the President said it. I think I was reading yesterday, perhaps, a Kiplinger letter, in which it said that the President had never been taken in on the '42 business, that he had always maintained that '43 was the victory year. That may or may not be. I would be surprised if the war went beyond '44, but I am not a military expert. In any event, I think '45 is the post-war period, Mr. Secretary.

H.M.JR: What would you rather have, tax dates?

MR. BELL: Yes, as long as we can maintain it. I don't know whether we can maintain it throughout this period, but I would like to see it tax dates.

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H.M.JR: Let's see what some of these people --

MR. BELL: Of course, if we can get on a pay-as-you-go basis, you-- (Laughter)

H.M.JR: If you get it on what kind of a basis?

MR. BELL: Current pay-as-you-go, month to month basis on your taxes.

H.M.JR: What have you been reading?

MR. BELL: Again there is some optimism, I suppose.

H.M.JR: Have you been reading Whaley-Eaton?
(Laughter)

MR. BELL: No, I have been reading Randolph Paul.

H.M.JR: Now, Mills said three years, one and three-eighths. You didn't say how much this--

MR. HAAS: One and a quarter on this, two years and six months.

H.M.JR: Now, let me see, Chris Devine said one and five-eighths, due March '47.

MR. HAAS: He is out farther, yes. I quizzed him on that, you know, about the strength of that market out there.

MR. BELL: That is the vacant date, too.

H.M.JR: Now, Gill, the Bank of Manhattan said either December '44, or March 1945, one and a quarter.

MR. HAAS: That checks--

H.M.JR: You think he is a good man, don't you?

MR. HAAS: He sounded good.

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H.M.JR: He agreed with you? (Laughter)

MR. HAAS: It would have been better if he had left the December off and put it March.

MR. BELL: It is the first time he has been down for about three years.

H.M.JR: Levy says December 15, '44, one and an eighth.

MR. HAAS: He is cutting it.

H.M.JR: And Aldrich and his crowd said one and three-quarters, September '47.

MR. BELL: What would it be, September '46, George? Is it a vacant date there?

H.M.JR: September?

MR. BELL: Forty-six, four years.

MR. MURPHY: It is awfully thin at one and an eighth, and awfully fat at one and a quarter.

MR. BELL: Oh, no. You are supposing '45 is one and a quarter - one year longer.

MR. MURPHY: Pardon me, yes, I am on the wrong one.

MR. BELL: Either one and a half or one and three-eighths. Dudley Mills said three years; that would be September '45, one and three-eighths.

MR. HAAS: Rather than the long note market, it is safer to take a short bond - that is what Devine finally said. That is all we can get there.

H.M.JR: Dan, so that you get my thinking straight, and I have got lots of time, nothing but time to think, I hope - I have nothing until three o'clock when the

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Federal Reserve comes in. I have shoved this tax note aside for the minute. I think we ought to settle this thing first.

MR. BELL: I do, too.

H.M.JR: And also that you get my thinking - I haven't been impressed at all by what the Fed crowd wants to do - a great big seven or eight billion dollar money raising campaign in October and, you know, whoop-it-up stuff. I don't, and I had Ned Brown in for lunch and talked to him about it. He agreed with me that supposing you do it, it is successful, and everybody sort of sits back and says, "We have got nothing to do now that we have done that" - sit back, skip a month, and come back again. He thinks we have to do it every month.

MR. BELL: He does?

H.M.JR: Yes, he thinks that we have got to get better organized, go more into every community, and I don't know but that eventually we may have to merge the victory fund and the war bonds. I don't know whether we can have two committees going into each community. I have just been thinking about it.

But what I am getting at now - I don't know whether you fellows agree with me - I would like to give you all I have in my mind. I do want to give the Victory Fund Committee something to sell this month if possible. Now, the suggestion was made that on the certificate we give full allotment to any non-banking subscriber and give the Victory Fund Committee maybe a week to go out and do that job. I mean, I am just throwing these things out. The other suggestion made was that if we are going to have - I meant a note - if we are going to have a certificate and a note, don't have them both come due on the same day. That is what the Chase said.

MR. BELL: I like that. I would like to have the certificate payable on the twenty-first and the note on the twenty-fifth.

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H.M.JR: Something like that. I also was thinking that we might start the four hundred million bills next Monday.

MR. BELL: A week from this Wednesday--

H.M.JR: I mean next Monday - they bid on Monday, don't they?

MR. BELL: That is right.

H.M.JR: Let me just ask the Victory Fund - VFC - most everybody I talked to said they didn't think there was any harm in giving the fellows a week, but they didn't think they would sell anything to amount to anything on a three-year note.

MR. BUFFINGTON: I don't agree with that. I think that it would not do any harm, but I think that they have evidenced that they have ability to contact a lot of corporations and a lot of funds which normally would not buy a bond like the tap two and a half and weren't particularly interested in certificates. I think they might help considerably on a note. How much they will sell, I don't know, but I think decidedly they will do more than not harming it. I think they will do some good on it.

MR. BELL: I doubt if corporations are much interested in a three-year note.

MR. BUFFINGTON: Well, dan, put it this way, there are a lot of them that have said that they are not interested in certificates, and we know that the tap two and a half is not the proper one for them to buy. I think there is that three-year money around. I may be misjudging it.

(The Secretary held a telephone conversation with Mr. Gaston.)

MR. BELL: What percentage of the last certificate issue went outside the banking system, George, do you remember?

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MR. MURPHY: We haven't a tabulation of the last one yet. Federal Reserve District No. 1 is out. We have wired them and asked them to hurry on it. Before it was sixty-five percent to banks and thirty-five outside.

H.M.JR: How much to banks?

MR. MURPHY: About sixty-five, I believe, to banks.

MR. BELL: I thought it was better than that.

MR. BUFFINGTON: It was forty percent on the one-half certificate in April and not quite as much on the five-eighths; and as I remember, we wired the Victory Fund Committee on the five-eighths that we wouldn't expect them to do any work on that. I do not think they did anything on the five-eighths.

MR. MURPHY: I have the figures on those two, and I can have an eleven-bank tabulation within a very short time on it.

H.M.JR: Well, Dan, having thrown this all at you - I mean, let's just put the Victory Fund aside for one minute - what do you think?

MR. BELL: Well, I like the certificate on the basis of sixty-five. I think that is about right for May 1, for half of it.

H.M.JR: The certificate - what do you like?

MR. BELL: Point sixty-five for May 1. On the note I was a little dubious, but I think probably that is the best thing to do. I certainly don't think you ought to hit that short-bond market again. I think maybe the June, or March, whatever you suggested, 1945, is about as good a place as we can get. But I have some doubts about keeping it open so long, although I don't know as there is much harm in it.

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I do question giving - or adopting the innovations that were suggested, but allowing the - what was that - the banks to--

MR. HAAS: One of them was to have the banks cut off the first two days. The Secretary does not like that. He wants to--

MR. BELL: That was in one memorandum I read - I had some question about that. That is out?

H.M.JR: This is the only innovation, and the Fed is going to have a check-up on this.

MR. BELL: I would leave the certificate open two days. I have some doubts as to whether you ought to leave the note open longer than two days.

H.M.JR: Well, the certificate would be decimal sixty-five, due May 1?

MR. BELL: Yes, sir.

MR. HAAS: March.

H.M.JR: And the note would be one and a quarter due March 15, 1945.

MR. HAAS: That is cutting it thin, mainly to help to tend to cut down any free riding that might be there in case you left it open a week.

MR. MURPHY: It has got to be cut thin if you allow full allotment to non-banking investors. If it isn't cut thin, you are up against the dilemma of either having delayed delivery, which I think will cut it, or else having free riding.

H.M.JR: Delayed delivery?

MR. HAAS: Yes, you remember the bankers advisory group advised you to have sixty days delayed delivery, which it seems to me would make the sales job pretty tough. The only other alternative is to cut it thin.

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MR. BELL: We have been cutting them thin anyhow. I think we have got to keep that up.

MR. MURPHY: Then they cut a slice off themselves, and we are through with it.

H.M.JR: The certificate would be payable when, Dan?

MR. BELL: The 21st, I think it is, Monday - yes the 21st, and I would make it - that is right after the tax payments, and then the note on the 25th.

H.M.JR: September 21 - payable September 21. What do you think, Mr. man?

MR. BUFFINGTON: If you are going to leave the notes open only two days, I don't think the Victory Fund will do much on it. I think you have got to give them time to go out and actually contact people. I think the note that you have suggested is all right, and I think they will do a fair job on it. I would like - I don't know why you think corporations wouldn't be interested in that kind of paper.

MR. BELL: I think, generally speaking, corporations are interested in something they can get their money out of pretty quickly, and I think they are interested in the certificate. I think they will be interested in this tax note that we contemplate putting out, something that they can get their money out of within six months. But I don't think corporations want to go in for three-year money, generally speaking. I may be wrong on it, I don't know.

MR. HAAS: There is a fellow out in Chicago, Mr. Secretary, that Ned Brown frequently mentioned, who is supposed to be one of the best bond men, a fellow named Charlie Stuart.

MR. BUFFINGTON: Harry Stuart.

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MR. HAAS: He should know this sort of question, shouldn't he?

MR. BUFFINGTON: Yes, of Halsey, Stuart & Company. He would be an excellent man to get a broad check on the whole middle western, Mississippi Valley market. He would be the best man.

H.M.JR: Is he on your committee?

MR. BUFFINGTON: Yes, sir, Victory Fund.

H.M.JR: What is he, the head of it?

MR. BUFFINGTON: No, he is a member of the district committee in Chicago.

H.M.JR: Is he very able?

MR. BUFFINGTON: Very. I think he is one of the best distributors in the country. You have mentioned him before. I think he has been in to see you; he is an older man, sixty-five.

H.M.JR: I don't think so.

MR. HAAS: I think he was over at Farm Credit a long time ago.

H.M.JR: Who mentioned him?

MR. HAAS: Ned Brown says he is one of the outstanding - and his firm has done an outstanding job. They have had that bad name, and evidently have come out in good shape.

MR. BUFFINGTON: Insull. We have tried to get him to come more out in front, but he was indicted in connection with the Insull fiasco, and I am sure - I mean, they never have gotten anything on him. That is, he is a thoroughly reliable person, but some things that some of his salesmen did were not what they might have

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been, but I think he is one of the ablest national distributors, particularly outside of New York, there is in the country.

H.M.JR: You could call him up on the phone and ask him.

MR. BUFFINGTON: All right, sir.

H.M.JR: You can call him up and ask him what they think.

MR. BELL: Supposing we left the note open until Tuesday?

MR. BUFFINGTON: I think that would be fine, opening it Thursday morning and leaving it open until Tuesday. I think that would help. That gives them a little chance to get out some letters and then to follow up with personal solicitation.

H.M.JR: I would do this, I would get out a notice Monday night, giving them forty-eight hours' notice, and close it Wednesday.

MR. BUFFINGTON: That is even better, that forty-eight-hour notice. They would like to have that amount of time.

MR. BELL: That gives them a week.

H.M.JR: That gives them a week, yes. What do you think of that?

MR. BELL: That is all right.

H.M.JR: I tell you, there is another thing on this thing which I think is important. We ought to have a financial publicity man here.

MR. BUFFINGTON: We have been using Prenosil, as you know, for that.

H.M.JR: He is not good enough.

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MR. BUFFINGTON: No, Prenosil is not widely enough known for that. We ought to have an outstanding financial publicity man.

H.M. JR: In the whole country there must be somebody.

MR. BELL: That kind is hard to get.

H.M. JR: What I was getting at is just now I think it is good publicity for the public, to come out with an announcement that we are leaving this open for a week for the Victory Fund Committee to go and sell to non-banking institutions.

MR. BUFFINGTON: That will really put the boys on notice that they are supposed to go to work.

H.M. JR: Show we are doing everything we can under the present laws and limitations to get non-banking money. Now, we can't do any more than that. This issue we are doing isn't particularly designed for non-banking, but we are doing everything we can.

MR. BUFFINGTON: Mr. Secretary, that thought of this publicity - as I said, I think it is the most needed thing the Victory Fund - it would be the most helpful thing they could have.

H.M. JR: They need somebody around who thinks in those terms.

MR. BELL: Will Sproul be here today?

H.M. JR: No.

MR. BELL: Just the Board members today?

H.M. JR: Yes. It is really childish. Ransom called me up and said he wasn't a member of this, and would I make it plain that he was sitting here at my invitation, although he is acting chairman while

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Eccles is gone; Sproul is acting chairman of the Open Market Committee. I felt like saying, is this a war or isn't it a war. I had to call up Sproul and Williams on the telephone in Philadelphia and pat them on the back so they wouldn't get mad at Ransom.

MR. BUFFINGTON: Dan, in thinking of this salability of this note, aren't you thinking pretty much of the New York reaction, the New York market? I would expect that this kind of note would go much better outside of New York than it would in New York.

MR. BELL: You mean corporations?

MR. BUFFINGTON: Yes.

H.M.JR: He would be a good man. I think I will call him up - Young in Chicago - and ask him what he thinks of this plan, leaving it open.

MR. BELL: What man, Stuart?

MR. BUFFINGTON: Young of Fed. He wouldn't have as good a slant on distribution.

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

September 8, 1942
10:41 a.m.

HMJr: Hello.

Operator: Mr. Sproul wasn't there today. I have Mr. Rouse.

HMJr: All right.

Operator: Go ahead.

HMJr: Hello.

Robert Rouse: Good morning, sir.

HMJr: How are you?

R: Fine, and you?

HMJr: I'm okay. Where's Allan?

R: He's on his way down there.

HMJr: Down where?

R: To Washington.

HMJr: Oh. I see.

R: For your meeting this afternoon.

HMJr: Oh, for heaven's sake. Okay.

R: Good.

HMJr: Now, what I want to ask you is - have you had a chance to talk to any of these fellows this morning?

R: Yes. I've talked to - we've talked to Levy, Mills and - and Devine.

HMJr: Yeah. Yeah, well -

R: And they none of them have seemed to change their ideas. Both - Levy is - still sees no sense in leaving the books open. Devine and Mills don't see any harm in it. They don't think it will accomplish much.

HMJr: Yeah.

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R: And their recommendations are unchanged.

HMJr: Well, what are your recommendations this nice bright Tuesday morning with not sun in the sky?

R: Ah - have you got a dull day down there too?

HMJr: Yeah.

R: It's just as dark as it can be here.

HMJr: Yeah.

R: Miller and I have just been going over it again, and both - found that both of us have changed our ideas somewhat over the week-end.

HMJr: I see.

R: I haven't discussed it with Allan, but we're turning more and more to a one and five-eighths of June, '47.

HMJr: You are?

R: Yeah. Our - as - the way we were leaning on Saturday was for June, '45, one and a quarter.

HMJr: Yeah. Now, we just caught up with you on that one.

R: (Laughs) But, in thinking it over and over the week-end, it seemed to both of us that we might get a wider distribution with the banks throughout the country with the one and five-eighths. We wouldn't give ground and we wouldn't interfere with a - with a modified tax note.

HMJr: I see. Well, that's all true. Mr. Bell is here full of beams and sunshine.

R: Well, that's good.

HMJr: He's looking fine.

R: Doesn't he look well?

HMJr: Yeah.

R: I was - I'm thinking it did him a lot of good.

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HMJr: Right. He said (aside - what did you say, Bell?) How's the market in that area?

R: The market is - hasn't been too good.

HMJr: That's what you've been telling us.

R: That's right.

HMJr: See, we believe you.

R: Well, I think you're right in that.

HMJr: Yeah.

R: When I got back and talked to the banks on Friday here - all - practically all our large banks, that is - Chase, Guaranty, Bankers, Central Hanover - they all recommended a three to five-year note. That is - one and - one and five-eighths or one and three quarters.

HMJr: Well -

R: I'm somewhat influenced by that.

HMJr: Well, let me ask you this - we're here - will you go along on a - on the certificate, suppose like .65, May 1?

R: Well, we're all set on that. We think there's no question about it.

HMJr: You're set on that?

R: Yes, sir.

HMJr: Well, all right. I'm going to do a little checking. What - what you're now leaning towards is - what are you leaning towards now? So I can get this straight.

R: I'm beginning to lean to a one and five-eighths of June, '47.

HMJr: One and five-eighths of June, '47.

R: I'd like to know what your people think of it after looking it over.

HMJr: Okay.

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R: And, we'll look it over some more, and I'll talk with Allan. He'll call me I think, as soon as he gets there.

HMJr: All right. Be calling you back.

R: Fine.

HMJr: Thank you.

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H.M.JR: I will call Young and Davis. That will give us the Middle West.

MR. BELL: That is enough.

H.M.JR: What I am going to tell them to do is to look around and call me back at quarter of three.

MR. HAAS: This one and five-eighths is really good.

(Ticker release brought in to the Secretary.)

H.M.JR: The Senate Finance Committee voted by a vote of twelve to zero rejection in total of the Treasury's proposal for combined spendings tax and compulsory savings.

MR. HAAS: Bad for you, bad for them, and bad for the country.

MR. MURPHY: At least George admits it is not complicated.

MR. BELL: Who admits it?

MR. MURPHY: George.

H.M.JR: What a slap-down.

MR. HAAS: That is all right; your record is good.

H.M.JR: My record is all right; they will come around to it. After all, how many years has it taken to make Keynes a baron? (Laughter)

MR. BUFFINGTON: A lord.

H.M.JR: He is a lord.

MR. BELL: Is that an accomplishment? (Laughter)

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H.M.JR: They made him a lord for something.

MR. BELL: Is that a promotion or a shelving?

H.M.JR: I don't know. Do you know why they gave him that?

MR. BELL: No, I don't know.

H.M.JR: It didn't take them long either.

Let me catch my breath.

MR. HAAS: This one and five-eighths is really--

MR. MURPHY: Sproul told us last week if we put out a one and three-quarter bond we would hit the bulls eye - the weakest place in the market. Now he is taking a bead on the bulls eye himself. (Laughter)

MR. HAAS: I think I know what is in their mental process, how they arrived at that. If you are going to put out the tax notes, that is their baby, and they don't want anything to absorb any part of that market. In order to keep it there they will go out into the weak part of the market.

(Mrs. Klotz entered the conference temporarily.)

H.M.JR: It is wonderful to get such support from the Senate. (Ticker release handed to Mrs. Klotz.) I didn't ask them - I requested them. (Laughter)

MRS. KLOTZ: That is terrible.

Why are you laughing?

H.M.JR: I am not going to cry. I told them it took ten years for Keynes to be made a lordship, and in ten years they will recognize I was right.

MRS. KLOTZ: They always do - you don't have to wait ten years for them to recognize that you are right.

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That is terrible. I see you needed a little nourishment. (Laughter)

H.M.JR: That was before. I knew something had been sunk. I thought it was a Japanese cruiser, but instead it was me. It is wonderful to be right and unpopular.

MRS. KLOTZ: I can't laugh about it; I don't know how you can.

H.M.JR: Henry Murphy was very amusing, as he usually is. This is what they are laughing at. I will have to get him to repeat it. Last week the Federal Reserve - what about a long note?

MR. MURPHY: If we put out a short note we hit the bulls eye at the weakest point.

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

MR. MURPHY: -He is recommending that today; he is drawing the bead on the bulls eye himself. (Laughter)

H.M.JR: That is what he said.

MRS. KLOTZ: No wonder the President didn't come out for it. He must have been tipped off. Well, thanks for the good news. (Mrs. Klotz left the conference.)

(The Secretary held a telephone conversation with Mr. Young of Chicago as follows:)

September 8, 1942
10:50 a.m.

HMJr: Hello.

Operator: President Young of Chicago.

HMJr: Right. Hello.

C. S. Young: Yes, sir. Young speaking.

HMJr: How are you?

Y: All right, Mr. Secretary. Just fine.

HMJr: Look - can you hear me?

Y: Yes, sir. I can hear you very well.

HMJr: All right. Now, this is the way our financing looks right now. Hello?

Y: Yes.

HMJr: A certificate due May 1st of next year with a - to pay .65.

Y: .65?

HMJr: Yes.

Y: Good.

HMJr: Hello?

Y: Good.

HMJr: But we're going to copy the way New York City sells it, you see?

Y: Oh, yes.

HMJr: Now, there are two kind of notes. The Fed. in New York - Sproul had gotten me around to a one and a quarter due March 15th, '45.

Y: March 15, '45?

HMJr: But now, Rouse - they told us last week that was the weakest spot in the market.

Y: Uh - huh.

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HMJr: No, wait - no - no that - that was what they wanted last week. Hello? Hello?

Y: Yes.

HMJr: I misspoke myself. They wanted March 15, '45.

Y: Yes, at one and a quarter.

HMJr: Now over - what?

Y: At one and a quarter.

HMJr: Yeah. Now over the week-end they come and say we want one and five-eighths, June, '47. Hello?

Y: Yes.

HMJr: Which last week they said was the weakest spot in the market.

Y: Oh, yes.

HMJr: Now, whatever we do on a certificate and a note, the certificate we wouldn't ask to have the people pay it until September 21.

Y: September 21?

HMJr: And the note payable September 25th.

Y: Uh - huh.

HMJr: You see - sorta to not have all the money to come out at one time.

Y: Sure.

HMJr: Now, on the note, this is what we're thinking of. In order to give the Victory Fund Committee something to do, give them a week to go out and sell this note to non-banking people, see?

Y: Yes.

HMJr: And any non-banker who wants to subscribe to this would get full allotments.

Y: Full allotments?

HMJr: Yeah.

Y: Uh - huh.

HMJr: Now, what I'd like you to do is to sound out some of the people on what I've told you, you see?

Y: Yes.

HMJr: And get their reaction. Whether they'd like a one and a quarter note or one and five-eighths, because so far I'm only hearing from New York. I want to know what the Middle West - because that's where the money is.

Y: All right. Well, I can - I can let you know this afternoon, or -

HMJr: I'd like you to call me at quarter of three, Washington time.

Y: All right.

HMJr: Supposing you put in a - I'll handle it, because - I'll - I'll put in an appointment call for you at quarter of three.

Y: Well, all right, that is Washington time.

HMJr: Yes. I have ten minutes of eleven now.

Y: Yes, all right.

HMJr: What have you got?

Y: Well, see here, it - it would be ten minutes of ten.

HMJr: Well, I'll call you at quarter of three my time.

Y: And, I think - I don't know, but I - I imagine, Mr. Secretary, that the one and five-eighths would - would probably be the answer that I will get from most of the people.

HMJr: Well, find out, and ask them what would they think - ask some of your Victory Fund people who are in the distributing business, if they had a week to go out and sell this to non-bankers and give them full allotments, do they think that - how much could they do?

Y: Yes, all right.

HMJr: And, could you talk to somebody maybe in Detroit?

Y: Well, I'll take Detroit and Milwaukee and Indianapolis and Des Moines.

HMJr: Wonderful.

Y: And, then I'll - I'll have the - in fact the Victory Fund - I got four or five of the best - the active salesmen will be in here in a few minutes and I'll - I'll sound them out too.

HMJr: Good, and I'll call you back at quarter of three, Washington time.

Y: All right.

HMJr: Thank you.

Y: All right, Mr. Secretary.

HMJr: Thank you.

Y: All right.

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H.M.JR: Now, you see, he takes that area and Chester Davis can take four or five states.

MR. BUFFINGTON: That is a good way.

H.M.JR: Then after we have done that, let's talk about the tax note.

Have we a teletype to Chicago?

MR. BELL: The Board has.

(Discussion off the record.)

MR. BUFFINGTON: They have suggested a publicity man from Chicago, but he is not a newspaper man.

H.M.JR: He doesn't have to be.

MR. BUFFINGTON: They have suggested an excellent man. I have asked them to hold it up a little bit.

H.M.JR: Who is that?

MR. BUFFINGTON: I can't recall his name. I have a memorandum on it in my office. He is a very good man for that purpose.

H.M.JR: Well, some place there is some fellow. I don't think he should necessarily be a newspaper man.

MR. BUFFINGTON: Neither do I.

MR. BELL: Did you say Morgan had one?

H.M.JR: For years he was famous. Everybody knew him. He not only did this stuff, but - I mean, anything that had to do with--

MR. BUFFINGTON: ...public relations.

H.M.JR: He was well known. He died.

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

September 8, 1942
10:58 a.m.

HMJr: Hello.

Operator: Chester Davis.

HMJr: Hello.

Chester
Davis: Hello.

HMJr: Chester?

D: Hello, Henry. How are you?

HMJr: Fine. How are you?

D: Good.

HMJr: Chester, I wanted to let you know where we
stood on our financing, as of this morning.

D: Good.

HMJr: Have you got a pencil?

D: Yes.

HMJr: What the boys have been thinking of is a
certificate due May 1st....

D: Yes.

HMJr: with a - a coupon on it of .65.

D: Yes.

HMJr: Which would be - the subscribers would pay for
it on September 21st.

D: Yes.

HMJr: Now, the note - last week they were telling us
one and a quarter due March 15th, 1945, payable
September 25th.

D: That's one and one quarter?

HMJr: Yeah.

D: Yes.

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HMJr: Now, to my surprise, Rouse in New York comes through this morning with a new suggestion, that instead of the March 15th, '45 note, to consider a one and five-eighths, due in June, '47.

D: Uh - huh.

HMJr: Hello?

D: Yes. June, '47.

HMJr: Yeah. Now, what I want to know is, what - if you could in the next three or four hours make some checks as to what - the states that you cover

D: Yes.

HMJr: what they - which one they would prefer, if they prefer either of these, or if they have any counter suggestions.

D: All right - as - on the notes alone?

HMJr: No - well, I think you might ask them about the certificates too.

D: All right.

HMJr: Now, you - you get the certificate would be payable September 21st

D: That's right.

HMJr: and the note September 25th.

D: September 25th on the note?

HMJr: Yeah. Now, we've got an idea that on the note, we'd leave it open for a week to any non-banking subscriber

D: Yes.

HMJr: and give the Victory Fund Committee a chance to go to work on that

D: Yes.

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.... and any non-banking subscriber, we'd give them an allotment in full.

D: Yes.

HMJr: See?

D: Yes.

HMJr: Now, I'd like you to try that out.

D: All right.

HMJr: Now, how many states do you cover, Chester?

D: We have one full state, parts of six others.

HMJr: Well, do as much as you can and I'm going to call you back at ten minutes of three, Washington time.

D: All right.

HMJr: Do as much as you can.

D: All right. We'll get busy right away.

HMJr: Now one other thing which I don't need this morning but you might think about. I'd like to get a really first-class publicity man to help this Victory Fund Committee.

D: You mean from Washington?

HMJr: No, anywhere - I was thinking was there anybody in the D'Arcy Agency or anybody like that.

D: Do you - within our district or down there?

HMJr: I want - if there's anybody in your district who could come to Washington.

D: That's right. You want him in Washington.

HMJr: See? I mean - if there's any really outstanding man who knows the financial game and could help the Victory Fund Committee with publicity.

D: I'm not sure that D'Arcy's got the man. He's on our own committee and I haven't been able to get very much out of him, to tell you the truth.

HMJr: Well...

D. But I'll check that too, and do the very best I can.

HMJr: Well, I mean, this, I don't expect this morning you know.

D. Yes.

HMJr: But, I mean ...

D. If we have such a man in here, I'll certainly get you the information.

HMJr: And I'll be back at ten minutes of three Washington Time.

D. Ten minutes to two here. All right.

HMJr: Yeah.

D. I'll be ready.

HMJr: Thank you.

D. Thank you.

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H.M.JR: I think that covers ten states, and it is the heart - did I state it correctly?

MR. BELL: Yes, sir.

H.M.JR: Now let's talk about - give me five minutes, will you?

(A short recess was taken at this time)

H.M.JR: Now let's talk about this tax note. How would you like to have it, Mr. Bell?

MR. BELL: I don't know yet. At first when we talked about the thing I was in favor of a graduated rate, making a dual purpose note out of it, but over the week end I have sort of come back to the old flat six cents a month, point seventy-two percent, and making it a tax note only--

H.M.JR: How would that work?

MR. BELL: ... but as George and Henry point out, we still have the Federal on our neck for a short tap, and by making this a dual note we get rid of that proposition with the Federal. How would that work - that would work just like the present note, which is on a point forty-eight basis, and would raise it to a seventy-two basis, six cents a month instead of four cents a month. But I don't think we ought to go to the one point fourteen of the Federal. I think that is too high. I think it will influence the short rates - it will have a tendency to. I don't think we ought to go that high.

Before I left we talked about a four, five, six, seven, eight, nine, which was about eighty-four. I thought that was about the point where we ought to stop, but since then George has raised it up to five, six, which gives you about point ninety.

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H.M.JR: And then the so-called Szymczak thing?

MR. BELL: Szymczak has one that comes out one point zero four. That isn't a lot different, right in between the Treasury proposal and the Federal Reserve. I think the ninety is high enough. That is the way I feel.

H.M.JR: What did you say?

MR. BELL: I think the ninety is high enough.

H.M.JR: You haven't a curve showing how that thing works?

MR. MURPHY: Yes. (Chart handed to the Secretary.) The top curve in black pencil represents the market. The market curve shows the amount you get if you buy an open-market obligation, having made up your mind in advance the time that you want to hold it. That is the solid pencil curve.

Just to see what that would mean if it were followed religiously in terms of a tax note, we priced a tax note of our own along this curve. This note would offer its purchasers everything that the market does, and a lot more, too; that is, they could get out at the end of six months, and yet if they chose to stay for three years they could have six months' money at that rate. Just to give you an idea of how high it is necessary to go to get that effect, notice the rates, four, eight, eleven, twelve, thirteen, fifteen cents a month in successive periods. We priced that to give us a market note.

H.M.JR: Have you had this right along?

MR. MURPHY: We had this last week. Next we plotted the Board's proposal, which is the green one. That is the one that goes five, nine, ten, eleven, eleven, eleven. You notice it is ahead of the market here (indicating); but in the last year of its run it falls behind the market. The market note is, as I

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recall, one point twenty-eight, and this one is one point fourteen, so even the official Board proposal does fall behind the full market. It doesn't quite meet the bogey of letting a person who intends to stay for three years get the full three-year rate, even though he can get out at any time.

Now, the Szymczak proposal, five, eight, nine, ten, ten, ten, is the yellow curve.

The five, six, seven, eight, nine, ten, which is our proposal, is this (indicating). We are way below the market as it is here computed, but we are way above the real alternative which a person would have. At the end of a half year he would get sixty hundredths of one percent on our proposal. Now you are contemplating putting out a sixty-five hundredths percent certificate for about seven and a half months. So you see, if he stayed in a half year he would be substantially better off than in the market. After that he would have thirty-day money; he could get out at any time on thirty days' notice. The rate on thirty-day money is point three seventy-five, and yet instead of getting that he would get successively higher rates, which get up to one point twenty during the last six months, and he would average point ninety for holding the instrument the whole time. So you have an instrument which, while it falls short by quite a margin of giving the rate on three-year money for the whole period, nevertheless gives a rate very much in excess of the rate which can be had on any instrument that allows its holder to get out with equal facility. It also gives the holder a very substantial vested interest when he has held it a while.

H.M.JR: Is that a fair way to figure it?

MR. MURPHY: I think that it is.

H.M.JR: Do you figure any bond which has a year or two years before it comes due - do you figure it that way?

MR. MURPHY: If it were an open-market security, of course, as it came to within one or two years of

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falling due, it would be priced by the market as a one or two-year security. All of them are so priced.

MR. BELL: This is on the order of a savings bond, but it is not above the market.

MR. MURPHY: As the savings bonds were originally priced they would be priced on this top curve, because in pricing those back a year and a half ago we actually gave them the one-year rate if they were held one year, and the two-year rate for two years. It was an exceedingly good proposition; the purchasers did not have to decide in advance how long they wished to stay in, but however long they stayed, we gave them at least the rate for that time. This pricing does not give that full advantage.

Since the F and G savings bonds were priced, market short-term rates have gone up a great deal. Now you have to hold an F or G about seven years in order to get a rate as good as the market. After that the rate gets very much better. When you first put them out the rates were better all along, but the market has moved up. It has moved that way, and, since we have no intention of changing the F and G bonds, as far as I know, it provides us a standard of comparison. It is interesting to compare the F and G savings bonds with this five, six, seven, eight, nine, ten proposition. For about the first two and a half years a holder would do better with the tax note than with the savings bonds.

H.M.JR: With this tax note (Indicating)?

MR. MURPHY: Yes, sir. Of course the E bond is much better.

H.M.JR: Let me study this. Does this, the five, six, seven, eight, nine, ten - has that been sent out to be tested?

MR. MURPHY: No, Mr. Secretary.

MR. BELL: To be what?

H.M.JR: Did we send it out to the Fed to be tested?

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MR. HAAS: Just the flat rate, the seventy-two, was sent out. They thought that was all right.

MR. MURPHY: The only one we sent out was the flat seventy-two.

H.M.JR: He gives a pretty good line of reasoning there, doesn't he?

MR. BELL: Yes, sir.

MR. HAAS: Rouse agrees with that a hundred percent.

H.M.JR: Which?

MR. HAAS: The line of reasoning that Henry just gave you.

H.M.JR: What about Piser?

MR. MURPHY: Piser goes along with the Board a hundred percent, although I imagine he got a copy of their telegram. (Laughter)

H.M.JR: Tell that to Bell later on - what I did. We sent out a request to the twelve bank presidents, what we were going to do, and foolishly, I guess, we sent a copy over to Ronald Ransom. So he quickly sent them a telegram. Two of them made up their minds before they heard from the Board. Then when they heard from the Board they changed.

MR. BELL: Yes, I saw that.

H.M.JR: Supposing I made this change and the thing did not go well, you have no way - because this thing - I would be counting heavily on the Victory Fund on this five to ten. You have no way of testing that with your own boys, have you?

MR. BUFFINGTON: Yes, sir, we can.

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H.M.JR: I don't think you ought to test that with - a little bit depends on if this thing went to June '47, and this thing wouldn't compete with that.

MR. BUFFINGTON: That is right. A short note will compete with these tax notes.

H.M.JR: I think we ought to wait until we see what we do on the '47.

MR. BUFFINGTON: Dan, we agreed that that original rate was fine just as a tax note. It just depends on what kind of sales you are going to try to hit, whether you want to try to get into that short tax area or not.

MR. BELL: You mean the graduated rate we had before?

MR. BUFFINGTON: When we first talked, we agreed we didn't need anything over seventy-two to make it the right, attractive type of tax notes. (Ticker releases handed to the Secretary.)

H.M.JR: Do you realize that cotton is eighteen and a third cents.

MR. BELL: What is parity, nineteen?

H.M.JR: Where the President, I think, with all due respect, was inconsistent- I mean, he knows we have to get the people to spend less, but he wants to freeze everything at the present level.

MR. BELL: They ought to go back about four months.

MR. HAAS: Last month all farm prices averaged a hundred and seven, wasn't it?

H.M.JR: That is the last I saw. Commodities are up almost a half a point this morning, commodity futures.

MR. BELL: I don't believe that this could be a failure. I should think it would be at least - certainly

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better than what your tax note has been. I wouldn't say that has been a failure, by any means.

MR. BUFFINGTON: That is right.

H.M.JR: I think this, gentlemen, after what Murphy told me - have you tried to explain that to the Board?

MR. MURPHY: Yes, Mr. Secretary.

H.M.JR: Have you shown them this chart?

MR. MURPHY: Yes, I have. Their point is, that in order to do it really well they have to offer a person who contemplates staying in, say, three years, a rate which is approximately one to three year money. It is a rather fundamental divergence.

H.M.JR: Say that again.

MR. MURPHY: They have to offer a person who contemplates staying in for three years a rate approximately equivalent to what they can get on three-year money. Then his right of withdrawal is something extra. They say that you are not going to be able to get this money that people think they won't need for three years unless you offer them a rate which is attractive, not only for six-months' money, or one month, but attractive for three-year money, and then give them the extra as a bonus, the exit visa.

H.M.JR: The what?

MR. MURPHY: The right to get out.

MR. HAAS: It would seem to me, Mr. Secretary, that you might make it either just a pure bona fide tax note at seventy-two and leave out the dual; but if you are going to put the dual in you don't gain very much if they don't accept it enthusiastically. In other words, it is their proposition anyway, rather than yours, and you give them a real alibi.

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H.M.JR: Well, George, on that basis I would have listened to them on the bills going from three-eighths to a half, and the bills are being accepted more and more.

MR. HAAS: No.

H.M.JR: Sure. The way I think we in the Treasury have got to watch - after all the Fed is much closer to the banks than we are, and the pressure will always be on us to pay more.

MR. HAAS: They are not letting the banks buy this, they want to make good themselves.

H.M.JR: The banks can't buy this?

MR. HAAS: No.

MR. BELL: Banks can't buy except for taxes.

H.M.JR: Well, but they can buy them for taxes.

MR. MURPHY: They are going to lose. The banks have relatively little to gain in buying for taxes and are worried lest their customers buy them and draw out deposits from banks. So the pressure from banks has been to pay a lower - Burgess said last week it was just unfair to pay more to these people than to the tanks. It was a matter of, just, as he expressed it--

MR. HAAS: The motivating force - the real force is it is their pride. They have announced it; it has been all around. When something comes out, they want the price so rich it is bound to go without any salesmanship.

MR. BELL: The bankers were against this.

MR. HAAS: Brown was worried about the seventy-two.

MR. MURPHY: But they can take it. They wanted just the seventy-two and the straight tax note as opposed to the dual-purpose concept, and opposed to the short tap as a whole.

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MR. BELL: Viner was opposed to it originally, too. I don't know if he has come around to it.

MR. HAAS: He is in the same position.

MR. BELL: Viner thought the tax note had won a place in our financing and it should be kept as a tax note and shouldn't be mixed with the financing. He says everybody now is familiar with the tax note, they know what it is, and if you make it a financing note, you only change the name and everybody is mixed up again. He thinks we have done a swell job with the tax note and ought to keep it.

MR. HAAS: You can put up an argument that this is a tax note and forget about the dual. If a corporation wants to pay cash, they can do it, because of these changes.

H.M.JR: How are you going to answer their question? There is a lot of money in this field. Could you get out something special that was only for non-banking people, and don't let the banks subscribe to it at all?

MR. BUFFINGTON: Then you get back to the short tap and all - Ned Brown and commercial banks are just as opposed to the short tap.

H.M.JR: All right, supposing we get out a short tap. You haven't got the seventy-two?

MR. MURPHY: No, I can draw it in easily. It is just a straight line, of course.

MR. HAAS: The short tap may be a flop. This thing - you are sure it won't be a flop. I mean, this will go.

MR. BELL: At two or two fifty a month.

MR. BUFFINGTON: Cheaper than a short tap will go, a cheaper rate.

H.M.JR: Which would you prefer to sell?

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MR. BUFFINGTON: The Szymczak rate.

H.M.JR:- I don't mean that.

MR. BUFFINGTON: I would prefer, from a selling point of view,--

H.M.JR: Excuse me - you have got three things. We could increase the present rates on the tax notes from forty-eight to seventy-two, or we can have a combined tax note and cash-in features, the thing we are talking about here, or third, a short tap.

MR. BUFFINGTON: I would prefer the dual purpose, because if you hit on something like the Szymczak rates it isn't an expensive method of financing and then you get the same benefits out of the publicity you are using on tax notes and don't have to go out and educate the public on a second security.

MR. BELL: Again that seventy-two is thirty-day money after the six months - what do you think of compromising at the Szymczak rate, one point zero four?

H.M.JR: The only compromise we have made is that - put the last three months, put it up to - he only goes to ten, doesn't he?

MR. MURPHY: Yes, five, eight, nine, ten, ten, ten.

MR. HAAS: He gets up to ten faster, that is all.

H.M.JR: I was thinking a little bit different. I was thinking of five, six, seven, eight, nine, eleven, jump to eleven, change ours from ten to eleven.

MR. MURPHY: That will make very little difference in the over-all yield.

H.M.JR: Cost?

MR. MURPHY: Cost, yes.

H.M.JR: Just the last six months pay eleven instead of ten.

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MR. MURPHY: You only raise it ninety to ninety-one, I think. No, it would go to ninety-two.

H.M.JR: Five, six, seven, eight, nine, eleven.

MR. MURPHY: Raise--

H.M.JR: I mean, that would certainly give them the incentive to hold, wouldn't it?

MR. MURPHY: Not a great deal, Mr. Secretary. That is, it means they are getting twelve hundred more in the last six months.

H.M.JR: If they don't hold it, it doesn't cost us anything; and if they do, if they sit down and figure, "I don't want to lose that last six months."

MR. MURPHY: If the people actually go out early, the end rate doesn't cost you anything.

MR. HAAS: Of course, they argue that they have two points in their curve, one is, raising up very rapidly at the beginning in order to get them in at the start, and then hold them. That is why they flatten - that is their philosophy they outlined to us.

MR. HAAS: Mr. Secretary, Rouse said to take this - he doesn't like this; he is just like you. He would compromise by taking that eight and making it seven, that is, Szymczak's with that modification.

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

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September 8, 1942
11:46 a.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello. Bob?

Robert Rouse : Yes sir.

HMJr: Uh, what have you got that's new?

R: Nothing.

HMJr: Well, the sun's coming out here anyway.

R: (Laughs) Well that's good.

HMJr: Nothing new.

R: Nothing new here at all. There's no change in the market, nothing much going on, and no new comments.

HMJr: Well I got a, well I won't even call it a suggestion, a thought...

R: Yeah.

HMJr: ...on this tax note, see?

R: Yeah.

HMJr: I, I want to get my name on one, but I am not ready to put in on. I mean the Treasury was 5, 6, 7, 8, 9, 10. Hello

R: Yeah.

HMJr: I'm suggesting to make that 10, 11 - the last six months.

R: Huh?

HMJr: Hello.

R: No. This is a fight I've kept out of.

HMJr: Well, get in on it.

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R: (Laughs.)

HMJr: Get in on it.

R: All right.

HMJr: I've been thinking...that...

R: But, you go along with this 5, 6, 7, 8, 9, 10 except that you jump from 9 to 11.

HMJr: That's right.

R: Yeah.

HMJr: Well, I'm not saying that I'm doing it, I'm just raising the...

R: You want a, uh-huh.

HMJr: Why aren't you in on the fight?

R: Well, I haven't been in exactly full accord, except with the idea.

HMJr: Well, I mean, don't you believe in doing this, having a dual purpose?

R: Yeah, I, I gave Dan and George support when they first proposed it.

HMJr: Yeah.

R: But I'm not so keen on the higher rate at the end.

HMJr: Well, what, what would you do if you could write the ticket?

R: I think I'd do something akin to the Szymczak label...

HMJr: I see.

R: ...which, when it... would work about 5, 7, 9; 5, 7, 9, 10.

HMJr: I see.

R: It's a little different than his, but 5, 7, 9, 10.

HMJr: I see.

R: Then you've got, I'm going on the theory that you've got 30-day money.

HMJr: Yeah.

R: Uh, and you have an average rate of a little less than one per cent...

HMJr: I see.

R: ...and I can't see why, in the first place, one couldn't sell it.

HMJr: Yeah.

R: I think it should be easy to sell, and I think after a man owns it there's certainly no incentive to turn it in until maturity, because his alternative is either to take three months' money at three-eighths, or invest it in business where he may make 5, 6 per cent.

HMJr: Yeah.

R: That's my whole reasoning in the matter, and I haven't seen any need of these bonuses at the end.

HMJr: I see. You'd go 5, 7, 9, 10, 10, 10.

R: Yes sir.

HMJr: O. K.

R: Right.

HMJr: Thank you.

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MR. BELL: That seems high.

H.M.JR: While you fellows are figuring, I will get hold of Ransom.

MR. BUFFINGTON: That is an awful little difference. He is talking around one and your Szymczak plan is one point zero four.

H.M.JR: He wants to keep it just under one.

MR. BELL: Bob Rouse hasn't been in on the discussions very much on this tax note recommended by the Federal because he has not been in sympathy with the higher rate, so he has kept out of it pretty well.

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

September 8, 1942.
11:51 a. m.

Ronald
Ransom: Hello.

HMJr: Ronald.

R: Yes.

HMJr: Good morning.

R: Good morning.

HMJr: Now, we here have been working on this financing
this morning.

R: Yes.

HMJr: And, there doesn't seem to be, or putting it -
there seems to be fairly complete agreement on
the Certificate at .65, due May 1st.

R: Point what?

HMJr: 65.

R: Yes.

HMJr: Payable...

R: Yes.

HMJr: Payable September 21st.

R: Yes.

HMJr: Now, we were just about coming around to 1-1/4%
note, due March 15th...

R: Yeah.

HMJr: ...when to our amazement, Bob Rouse is now talking
about a 1-5/8's, June '47.

R: 1-5/8's?

HMJr: Yeah.

R: Due what,

HMJr: Hello.

R: ...due when?

HMJr: June '47.

R: June '47.

HMJr: Yeah.

R: Well, I think perhaps, just very confidentially between you and me, your perplexity would be added to by the fact that there doesn't seem to be much agreement over on our side of the fence.

HMJr: I see. Well, we're seeing each other at...

R: Well, now may I say this to you. I think it is tremendously important to maintain the integrity of the Group with which you have been negotiating, which is the Executive Committee of the Federal Market Committee, and all of them are in - will be in town available and will meet with you, but at this time that does not include me...

HMJr: Yeah.

R: ...and with your agreement which I hope I may have...

HMJr: Yeah.

R: ...I had rather just let that Group meet with you...

HMJr: I see.

R: ...and then when I see you again explain some of the current difficulties from this end if you don't mind.

HMJr: Well, I don't know, but it seems to me with Eccles away and you Acting Chairman, you ought to sit in.

R: The difficulty is this, that I do not have a vote on the Executive Committee. Frankly, this is an awkward set-up just at this time, because ordinarily I'm Eccles' alternate on that Committee.

HMJr: Well, now listen, Ronald, God Damn it, we're at war...

R: Yeah.

HMJr: ...and if I want Ronald Ransom to come over to my office at three o'clock to advise me, I think he ought to come.

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R: I'll do anything you ask me to, and you know it.

HMJr: And to - and to hell with etiquette. That's the way I feel.

R: (Laughs.)

HMJr: I mean, you can't win a war that way.

R: All right, I'll...

HMJr: Now I want you over here at three o'clock, and if anybody doesn't like it you tell them to talk to me about it.

R: All right. I'm coming at your request, but will you please get the views of the Executive Committee first and then give me a chance.

HMJr: I'll do it that way, but this - we are at war and I can't be bothered if some fuddy-duddy over there doesn't - is more interested in etiquette.

R: It isn't so much that, but some day when you have more time, and you and I are not at war, I'll explain it to you.

HMJr: Well...

R: You'll agree with me.

HMJr: All right. But anyway...

R: But I'll come if you ask me.

HMJr: I'm asking you.

R: Fine. I'll be there at three o'clock.

HMJr: O. K.

R: All right.

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(The Secretary held a telephone conversation with Mr. Schwarz.)

H.M.JR: Rouse said his was under one.

MR. BELL: Henry figured it one point zero two.

H.M.JR: You have got five, seven - you want to get it just under one percent?

MR. BELL: Yes.

H.M.JR: What is the matter with this?

MR. MURPHY: It looks all right to me.

H.M.JR: Can you give me a little chart? Put this in red ink or something heavier.

MR. MURPHY: It is a little hard to put in, but I can give you the points, sketch it in.

H.M.JR: Why doesn't that sound pretty good? You wouldn't announce this until - depending upon--

MR. BELL: No, I wouldn't announce this until after this financing. He doesn't believe - and I don't believe I would ask the Victory Fund Committee about it, because the minute you start discussing this outside, nobody is going to subscribe to tax notes.

MR. BUFFINGTON: There is not much doing anyway the next ten days.

MR. HAAS: You won't sell any of these notes, either, if they know about it.

H.M.JR: Would you or wouldn't you announce that that banker group was down last week to see me - advise me?

MR. BELL: Yes, I would. I read your conference on that, and I would. I don't see any objection to it at all. I think it is a good thing.

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H.M.JR: All right. Who can give him a list of the people who were here?

MR. BELL: I can give him a list.

H.M.JR: Did you read the Kent article?

MR. BELL: Yes.

MR. MURPHY: Thank God I didn't confuse that with a speech by the President. (Laughter)

MR. HAAS: It hasn't yet reached the stage where they will submerge private interests for the war. That is just an evidence of it, that Kent business.

(Mr. Schwarz entered the conference.)

MR. BELL: There is the list. (List handed to Mr. Schwarz.) Then there is also Viner and Stewart.

H.M.JR: I would have to get their permission. It wouldn't look too much as though we were trying to answer Kent, the fact that they were here last week? Chick, they are the people who were here to advise with me last week on this financing. Tom Smith is from the Boatmans' National Bank of St. Louis, and Spencer is from the First National of Boston. What day were they here?

MR. BELL: They were here Wednesday or Thursday.

MR. HAAS: Wednesday.

H.M.JR: I would say they were here the middle of last week.

MR. BELL: Either that, or say last week on this financing.

H.M.JR: Last week on this financing - I want to give you Stewart and Viner in a minute - I have got a call in. You might as well tell them - you haven't told them about your coming yet?

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MR. SCHWARZ: Yes, they will be down there in a minute.

H.M.JR: Where?

MR. SCHWARZ: In the press room.

H.M.JR: We met twice, didn't we, last week with the Open Market Committee?

MR. BUFFINGTON: Yes.

H.M.JR: Why not say we met once with the Open Market Committee and once with the Federal Reserve Board? That is truthful - once with the Federal Reserve Board and once with the Open Market Committee. The other time they weren't here. It was the Federal Reserve Board I met with Friday, once with the Federal Reserve Board and once with the Executive Committee.

MR. SCHWARZ: This will be the second meeting with the Executive Committee?

H.M.JR: It was once. Friday afternoon - they didn't want to call that an Executive Committee meeting.

MR. SCHWARZ: Third meeting with Federal Reserve officials?

H.M.JR: No, you had better say that I met once with the Board and this will be the ~~second~~ meeting with the Executive Committee.

MR. BELL: This is the third meeting with the Executive Committee, Mr. Secretary. You met, I think, in the day, at eleven, on September 1, and then at eight-thirty you had Sproul and Ransom and the others.

H.M.JR: Well, this is really then the fourth time.

MR. BELL: The third meeting with the Executive Committee and you had one meeting with the Board.

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H.M.JR: Third meeting with the Executive Committee and once with the Board.

MR. BELL: And one meeting with the bankers.

H.M.JR: Do you think they will like this, and it is not too much an answer to Mr. Kent?

MR. SCHWARZ: They will like it.

H.M.JR: But it was last week. It isn't as though I suddenly got Johnny Hanes to come down.

MR. SCHWARZ: Some place I read that this is one war they can't say J. P. Morgan started.

H.M.JR: George Harrison told me last week what New York wanted was some big figure down here in the Treasury. Of course they have wanted that ever since I came here or before.

MR. BELL: Some big figure?

H.M.JR: Financial figure, like George Harrison.
(Laughter)

MR. HAAS: Of course, the biggest ones in 1929 are not there any more, for obvious reasons.

H.M.JR: I should like them - like Charley Mitchell.

MR. SCHWARZ: Whitney.

(Chart handed to the Secretary by Mr. Murphy.)

H.M.JR: That wouldn't be too bad.

MR. MURPHY: It looks very reasonable.

H.M.JR: Let those names go and I will see. They are having trouble getting Stewart. Do you think Viner would have any objection? I never asked.

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MR. BELL: Haven't the boys known that Viner and Stewart have been here?

MR. SCHWARZ: They have been seen here.

H.M.JR: I think we had better ask those two. Let that go for a while. I think we will stop here and we will continue at quarter of three.

September 8, 1942
10:28 a.m.

HMJr: Hello.

Herbert Gaston: Hello.

Operator: Mr. Gaston.

HMJr: Hello. Hello.

G: Yes.

HMJr: Herbert, I wish you'd talk to me about - sometime today - of amongst the financial advertising men who helped us originally on the War Bonds, who - who was the best - the one from St. Louis, or the one from New York. I remember they both had some bright young fellows, you see?

G: Yes.

HMJr: And I - I mean a possibility of getting - was there any one that stood out?

G: Nobody that stood out. No.

HMJr: They didn't?

G: No. Probably the best of the lot was this fellow, Clevenger, and we had him in here working on tax things, and he didn't pan out very well. He's now gone to the - to the Federal Communications Commission.

HMJr: Yeah.

G: The very bright fellow was the salesman that I don't recall his name, that represented D'Arcy of St. Louis. He - he might be - he might be some good.

HMJr: A salesman?

G: Well - he's the fellow that represented them down before us. He was essentially an advertising salesman. He was not a copy man.

HMJr: No. Well, think about it.

G: I could - I could ask Jim Bryan, but I don't - I don't myself know anybody that's - that was

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hot on either of the organizations.

HMJr:

Well, talk to me about it some time today.

G:

I will. Yes.

September 8, 1942
12:58 p.m.

HMJr: Hello.

Operator: Mr. Paul. He's with Mr. Blough.

HMJr: All right.

Operator: Go ahead.

HMJr: Hello.

Randolph Paul: Yes. I wanted to report to you about this morning.

HMJr: Where are you fellows?

P: Well, they're all working - we're all getting a statement up for two o'clock down in Roy's shop.

HMJr: I mean, are you in the Treasury?

P: Oh, yes. I can come up and see you if you like.

HMJr: Well, we'll talk on the phone.

P: All right.

HMJr: Go ahead.

P: They turned down the - they turned down the spendings tax.

HMJr: I saw. We didn't even have a vote.

P: No. Well, of course, there were only eleven votes. Some of them didn't vote but La Follette made a motion for a modified spendings tax....

HMJr: Yes.

P: which got a few votes. So, really we didn't - we did have some, and the people that might have voted for us weren't there. Now, they then picked up a discussion, started out a little bit on the sales tax, but that didn't get very far because George came in then with his plan - made Walsh chairman and came in with his plan.

HMJr: Yeah.

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P: This plan is a gross income tax which has an exemption of \$624.00. It hits down - it's on gross income - five per cent. It has a sort of an elusory post-war rebate up to a certain amount which can be taken immediately by applying it against debt payments, insurance premiums, and WAR Bonds. Actually there won't be any appreciable War Bond element in it, because it is only five per cent and most people won't have enough debt payments and insurance premium payments to absorb it. There was a good deal of discussion of that and the sales tax - some of the sales tax boys were a little bit frustrated. They asked - we made a few technical comments on it, preliminary to this thing we're taking up at two o'clock. Now - the only - the only policy position we took was this morning that, in response to a question, I said that the plan had some technical defects, some of which could be eliminated. I wanted 'til two to make any decision on it, but then they pressed me for an answer on whether I thought it was better than - better than sales tax, and I said I thought it was. Now, our feeling about it is this - (aside: let me have that sheet there, will you?) aside from technical points which I won't bother you with....

HMJr: Yes.

P: ... we - we have here an equivalent which we think we ought to state. That is, they've asked us for our opinion now, and we say we would prefer something first, and then if that isn't done..

HMJr: What do you mean 'prefer something first'?

P: Well, I'll - we wouldn't - rather than this gross income tax we can't honestly say we prefer that, except as against the sales tax....

HMJr: Yeah.

P: ... and I think we ought to say what we think ought to be done.

HMJr: Yeah, otherwise you're getting us caught in the same trap as last week.

P: Well, yeah, except that I can't help it if the newspapers completely misrepresent the facts. We weren't really in that trap, but anyway, that's

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history - last week is history. We're not making a suggestion here, we're telling what would give the equivalent and taking the equivalent with the spendings tax out, it seems to us, it would be better than the proposed tax to lower the married exemption to a thousand and credit for dependents to \$250. Then for 1942 income tax rates, reduce the income - those rates by ten points and increase the '43 and subsequent years' rates by five points and start withholding at the source January 1st, 1943 at fifteen per cent. Now, that's a much cleaner picture, and it's on the net-income basis - it's - it ties in with our present tax structure - it doesn't go down so low.

HMJr: Now, I can't follow you. You fellows shoot these things at me so fast - it's impossible -

P: Well, you see, this plan goes down - this plan goes down and taxes people - this gross plan of George's goes down and puts a tax on, for instance, married couples....

HMJr: Yeah.

P: ... who are making, say \$650.00.

HMJr: Oh.

P: Well below a thousand.

HMJr: Well, that's crazy.

P: And - well, it's crazy, but it's - it's better than a sales tax - it gives some exemptions, but I prefer to stand clean on the picture. It seems to me we ought to stand clean on the picture that - that we oughtn't to go below the thousand dollars....

HMJr: Yeah.

P: and the way to do this - to get a practical equivalent of what they're trying to do in terms of revenue - is to - is to put the rate for '42 down, but put the withholding well up for '43.

HMJr: Put the '42 rates down, but -

P: Yeah, yeah. Well, reduce the '42 rates ten points and put the '43 rates up five points.

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HMJr: I don't know what you mean "ten points" and "five points".

P: The percentage points. For instance, put the twelve per cent up to - put the twenty-two per cent rate down to twelve for '42's liability -

HMJr: Withholding, you mean?

P: No, that's - that's your 1942 tax, and then raise your withholding -

HMJr: I don't understand what you mean.

P: Well, your - you have a certain type of liability for '42....

HMJr: Yeah.

P: under the House Bill. Now, just reduce those rates for '42.

HMJr: Why reduce them?

P: Because, you have to get people - you can't have withholding at a high rate for '43 and the high rate for '42 liabilities.

HMJr: I see.

P: We're trying to get over that hump, you see? Same old hump.

HMJr: Yeah.

P: And you get about two billion eight hundred million additional revenue.

HMJr: By doing -

P: By reducing the liabilities for '42 income tax...

HMJr: Yeah.

P: but at the same time increasing the percentage liability for '43 by five points and coupling that with a fifteen per cent withholding.

HMJr: Fifteen per cent withholding, when?

P: Beginning January 1st, '43.

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- HMJr: And is that redeemable - refundable?
- P: No - I - I neglected to tell you this, that as far as the refundable part is concerned, they don't want to deal with any refundable tax now - they want - they're - they're thinking strongly of appointing a committee to go into that whole subject of compulsory saving, or whatever you want to call it, and report back January 1st. They - they're not prepared to take any action on that. You see they voted - even voted - they voted La Follette down. He was for our plan with a smaller - with certain slight modifications, and they voted that down largely because it had the refundable tax in it.
- HMJr: Well, I - I - I'm just dizzy. I - I can't - I can't - (aside: Is Mr. Bell around? Tell him to come in) I can't -
- P: Do you want me to come up there?
- HMJr: No, I can't do it anyway. I can't - you fellows think about these things for days and then, after all, these are plans which will affect every man, woman, and child, and then you give me a new plan literally every day.
- P: Well, you've got to meet each situation as you come to it
- HMJr: Well, no - we never - we never were in it that way before. We don't - it's impossible, I mean to give the Committee a new tax plan well thought out between morning and lunch time.
- P: Well, we've been thinking - we've been - this is an alternative, based on certain conditions that arose this morning.
- HMJr: Well, it's - it's
- P: It's not a
- HMJr: Well, I - I just - I can't - I don't know whether it's good, bad, or indifferent.
- P: Well, then all right. Then I won't put it up.
- HMJr: Well, I mean, how - how can anybody that - I mean

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give me a plan like this absolutely cold, and then for me to say, it'll do the trick - it's entirely - you want to lower the exemptions, bring up the withholding to fifteen per cent - I can't - I can't follow you, Randolph.

P: Well -

HMJr: As I said the other day...

P: If you don't want me to, I won't put anything up.

HMJr: I'd have to be a flea to jump from one plan to another.

P: Well, they voted down our plan now, and they -

HMJr: I know, I can read the ticker just as well as you can.

P: Well, then, what do you want me to do? I - I ... we get faced all the time up there with these facts.

HMJr: Well, it's very simple what to do. Tell them, God damn it, we gave them a good plan and they don't like it, let them write the tax bill. Why would you give them a plan one in the morning and one in the afternoon?

P: Well, all right, I'll do it that way if you want to.

HMJr: Well, I mean, supposing you and Roy come up. I - I can't - I wish you'd both come up a minute and bring ...

P: All right, we'll do that.

September 8, 1942
2:40 p.m.

FINANCING

Present: Mr. Bell
Mr. Buffington
Mr. Haas
Mr. Murphy
Mrs. Klotz

(The Secretary held a telephone conversation
with Mr. C.S. Young, as follows:)

September 8, 1942.
2:44 p.m.

HMJr: Hello.

Operator: President Young in Chicago.

HMJr: Well, tell Mr. Bell and the other Group to come in.

Operator: Right.

HMJr: Bell and Haas and that Group.

Operator: Right.

Operator: Go ahead.

HMJr: Hello.

C: S. Young Hello, Mr. Secretary.

HMJr: How are you?

Y: Oh, this is Young, Chicago.

HMJr: Yes.

Y: I made a pretty good check of Detroit, Milwaukee, Indianapolis, Des Moines and Chicago.

HMJr: Yes.

Y: And the consensus of opinion amongst all the Banks, with the exception of three...

HMJr: Yes.

Y: ...that the one-and-five-eighths '47 would be more desirable and would probably, would go over much better.

HMJr: I see.

Y: Now the three banks that thought the one-and-a-quarter were the Northern Trust Company, the CityNational Bank of Chicago...

HMJr: Wait a minute, wait

Y: ...and the Manufacturers National of Detroit.

HMJr: Wait, you're going too fast. Which three prefer the...

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Y: One and a quarter were the Northern Trust Company of Chicago.

HMJr: Wait a minute, Northern of Chicago.

Y: And the City National Bank and Trust Company of Chicago.

HMJr: City National of Chicago, yeah.

Y: And the Manufacturers National of Detroit.

HMJr: Well now, are any of those big banks?

Y: Yeah, they're all large banks.

HMJr: I see.

Y: Northern's about four hundred million, and the City's about two twenty, and the Manufacturer's about three hundred and thirty million.

HMJr: They all preferred the one and a quarter?

Y: One and a quarter, because their whole - the whole portfolio was all short, you know, and they lean that way all the time.

HMJr: Do they lean that way anyway?

Y: Yes. And so they would always, those three banks, would always take the shorter maturity regardless.

HMJr: I see. Regardless?

Y: Yes, but they did say that they, of course, they would subscribe for the one and five-eighths.

HMJr: Yes.

Y: Now, all the other large banks, they all thought that one and five-eighths would be better.

HMJr: Uh - huh.

Y: And they also, it was the consensus of opinion that maybe this - these two issues - neither one of them would appeal to the outsider very much.

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HMJr: They would not.

Y: And, as I said, very few indicated there would be very much of a demand from the outside investors.

HMJr: I see.

Y: And - but they thought that the certificates though at sixty-five, why, there should be a lot of those sold to non-banking investors.

HMJr: To be - to non-what?

Y: To non-banking investors.

HMJr: The certificate at sixty-five?

Y: Yes. I was surprised at that, but that was what I received from - oh - eight of them.

HMJr: They think a lot of them would go to non-bankers?

Y: Yes, at sixty-five hundred.

HMJr: Is that right?

Y: That appealed to them very much, that is, appealed to the banks.

HMJr: Is that right?

Y: And, of course, the war-loan accounts are low now and the banks are very eager to subscribe to the limit.

HMJr: Uh - huh.

Y: And with - judging from what I - from the conversation today and last week, why I believe that as far as this district is concerned, it would be better to more or less treat this is as a bank issue and have it the regular forty-eight hours instead of the week.

HMJr: I see.

Y: And -

HMJr: Well, can -

- Y: And all - I talked to the Indiana National and the Iowa Des Moines, the largest banks in each state, and the First Wisconsin in Milwaukee, the First National in Chicago and the Continental and all the, and the other smaller banks, and the consensus of opinion, outside of the three I mentioned is the one and five-eighths was the one that would go over.
- HMJr: Well, now, can you see any harm if we'd leave open the note - uh - for a week.
- Y: Well, the only danger is that they - uh - they're afraid it might hurt the market, because they wouldn't know where they were going on that.
- HMJr: Uh - huh.
- Y: That, that would be the only thing, and we
- HMJr: Uh - huh.
- Y: and, of course, if we had something for the Victory Fund Committee that would be, they could use all the time.
- HMJr: Yeah.
- Y: Well, for example, something like your tax - your tax note revision, why
- HMJr: Uh - huh.
- Y: I think that they'd have plenty to do.
- HMJr: You mean
- Y: I don't believe that they could sell very many in a week to non-banking investors.
- HMJr: Uh - huh.
- Y: And there's four or five of them that indicated that they might sell the 1-1/4s to non-banking investors better than the 1-5/8s.
- HMJr: Really.
- Y: Yes. And there were a few companies they knew of that had some funds - a million or so - lying idle and probably would rather have the '45 than the '47.

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HMJr: Uh - huh.

Y: That is, the non-banking proposition would probably appeal to - the 1-1/4s would appeal more than the 1-5/8s.

HMJr: Well, after you've heard it all, Mr. Young, what would you advise me?

Y: Well, I believe that I would just treat it as a bank issue this time and keep it open the two days, and I believe you'll have your three billion without any trouble.

HMJr: Well, which would you do on the note?

Y: Well, I'd have the 1-5/8s.

HMJr: Uh - huh.

Y: Because in checking with the smaller banks, from five to ten million, the last two weeks, I've found out that they are looking to rates rather than to maturity.

HMJr: Yes.

Y: Maybe that's wrong, but they're doing that.

HMJr: Uh - huh.

Y: And the 1-5/8s, anything over 1-1/2 would appeal to the banks outside Chicago.

HMJr: I see.

Y: But a 1-1/4 wouldn't appeal to them very much.

HMJr: Uh - huh.

Y: They're looking to yields, rather than to maturity

HMJr: Uh - huh.

Y: and their loans are going down and they are looking for yields now - they're worrying about their profits.

HMJr: Uh - huh. Okay.

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Y: All right.
HMJr: Thank you.
Y: Yes, sir. All right.

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H.M.JR: He said that he contacted a lot of banks and they all wanted the one and five-eighths, with the exception of the Northern of Chicago, the City National of Chicago, and the Manufacturers of Detroit. They wanted one and a quarter. The rest concurred.

MR. BELL: I am surprised at the Northern Trust.

MR. BUFFINGTON: So am I.

MR. BELL: They are a short bank; they would like that one and five-eighths coupon, I should think.

H.M.JR: They didn't.

MR. BELL: I did not get what he said about the market - that the shorter note would affect the market.

H.M.JR: No, leaving it open.

MR. BELL: That is right.

MR. BUFFINGTON: I was unable to reach Harry Stuart. He is out of town and could not be reached until tomorrow.

MR. BELL: Bob Rouse says the New York banks want this one and five-eighths, although Repp says that he thinks we will get more subscriptions to the one and a quarter.

H.M.JR: Say that again.

MR. BELL: The New York banks want one and five-eighths.

H.M.JR: Because I like '47. I would like to get it out then. What month would that be?

MR. BELL: June, he said.

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MR. HAAS: That is pretty rich, we figured.

MR. BELL: I told Bob that I thought June was rich. He said he thought it would sell around ten or eleven on the chart, but he did not think there would be any premium at all.

MR. HAAS: No, you cannot put on a premium these days.

MR. MURPHY: However, it would be a ten or eleven on the chart.

(The Secretary held a telephone conversation with Mr. Chester C. Davis, as follows:)

September 8, 1942
2:52 p.m.

HMJr: Hello.

Operator: Chester Davis.

HMJr: Thank you.

Operator: Go ahead.

HMJr: Hello.

Chester
Davis: Hello, Henry.

HMJr: How are you, Chester?

D: All right.

HMJr: What do they think out there?

D: The banks in the cities that we talked to, and that's all the cities of any consequence in the district, believe that the one and a quarter shorter note would be preferred here.

HMJr: I see.

D: Now out in the - out in the country banks, and that probably wouldn't be more than one fifth I would say of our - of our bank market...

HMJr: Your bank what?

D: They probably - the country banks probably would go for the yield - the one and five-eighths.....

HMJr: Yeah.

D: ... but the more important bank market - I'm talking now banks first, would prefer the shorter note.

HMJr: Yes.

D: And that's fairly unanimous, I understand.

HMJr: I see.

D: Now, as far as corporations are concerned, there

isn't any great deal of - of preference that we've been able to uncover as between the short and the long. That is, the long wouldn't be particularly more attractive as to yield to off-set the longer market risk....

HMAJr: I see.

D: and there's no reason for going to the longer note as far as the corporations are concerned.

HMAJr: I see.

D: The certificate, of course, needs no comment. I think it will go all right - go fine.

HMAJr: Yeah.

D: Now, there's one thought I want to give. I don't think looking at it just from the standpoint of this district....

HMAJr: Yeah.

D: that there'll be any advantage in holding open for the corporate or non-banking investors for the week.

HMAJr: I see.

D: And particularly, Henry, if it's held open with the idea that we're going to thru the efforts of the Victory Fund Committee accomplish any - any great deal of big and new investments in this issue.

HMAJr: Yes.

D: We could get - we're well organized and we could get to all of the corporate and individual investors who might be reached in a shorter period. Say, if it were held open until - as a compromise - to Saturday for both bank and non-bank, and we could get over everybody in the district and I'm not sure but what we could do it if it was held open just for two days.

HMAJr: Well, have you talked to any of your people on your Victory Fund?

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D: Yes. Yes, we've talked to all of the regional - representatives of all the main regional committees that have any prospects at all, outside of banks in their districts.

HMJr: And they don't - warm up to it?

D: No, they - they could go to town probably on your tax note with its redeemable features and we hope that something of that sort comes through.

HMJr: Yeah.

D: And it - it isn't a case of not warming up particularly, but over most of these - the individuals could be handled better by the F's and G's and the corporations, those that we could reach, we can reach inside of the two-day period anyway....

HMJr: Yeah.

D: or two and a half.

HMJr: I see. Well, anyway that's what you think and ...

D: And that's what you want.

HMJr: and that's what I want.

D: That's right.

HMJr: OKay. Thank - thank-you.

D: Anything else?

HMJr: Not today.

D: How are the tax notes coming?

HMJr: Very good, oh, you mean as to getting ready?

D: Are you getting ready?

HMJr: Yeah, but we didn't ~~think~~ we'd do anything on them, until this financing was over.

D: Yeah.

HMJr: We don't want to ~~mix~~ them up.

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D: No, that's right. Well, we hope to give you something good to work good on them, Henry.

HMJr: Well, we'll be ready just as soon as this financing is over.

D: All right. Now is the amount of this - I don't know whether you're - you've given us any indication how big this is going to be - these notes and

HMJr: A billion and a half of each.

D: That's what we thought.

HMJr: Yeah.

D: All right.

HMJr: Thank you.

D: Thank you, very much.

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H.M.JR: They do not think very much - they think about as much of your Victory Fund Committee as my tax plans. (Laughter)

MR. BUFFINGTON: St. Louis is one of the poorest markets in the country for that kind of paper.

H.M.JR: How about Chicago?

MR. BUFFINGTON: Chicago, I should think, would be much better.

H.M.JR: They did not seem to be very hot for it.

MR. BUFFINGTON: I am afraid they are both trying to let nothing interfere with the tax note sales later on.

H.M.JR: I still think my spendings tax plan is good, and I still think it is good to keep something open for a week to let these boys go to work on. If you do not keep chewing on fairly hard food, your teeth fall out - if you do not chew on something hard. We have got to give these fellows something besides pap.

MR. BUFFINGTON: I am surprised that he says the one and five-eighths in Chicago would go better for corporations, if I understood him correctly.

H.M.JR: No, no, he did not say that. He said that the corporations like the short stuff - that the interest rate did not make any difference, and that the corporations would take the shorter stuff.

MR. HAAS: Mr. Secretary, on the increase in bills, since April 30, only ten percent have gone outside the banks.

MR. BELL: Only ten percent?

MR. HAAS: Yes.

H.M.JR: The increase--

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MR. HAAS: The increase since April 30.

H.M.JR: Have gone to non-banking?

MR. HAAS: Ten percent to non-banking investors; twenty-seven percent, New York City; thirteen percent, Chicago, making a total of forty; and fifty percent to banks outside New York and Chicago, adding up to ninety. The balance has gone to outside the banking system - one percent Mutual Savings; insurance companies, one percent; and all others eight percent.

H.M.JR: What do you deduce from that?

MR. HAAS: I thought you were under the feeling that more went out.

MR. BELL: Well, more of the outstanding.

MR. HAAS: That is right.

MR. BELL: You take the total outstanding and you get a higher percentage.

MR. HAAS: That is right. And on the certificate, Dan, you asked - or the Secretary - on the last one, seventy-five percent of the last one to commercial banks.

MR. MURPHY: That is subscriptions. That is the August subscriptions.

September 8, 1942
3:00 p.m.

FINANCING

Present: Mr. Bell
Mr. Buffington
Mr. Haas
Mr. Murphy
Mr. Baker
Mr. Sproul ✓
Mr. Alfred Williams ✓
Mr. Ransom
Mr. Piser ✓
Mr. McKee ✓
Mr. Thomas ✓
Mr. Szymczak ✓
Mr. Draper ✓

H.M.JR: A little birdie told me you were all separated as to ideas. (Laughter)

MR. RANSOM: Complete unanimity.

H.M.JR: This would be a good time for me to ask the Federal Reserve Banks for their advice. (Laughter)

MR. RANSOM: Just give us a little advance notice, will you?

H.M.JR: I tried to put one over on you fellows today. I called up Young and Davis and asked them to call me back at quarter of three today, which they did.

Who is the spokesman for this group?

MR. RANSOM: Mr. Sproul.

MR. SPROUL: What do you want to know, Mr. Secretary? (Laughter)

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H.M.JR: What I would like to know is, how can I raise three billion dollars, starting Thursday, most effectively and economically?

MR. SPROUL: We have considered it since we last met with you, and considered it again from noon on, today, and we are, I think, wholly in accord with the idea of a certificate of indebtedness issue for a billion and a half dollars, which would mature May 1 and bear a rate of six five. We think you could appropriately go to the decimal system of quoting such short-term securities as the certificates, and that it gives a little more leeway and a little finer touch in gauging your market.

On the other billion and a half of the financing, we considered two possible items, the one and a quarter percent obligation, which falls about two and a half years or two and three-quarters years, which we recommended the other day; and we also considered a longer note - a four and a half or five-year note, which presumably would carry a one and five-eighths percent coupon. Our judgment still is that the one and a quarter percent note would be the better obligation for this offering - that it would be less of a conflict in the possible October financing in the bond area, and it would avoid the market area which has been the weakest in recent weeks, that is, the long note market and the short bond market.

We understand that there is a considerable group of the larger banks, both New York City and Chicago, which have a preference for the longer note. We doubt if that preference extends outside the principal money centers. We think that they are either interested in something short, or else in getting an even higher coupon than one and five-eighths; that they would wait for your October financing. So that we come back to the one and one-quarter percent note for a billion and a half, to go with your certificate of indebtedness for a billion and a half.

(Mr. Draper entered the conference.)

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MR. SPROUL: On the various points in connection with the financing, we considered again the question of possibly leaving the books open for a longer period and enabling others than banks to subscribe in full and having the banks underwrite the remainder. We do not think that this issue, which is aimed more largely at the banks than at any others, lends itself particularly to that sort of offering, and we think it would be better to preserve that sort of an innovation for the larger financing of October, when you would have a piece of merchandise which could be sold effectively within the longer period that the books were open.

We considered the question of possible split payments for these two issues, and think that would be desirable. It would enable you to take the money more nearly when you need it, and with less disturbance to the money market, so that you could call for payments, say, on the certificates one day, and payment on the notes four or five days later.

We continue to be in accord and wholly in agreement with the idea of increasing your bill issue to four hundred million with the next issue to be announced Friday, and to be dated the 16th.

I think, in general, that sums up our ideas on the September financing.

H.M.JR: Well, of course last week you people were all off the '47. You said that was the weakest point.

MR. SPROUL: We were, and we still are. We still think it would be preferable to go for the one and one-quarter percent note, which we think would do best at two and a half years, but could be done at two years and nine months.

MR. BELL: Did I understand you to say you were against leaving the books open for the note?

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MR. SPROUL: Yes, we do not think that this issue lends itself to that sort of treatment; that it is an innovation which could be much better put in when you have an issue which we could expect to get substantial results from having the books left open and a sales campaign.

MR. BELL: You do not think the Victory Fund Committee could sell many of these outside the banking system?

MR. SPROUL: No.

H.M.JR: On the one and a quarter, what are you recommending?

MR. SPROUL: We say it would do best on two years and six months, that is, to March of '45, but you could do it for two years and nine months - to June of '45, which has a slight advantage of not being - of being the nearest to an open date that you have in that area.

H.M.JR: Is there enough margin to go to June, '45?

MR. SPROUL: It would be pretty close to the line. It would be about par to par two on the figures, I think, if we went to June of '45.

MR. BELL: There is a bond in June of '45 that is callable.

MR. HAAS: We were figuring just at par even, at two.

MR. SPROUL: It is about on the par line for June. We think it would do better in March, certainly.

H.M.JR: Are these your figures or Baker's?

MR. HAAS: Those are ours. Baker's were about the same thing.

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H.M.JR: Have you got some figures?

MR. BAKER: Yes, sir, I have. I am a little more optimistic, but not an awful lot. (Chart handed to the Secretary by Mr. Baker.)

H.M.JR: I talked to Chicago and St. Louis, and I did not get the same thing from both places. Hap Young said that about two-thirds of the banks he spoke to wanted the one and five-eighths.

MR. SPROUL: I think you will get the same reaction from the New York City banks, that more of them would want the one and five-eighths than would want the one and one-quarter.

H.M.JR: Because if we are going to announce this new tax note - we have got a Bell schedule, now - we will do this just as soon as this thing is over. We could start the Victory Fund on that next Monday.

MR. BELL: You mean if you did not keep the books open?

H.M.JR: Yes, if we did not keep the books open.

MR. SPROUL: There again, if you kept the books open, or tried to tackle the non-banking market with this note offering, which I do not think it is possible to do very effectively, you would then run into a competition with your intensive effort on the modified tax note, which they really could go to town on, I think.

MR. BUFFINGTON: I agree that offering this one and a quarter and emphasizing the market outside the banks, would affect the offering of the tax notes. I am a little more optimistic about the interest of corporations on the one and a quarter than anyone I have heard here indicate.

H.M.JR: Wouldn't corporations also be interested in this new tax note?

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MR. BUFFINGTON: Yes, they would.

H.M.JR: That would be open continuously.

MR. BUFFINGTON: If you are going to only leave this open for a day, then I doubt the effectiveness of the Victory Fund Committee.

H.M.JR: I would not ask them to do anything. I would much rather get them all set to start next Monday on the tax note.

MR. BUFFINGTON: They will do a better job on the tax notes than on the one and a quarter.

H.M.JR: That would be something for them to sell steadily.

MR. BUFFINGTON: Right.

H.M.JR: Who else? Let's start with Szymczak. What do you think?

MR. SZYMCZAK: Allan has told the story one hundred percent.

H.M.JR: McKee?

MR. McKEE: That is all right.

H.M.JR: They have got you down, have they?
(Laughter)

MR. McKEE: I am waiting until you pull out these Bell schedules on me. That is what I am waiting for.
(Laughter)

MR. RANSOM: Save him the strain. (Laughter)

H.M.JR: Draper?

MR. DRAPER: I am holding my fire.

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H.M.JR: Nobody is interested. I am talking about the three billion dollars.

MR. DRAPER: Oh, well, I think what Allan said is correct as far as I am concerned.

H.M.JR: How about Philadelphia?

MR. WILLIAMS: I think if you asked the Victory Fund Committee to get in on this note, you would have three jobs for them in four or five weeks which would be a rather heavy task - rather continuous.

MR. BUFFINGTON: They seem to be wanting a big task - different from what they have been talking about in the past.

MR. WILLIAMS: Not all of them. There is something to be said for intermittent effort, there, rather than a steady job.

H.M.JR: How does the Federal Reserve Board feel?

MR. RANSOM: Fine. I think this is really an excellent program for September. It is all right. I cannot find any fault with it at all.

H.M.JR: This is where we were this morning until I talked to Bob Rouse and he started - beginning to hear that people wanted the '47.

MR. SPROUL: I talked with him at noon. He said that was the report of the bigger banks in the market and he thought it ought to be seriously considered in the light of their opinion. And I, having seriously considered it, still do not think they are right.
(Laughter)

MR. MCKEE: How much of this issue are they going to buy, anyway? You are talking about a billion and a half dollars - you are talking about New York, how much are they going to take?

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MR. BELL: Not very much.

H.M.JR: But Chicago, Young said one and five-eighths. Now, the only banks that he talked to that did not want one and five-eighths - the three banks that did not were the Northern Trust of Chicago, the City National of Chicago, and the Manufacturers of Detroit. They wanted one and a quarter, and all the others wanted one and five-eighths.

MR. McKEE: For two years and six months?

MR. SPROUL: That does not mean they will not take some one and a quarters, because they will. They will take one and a quarters, too, perhaps not so many as they would take of one and five-eighths. On the other hand, I think the banks outside of New York and Chicago would take a short obligation, one and a quarter, or they will wait for the two's, or whatever they are going to get in October.

MR. BELL: Wouldn't the country banks take the one and five-eighths?

MR. SPROUL: I think they will be pretty much waiting for what they will get in October, which they think will be a better coupon.

MR. McKEE: The country banks aren't much note-minded, Dan.

MR. BELL: How about the preferred allotment? That is, wouldn't you consider that in subscriptions outside the bank?

MR. SPROUL: We considered that along with holding the books open. There again, we think this financing, which is aimed so largely at the banks, could better be done in the ordinary way, without any special innovations, continuing the twenty-five thousand full allotment, and that would take care of it. You could use these innovations to better advantage on your big October issue in the bond area.

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H.M.JR: How about raising the amount of twenty-five thousand?

MR. SZYMCZAK: Raising it beyond twenty-five?

H.M.JR: Yes.

MR. SZYMCZAK: To any particular figure - fifty thousand?

H.M.JR: Fifty thousand, say.

MR. SZYMCZAK: Personally, I would have no objection.

H.M.JR: Do many take the twenty-five?

MR. BELL: We had sixty-nine million, I think, on the last one. The big one was the bond - a hundred and ninety-six million dollars.

MR. McKEE: Don't you think that would be a good thing to preserve for a big issue? Any chance of changing - wouldn't it be better to do it in the proposed issue of October, instead of this one?

MR. BELL: I think the twenty-five thousand limit pretty well takes care of the banks that we intended it for. We intended it for the small country banks. You wouldn't want to go beyond that.

MR. McKEE: Wouldn't the twenty-five thousand limit apply to both certificates and notes in these two issues?

MR. BELL: Yes.

MR. McKEE: In other words, then, the limit is fifty thousand, almost.

MR. BELL: For the aggregate, yes.

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H.M.JR: What you all really want to know is - you are all interested in these tax anticipation notes.

MR. McKEE: That is right.

MR. SPROUL: We are interested in the September financing, but we have a continuing and abiding interest in the tax anticipation notes. (Laughter)

H.M.JR: Now, what is the latest schedule? The Bell?

MR. SZYMCAK: Has Bell got some rates?

MR. BELL: Just for want of a better title--

MR. HAAS: And he hopes it rings. (Laughter)

MR. McKEE: What are your rates, Mr. Bell?

MR. MURPHY: The rates in the Bell schedule are five, seven, eight, nine, ten, ten, which in decimals are sixty, eighty-four, ninety-six, one point zero eight, one point twenty, one point twenty. It averages ninety-eight for the period. That compares with one point fourteen in the Board's original proposal; one point zero four in the Szymczak proposal; and ninety for the five, six, seven, eight, nine, ten.

MR. McKEE: The Murphy schedule. (Laughter)

MR. BELL: I believe that Bob Rouse changed one figure in that schedule and it came out exactly at one.

MR. McKEE: I think your last - when you come out at one, I think you jump your ninety-six sooner. I think you go from five to eight.

MR. BELL: Yes, five, eight, nine, ten, ten, ten, I think he said. I do not see any sense in going over one. It would be all right with me.

- 10 -

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MR. BELL: Yes, five, eight, nine, ten, ten, ten, I think he said. I do not see any sense in going over one. It would be all right with me.

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MR. McKEE: You don't, Dan?

MR. BELL: I think it would be better if we had a bargain, ninety-eight cents. (Laughter)

MR. McKEE: Don't you think you are going to have some bargains later on?

MR. BELL: Probably.

H.M.JR: Look where Ruml got with his plan - Macy's.

MR. McKEE: In the dog house. (Laughter)

H.M.JR: I don't know - he gets lots of publicity. I forgot that he is your president.

MR. SPROUL: He is chairman of the Board.

H.M.JR: What I ought to do is sit down and write the Board a letter and say I would like to know whether this is the Board's opinion. (Laughter)

MR. SPROUL: What their opinion is of the Ruml plan?

MR. SZYMCZAK: You mean the New York Board?

H.M.JR: Does Mr. Ruml speak for the Federal Reserve Bank of New York?

MR. SPROUL: No, he does not on tax matters, but I think you will find the board of directors of the New York Bank were unanimously in favor of his proposal. (Laughter)

H.M.JR: I am thinking of going up tomorrow. I am going to raise Ruml - skip two years - and see if I can't get popular. (Laughter)

MR. SPROUL: We considered again the tax savings note, Mr. Secretary.

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H.M.JR: Here comes another one, now-- (Laughter)

MR. SPROUL: And we again feel that if you want to make this a dual-purpose note, you ought to give the kind of rates which would bring people in at the beginning, and that, we think, requires rates approximating market rates for the first year or year and a half, and then you should have rates which have considerable attraction to hold them in to the maturity. The kind of funds you are going after, idle funds, which the holder does not know how long he will have no need for, are funds which need to be brought in by an issue which is approximately the equivalent of a market issue, and which has a sugar coating at the end which will hold him in for as long as possible. The schedule of rates which we originally suggested would do that, we think, and enable us to make a very substantial sale of these obligations.

In our discussions with your staff there was a question about what the effect of those - whether we weren't making it too sweet, and what the effect of those rates would be on existing short-term rates. We were not so much concerned as they were. We did not think that those rates would have an upsetting influence on your short-term rates, because of two or three saving features: the fact that banks could not use them for cash conversion privileges; the fact that there is still, whether it is rational or not, some considerable desire for fully marketable obligations; and the fact that we have established and are supporting a rate structure in that market which would prevent any serious disturbance to the market.

We do not say we know just the best schedule of rates to do this job, but we do believe that the success of the job, as far as a big selling campaign, and a big sale outside the banking system is concerned, would be jeopardized by rates lower than the second schedule, which some of our members suggested, which gave an average of one hundred and four for the whole period, which approximated market rates during the first year and which then, while going below market rates, carried the bait for continued withholding, which the demand feature provides.

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H.M.JR: Now, who else of our guests wants to speak on this?

MR. RANSOM: I am still very much in favor of the original schedule which comes out at the one point fourteen figure, I think very largely for the reasons that Allan has stated. I think, if we are going to do this job, making this tax note a dual-purpose note and trying to get it out of the strict limitations of a tax note, that the rates had better be adequate to do the job. I certainly could not undertake to tell you exactly what schedule would do it, but one point fourteen was thought out rather carefully, and after much discussion, it seemed to us, collectively, that that would produce the result. I still very strongly favor the one point fourteen rate.

H.M.JR: Williams?

MR. WILLIAMS: I think the schedule has to be related to the volume. I hesitate to go along on the original estimate, which was somewhere between a half a billion and a billion, unless we maintain the original. With the Szymozak rate, I think we could do the job - how much, I would hesitate to say.

I think, when you get down to Mr. Murphy's schedule it is not going to yield much beyond that that would be forthcoming for tax purposes. I think we would have a difficult time merchandising it. It would be pioneering in a new field, and I think there is something to be said for an attractive rate. So, personally, I would not want to go below that so-called "compromise schedule", which is one point zero four.

MR. BELL: You do think a pretty good job could be done at the one point zero four?

MR. WILLIAMS: I think so. I think if we got to work immediately on that - certainly I think your decision to cast the die immediately is a good one, because I think we are losing time. I think if we got into it next Monday and worked vigorously, I think we could do an acceptable job.

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H.M.JR: Draper?

MR. DRAPER: I am in favor of the one fourteen, Mr. Secretary, because I think that that would really do the job in a way that we all would feel was effective. Anything less than that, it seems to me, would be taken out in a lowered amount of sales. It all depends on how much we need the money. It seems to me we need the money.

H.M.JR: McKee?

MR. McKEE: Well, I will repeat what I said here before, that I think when you go to Murphy's rates you eliminate the dual possibilities of this note. If that is what you contemplate, then I would much rather see you go back to a two-year note, point seven two, and have a tax note, leaving that field clear for other short-time paper.

MR. SZYMCAK: I much prefer the first suggested schedule of rates, that is, the average of one fourteen; as a second choice, the modified rate which averages one point zero four, relating it to volume and tendency to hold.

H.M.JR: Piser?

MR. PISER: My preference would be for the one fourteen, but I think, with the one point zero four, you could still sell a substantial volume. I do not think it is possible to determine these rates very exactly. It is sort of a guess, at best, but I think either the one fourteen or the one point zero four, would bring in a substantial volume of funds.

MR. SPROUL: There has been reference to the Murphy rates, which I think, at the present sitting, are the low of the field. The schedule Mr. Bell suggested, which comes out either ninety-eight or one - we are getting pretty close together there, and certainly it seems to me to accomplish the dual purpose of both the tax note and to sop up idle funds.

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We ought to weight it on the side of making it an attractive obligation, and to hold back from one point zero four to give one, does not seem to me to meet the situation as a dual-purpose attempt.

H.M.JR: There is very little difference between what Bell is suggesting and what Szymczak is suggesting.

MR. BELL: I was just attempting to get under the one, I will admit. (Laughter)

H.M.JR: There is very little difference.

MR. SPROUL: We think there is just enough difference to be - and I say again, you cannot be dogmatic about these things - we think there is enough difference to be the difference between doing a big job, a relatively big job, on sales to others than banks, and just having another tax note with some added features, which would go about as they have been going.

H.M.JR: You mean that as to what Bell has suggested and Szymczak - you mean there is a difference between success and failure?

MR. SPROUL: Not between success and failure, but we have already come back from one fourteen to one point zero four when we talk in the terms of the Szymczak obligation, which is the measure of our retreat from what we think would do the best job possible. So we are getting onto ground where we think we are getting out of the dual-purpose note and into the purely tax note, with some added features, when we get down that far. And we do not believe that a note with those rates and that average of rate for three years is going to be upsetting to your short-term market, which is the chief concern, as I understand it, that some of your people have had.

MR. THOMAS: I think I agree with the position that has been stated. I do not think there is such a thing as failure on this, anyhow. Any of the rates would bring in a lot of money. It is just a question

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of how much you want to get in from this type of thing without upsetting the short-term market. In these ranges, any of the suggestions would fit into that picture. Therefore, the higher you go within that range the more of a success it will be.

MR. BELL: Do you think the corporations are so much interested in rate, or are they more interested in liquidity?

MR. THOMAS: I think they have some ideas as to what rate - there is a marginal point there. They have an idea as to what rate they are interested in - below that they will just pay out.

MR. BELL: I think they are interested in that thirty-day demand money.

MR. McKEE: No doubt your banker friends have told you this, Mr. Secretary, but they did tell it to us, that they expect hesitation on the part of some national treasurers of buying this because of the notice feature to get their money, and that therefore, they would prefer, whether or not rate-minded, to get market paper in order not to have to serve notice to withdraw their funds. That has been presented by, I think, Ned Brown, and others. That would be a selling point against this tax note.

MR. BELL: That will compete with the certificate.

MR. SZYMCAK: Yes, to an extent, but the competition will not be quite so strong if you get it up closer to one fourteen. The one fourteen, of course, they will be much more likely to hold.

MR. BELL: They would be foolish to buy the certificate at one fourteen if--

MR. WILLIAMS: In our district not many of them are buying it, so it is not a case of keeping them out of the one, but rather inducing them to come into the other. I would agree with you that liquidity would come first with the people we have talked to.

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MR. DRAPER: I think, also, that a corporation would be much more interested in this because they could see the direct relationship to their plan and paying the taxes, whereas, if they buy a certificate it becomes an operation which is more in the line of banking rather than corporation practice. (The Secretary and Mr. Sproul conferred together.)

H.M.JR: There is nothing confidential, but I just find it difficult to talk to so many people at one time. What I have asked is this, we have gone as far as I can without consulting with my own people, which I would like to do, and I will try to make up my mind this afternoon.

As to the other financing, in which you people evidently are not interested, unless something changes - I am seeing the President in the morning, and I think it will be the way we talked about - the sixty-five and the May, '45. It sounds all right.

MR. BELL: March, '45.

H.M.JR: Yes, and I think as long as we can get together - as long as so many people think there is a disadvantage to leave it open, I think we will settle it tonight, this tax anticipation, then get the stuff out and get the Victory Fund Committee started on the new tax anticipation notes on Monday. We are very close together. It is just a question of - I would like to talk--

MR. SZYMCZAK: Mr. Secretary, you still have - of course, you can work that out with your staff - you still have the question of whether this will be effective as of September 1 or 15, or October 1?

MR. BELL: We can do that. We will have to let the people who have bought them since then exchange them.

MR. SZYMCZAK: They have bought quite a bit.

MR. BELL: Twenty-seven million.

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MR. SZYMCAK: For this month, which is quite a bit.

MR. BELL: Twenty-seven million nine hundred thousand.

MR. McKEE: One thing I would like to say is that I would like to see - you gentlemen that are close to these Victory Fund Committees would know better than I - I would like to see that they have, before they start, the goods to sell - that they are available to them and supplied.

H.M.JR: You mean the pieces of paper? You mean - well, if we made up our minds tonight--

MR. BELL: They won't be available. It would take about ten days. It would be about a week from--

H.M.JR: Heffelfinger said a day or two.

MR. BELL: No, the circular and everything - they would be delayed delivery.

MR. McKEE: What do you think of that? Do you think that these boys can sell delayed deliveries?

MR. SPROUL: Yes.

MR. BUFFINGTON: The most important thing is getting the right kind of circular in the hands of each executive manager.

MR. BELL: That can go out Saturday.

MR. SPROUL: And the right kind of obligation.
(Laughter)

H.M.JR: I have never seen so much interest!
(Laughter)

MR. SZYMCAK: We are all taxpayers.

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H.M.JR: I know you all are, but this is - why are you all so interested? I mean--

MR. RANSOM: Speaking for myself, I would rather like to see this a great success, and I think it can be.

MR. DRAPER: That is my feeling, Mr. Secretary.

MR. RANSOM: I think it is very important that it should be a success. I think it gives you something that you can lean on for many long months, and perhaps years, if you establish this. As to the rate interfering with your short-term rate, I assure you, as far as I am concerned, that was no part of my thinking in recommending the rate I did. If I thought it was going to affect it I might have a different view, but I haven't been able to think that.

MR. SPROUL: I think I speak for all of us, that we are not trying to slide in an increase in short-term rates under cover of this tax note. There is none of that in it at all.

H.M.JR: It only would rebound on you.

MR. SPROUL: That is all, because we are working with you on the present schedule, unless it is changed, so it will just come back on us.

H.M.JR: Well, I have got what you have in mind, and I will give very serious consideration to it, and I want it a success.

MR. MCKEE: And you want to make it a two-purpose piece of paper, don't you?

H.M.JR: Definitely, and I want your enthusiasm, too. So between now and the time the sun goes down, we will decide. Place your bets outside. (Laughter)

September 8, 1942
3:45 p.m.

FINANCING

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

H.M.JR: Sit down and we will settle this. What he is saying here is that they would like the Szymczak proposal. See?

MR. BELL: They would?

H.M.JR: They would settle for that.

MR. BELL: They don't like it but would settle for it?

H.M.JR: No. He said they would take it.

MR. BUFFINGTON: I think they would settle for it.

MR. BELL: I would take it.

MR. BUFFINGTON: So would I.

H.M.JR: The only difference is this, that theirs is five, eight, nine, ten, ten, ten; and what we had, so-called Bell's, was five, seven, eight, nine, ten, eleven.

MR. MURPHY: The eleven is the Morgenthau variation to the Bell proposal.

MR. BELL: That is one percent. I don't think there is enough difference to quarrel about.

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H.M.JR: Would you start at the five? Everybody agrees on the five; everybody starts at five. Now, what do you do at the end of one year? They go to eight.

MR. HAAS: That is ninety-six.

MR. MURPHY: Those are six months' graduations, Mr. Secretary.

H.M.JR: They are all the same?

MR. MURPHY: Yes.

H.M.JR: They go to eight, then they go to nine, as against our eight; and then they run to ten.

MR. BELL: That is the Szymczak rate?

H.M.JR: Yes. They said they would take it.

MR. BELL: I think that will be an inducement, and they will hold it after they get it. I think I would accept it. It doesn't cost us much money.

H.M.JR: I would like to make the last six months eleven.

MR. HAAS: That wouldn't cost you much, and it would make them happy, too.

H.M.JR: I would like to go five, eight, nine, ten, ten, eleven.

MR. BELL: That would raise Szymczak to about one point zero six. That would make them still happier.

MR. MURPHY: I would like to make the general remark that all these rates we have been speaking of, both the Reserve Board and ourselves, are simple

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arithmetical averages; and when the circular is computed the final figure will probably be about one basis lower as a result of it being compounded.

MR. BELL: You mean instead of one point zero six it will be one point zero five, or something like that?

MR. MURPHY: Yes.

MR. BAKER: I think there is a lot to be said for putting the last period a little bit higher than the others. I like the psychology of it. It would keep them from turning it in unless they actually buy them for tax purposes only.

H.M.JR: Of course the Federal Reserve had eleven cents the last three years. They lay considerable stress on that eight, do they?

MR. HAAS: Yes. They have argued with us about that.

H.M.JR: Of course it makes, really, so little difference. It is a question of enthusiasm.

MR. BUFFINGTON: You do get more sales enthusiasm for that little bit more you give them.

MR. BELL: You get support from the Federal. That is five, eight, nine--

H.M.JR: Wait a minute, go five, eight, nine, and then ten - how much more expense if we made the last two things eleven?

MR. BELL: That would be one point zero eight, wouldn't it, Henry?

MR. MURPHY: Each time you raise one it increases it point zero two. If you make the last two, elevens that would make it one zero eight.

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MR. BELL: And it would come out compounded about one point zero seven.

MR. HAAS: Then you have a schedule between Szymczak.

H.M.JR: I am going to say now, five, eight, nine, and then make the last eleven. Let's just talk about the two year and the two and a half year--

MR. MURPHY: You will have two tens then?

H.M.JR: Yes.

MR. MURPHY: That would be one point zero six, probably compounded down to one point zero five, or possibly one point zero four.

MR. BELL: Two elevens?

MR. MURPHY: No, one eleven. The Szymczak is one point zero four; raising the last ten to eleven; one point zero six; if you raise the last two tens you get one point zero eight.

H.M.JR: I am going on the theory if you want to hold those fellows - I don't know, to make it interesting for them--

MR. BELL: I think that would make them very happy about it. It wouldn't cost you very much money.

H.M.JR: It wouldn't cost me very much.

MR. HAAS: In fact, if you give them the Szymczak it will make them feel good.

H.M.JR: I am just thinking - I want them to go to town.

MR. BELL: They will be more enthusiastic on the one point zero eight. We are getting closer to their one point fourteen baby.

- 5 -

H.M.JR: What do you think? It is now five, eight, nine, ten, and the third year is eleven. It is just a question of what to make the two and a half. It makes a difference of five hundred million dollars.

MR. BELL: You mean total subscriptions it might make that difference?

H.M.JR: Yes.

MR. BELL: Who said that?

H.M.JR: From five hundred to a billion dollars - it might make a difference how we price this thing.

MR. BUFFINGTON: Mr. Secretary, as I remember their statement this will increase it from five hundred to a billion.

MR. BELL: Well, then, I would give them the benefit of the doubt. I would make the last two elevens.

H.M.JR: This is the way I feel. The way I feel right now is that I would like the thing to be successful, you see, and if the Fed - they had five, originally, then to nine, and this goes to eight. The third year was ten, and this is to nine; the second year they had eleven, and this is to ten. Then it is under all the way down the line.

MR. BELL: Except the last two.

MR. MURPHY: It is one cent under during the three after the five.

MR. BUFFINGTON: But the two last elevens are the things they have been laying a lot of importance on as the thing that would hold them into the third year period.

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MR. BAKER: How about making the last two elevens a ten and a twelve? It still leaves you with the same rate, doesn't it?

MR. MURPHY: Yes.

H.M.JR: Would it?

MR. HAAS: Yes.

MR. BELL: Do what?

MR. BAKER: Instead of having two elevens for the last two years, make it another ten and a twelve.

H.M.JR: You mean make it ten, twelve, twelve?

MR. BAKER: Ten, ten, twelve. That really gives them an extra piece of icing if they wait. It still leaves you with the same cost as two elevens.

MR. HAAS: One thing to be said against that, Sproul has definitely committed himself about taking care of the short-term rates, but that last six months is higher than anything he has suggested.

H.M.JR: No, it is the same as the original Federal Reserve suggestion.

MR. MURPHY: He means Baker's proposal is higher.

H.M.JR: That is right. They had three elevens, though. This certainly would give them on the end there, a two and a half in the third year, an inducement to stick, wouldn't it?

MR. BELL: If there is anything to that.

H.M.JR: And under the present money market, too.

MR. BAKER: It is well under.

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H.M.JR: How much notice do they have to give to cash them in?

MR. MURPHY: Thirty days.

MR. BELL: And they do not get any interest until after six months?

MR. MURPHY: If they redeem it after six months they get interest for the six months; but if they redeem it within the first six months they get no interest.

H.M.JR: And a lot will do that, too.

MR. MURPHY: Any of these will only provide an inducement to hold if your only alternative is to put the cash in the bank or into Governments. If you are contemplating taking the money out to put into business, no rate would provide any substantial inducement to hold.

H.M.JR: How do you feel, Victory Fund?

MR. BUFFINGTON: I think, going back, that the original seventy-two hundredths as just a tax note will sell considerably better than you could sell at forty-eight hundredths. When you make it a dual-purpose note and give these men a little enthusiasm because they have a more flexible security to sell. In the case of the tax note as it stands now the average corporation wants to buy just up to their tax requirements. This makes it a little more flexible, and I think the men will go at it with a great deal more enthusiasm and do a good job if you are somewhere on the Szymczak plan.

H.M.JR: You are inclined to two elevens at the end?

MR. BELL: Yes.

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H.M.JR: Let's make it five, eight, nine, ten, eleven, eleven.

MR. BELL: Yes.

H.M.JR: Will you tell them, Dan?

MR. BELL: Yes. I will go right to work on it.

H.M.JR: Did Sproul go back to the Fed or did he go to the train?

MR. BELL: You probably could catch him at the plane.

H.M.JR: Five, eight, nine, ten, eleven, eleven.

MR. BELL: I think they will be very pleased.

H.M.JR: That will surprise them. Now, they will be ready for Monday.

MR. BUFFINGTON: Can we tie some good publicity into this regular announcement to get these boys off to a good start?

H.M.JR: Let's see what you can do, but you can't have any publicity until Monday morning. If you tell anybody this, it will kill our regular financing. So don't tell anybody downstairs. Don't tell anybody in your shop about this. This is on this floor. Don't tell them anything downstairs at all.

MR. BUFFINGTON: O.K.

H.M.JR: You can start working on your publicity on Saturday.

MR. BELL: We really ought to put it out Saturday, hadn't we?

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H.M.JR: For Monday morning, yes. But I don't want any leaks. I don't want any leaks. He can write this stuff at home in longhand, or something like that, and then give it to the newspapermen Saturday for Monday morning release.

MR. BUFFINGTON: That means we won't have any circular other than the official circular available by Monday?

MR. BELL: Yes. If we are telling the Federal now, that is a little dangerous.

H.M.JR: All right, tell them I won't make up my mind until Saturday. Does that show lack of confidence?

MR. BELL: I think you could tell Allan and Ronald and tell them that you don't want any publicity.

H.M.JR: Oh, they talk like a bunch of--

MR. BELL: Why don't we wait until Friday night, then, to tell them?

MR. HAAS: I don't quite see the big danger. I don't want to see it leak out, but I don't see the danger. The other thing is almost entirely a banking job. The banks can't buy this.

MR. BAKER: There is no point in taking the risk.

H.M.JR: There are too damned many leaks all the time - leaks, leaks, leaks.

MR. BELL: George doesn't see any hurt if there is a leak.

H.M.JR: I don't like leaks. There were leaks all last week on my tax stuff. All week long there were leaks. And Allan, if I tell him he then feels he has got to tell the others.

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MR. BELL: Probably.

MR. HAAS: There is no harm in holding up your decision.

MR. BELL: Why don't we just hold it until Friday night after we have closed the books on the other?

H.M. JR: That will be Saturday morning.

MR. BELL: No, you will announce--

H.M. JR: But if you announce it Friday, people don't put their stuff they have got until twelve o'clock Friday night--

MR. BELL: They will have it in the mail by closing time.

H.M. JR: What is the harm in telling them Saturday morning?

MR. BELL: None. They will be very pleased to get it. They can wait that long.

H.M. JR: I mean there seems to be so much anxiety and interest in this thing. I don't think they can keep their mouths shut.

MR. BELL: Let's wait until Saturday.

H.M. JR: I mean they will tell this fellow - who is it who writes this bond letter?

MR. BELL: Goldsmith.

H.M. JR: He will know it - he will know it within the hour. I am surprised that he hasn't known of it before this.

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You don't think their feelings will be hurt?

MR. BELL: No, I don't think so.

MR. BAKER: They will be so glad to see the rate that they won't worry about it.

H.M.JR: I will let it go until Saturday morning. There are too many leaks.

MR. BUFFINGTON: You know there has been a good deal of discussion at the Fed and here about the whole tax note thing.

H.M.JR: If everybody keeps their mouths shut between now and Saturday morning--

MR. BELL: I am surprised it hasn't been out before because your telegram suggested the change in the tax notes.

MR. HAAS: The Secretary cautioned them very strongly in that wire.

MR. BUFFINGTON: It is your decision that the Victory Fund will do nothing on the certificates and the notes?

H.M.JR: I think we have got to trust Sproul. I think we had better trust Sproul. We can't have him as your fiscal agent and not trust him. You got what I said we would do - what was it?

MR. BELL: Five, eight, nine, ten, eleven, eleven. That is one point zero eight.

(The Secretary attempted to reach Mr. Sproul on the telephone but was unable to.)

H.M.JR: Let me sleep on this, as to how we are going to tell them. We will tell nobody tonight.

Chicago
 (Sept 8, 1947)
 Certificate .65
 due May 1st
~~payable Sept 21st~~

note $\frac{1}{4}$
 due March 15, 1945
 City of Chicago
 payable Sept 25th

$\frac{15}{18}$ June 47

Chicago - Young

$1\frac{5}{8}$

47

Shooter (larger)

$1\frac{1}{4}$

Shooter
nuttin Chicago

City not of Chicago

Manuf - Detroit

St. Louis
Chester Davis

Banks (larger)
prefer shorter

Coop. County Bks
want $1\frac{5}{8}$.

5	5	5	~
8	6	8	~
9	7	9	~
10	8	10	~
11	9	10	~
<u>11</u>	<u>10</u>	<u>10</u>	~

.90 / 1.04

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
 FROM Davis L. Baker, Jr.

September 8, 1942

Possible New Issues, dated September 15, 1942Certificate of Indebtedness

<u>Coupon</u>	<u>Approx. Term</u>	<u>Due Date</u>	<u>Yield</u>	<u>Market Price</u>	<u>Premium</u>
3/4%	7 1/2 mos.	5/1/43	0.65	\$1,000,620	\$620/111

Treasury Notes

1 1/4%	2 yrs. 3 mos.	12/15/44	1.10	100 11/32	11/32
			1.14	100 8/32	8/32
	2 yrs. 6 mos.	3/15/45	1.14	100 9/32	9/32
			1.18	100 6/32	6/32
	2 yrs. 9 mos.	6/15/45	1.18	100 6/32	6/32
			1.22	100 3/32	3/32
1 1/2%	3 yrs. 9 mos.	6/15/46	1.38	100 14/32	14/32
			1.42	100 9/32	9/32
	4 yrs.	9/15/46	1.42	100 10/32	10/32
			1.46	100 5/32	5/32
1 5/8%	4 yrs. 6 mos.	3/15/47	1.53	100 14/32	14/32
			1.57	100 8/32	8/32
	4 yrs. 9 mos.	6/15/47	1.57	100 8/32	8/32
			1.61	100 2/32	2/32
1 3/4%	4 yrs. 9 mos.	6/15/47	1.57	100 26/32	26/32
			1.61	100 20/32	20/32
	5 yrs.	9/15/47	1.61	100 21/32	21/32
			1.65	100 15/32	15/32

Treasury Bonds

1 3/4%	5 yrs.	9/15/47-49	1.70	100 8/32	8/32
			1.72	100 5/32	5/32

2% (Chart reading indicates that a 2% bond could not be placed farther out than 12/15/49, coincident with the outstanding 2's of 12/15/49-51 now quoted 100 5/32 bid. A reopening of this issue would undoubtedly result in a decline to par for all three 2% bonds of 49-51)

2 1/4%	12 yrs.	9/15/54-56	2.20	100 17/32	17/32
	13 yrs.	9/15/55-57	2.22	100 11/32	11/32

Possible New Treasury Issues
(Based on Closing Bid Prices, September 5, 1942)

	Estimated Yield Basis	Probable Price
(Percent)		
<u>Certificates</u>		
.65 percent due May 1, 1943 (7-1/2 months)	.65	100.000
.70 percent due May 1, 1943 (7-1/2 months)	.65	100.031
<u>Notes</u>		
1-1/4 percent due December 15, 1944 (2 years - 3 months)	1.16	100-6/32
1-1/4 percent due March 15, 1945 (2 years - 6 months)	1.21	100-3/32
1-1/4 percent due June 15, 1945 (2 years - 9 months)	1.25	100
1-5/8 percent due June 15, 1947 (4 years - 9 months)	1.55	100-11/32
1-5/8 percent due September 15, 1947 (5 years)	1.59	100-5/32
<u>Bonds</u>		
1-3/4 percent due September 15, 1947-49 (5 years - 7 months)	1.70	100-8/32

Treasury Department,
Division of Research and Statistics.

September 8, 1942.

Mr. Hase gave this to [unclear] 1832
on Sunday Sept 6.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates 1/

August 15, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1942-Jan.							
Feb.							
Mar.							
Apr.							
May							
June							
July							
July							
Aug.							
Sept. 15	Note 2% -----	342					
Oct. 15	RFG 7/8% -----		320(T)				
Nov. 1	Certificates 1/2% -----	1,507(T)					
Dec. 15	Note 1-3/4% -----	232					
	Total	2,081	320				
1943-Jan.							
Feb. 1	Certificates 5/8% -----	1,586(T)					
Mar. 15	Note 3/4% -----	66(T)					
Apr.							
May 1	GOO 3/4% -----		289				
June 15	Note 1-1/8% -----	629					
June 15	Bond 3-3/8% (1943-47)			454			
July 15	RFG 1-1/8% -----		324(T)				
Aug. 1	Certificates 7/8% -----	1,609(T)					
Sept. 15	Note 1% -----	279					
Oct. 15	Bond 3-1/4% (1943-45)			1,401			
Nov.							
Dec. 15	Note 1-1/8% -----	421					
	Total	4,592	613	1,855			
1944-Jan.							
Feb. 1	USHA 1-3/8% -----		114				
Mar. 15	Note 1% -----	515					
Mar. 15	FFMC 3-1/4% (1944-44)				95		
Apr. 15	Bond 3-1/4% (1944-46)			1,519			
Apr. 15	RFG 1% -----		571(T)				
May 1	HOLC 3% (1944-52)				779		
May 15	FFMC 3% (1944-49)				835		
June 15	Note 3/4% -----	416					
July							
Aug.							
Sept. 15	Note 1% -----	283					
Sept. 15	Note 3/4% -----	635(T)					
Oct.							
Nov.							
Dec. 15	Bond 4% (1944-54)			1,037			
	Total	1,849	685	2,556	1,709		
1945-Jan.							
Feb. 15	GOO 1-1/8% -----		412(T)				
Mar. 15	Note 3/4% -----	718					
Apr.							
May							
June 1	HOLC 1-1/2% (1945-47)				755		
July							
Aug.							
Sept. 15	Bond 2-3/4% (1945-47)			1,214			
Oct. 15	Bond 3-1/4% (1943-45)					1,401	
Nov.							
Dec. 15	Bond 2-1/2% -----	541					
Dec. 15	Note 3/4% -----	531(T)					
	Total	1,790	412	1,214	755	1,401	

1/ Taxable issues.

2/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

3/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates 1/

August 15, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1946-Jan. 1	Conversion 3% -----	16					
Feb.							
Mar. 15	Note 1% -----	503(T)					
Mar. 15	Bond 3-3/4% (1946-56)			489			
Apr. 15	Bond 3-1/4% (1944-46)					1,519	
May							
June 15	Bond 3% (1946-48)			1,036			
June 15	Bond 3-1/8% (1946-49)			819			
July							
Aug.							
Sept.							
Oct.							
Nov.							
Dec. 15	Note 1-1/2% -----	1,118(T)					
	Total	1,637		2,344		1,519	
1947-Jan. 1	Conversion 3% -----	13					
Feb.							
Mar.							
Apr.							
May							
June 1	HOLD 1-1/2% (1945-47)					755	
June 15	Bond 3-3/8% (1943-47)					454	
July							
Aug.							
Sept. 15	Bond 2-3/4% (1945-47)					1,214	
Oct. 15	Bond 4-1/4% (1947-52)			759			
Nov.							
Dec. 15	Bond 2% -----	701					
	Total	714		759		1,668	755
1948-Jan.							
Feb.							
Mar. 15	Bond 2% (1948-50)			1,115(T)			
Mar. 15	Bond 2-3/4% (1948-51)			1,223			
Apr.							
May							
June 15	Bond 3% (1946-48)					1,036	
July							
Aug.							
Sept. 15	Bond 2-1/2% -----	451					
Oct.							
Nov.							
Dec. 15	Bond 2% (1948-50)			571			
	Total	451		2,909		1,036	
1949-Jan.							
Feb.							
Mar.							
Apr.							
May 15	FFMG 3% (1944-49)					835	
June 15	Bond 3-1/8% (1946-49)					819	
June 15	Bond 2% (1949-51)			1,014(T)			
July							
Aug.							
Sept. 15	Bond 2% (1949-51)			1,292(T)			
Oct.							
Nov.							
Dec. 15	Bond 2% (1949-51)			2,098(T)			
Dec. 15	Bond 3-1/8% (1949-52)			491			
Dec. 15	Bond 2-1/2% (1949-53)			1,786			
	Total			6,661		819	835

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FEA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates ^{1/}

August 15, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues ^{2/}			
		Direct	Guaran- teed	First callable		Final maturities	
				Direct	Guaran- teed	Direct	Guaran- teed
1950-Jan. Feb. Mar.15 Apr. May June July Aug. Sept.15 Oct. Nov. Dec.15	Bond 2% (1948-50)					1,115(T)	
	Bond 2-1/2% (1950-52)			1,186			
	Bond 2% (1948-50)					571	
	Total			1,186		1,686	
1951-Jan. Feb. Mar.15 Apr. May June15 June15 July Aug. Sept.15 Sept.15 Oct. Nov. Dec.15 Dec.15 Dec.15	Bond 2-3/4% (1948-51)					1,223	
	Bond 2% (1949-51)					1,014(T)	
	Bond 2-3/4% (1951-54)			1,627			
	Bond 2% (1949-51)					1,292(T)	
	Bond 3% (1951-55)			755			
	Bond 2% (1949-51)					2,096(T)	
	Bond 2-1/4% (1951-53)			1,118			
	Bond 2% (1951-55)			510(T)			
	Total			4,010		5,627	
1952-Jan. Feb. Mar.15 Apr. May 1 June15 July Aug. Sept.15 Oct.15 Nov. Dec.15	Bond 2-1/2% (1952-54)			1,024(T)			
	HOLC 3% (1944-52)						779
	Bond 2-1/4% (1952-55)			1,501(T)			
	Bond 2-1/2% (1950-52)					1,186	
	Bond 4-1/4% (1947-52)					759	
	Bond 3-1/8% (1949-52)					491	
	Total			2,525		2,436	779
1953-Jan. Feb. Mar. Apr. May June15 July Aug. Sept. Oct. Nov. Dec.15 Dec.15	Bond 2% (1953-55)			725			
	Bond 2-1/2% (1949-53)					1,786	
	Bond 2-1/4% (1951-53)					1,118	
	Total			725		2,904	

T Taxable issue.

^{1/} Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.^{2/} Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates ^{1/}

August 15, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues ^{2/}			
		Direct	Guaran- teed	First callable		Final maturities	
				Direct	Guaran- teed	Direct	Guaran- teed
1954-Jan. Feb. Mar.15 Apr. May June15 June15 July Aug. Sept. Oct. Nov. Dec.15	Bond 2-1/2% (1952-54) Bond 2-3/4% (1951-54) Bond 2-1/4% (1954-56) Bond 4% (1944-54) Total					1,024(T) 681 3,688	
1955-Jan. Feb. Mar.15 Apr. May June15 June15 July Aug. Sept.15 Oct. Nov. Dec.15	Bond 2-7/8% (1955-60) Bond 2-1/4% (1952-55) Bond 2% (1953-55) Bond 3% (1951-55) Bond 2% (1951-55) Total			2,611 2,611		1,501(T) 725 3,491	
1956-Jan. Feb. Mar.15 Mar.15 Apr. May June15 July Aug. Sept.15 Oct. Nov. Dec.	Bond 3-3/4% (1946-56) Bond 2-1/2% (1956-58) Bond 2-1/4% (1954-56) Bond 2-3/4% (1956-59) Total				1,449(T) 982 2,431	489 1,170	
1957-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.	Total						

T Taxable issue.

^{1/} Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.^{2/} Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates ^{1/}

August 15, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues ^{2/}			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1958-Jan. Feb. Mar. 15 Apr. May June 15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-1/2% (1956-58)					1,449(T)	
	Bond 2-3/4% (1958-63)			919			
	Total			919		1,449	
1959-Jan. Feb. Mar. Apr. May June July Aug. Sept. 15 Oct. Nov. Dec.	Bond 2-3/4% (1956-59)					982	
	Total					982	
1960-Jan. Feb. Mar. 15 Apr. May June July Aug. Sept. Oct. Nov. Dec. 15	Bond 2-7/8% (1955-60)					2,611	
	Bond 2-3/4% (1960-65)			1,485			
	Total			1,485		2,611	
1961-Jan. Feb. Mar. Apr. May June 1 July Aug. Sept. Oct. Nov. Dec.	Panama 3%	50					
	Total	50					

T Taxable issue.

^{1/} Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.^{2/} Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates 1/

August 15, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
		Direct	Guaran- teed	First callable		Final maturities	
				Direct	Guaran- teed	Direct	Guaran- teed
1962-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-1/2% (1962-67)			2,118 (T)			
	Total			2,118			
1963-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-3/4% (1958-63)					919	
	Total					919	
1964-Jan. Feb. Mar. 15 Apr. May June July Aug. Sept. Oct. Nov. Dec.	FFMC 3-1/4% (1944-64)						95
	Total						95
1965-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec. 15	Bond 2-3/4% (1960-65)					1,485	
	Total					1,485	

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates 1/

August 15, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues <u>2/</u>			
				First callable		Final maturities	
		Direct	Guaran- teed	Direct	Guaran- teed	Direct	Guaran- teed
1966-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.							
	Total						
1967-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. 15 Oct. Nov. Dec.							
	Bond 2-1/2% (1962-67)					2,118(T)	
	Bond 2-1/2% (1967-72)			2,716(T)			
	Total			2,716		2,118	
*	*	*	*	*	*	*	*
1972-Sept. 15	Bond 2-1/2% (1967-72)					2,716(T)	

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

VIA FEDERAL RESERVE TELETYPE -- URGENT. SEPT. 8, 1942

Mr. C. S. Young,
President, Federal Reserve Bank,
Chicago, Illinois.

WOULD YOU MAKE INQUIRIES AROUND YOUR DISTRICT AS TO WHETHER THERE
IS ANY OUTSTANDING MAN WHO COULD HELP THE TREASURY AND PARTICULARLY
THE VICTORY FUND COMMITTEE WITH PUBLICITY. PLEASE ADVISE ME.

HENRY MORGENTHAU JR.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE SEP 8 1942

TO Secretary Mergenthau
FROM Mr. Haas

The attached tables and charts bring up to date information prepared last month on the sale of savings bonds and the operation of the payroll savings plan. Large colored copies of the charts have been hung in the Chart Room.

Attachments

Sales of United States Savings Bonds
Monthly, May 1941 to August 1942

(In millions of dollars)

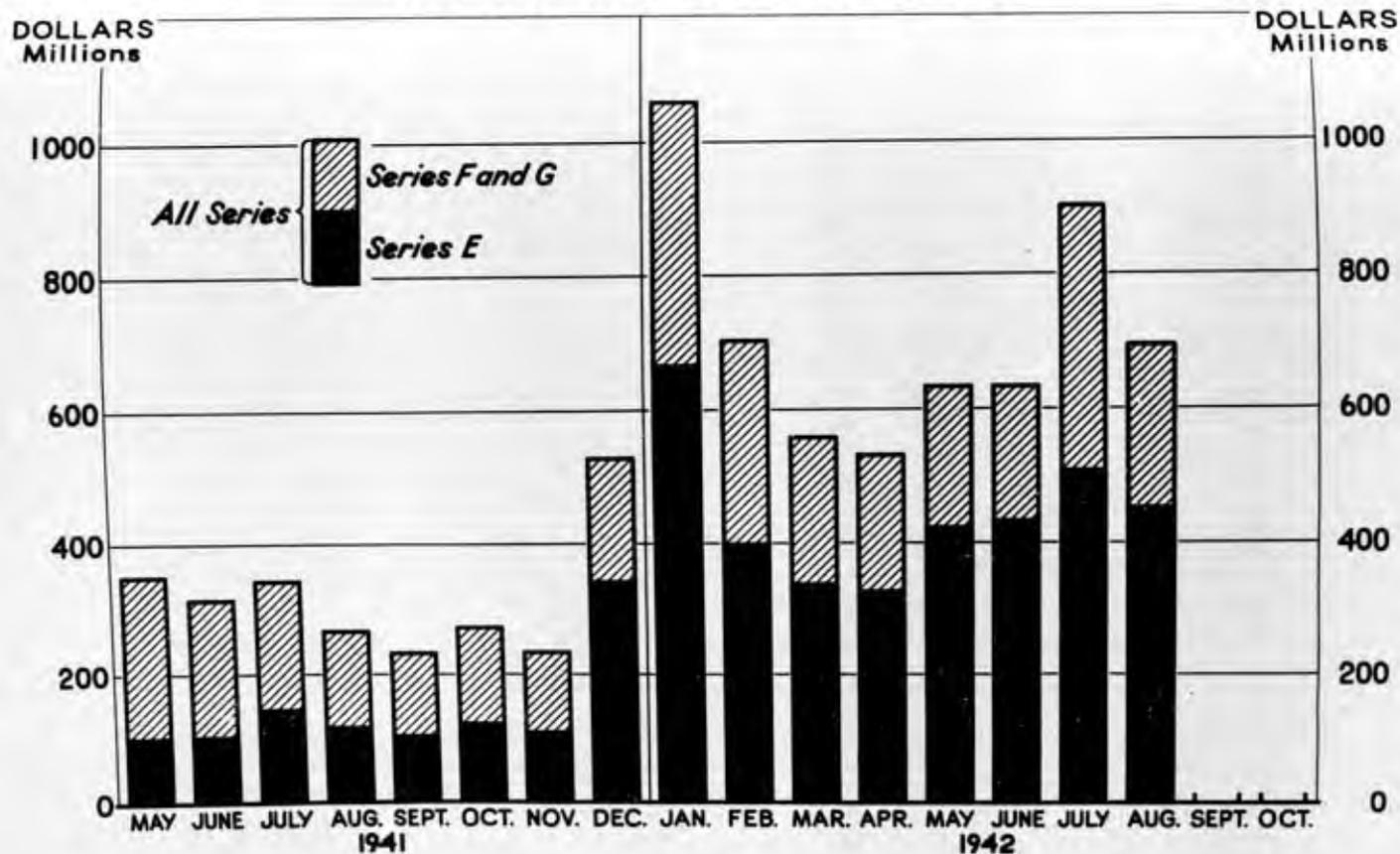
Month	Series E	Series F & G	Total
1941			
May.....	100.6	249.2	349.8
June.....	102.5	212.0	314.5
July.....	145.3	196.9	342.1
August.....	117.6	148.0	265.6
September.....	105.2	127.1	232.3
October.....	122.9	147.9	270.7
November.....	109.5	124.0	233.5
December.....	341.1	187.5	528.6
1942			
January.....	667.4	393.2	1,060.6
February.....	398.0	305.2	703.2
March.....	337.6	220.3	557.9
April.....	326.7	203.8	530.5
May.....	421.8	212.6	634.4
June.....	433.2	200.7	633.9
July.....	508.1	392.7	900.9
August.....	454.0	243.3	697.3

Office of the Secretary of the Treasury,
Division of Research and Statistics. September 3, 1942.

Note: Figures are rounded to the nearest million and will
not necessarily add to totals.

SALES OF UNITED STATES SAVINGS BONDS

Monthly, May 1941 to Aug. 1942



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

B-329

193

Number of Series E Savings Bonds of Each Denomination
Sold Monthly, May 1941 to August 1942

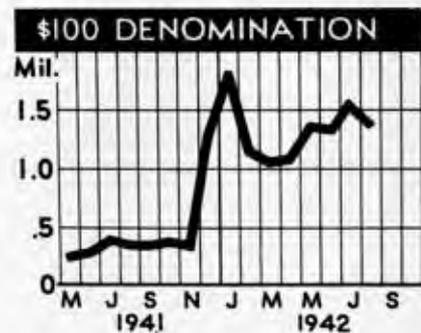
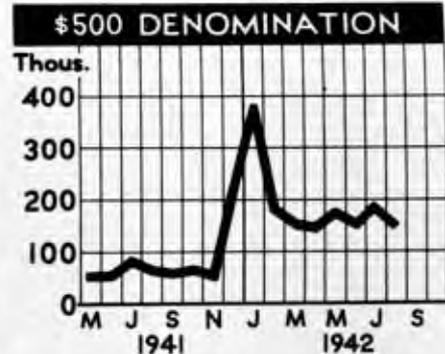
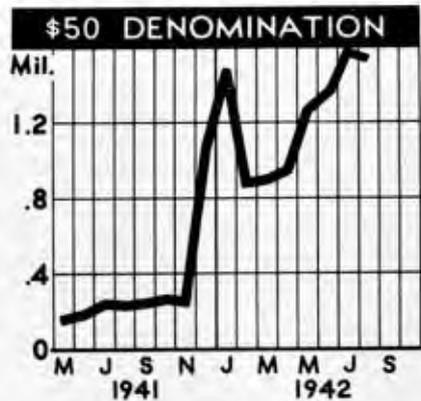
	Denomination				
	\$25	\$50	\$100	\$500	\$1,000
(Estimated number of units - in thousands)					
1941					
May.....	336	162	259	54	65
June.....	431	192	293	55	60
July.....	530	239	388	81	88
August.....	553	238	355	64	65
September.....	595	246	351	59	59
October.....	700	267	379	64	62
November.....	725	262	360	57	53
December.....	2,661	1,062	1,284	216	181
1942					
January.....	3,846	1,469	1,802	370	355
February.....	2,807	880	1,152	183	167
March.....	3,529	901	1,056	151	122
April.....	4,055	946	1,074	145	116
May.....	5,618	1,258	1,357	172	130
June*.....	6,808	1,350	1,347	153	111
July*.....	8,268	1,599	1,552	188	142
August*.....	8,528	1,540	1,359	146	103

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

September 3, 1942.

* Preliminary.

NUMBER OF SERIES E BONDS OF EACH DENOMINATION SOLD MONTHLY May 1941 to Aug. 1942



Progress of Payroll Savings Plans for War Savings Bonds
 Estimated; Monthly, December 1941 to August 1942

	1941		1942							
	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	
Number of firms participating: (Numbers are units)										
1. Firms with 5,000 or more workers.....	100	355	448	467	470	475	477	481	484	
2. Firms with 500-4,999 workers.	430	1,622	2,780	3,674	4,573	4,768	4,956	5,099	5,266	
3. Firms with 100-499 workers...	3,495	7,059	11,172	13,770	16,216	18,169	19,718	21,038	22,375	
4. Firms with under 100 workers.	5,914	8,477	20,080	32,209	50,427	67,006	82,948	95,275	108,767	
Total number of firms 1/....	<u>9,939</u>	<u>17,513</u>	<u>34,480</u>	<u>50,120</u>	<u>71,686</u>	<u>90,418</u>	<u>108,099</u>	<u>121,893</u>	<u>136,892</u>	

Number of workers in firms participating:

	(Numbers are millions)									
	1941	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	1942
1. Firms with 5,000 or more workers.....	1.6	5.8	7.3	7.6	7.7	7.8	7.8	7.8	7.9	
2. Firms with 500-4,999 workers.	.6	2.2	3.8	5.0	6.4	6.5	6.7	6.8	7.0	
3. Firms with 100-499 workers...	.8	1.7	2.6	3.2	3.8	4.3	4.6	4.9	5.2	
4. Firms with under 100 workers.	.2	.2	.5	.8	1.3	1.9	2.2	2.5	2.7	
Total number of workers 1/..	<u>3.2</u>	<u>9.9</u>	<u>14.2</u>	<u>16.7</u>	<u>19.2</u>	<u>20.5</u>	<u>21.3</u>	<u>22.0</u>	<u>22.8</u>	

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

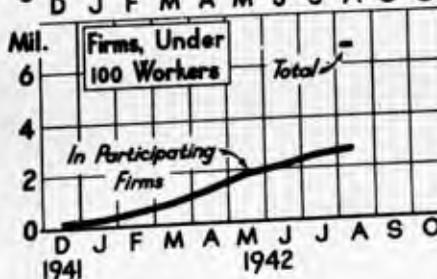
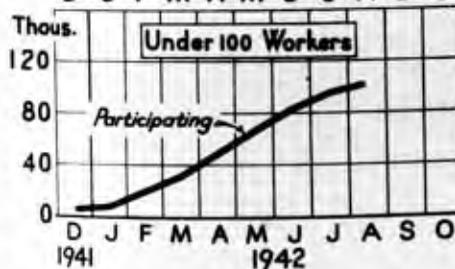
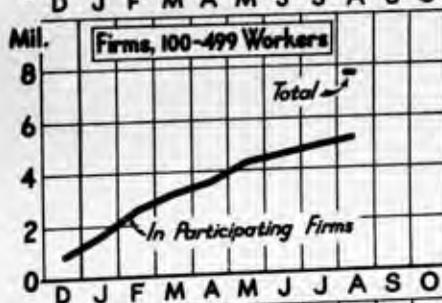
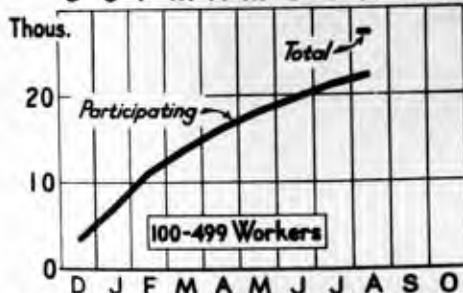
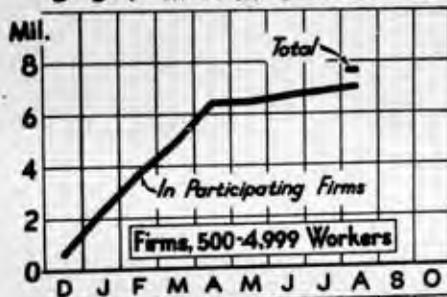
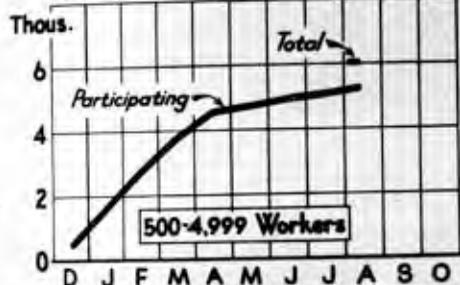
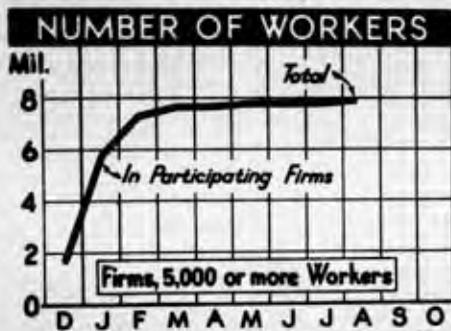
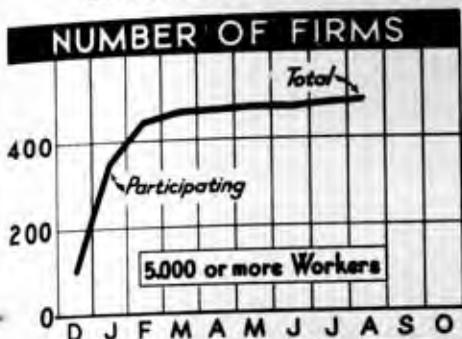
September 3, 1942.

1/ Excludes Federal, State and local Governmental organizations and their employees.

Note: Figures in millions are rounded to the nearest million and will not necessarily add to the totals.

PROGRESS OF PAYROLL SAVINGS PLANS FOR WAR SAVINGS BONDS

Estimated: Monthly, Dec. 1941 to Aug. 1942



Extent of Participation in Payroll Savings Plans for War Savings Bonds
 Estimated; Monthly, December 1941 - August 1942

	1941	1942							
	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
(Numbers are units)									
I. Number of firms with plans ^{1/}	<u>9,939</u>	<u>17,513</u>	<u>34,480</u>	<u>50,120</u>	<u>71,686</u>	<u>90,418</u>	<u>108,099</u>	<u>121,893</u>	<u>136,892</u>
(Numbers are millions)									
II. Workers in firms and Government agencies with plans:									
a. Firms.....	3.2	9.9	14.2	16.7	19.2	20.5	21.3	22.0	22.8
b. Government agencies.	-	.6	.9	1.4	1.5	1.5	1.5	2.5	2.8
c. Total.....	<u>3.2</u>	<u>10.5</u>	<u>15.1</u>	<u>18.0</u>	<u>20.7</u>	<u>22.0</u>	<u>22.8</u>	<u>24.6</u>	<u>25.6</u>
(Numbers are millions)									
III. Workers actually participating in payroll savings plans:									
a. In participating firms	0.7	3.7	7.2	9.0	10.9	13.2	15.0	16.5	16.7
b. In participating Government agencies	-	.1	.4	.6	.7	.7	1.0	1.5	1.8
c. Total.....	<u>0.7</u>	<u>3.8</u>	<u>7.6</u>	<u>9.6</u>	<u>11.6</u>	<u>13.9</u>	<u>16.0</u>	<u>18.0</u>	<u>18.5</u>

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

September 5, 1942.

^{1/} Excludes Government agencies.

Note: Figures in millions are rounded to the nearest million and will not necessarily add to the totals.

Estimated Deductions From Payrolls For Purchase
of War Savings Bonds, Monthly
December 1941 - August 1942

	Aggregate amount deducted (In millions of dollars)	Deduction as a percentage of pay of workers actually par- ticipating
1941		
December.....	\$ 5	4.1%
1942		
January.....	28	4.5
February.....	58	4.8
March.....	78	4.9
April.....	96	4.9
May.....	126	5.3
June.....	153	5.8
July.....	200 <u>r/</u>	6.3
August*.....	225	7.2

Office of the Secretary of the Treasury, September 3, 1942.
Division of Research and Statistics.

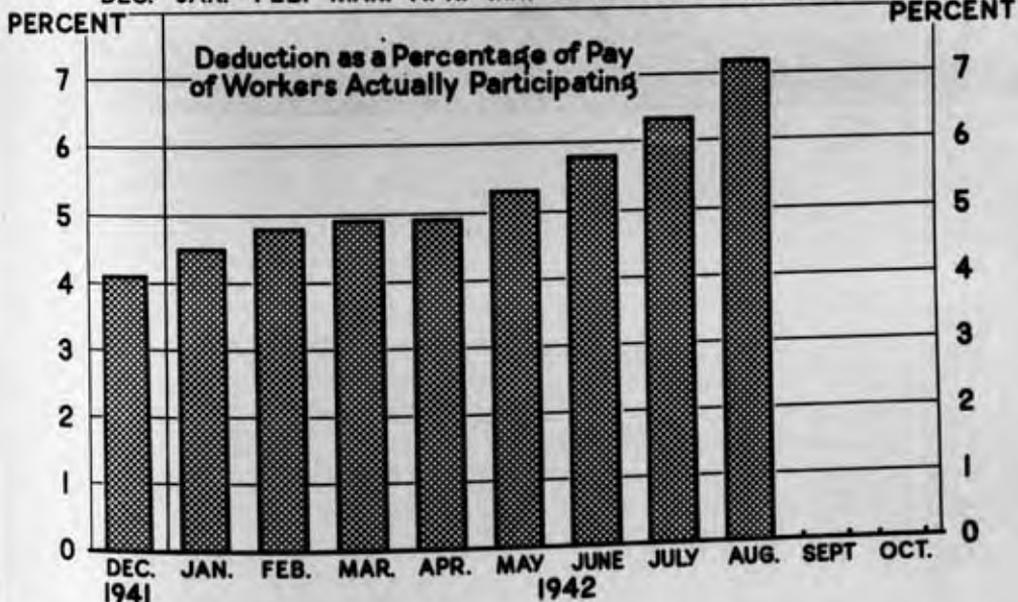
* Preliminary.

r/ Revised.

ESTIMATED DEDUCTIONS FROM PAYROLLS FOR PURCHASE OF WAR SAVINGS BONDS

Monthly, December 1941 to Aug. 1942

1942



UNITED STATES SAVINGS BONDS - TOTAL

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

(At issue price in thousands of dollars)

Date	September	Cumulative sales by business days				September as percent of August
	daily sales	September	August	July	September as percent of August	
September 1942						
1	\$ 19,162	\$ 19,162	\$ 26,267	\$ 28,418	73.0%	
2	24,558	43,720	65,032	52,687	67.2	
3	27,702	71,422	92,055	79,964	77.6	
4	28,482	99,904	117,890	126,495	84.7	
5	29,880	129,784	158,341	157,605	82.0	

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

September 8, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	September daily sales	Cumulative sales by business days			September as percent of August
		September	August	July	
September 1942					
1	\$ 11,634	\$ 11,634	\$ 14,044	\$ 15,821	82.8%
2	14,748	26,381	36,222	30,701	72.8
3	18,305	44,687	50,797	47,523	88.0
4	17,804	62,491	63,785	77,320	98.0
5	19,166	81,657	86,789	95,044	94.1

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

September 8, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	September daily sales	Cumulative sales by business days			
		September	August	July	September as percent of August
September 1942					
1	\$ 7,528	\$ 7,528	\$ 12,222	\$ 12,597	61.6%
2	9,811	17,339	28,810	21,986	60.2
3	9,397	26,735	41,258	32,441	64.8
4	10,678	37,414	54,105	49,175	69.2
5	10,713	48,127	71,552	62,561	67.3

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

September 8, 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 will not necessarily add to totals.

Sales of United States savings bonds
September 1 through September 5, 1942
Compared with sales quota for same period
(At issue price in millions of dollars)

Date	Series E				Series F and G				Total			
	Actual sales		Quota	Sales	Actual sales		Quota	Sales	Actual sales		Quota	Sales
	Sept. 1	Sept. 1	Sept. 1	to date	Sept. 1	Sept. 1	Sept. 1	to date	Sept. 1	Sept. 1	Sept. 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	\$ 11.6	\$ 11.6	\$ 14.9	77.9%	\$ 7.5	\$ 7.5	\$ 6.9	108.7%	\$ 19.2	\$ 19.2	\$ 21.8	88.1%
2	14.7	26.4	34.5	76.5	9.8	17.3	16.6	104.2	24.6	43.7	51.1	85.5
3	18.3	44.7	55.5	80.5	9.4	26.7	26.4	101.1	27.7	71.4	81.9	87.2
4	17.8	62.5	81.0	77.2	10.7	37.4	35.6	105.1	28.5	99.9	116.6	85.7
5	19.2	81.7	98.3	83.1	10.7	48.1	42.2	114.0	29.9	129.8	140.5	92.4
8			143.3				58.1				201.4	
9			168.8				67.8				236.6	
10			193.4				76.7				270.1	
11			220.6				84.4				305.0	
12			239.2				90.1				329.3	
14			272.7				99.7				372.4	
15			288.2				105.0				393.2	
16			307.6				112.1				419.7	
17			327.2				119.2				446.4	
18			350.1				125.7				475.8	
19			365.4				130.5				495.9	
21			399.6				141.0				540.6	
22			415.7				147.0				562.7	
23			436.2				155.2				591.4	
24			457.1				163.4				620.5	
25			481.4				171.0				652.4	
26			497.4				176.6				674.0	
28			532.7				188.7				721.4	
29			549.2				195.5				744.7	
30			570.0				205.0				775.0	

September 5, 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.

September 8, 1942
4:14 p.m.

Walter
Stewart: Hello, Henry.

HM Jr: How are you?

S: Very good.

HM Jr: Walter, how did you like what the President said last night?

S: I thought it was pretty good.

HM Jr: You thought it was pretty good?

S: I thought it was a little brief on taxation - I could have stood a little more on that.

HM Jr: You and me both.

S: It sounded to me as though something that had been omitted was now being included. That was my only explanation for it.

HM Jr: Yeah.

S: It was a bit of a brush-off on that.

HM Jr: (laughs) It's an understatement but that, of course, is what we felt. Now what happened this morning here was that the committee voted down 12 to 0 my spending tax, and voted through about 12 to 6 George's tax on a 5% gross income tax.

S: 5% gross income?

HM Jr: Yeah. Which is a big help on keeping down inflation.

S: Yeah. Well, that's a disappointment, Henry. I'm sorry. I think you made a real effort on that. Of course, it was licked, but you made a real try on that.

- HM Jr: Well, the way I feel - I am delighted that I had a plan, and as good a plan as that.
- S: Yes, you're right.
- HM Jr: I only would be downhearted today if they put something through the committee and I hadn't made a - what I think a constructive suggestion. That's the way I feel.
- S: You're right.
- HM Jr: And as to being late, the criticism is just, but we just couldn't get around to it - I mean in the sense that what was the right way to move.
- S: You're quite right. You haven't been dilatory; it has been busy times.
- HM Jr: Well, it has been very difficult to make up one's mind.
- S: That's right.
- HM Jr: I mean I feel that I am in the same boat as the President, and it has taken him up to October 1st or rather September 7th to decide what he is going to do on farm prices and labor.
- S: Yes.
- HM Jr: What?
- S: That's right. You had your mind made up on that some time ago.
- HM Jr: Yeah. I made a speech in Boston last September.
- S: That's right - a year ago.
- HM Jr: Yes, I made my speech then.
- S: That's right.

HM Jr: I have no regrets on this.

S: No, I haven't either. I haven't. I thought the statement - your statement - I got copies of that - your statement and the one that went with it from Paul are both good documents.

HM Jr: Did you see the one in the Sunday paper?

S:- I did, yes, and I liked that, too. I wondered who did night work on that one.

HM Jr: Well, that was Gaston and Kuhn.

S: It was a good job.

HM Jr: I thought so.

S: I thought it was a very good job, so I think it has been handled with dignity and with great force.

HM Jr: In view of what the President was going to do - hello?

S: Yes.

HM Jr: I mean from now until the 1st of October they have got to write that legislation....

S: Right.

HM Jr:do you think anybody ought to make any trips?

S: Well, I was wondering about that. It would seem to me to fall right in between a decision and no decision.

HM Jr: Yeah.

S: I mean if it were the sort of thing where you could say it had been dealt with, some one could feel free to go, but it is neither dealt with nor not dealt with, which is an awful twilight zone.

HM Jr: Yeah.

S: I'm no real judge of that, but it may be even more difficult after the 1st of October.

HM Jr: You're so cheerful.

S: I feel very cheerful. I am a little inclined to say that if you feel that you want to be there before sometime in November - the thing to do is to get away promptly.

HM Jr: Yeah.

S: That would be my inclination, Henry. Of course, I have not been very keen about this you know.

HM Jr: Yeah.

S: I think it is in a very uncertain position - this whole thing now.

HM Jr: Yeah. Well, that's that.

S: All right.

HM Jr: Okay.

S: Henry, you're not going to need me this week, are you?

HM Jr: No.

S: Right. Goodbye.

HM Jr: Thank you.

S: It was nice of you to call. Bye-bye.

HM Jr: Thank you.

September 8, 1942. 206
4:45 p. m.

Robert
Patterson: Bob.

HMJr: Did your family get home without being too cold?

P: Yes. (Laughs.)

HMJr: What? The little one was all right?

P: Sure.

HMJr: She's cute.

P: Sat on my lap.

HMJr: Well, that kept her warm. Bob, we enjoyed having you.

P: Well, I enjoyed being there a great deal.

HMJr: The President of the United States called me up about luncheon yesterday. Uh, I'm only repeating what he said - I don't know why he does it through me - but he said that he'd heard that there were two buildings on the New Hackensack new Airport that were going to be torn down, and that would I please tell the Army that he'd like very much if they could leave them standing. One was the Woronock Inn...

P: The What?

HMJr: Woronock. W-o-r-o-n-o-c-k

P: Yeah.

HMJr: He says it's the oldest Inn in Dutchess County. Then he said there was another half-timber, half-stone house - he couldn't say just what - but that he understood it was going to be torn down, uh, for the historic value.

P: Yeah.

HMJr: And he wondered if both of them couldn't be left standing, and the Army use them for headquarters or something.

P: I'll find out.

HMJr: I don't know, and I don't know why he did it through me, but...

P: That's all right.

HMJr: ...but I...

- 2 -

P: You - you use it.

HMJr: Pardon?

P: You use it. You - you know most about it.

HMJr: No. I - yeah, but this is something historical that the President is interested in, and ...

P: Yeah.

HMJr: It's - it's of no interest to me - the buildings.

P: Is the Inn the place that you go past as you drive out of the place?

HMJr: Yeah, that's the Inn. Yeah. It's - it was a nice, you know, two-story porch on it.

P: I'll - I'll look into it right away.

HMJr: And if you didn't mind letting me know I could pass the word back to him.

P: Yes, sir.

HMJr: Sorry to bother you.

P: Not a bit.

HMJr: Thank you.

P: That's all right. I'll get it clean.

HMJr: Thank you.

P: Thank you, Henry.

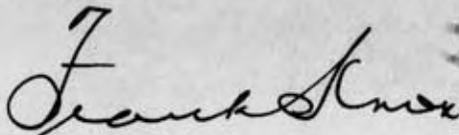
THE SECRETARY OF THE NAVY
WASHINGTON

September 8, 1942

Dear Henry:

Thank you for your note of the third enclosing your statement to the Senate Finance Committee. It is splendid and I sincerely hope that it brings the desired results.

Sincerely yours,



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

RECEIVED
SEP 10 1942
U.S. DEPARTMENT OF THE NAVY
WASHINGTON, D.C.

SEP 4 1942

NATIONAL GALLERY OF ART

SMITHSONIAN INSTITUTION

WASHINGTON, D. C.

September 2nd, 1942.

My dear Mr. Secretary:

I am deeply grateful to you for all that you did in making it possible for the National Gallery to accept the gift of the Widener Collection.

It is very important for the Gallery to acquire these works of art, and we all feel it is largely due to you and your staff at the Treasury that many of the difficulties were overcome in connection with the acceptance of the Collection. Mr. Cairns was both resourceful and untiring in his efforts, as were also Mr. Kuhn, Mr. Shea, and Mr. Gilmore. I saw Mr. Widener yesterday and he is most appreciative of what you have done. Again with many thanks, I am

Sincerely yours,

David E. Finley

Director.

Honorable Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

September 8, 1942

Dear General Allen:

Thank you very much for sending me the pictures that were taken while I was at Fort Benning. I shall treasure them as reminders of a most impressive and inspiring day.

I shall not need additional copies of any of these, but I notice that you did not include any photographs of the parachute training. If it is not too much trouble, would you mind sending me a few of these as well?

With kind regards to you and Mrs. Allen,

Sincerely,

(Signed) H. Morgenthau, Jr.

Brigadier General Leven C. Allen,
Commandant, Infantry School,
Fort Benning, Georgia.

Pictures turned over to
Mr. Kuhn 9/11/42 for album he is
making of tour, also cc of letter.

File in Diary

FK/cgk

TREASURY DEPARTMENT - TELETYPEWRITER SERVICE

BUREAU OF CUSTOMSCustoms Agency Service

Baltimore, Md.....	BA 64
Houston, Texas.....	HO 33
Los Angeles, Calif.....	LA 439
New Orleans, La.....	NO 498
New York, N. Y.....	NY 1-1540
Norfolk, Va.....	NF 79
Portland, Ore.....	PD 297
San Francisco, Calif.....	SF 284
San Pedro, Calif.....	SPD 7477
St. Paul, Minn.....	STP 299
Seattle, Wash.....	SE 146
Washington, D. C.....	WA 381

Customs Patrol

Bottineau, N. D.....	BOTTINEAU, N D 16
El Paso, Texas.....	E P 18
Harre, Mont.....	HAVRE MONT 15
Laredo, Texas.....	LAREDO TEX 66
Nogales, Ariz.....	NOGALES ARIZ 45
San Ysidro, Calif.....	SAN YSIDRO CAL 372

Collectors of Customs

Boston, Mass.....	BS 132
Galveston, Texas.....	GALV 51
Los Angeles, Calif.....	LA 538
Miami, Fla. (Deputy).....	MM 87
New Orleans, La.....	NO 378
New York, N. Y.....	NY 1-2482
Philadelphia, Pa.....	PH 732
Portland, Maine.....	PO 367
Port Arthur, Texas.....	PORT ARTHUR TEX 183
San Pedro, Calif.....	S PD 7474
Savannah, Ga.....	SV 44
Tampa, Fla.....	TP 25

CHIEF CLERK, OFFICE OF

Washington, D. C.....	WA 168
*P. L. 950, between Treasury and Army Message Center (2 stations)	

FOREIGN FUNDS CONTROL

New York, N. Y.....NY 1-1882
 Washington, D. C.....WA 162
 *P.L. 1321, between Treasury and Washington
 Building (2 stations)

BUREAU OF NARCOTICS

Chicago, Ill.....CG 820
 Houston, Tex.....HO 38
 New York, N. Y.....NY 1-2398
 Washington, D. C.....WA 192

PROCUREMENT - LEND LEASE

Allentown, Pa.....AN 14
 Atlanta, Ga.....AT 97
 Boston, Mass.....BS 220
 Chicago, Ill.....CG 1484
 Cleveland, O.....CV 324
 Detroit, Mich.....DE 997
 Louisville, Ky.....LS 579
 New Orleans, La.....NO 160
 New York, N. Y.....NY 1-1885
 New York, N. Y.....NY 1-1460
 Philadelphia, Pa.....PH 739
 Pittsburgh, Pa.....PG 98
 San Francisco, Cal.....SF 236
 Seattle, Wash.....SE 103
 Washington, D. C.....WA 30
 Washington, D. C.....WA 31
 Washington, D. C.....WA 32
 Washington, D. C.....WA 33
 Washington, D. C.....WA 137
 *P.L. 2484, between Procurement Division
 Building and War Department (2 stations)

SECRET SERVICE

Atlanta, Ga.....AT 164
 Boston, Mass.....BS 378
 Chicago, Ill.....CG 803
 Cleveland, O.....CV 582
 Dallas, Tex.....DL 583
 Detroit, Mich.....DE 430
 Kansas City, Mo.....KC 88
 Los Angeles, Cal.....LA 321
 New York, N. Y.....NY 1-2139
 Philadelphia, Pa.....PH 202
 San Francisco, Cal.....SF 434
 Seattle, Wash.....SE 271
 Washington, D. C.....WA 194
 Washington, D. C.....WA 195

SECRETARY, OFFICE OF THEChief Coordinator, Treasury Law Enforcement Agencies

Washington, D. C.....WA 542

TREASURER, OFFICE OF THE*P.L. 2572, between Treasury and Liberty
Loan Building (2 stations)WAR SAVINGS STAFF

Boston, Mass.....	BS 576
Chicago, Ill.....	CG 198
Cleveland, O.....	CV 28
Detroit, Mich.....	DE 792
Jefferson City, Mo.....	JFSCY 370
Los Angeles, Cal.....	LA 484
New York, N. Y.....	NY 1-2269
Newark, N. J.....	NK 482
Philadelphia, Pa.....	PH 120
San Francisco, Cal.....	SF 595
Washington, D. C.....	WA 229
Washington, D. C.....	WA 230
Washington, D. C.....	WA 211

Total number of Teletypewriter Machines.....92

* Private Line teletypewriters are direct from one station to another. All other teletypewriters listed herein are TWX lines which go through an operator at the Chesapeake and Potomac Telephone Company.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 8, 1942

TO Secretary ~~Hargenthau~~

FROM Mr. ~~Hase~~

Subject: The Business Situation,
Week ending September 5, 1942

Summary

(1) National income payments in July rose to a new peak at an annual rate of \$113.7 billions as compared with \$112.1 billions in the previous month and only \$75.8 billions in July 1940 when the defense program was in its initial stages. Income payments continued to rise more rapidly than living costs in July, and as a result the estimated purchasing power of national income payments also reached a new peak.

(2) Further gains in salaries and wages in July were accompanied by a rise in seasonally-adjusted retail sales for the first time since last January. Salaries and wages in July were 26 percent above year-earlier levels while retail sales were 3 percent lower, due in part to heavy declines in sales of automotive dealers, filling stations and other lines suffering from wartime restrictions and shortages.

(3) Department store sales during the last week in August rose to the highest point since early last June. However, sales were still 14 percent below the corresponding week last year, when sales were benefitting from heavy advance buying and the earlier Labor Day holiday. The FRB adjusted index of department store sales in August advanced to 128 as compared with 121 in July and 104 in June.

(4) The BLS price index of 28 basic commodities last week moved up moderately to the highest point since mid-July, due largely to advances in a number of uncontrolled commodities, particularly wheat, barley and rosin. A restraining influence was provided by a decline in livestock prices, due in part to an expansion in market receipts of hogs.

(5) Employment in nonagricultural establishments rose to a new peak of 37,100,000 in July. This was 435,000 above the previous month and nearly 6,500,000 above the levels of July 1940. With employment still rising, and the armed services making heavy inroads on manpower, threats to production due to labor shortages are increasing. At the same time a few centers, particularly New York City, have a substantial number of unemployed workers.

- - - - -

National income payments at new high

National income payments in July (seasonally-adjusted) reached a new high annual rate of \$113.7 billions, as compared with \$112.1 billions in the previous month. (See Chart 1.) In sharp contrast with this new record figure, the annual rate in July 1940, when the defense program was in its initial stages, was only \$75.8 billions.

Actual payments in July were slightly below the previous month, due to a decrease in interest and dividends. The decrease, however, was less than customary, resulting in the above-mentioned rise in the adjusted annual rate. Further expansion of salary and wage payments occurred in manufacturing, construction, and government service, as war expenditures continued to mount.

Income payments continued to rise more rapidly than living costs in July, and as a consequence the purchasing power of national income payments moved up to a new peak. Reference to Chart 1 will disclose that after flattening out in the early part of the year, the purchasing power of national income payments moved noticeably higher in June and July. This has doubtless been an important factor in the recent upturn in retail sales.

Retail trade improved

Seasonally-adjusted retail sales turned upward in July for the first time since last January, as salaries and wages, the dominant factor in national income payments, reached new peak levels. (See Chart 2.) Normally retail sales show a noticeable seasonal drop from June to July, but this year the decrease was limited to only 1 percent. In consequence, the Department of Commerce seasonally-adjusted index of retail sales rose 6 percent during the latter month. On an adjusted basis, all store groups showed gains over June, with apparel stores making the widest advance and automotive stores the smallest.

Despite this improvement, total retail sales in July were still 3 percent below year-earlier levels, largely due to the sharp drop in sales of automotive stores. Filling stations, household furnishings stores, and dealers in hardware and building materials also reported declines. Sales of these four groups of stores, all suffering to a greater or less degree from restriction programs and goods shortages, were 37 percent below July 1941 levels. The remaining store groups, relatively unaffected by shortages, showed an aggregate sales gain of 18 percent over July 1941.

- 3 -

However, even this more favorable sales showing fell behind the corresponding gain in salaries and wages, which amounted to 26 percent. Thus, it will be seen that the relative lag in retail sales in the last year cannot be fully ascribed to goods shortages.

Sales estimates for year 1942 compared with 1941

Table I shows recent Department of Commerce estimates of retail sales by types of stores for the year 1941, and projected estimates for 1942, with individual percentage changes. It will be noted that sales by drinking places heads the list, with an increase of 22 percent, with sales by jewelry stores and various types of food stores not far behind. At the bottom of the list, of course, are sales by retailers in the automobile and other durable goods industries.

Commenting on the current retail sales outlook, the Department of Commerce says:

"At the present time, consumers are saving at an unprecedented rate. But many if not most of them are still comfortably situated with respect to supplies of the goods that would cause the greatest wrench to dispense with. Their own stocks are undoubtedly large and so are those of retailers. This situation will before long become much less favorable as the output of many consumer goods shrinks and as stocks of their own and those in retailers' hands are steadily exhausted. When the time comes for consumers to get along without items of food or clothing or other articles that have been woven into daily long-standing habits of consumption, then will come the real test. Consumers will at that time either forego established consumption patterns and increase the proportion of their incomes to be saved, or they will sacrifice savings and spend freely in a vain attempt to maintain their consumption habits in spite of the disruption of war. In this event, the pressure on price ceilings will be great."

August department store sales rose more than seasonally

Department store sales have been rising steadily during the past month and the gain over July levels has been more than seasonal. As a result, the FRB adjusted index of department store sales moved up to 128 in August from 121 in July and 104 in June. In the week ended August 29, department store sales were at the highest level since early last June. However, even this strong showing was 14 percent below the corresponding period last year, when sales were benefitting from heavy advance buying and the earlier Labor Day holiday. (See Chart 3.)

- 4 -

Reduction in consumer debt

One of the several factors tending to restrain retail sales in recent months despite the rising tide of national income has been the application of funds to the liquidation of consumer debt. Thus a recent confidential report of the Federal Reserve Board estimated that consumer debt showed an average decline of about \$400 millions per month in May, June and July. Debt repayment in those months was accelerated by the heavy reduction in charge accounts brought about by Amendment 4 to Regulation W. During the same period, however, installment cash loans were declining by more than \$50 millions per month as compared with declines of about \$35 millions in April and \$25 millions in March. Retail installment paper for the past few months has been declining at a monthly rate of about 10 percent of the volume of paper outstanding.

Due to the heavy reduction in consumer debt already effected and the dwindling of installment sales, it is expected by the Board that the decline in consumer debt during the remainder of the year will probably run about \$200 to \$250 millions per month as compared with the previously-cited average of \$400 millions in recent months.

Uncontrolled basic commodity prices near peak

Basic commodity prices not subject to control continued to rise last week, carrying the BLS index of 9 uncontrolled commodities nearly to its May high. The rise was responsible for an advance in the index of 28 basic commodities. (See Chart 4.)

Among the commodities not subject to control, wheat prices advanced to their highest levels since early May. The advance was attributed to mill buying on the strength of improved flour demand and a forecast by the Commodity Credit Corporation that 400 million bushels (about 40 percent) of this year's crop would go into the loan.

Barley prices were up 7 cents during the week. Corn prices were up moderately, but flaxseed receded somewhat. Butter prices again touched their highest levels of the season. Cotton prices were dampened by private crop estimates substantially above the Government's forecast as of August 1. Prices for rosin increased 5.7 percent as the trade has been forced to purchase gum rosin (not under a price ceiling) because of reduced stocks of wood rosin.

Livestock prices declined noticeably. Hog prices receded under pressure of an expansion of market receipts indicative of an early beginning of the autumn hog movement, presumably

- 5 -

stimulated by prospects of livestock ceilings and of lower prices later when the record supplies are marketed. In addition, hog receipts showed the heaviest average weights on record, a development contrary to expectations.

General commodity prices hold level trend

The BLS all-commodity index in the week ended August 29 was unchanged for the third successive week at its maximum since 1926. At 98.9 it stands 31.9 percent above the pre-war level of August 1939. The levelling out of the general price level since last March is in sharp contrast to the steep rise in the corresponding months of the first World War. (See Chart 5, upper section.) In comparison with the above-mentioned gain of 31.9 percent since August 1939, the general price index in the comparable period of the first World War rose more than 80 percent.

The index of food prices (lower section of Chart 5) also has flattened out since last March, but in August made a noticeable upturn.

Cotton crop estimate sharply increased

The cotton crop prospect improved nearly 1,000,000 bales during August, according to the September 1 estimate released this morning by the Department of Agriculture. The crop is now placed at 14,028,000 bales as compared with an estimate of 13,085,000 bales last month. The estimated average yield of 289.3 pounds per acre establishes a new high record.

Meat rationing proposed; packers sued for ceiling evasion

As the meat shortage became increasingly widespread last week, direct consumer rationing by the beginning of 1943 was recommended to the WPB by its Food Requirements Committee. The announcement of the recommendation forecast a rationing allowance of 2½ pounds of meat a week. This allowance of 130 pounds on an annual basis compares with actual consumption of 142 pounds per capita in 1941, and an average consumption of 131 pounds in the 1931-1940 period. The allowance of 2½ pounds a week was contrasted by the Committee with the British allowance of slightly more than one pound; the German allowance of 12½ ounces; the Dutch, 9 ounces; the Belgian, 5 ounces; and the Italian, 3½ to 4½ ounces a week.

In about two weeks, indirect rationing will come into operation through a WPB conservation order allocating packers' supplies to civilians through regional sales quotas. Civilians are to be asked in the meantime to conserve beef, veal, pork, lamb, and mutton by use of various food substitutes. Restaurants

- 6 -

in New York and Washington, for example, already are cooperating by adopting meat-saving measures.

More than 100 packers, including the "big four", were included in injunction actions begun and in temporary restraining orders sought by the OPA on September 3 for evasion of price ceilings on beef and veal. The cases involved upgrading, "plain overcharging", and issuance of incorrect invoices or failure to issue invoices as provided by OPA regulations. Practically the entire wholesale meat industry will be licensed by an OPA order making the license a requirement for selling any meat or meat product subject to price regulations.

Ceilings on a specified dollars-and-cents basis for dressed pork will be established by zones within ten days according to the OPA. This system will be substituted for ceilings supposed to represent individual sellers' list prices, which the OPA reports "represented hopes rather than actual prices during the base period". This action is similar to that taken by the Canadian Wartime Prices and Trade Board for wholesale prices of beef, after price and supply difficulties had occurred under general price control.

Nonagricultural employment at new high

With the armed services slated to make further heavy inroads on the country's manpower, the threat of labor shortages in key industries is already becoming of increasing concern. As a result of a substantial contraseasonal increase in factory employment during July, and gains in all other major groups except trade, employment in nonagricultural establishments in July rose to the highest level on record. The total of 37,100,000 reported by the Department of Labor was 435,000 above the previous month, and nearly 6,500,000 above the level of July 1940.

In the face of the increasing demand for workers, some key war industries have been losing men to the armed services at a rapid rate. Thus, following recent announcements of broadened draft requirements, 5 major airplane plants in southern California are reported to have lost men to the armed forces at a rate of 7,000 per month. The present labor problem is further complicated by the fact that the labor supply is unevenly distributed. While some areas are experiencing acute labor shortages, the Wall Street Journal reports that New York City has 400,000 unemployed. About half of this number are said to constitute normal unemployment arising from seasonal and other factors.

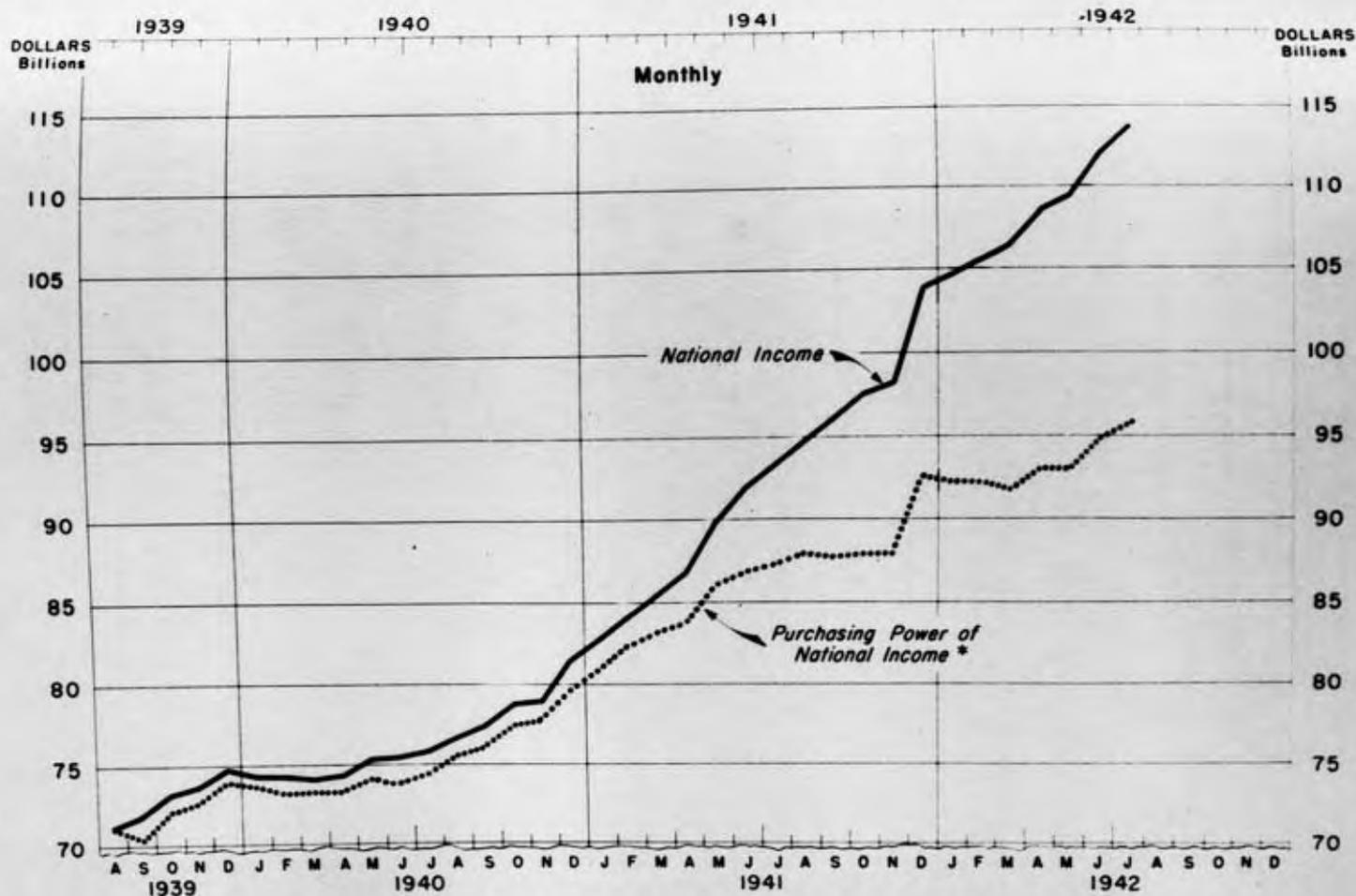
Scrap shortage again to the fore

Despite all that has been said about the steel scrap shortage, further evidence of grave concern over the outlook has developed in steel trade circles. During the past week the chairman of the American Industries Salvage Committee asserted that there was only 2 weeks' supply of steel scrap in the hands of steel mills. In recognition of the gravity of the situation, leading Government officials have appealed to newspaper publishers to spur the public to a reinvigorated scrap salvage campaign.

Due in part to the lack of scrap the steel industry was able to operate at only 94.5 percent of capacity in July. Some improvement, however, has occurred in operations during the past month. (See Chart 6.) During the current week, affected somewhat by the holiday, the rate is scheduled to decline 1.2 points to 96.4 percent of capacity.

While the immediate steel scrap situation is causing concern, the outlook for the coming winter months, when collections will be hampered by weather conditions, is even more menacing. During the last World War, steel ingot production dropped severely in January and February 1918, with output in the former month falling 33 percent below the previous fall peak. The principal difficulty on that occasion, however, appears to have been a transportation tie-up, a repetition of which does not seem likely in view of the showing made thus far by the railroads.

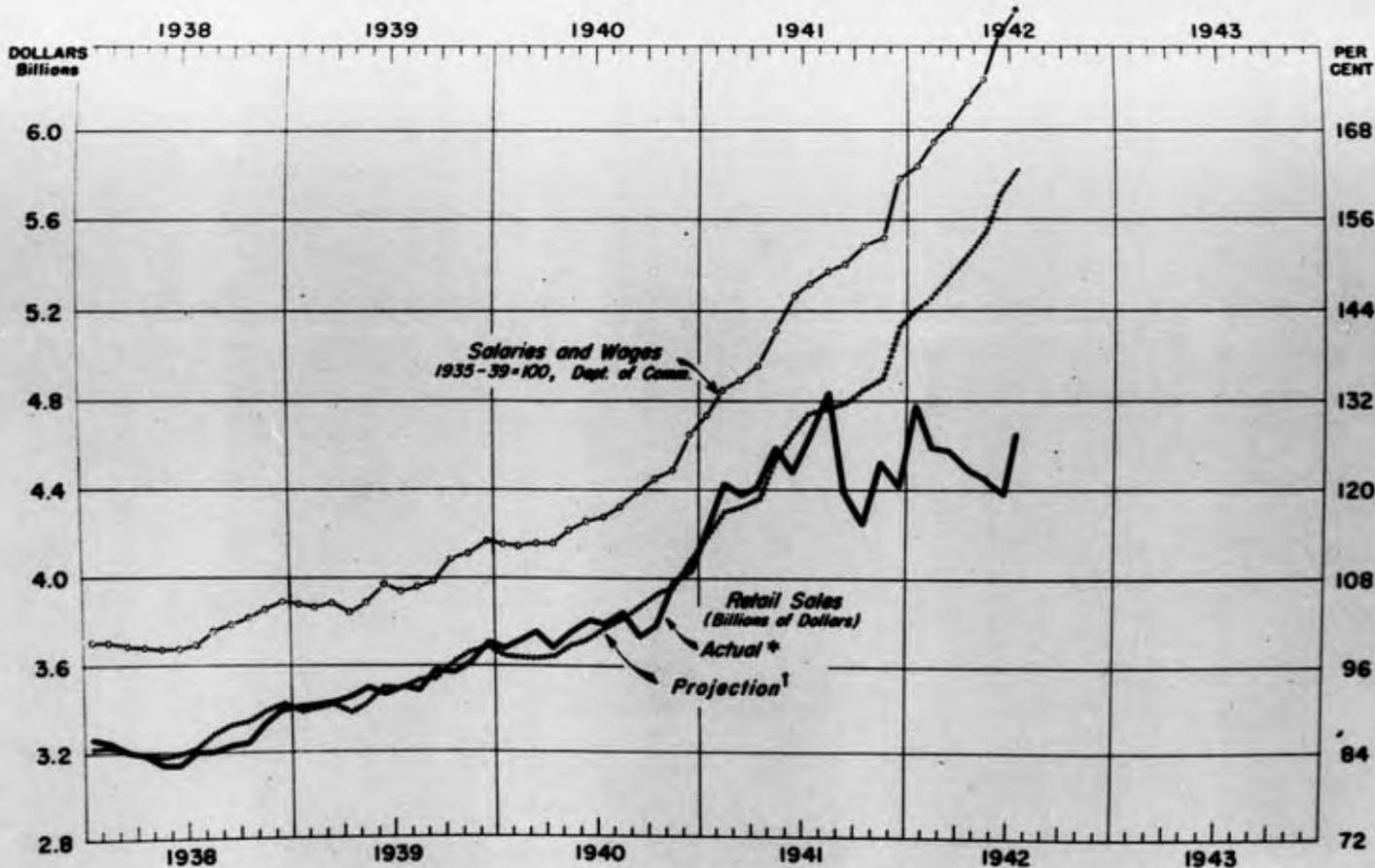
NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER



*Based on cost of living index of B.L.S. Aug. 1939=100

RETAIL SALES COMPARED WITH SALARIES AND WAGES

Adjusted for Seasonal



* Department of Commerce total retail sales adjusted for seasonal.

† Based on average relationship to salaries and wages, 1935 through 1940.

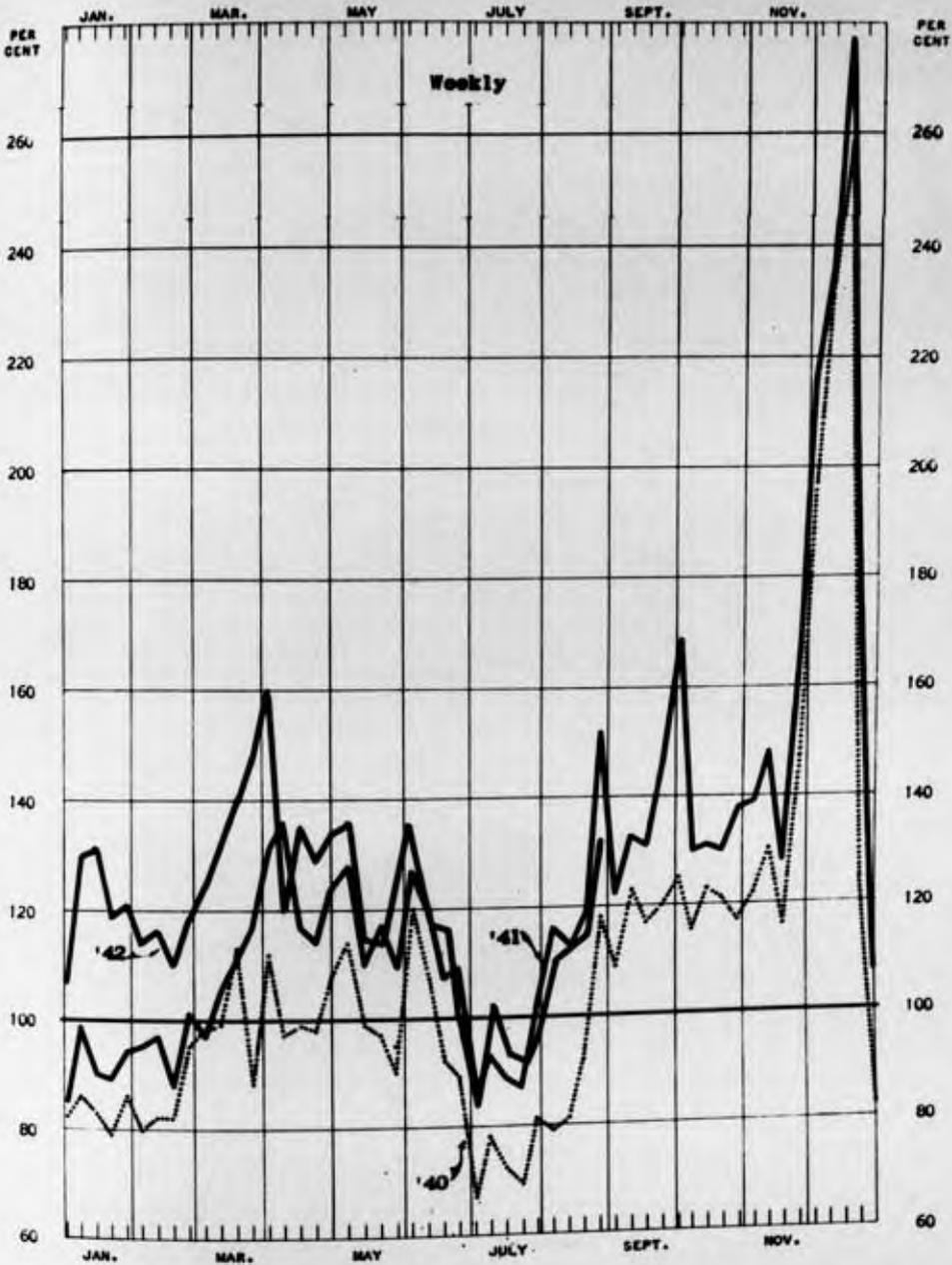
Table 1

Sales of retail stores, by kinds of business
(Billions of dollars)

Kind of business	1941	1942 est.	Percent- age change
Drinking places	1.8	2.2	+22
Jewelry	.5	.6	+20
Eating places	2.5	3.0	+20
Unclassified food stores	3.0	3.5	+17
Grocery and combination	9.4	11.0	+17
Shoes	.8	.9	+13
General stores with food	.8	.9	+13
Dry goods and general merchandise	.8	.9	+13
Men's and boys' clothing	1.0	1.1	+10
Hay, grain, feed, and farmer's supplies	1.0	1.1	+10
Family clothing and women's wear	2.3	2.5	+9
Drugs	1.9	2.0	+5
Department	5.0	5.2	+4
Hardware	.8	.8	0
Miscellaneous (including secondhand)	2.0	2.0	0
Furniture and housefurnishings	1.7	1.7	0
Variety	1.2	1.2	0
Fuel, ice, and fuel oil	1.2	1.1	-8
Lumber and building materials	2.0	1.8	-10
Auto accessories	.7	.6	-14
Filling stations	3.5	2.9	-17
Farm implements	.6	.5	-17
Heating, plumbing, paint, and electrical	.4	.3	-25
Household appliances and radios	.7	.5	-29
New and used car dealers	7.5	1.8	-76
All retail stores	53.9	51.2	-5

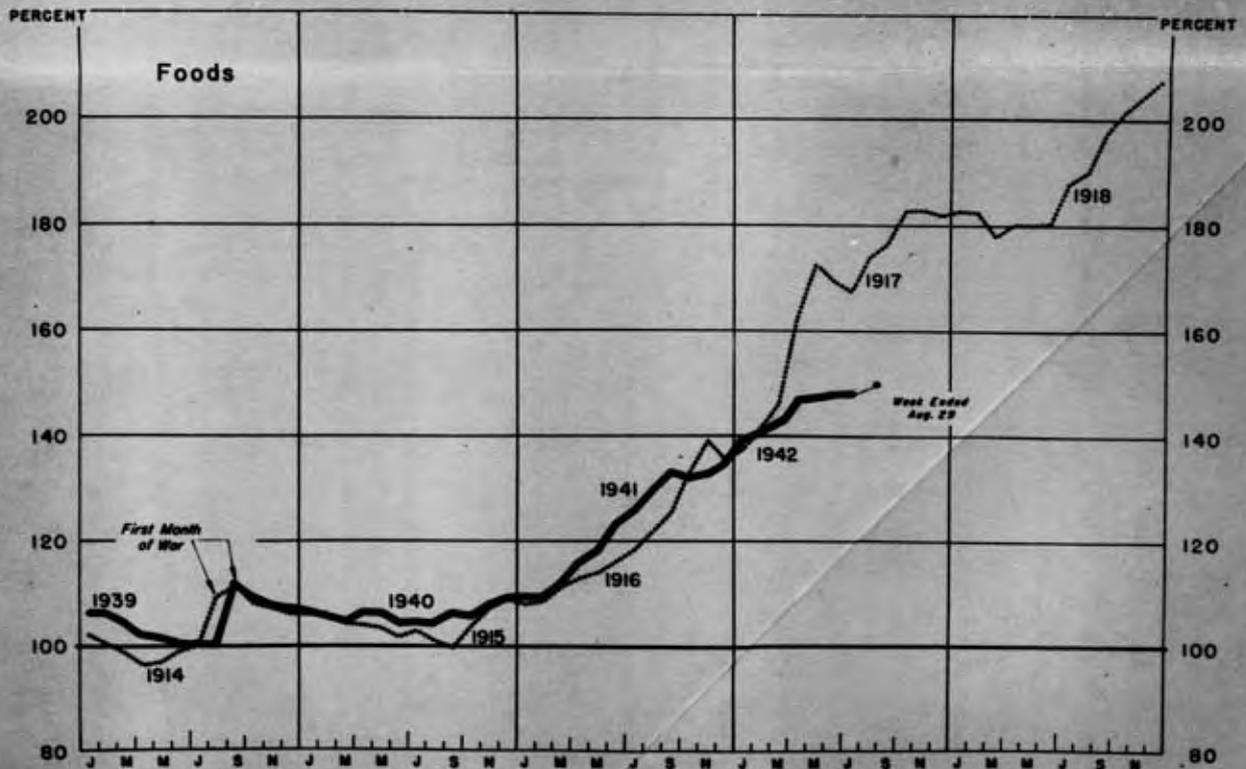
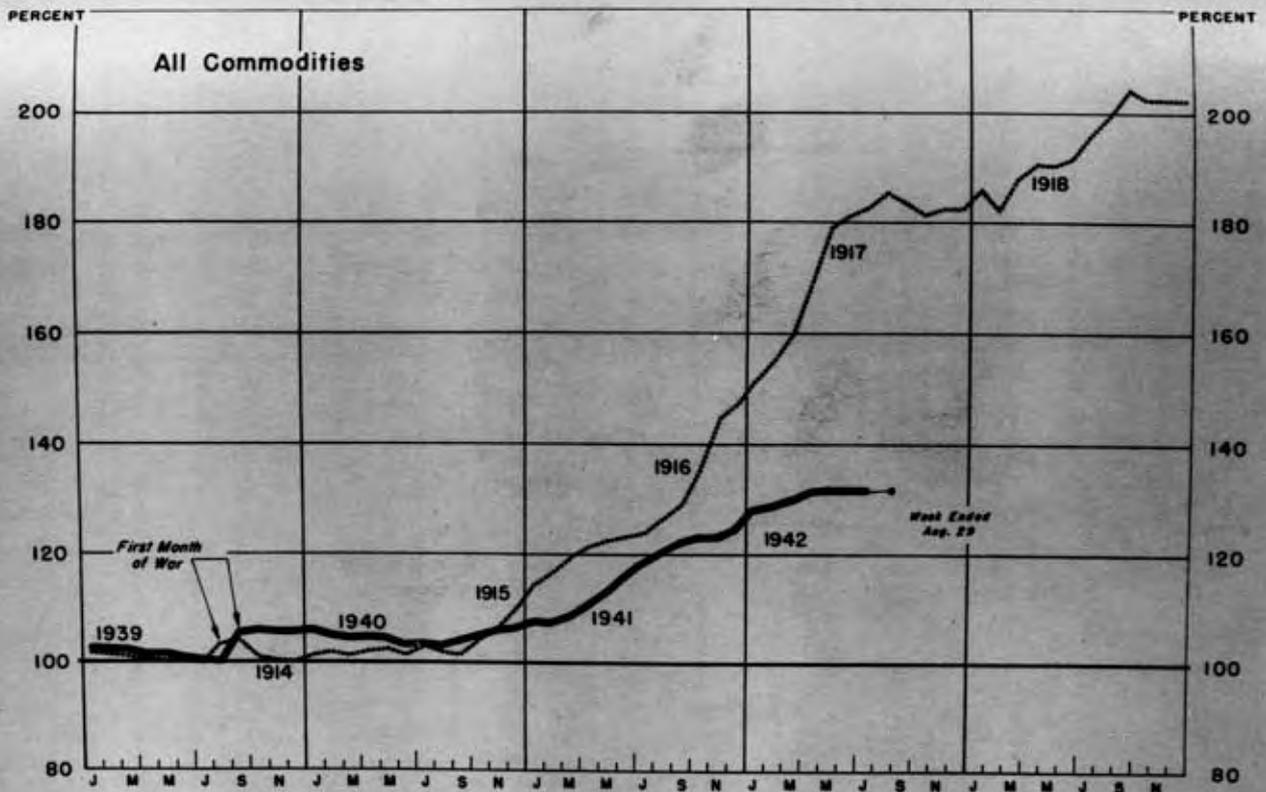
Source: U. S. Department of Commerce.

DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED

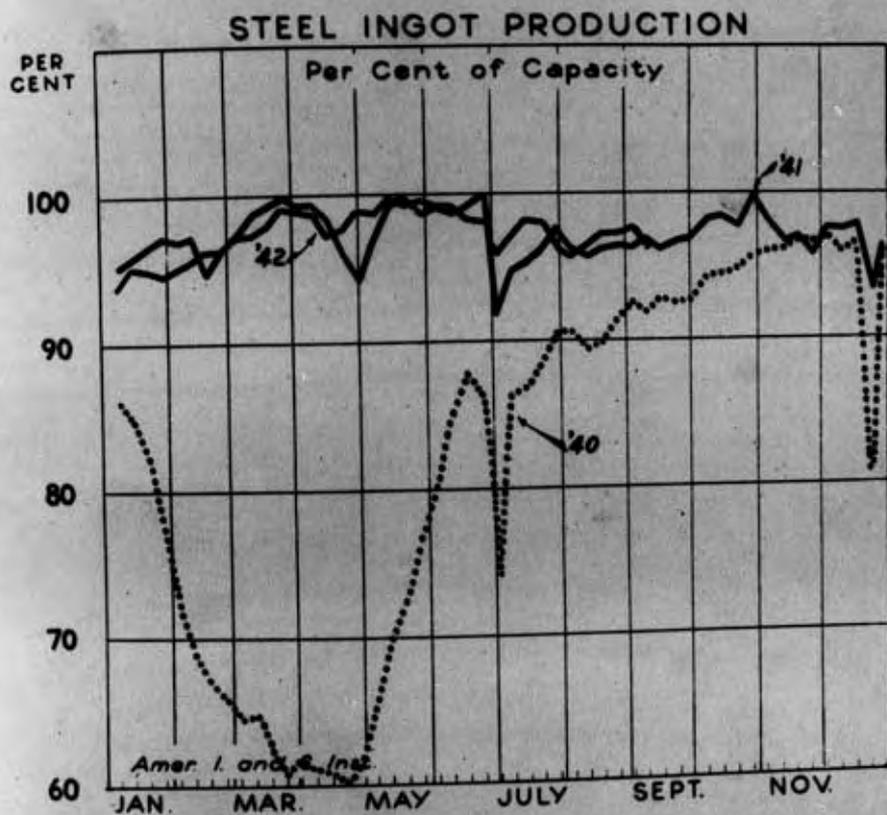


PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1918

July 1914 = 100 World War Period; Aug. 1939 = 100 Present Period



Source: B.L.S.



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

C-419



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

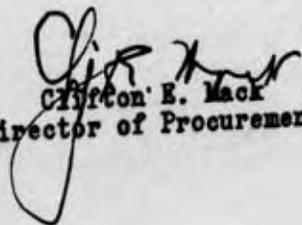
WASHINGTON

September 8, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended September 5, 1942.

A review is being made of stocks in warehouses purchased for foreign governments under the Lend-Lease program in order that consideration may be given to making those materials available to domestic needs or for Lend-Lease purposes which call for prompt shipping.


Clifton E. Mack
Director of Procurement



LEND-LEASE
 -TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF SEPTEMBER 5, 1942
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Undistributed & Miscellaneous</u>
Allocations	\$2100.2 (2100.0)	\$1081.6 (1074.7)	\$550.1 (517.6)	\$56.6 (56.4)	\$3.7 (3.7)	\$408.2 (447.6)
Purchase Authoriza- tions (Requisitions)	\$1502.8 (1488.5)	\$ 943.2 (937.2)	\$503.8 (495.5)	\$40.5 (40.6)	- -	\$ 15.3 (15.2)
Requisitions Cleared for Purchase	\$1463.0 (1441.7)	\$ 927.9 (918.3)	\$481.2 (469.2)	\$40.4 (40.5)	- -	\$ 13.5 (13.7)
Obligations (Pur- chases)	\$1347.6 (1329.5)	\$ 894.0 (885.9)	\$402.1 (391.9)	\$40.4 (40.4)	\$2.1 (2.0)	\$ 9.0 (9.3)
*Deliveries to Foreign Governments at U. S. Ports	\$ 560.6 (554.7)	\$ 446.7 (442.3)	\$ 91.1 (89.6)	\$20.1 (20.1)	- -	\$ 2.7 (2.7)

* Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of August 29, 1942.

EXPLANATION OF DECREASES

The reduction of \$100,000 in Purchase Authorizations and in Requisitions Cleared for Purchase, for China, was effected by an adjustment of the estimated value of requisitions for that country.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 310

Information received up to 7 A.M., 8th September, 1942.

1. NAVAL

On the evening of the 7th a whale oil factory ship believed to be S.S. SOLGLINT, 12,250 tons (ex-Norwegian) was sighted off JERSEY. Motor torpedo boats and motor gun boats were sent to attack but no reports have yet been received, aircraft have also been sent out,

2. MILITARY

EGYPT. 6th. The enemy still seemed to be withdrawing in the morning, by last night the bulk of his forces had retired to the positions held prior to the battle. A triangular area 6 miles by 12 East of the mine fields is still in his hands. Our light columns have been attacking this area from 3 sides and encountering considerable opposition.

RUSSIA. Continued Russian attacks in the Northern and Central sectors have made no headway. The Germans have made little fresh progress in their attack on STALINGRAD but are approaching ASTRAKHAN from the Southwest as well as from the Northwest. The German bridgehead over the TEREK near MOZDOK has been extended Southwards but German detachments trying to infiltrate through the Western Caucasian Mountains are still being held. The German claim to have captured NOVOROSSISK though not confirmed is probably true.

3. AIR OPERATIONS

WESTERN FRONT. 6th/7th. A total of 423 tons of bombs were dropped at DUISBURG, the attack was somewhat scattered but large fires were reported in the middle of the town and in the area of the docks. Intense A.A. and searchlight concentrations were met over the objective.

7th. 29 U.S. Fortresses were sent to attack the shipyards at ROTTERDAM. Enemy fighter opposition was met and only 7 aircraft bombed the target. 12 enemy aircraft are claimed as destroyed, ten probably destroyed and 12 damaged. fighter escort and a diversionary sweep was provided by 14 squadrons of Spitfires which probably destroyed 3 F.W. 190's. 2 Spitfires are missing, 1 pilot safe. Other fighters probably destroyed one enemy bomber and damaged two. 5 single Mosquitos bombed towns in GERMANY.

- 2 -

7th/8th. 43 aircraft were sent seaming. One Wellington is missing, also one Boston from Intruder operations. 25 enemy aircraft crossed the coasts of ESSEX and SUFFOLK and made a scattered attack, one was shot down and another damaged.

EGYPT. 5th/6th. TOBRUK and HERAKLION aerodrome and harbour were successfully attacked, 3 bombers are missing.

6th. Our fighters escorted bomber attacks on enemy M.T. and tanks and intercepted enemy bombing attacks. 5 enemy aircraft were shot down, 2 probably destroyed and 2 damaged. 12 of our fighters are missing, 5 pilots safe.

MEDITERRANEAN. 6th. 9 Beauforts and 11 Beaufighters attacked a Southbound convoy of 4 vessels, escorted by 11 destroyers and 12 aircraft. One ship was hit with torpedo and another probably hit. The convoy was raked with cannon and machine gun fire. 2 enemy aircraft were shot down, another was probably destroyed and 6 damaged, 4 of our aircraft are missing.

RUSSIA. 5th. The German Air Force estimated at approximately 1,000 aircraft, attacked Russian forces protecting STALINGRAD. In the MOSCOW sector attacks were made on Russian aerodromes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 8, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Japanese and United States Naval Vessels Sunk and Damaged.

The attached tables show Japanese and United States naval vessels sunk and damaged since the beginning of the war on December 7, 1941, so far as these have been reported in U.S. Naval communiques.

Table I.

Japanese Naval Vessels Sunk and Damaged
December 7, 1941-September 5, 1942
as reported in United States Naval Communiques

Combatant Ships

	<u>Aleutians</u>			<u>Solomons</u>			<u>All Areas</u>		
	: Probably:		: Damaged:	: Probably:		: Damaged:	: Probably:		: Damaged:
	: Sunk:	: Sunk		: Sunk:	: Sunk		: Sunk:	: Sunk	
Battleships	--	--	--	--	--	1	--	--	5
Aircraft carriers	--	--	--	--	--	2	6	1	4
Cruisers	1*	--	5	--	--	2**	11	3	19**
Destroyers	6	1	2	1	1	3	24	8	12
Submarines	--	--	--	--	--	--	6	--	1
Minesweepers	--	--	--	--	--	--	--	1	3
Others	--	--	1	--	--	4	11	2	19
Total	7	1	8	1	1	12**	58	15	63**

Non-combatant Ships

Fleet tankers	--	--	--	--	--	--	10	--	2
Transports	1	--	4	1	--	--	25	5	12
Cargo and supply	1	--	2	--	--	--	41	3	8
Miscellaneous	1	--	--	1	--	--	8	2	4
Total	3	--	6	2	--	--	84	10	26
TOTAL-ALL TYPES	10	1	14	3	1	12**	142	25	89**

* Possibly destroyer.

** One possibly a destroyer; also several additional cruisers damaged.

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Table II.

United States Naval Vessels Sunk and Damaged
 December 7, 1941 - September 5, 1942
 as reported in United States Naval Communiques.

	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>
Battleships	1	--	1
Aircraft carriers	1	--	1
Cruisers	1	--	2
Destroyers	10	1	6
Submarines	2	1	--
Tenders	--	1	1
Fleet tankers	3	--	--
Transports	1	--	1
Miscellaneous	<u>12</u>	<u>6</u>	<u>--</u>
Total reported	31	9	12

- 3 -

Table II.

United States Naval Vessels Sunk and Damaged
 December 7, 1941 - September 5, 1942
 as reported in United States Naval Communiques.

	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>
Battleships	1	--	1
Aircraft carriers	1	--	1
Cruisers	1	--	2
Destroyers	10	1	6
Submarines	2	1	--
Tenders	--	1	1
Fleet tankers	3	--	--
Transports	1	--	1
Miscellaneous	<u>12</u>	<u>6</u>	<u>--</u>
Total reported	31	9	12

September 9, 1942
10:38 a.m.

Gen. George
Marshall:

Good morning, Mr. Secretary.

HMJr:

How are you, General?

M:

Fine, thank you.

HMJr:

General, I'll only take a minute of your time. I went to see the President today, and I said in view of the mix-up on our tax bill, and also that his message takes action from Banking and Currency, I'd feel happy if I'd stay here now.

M:

Yes.

HMJr:

And he agreed.

M:

Well, then you want me to cancel that reservation?

HMJr:

Yeah, and I was going to postpone it for a month.

M:

All right. Well, I

HMJr:

And may I just take a minute to say that - that all of your people have been most considerate. I've never seen such care and thought as they've put into this thing.

M:

Well, thank you for coming.

HMJr:

And - as I say, it was my own - members of my family they couldn't look after me or people around me here in the Treasury who usually look after me, they couldn't have been kinder.

M:

Well, thank you very much for telling me that. I - I'm

HMJr:

And - I mean, and so I'd like to postpone it for a month.

M:

All right.

HMJr:

Thank you.

September 9, 1942

The following cable will be sent to Ambassador
Winant today by the State Department:

"Party referred to in Mr. Welles' letter
is postponing his trip for a month."

September 9, 1942
11:21 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Cong. Willis
Robertson: Mr. Secretary.

HMJr: In person.

R: This is Willis Robertson.

HMJr: How are you?

R: Your letter to the Wayne Manufacturing Company
pleased them very much.

HMJr: Good.

R: I read it to the - the - they had about four
thousand present....

HMJr: Yeah.

R: and I read it, and then we had a radio
hook-up and everybody through the Valley heard
it.

HMJr: Wonderful.

R: And, my wife was at home and she heard the broadcast
and she said she thought that was the best part of
my speech. That I put more emphasis on that than
anything I had in it, and

HMJr: Well

R: it really pleased them.

HMJr: Well, if your wife said so, I believe you.

R: (Laughs) As a matter of fact, they have sub-
scribed twelve and a half per cent

HMJr: Yeah.

R: of the current payroll.

- 2 -

HMJr: Is that right?

R: Yes, sir.

HMJr: Well, Virginians have always been a - my second favorite state.

R: (Laughs) Well, I remember you came down to Lexington, you know

HMJr: Yeah.

R: in 1931, and then we met again when Governor Roosevelt spoke at the McIntyre Amphi - Open Theatre over there at Charlottesville, you know?

HMJr: Sho. We conservation commissioners have to stick together.

R: Absolutely.

HMJr: Is that right?

R: Yes, sir. Now, on this income tax, my personal preference - I don't think that five per cent's too heavy, but I'd rather it would be a part of the income tax, rather than what they call the - super five per cent gross income, and give some - I wouldn't give a nickel of that back.

HMJr: Well, that again is my second choice - is to have an income tax, but that isn't going to discourage people from spending.

R: No, no, I know we - we've got to reach everybody in this effort.

HMJr: Yeah, but you got - you got to make it an inducement to save and a penalty to spend.

R: Yeah.

HMJr: And just increasing the income tax isn't going to do it, in my humble opinion.

R: No, I don't think so either.

HMJr: See?

R: Now, we're putting the pressure on the bonds, and

- 3 -

HMJr: Yeah. Well, that all helps, and that's

R: I'm going to send you a copy of the Waynesboro paper that carried the Governor's address, and

HMJr: Good.

R: my remarks over there.

HMJr: But we've still got that twenty-billion dollar gap, you know, kinda rattling around in its bones.

R: I - I've - I've been saying that its thirty billion.

HMJr: Well, I

R: Roy Blough testified, I think, before the Senate Committee, I thought in one paper

HMJr: Yeah.

R: that by next spring

HMJr: Yeah.

R: it would be at the rate of thirty billion.

HMJr: Well, I'll split the difference with you.

R: (Laughs)

HMJr: But it's still there, it's got

R: No, I'm up against a little problem to meet my engagement to speak with Greer Garson in Winchester tonight.

HMJr: Yeah.

R: We've got this soldiers' vote business.

HMJr: Yeah.

R: I - I can't possibly hope to get away by one o'clock, that's when the bus is supposed to leave that will get me there in time.

HMJr: Well

R: The other bus doesn't get to Winchester until 7:35,

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and is frequently late.

HMJr:

Yeah.

R:

The dinner starts at 7:30, and they're going to have one or two five-minute speeches at the dinner. At 8:30 they expect to have fifteen hundred or two thousand people in the big auditorium of the Hanley school.

HMJr:

Yeah.

R:

I was wondering if you had somebody who could speak about five minutes at the dinner and take me to Winchester so that we both can get there on time, and then he could come back to Washington tonight - it's only seventy miles. I haven't got a car here. The only way I can get there, they said they - nobody there could come down for me and if my bus is late, I just couldn't make the appointment.

HMJr:

Well, now let me just - what is - what is your problem, Congressman?

R:

My problem is to get from here to Winchester in time for a 7:30 dinner with Greer Garson, and

HMJr:

Yeah. What time

R:

.... a five hundred thousand dollar bond program.

HMJr:

What time would you want - would you be ready to leave?

R:

I would be ready to leave at 4:30 or 5:00.

HMJr:

Yeah.

R:

In a private car we could leave at five o'clock and get there. See we wouldn't have to make any stops. I would prefer to leave at 4:30.

HMJr:

Yeah.

R:

And I'd like for whoever goes with me to personally represent you and say that he came from you

HMJr:

Yeah.

R:

.... to thank them for what they've already done and tell them that the most that they can do isn't

- 5 -

too much.

- HMJr: Well, now just - will you hold the wire one minute? (Talks aside)
- R: Yes, sir.
- HMJr: Well, Congressman, I'll look around and if there's anyway of our doing it, we'll call you back within the next half hour.
- R: All right, sir.
- HMJr: But, since all these regulations have gone in, we've never done anything like that. I'd love to do it for you, but I'll - I'll look around and see.
- R: Well, it - you see the - to - to keep within your regulations, I'd want the man to go - to go to make a speech for you....
- HMJr: I see.
- R: at the banquet.
- HMJr: I see.
- R: Now, they want me to speak at the banquet and speak again at the Rally.
- HMJr: Oh, yes.
- R: That's too much, and it would be more effective if they can have a message, and that gets in the paper too, don't you see?
- HMJr: I see.
- R: And, when you call me, I can catch the three o'clock edition of the Winchester paper and have this man's name in there - that you have taken notice of this meeting and are sending a speaker to this banquet.
- HMJr: I see. Well
- R: And incidentally, you get me there.
- HMJr: I - I If - if there's any way that we can

- 6 -

work it out, we'll let you know between now and twelve o'clock.

R: Thank you, very much, sir.

HMJr: I'll try my best.

R: All right, sir. Appreciate it. Good-bye.

September 9, 1942

Present: Mr. Bell
Mr. White

HM Jr: Sir Frederick Phillips called on me to talk about the currency which British and U.S. Armies are going to use. He wanted to know what kind we were going to use. I told him. Then he said, "I had a call from General Carter, and the question is coming up of what kind of an exchange rate there should be." So I told Sir Frederick quite frankly of our meeting here last Friday just for his guidance and cautioned him to keep it confidential. It told him that if the Army wanted me to do anything further about it they would have to ask me. So he said, "Well, supposing we go into France - what is the exchange rate going to be?" Then he went on to say, "The Free French may say we pay too much or we pay too little, and the whole question of post-war is involved in this." I told him, "Well, the Army is going to run this and you will have to ask them." I told him that I would appreciate his keeping me informed and he said he would. I asked him how it was going to be in England and he said, "Well, the Army doesn't want to run it there."

Bell: General Carter came to see me this afternoon on the same subject, and he said, first, they would have to have more than the \$20,000,000 in currency, and that General Eisenhower had telegraphed for \$12,000,000 more to be shipped at once for his use, and the British wanted a million of our currency. I asked him if the million was to be on Lend-Lease and he said, "No, it probably will be a credit."

Then he told me that he had the whole problem of occupation in his lap, and he wanted the Treasury's help on it. I told the General of the Secretary's conference last Friday which Under Secretary Patterson attended, and at which time the Secretary told Patterson that he would take no further initiative in this matter unless asked to do so by Patterson.

After some further discussion of the whole problem we agreed that General Carter should go back and talk to Patterson about the matter, and if he wanted the Treasury in on it that he should call the Secretary.

Carter said that the Board of Economic Warfare had been pushing this matter for the past few days, and he had scheduled a conference with them tomorrow. He said that he would advise me as to that conference and also on his talk with Patterson.

Carter also said that Phillips had called him and asked him to come to see him on this matter, and he said he had seen Phillips yesterday and discussed the matter. However, there apparently wasn't much discussion of the problem between him and Phillips except in a very general way.

HM Jr: He did see Phillips? Phillips let me understand that he hadn't seen Carter yet.

Bell: Yes, he saw him yesterday. He had already seen him when I talked to Carter today.

HM Jr: Did General Carter give Mr. Bell any idea as to what country they were going to use this currency in?

Bell: No, he said that this might be used in France and it might be used in places like Northern Africa. He did say that the problem was urgent and that the time limit, in his opinion, was less than two weeks. Carter told me that General Eisenhower has been pressing them for an answer. It's apparent that they're not together in the War Department.

White: They don't ever get together.

Bell: Carter didn't know about the conference which you (HM Jr) had here last Friday. He did know about the conference which was held in Hull's office. He said, "I am afraid that Patterson feels that this initial step of printing this currency solves the problem for the moment, but, in our opinion, it is just the beginning." He also knows about the school down

at Charlottesville, and he has talked to the officers in charge down there. He is quite satisfied that they are not in any way qualified to pass on the details of this whole problem. He says that it has to be worked out here in Washington amongst the departments concerned in broad general principles.

HM Jr: I really don't see where Milo Perkins has a thing to do with it.

White: I can tell you how they got into it. Somebody over there got the idea that it would be an excellent thing for the Board if they got in on this school and sent lecturers, etc., down there, and they also interpreted it as economic warfare. Somebody got busy and got in touch with the authorities there, and I think convinced them it would be excellent for the Board to collaborate with them and prepare papers, etc., on operations in the field of occupation, and since then they have been pretty close.

I think what Dan says seems to check a little more closely with the word I got from Bewley which I passed on to you. In this letter, Bewley said that the matter was urgent - I mean that the British thought the matter was urgent.

Bell: Carter thinks the British ought to be brought in on it pretty soon. I think what he would like is for the Treasury to take the initiative, and call a conference on it.

HM Jr: Did the girl give you Friday's meeting?

Bell: Yes, I read the minutes of that meeting on Friday.

HM Jr: Well, that didn't leave any doubts in your mind as to where I stood, did it?

Bell: No, and Carter agreed that he should go to see Patterson, and then if Patterson wants you to go ahead he will call you.

HM Jr: Well, let it go.

There are two things I don't understand. One is how Mr. Stimson can take off the whole month of September after

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having had two weeks off in August, and the other is how Eccles can be away for two months.

White: Also how Patterson thinks it isn't urgent and his own General Staff thinks it is.

HM Jr: Well, Patterson says that you can lock it up for a couple of months.

Bell: I think \$12,000,000 will be leaving the shores within 12 hours in planes.

White: There's another thing. We brought up at the meeting the question of coins. That is very important.

Bell: They raised that, too. We are providing some coins along with this shipment.

HM Jr: How much?

Bell: I don't know exactly - something like two or three million, but I would have to check that.

September 9, 1942

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Subject: Luncheon conference on the Tax Bill and compulsory savings, Wednesday, September 9, 1942.

Secretary Morgenthau held a luncheon conference Wednesday, September 9, from 1:00 to 2:20 p.m. Present, in addition to the Secretary, were Senators George, Barkley and Brown, Chairman Doughton, and Messrs. Gaston, Paul and Blough.

Senator Barkley arrived a little late and the previous discussion was summarized for him.

Secretary Morgenthau said that there were some things he wanted to talk over with them that he would not say to the full Committee. He said he could see his way clear to financing the war through 1942 but that he was worried about 1943. He said he had talked with the President this morning and had told the President that he thought his message to Congress was a good message and dealt with the problem of the increasing gap between consumer purchasing power and available goods, but that he had not dealt with the gap which would remain despite such action. He said he told the President that there was nothing in the message which helped the Treasury with the Tax Bill. He said the President had told him he was right, that he had not met the problem of the existing gap, and that he felt the Treasury's plan was too new and unknown to the people. The Secretary then explained how the proposed spending tax would operate, not only to withdraw purchasing power but to serve as an inducement to reduced spending.

The Secretary said that his decision to ask for a plan calling for the return of the tax after the war was made only after a very great deal of thought and consultation. He said he felt the voluntary plan was a

- 2 -

democratic way and that he had hoped that it would be sufficient, but that the revenue had not come in with sufficient rapidity to meet the growing needs.

The Secretary said that the Senate Finance Committee had turned down the Treasury's plan, that the Treasury had received no votes for its plan, and that accordingly he wanted to talk about what should be done next.

Senator George indicated that the fact that there had been no votes for the Treasury plan did not mean that none of the senators favored that plan. Only twelve senators voted for the motion to turn down the plan in principle. He said that he felt the plan needed very careful thought because it would largely destroy the luxury spending of people in the United States and that would have very serious repercussions on the economy. Secretary Morgenthau indicated that he understood that such would be the result but he thought that just as in England, so here, the people engaged in producing these luxuries should be in war work. Senator George agreed but said he thought it would be better for them to be taken for war work by the Government than to have their business destroyed through some over-all plan such as the Treasury had recommended.

As to the compulsory saving, Senator George indicated that he favored it and that he thought something might be put in this bill. He asked Chairman Doughton whether, if the Senate did put the plan in the bill, the House conferees would view it favorably.

Chairman Doughton, while indicating that the House conferees would of course view seriously anything sent over by the Senate Finance Committee and the Senate, expressed the view that on a matter of this importance the Ways and Means Committee would, following its usual practice, feel that public hearings should be held. Senator Barkley discussed the fact that the public had discussed before both the Ways and Means and the Senate Committees the problem of compulsory savings and indicated that perhaps the House would consider this sufficient hearing. Chairman Doughton made no commitment on this point but still seemed to retain the idea that a matter of this importance should be subject to public hearings.

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Chairman Doughton also indicated that he did not believe in levying taxes and then paying them back, that this increased the financing problem of the Treasury after the war. Senator George, Senator Barkley and Mr. Gaston, and also to a lesser extent, Senator Brown and Mr. Paul, indicated that the compulsory saving would be in lieu of other loans. The Secretary indicated that he felt that there would have to be compulsory saving, that voluntary lending would not be sufficient. Senator Barkley indicated that much of the borrowing of the Treasury would probably have to be of a semi-forced character in the case of banks and other financial institutions and that the compulsory savings for individuals would, in his opinion, be no more forced and no more undesirable than such borrowing from banks and financial institutions.

Chairman Doughton said that he did not understand about the inflationary gap and its effect on prices since the price control law was supposed to take care of the price problem. Mr. Paul, Mr. Gaston and others explained how the pressure of purchasing power threatened to blow up the price ceilings if it were not reduced by some method of preventing people from spending their money.

The Secretary asked whether it would not be possible to have a small joint Committee set up to consider the inflationary gap problem along with compulsory savings. Senator George stated that the Senate Finance Committee had this morning passed a motion calling for the setting up of a joint Senate and House Committee, with the Secretary of the Treasury as a member. This Committee would have the responsibility of studying compulsory savings plans and reporting January 11, 1943. Secretary Morgenthau expressed his pleasure that such a Committee was in prospect but indicated that he would like to have it report by December 1, 1942. Senator George indicated that however late the tax bill might be passed, he thought the Committee would have time to study the matter and report by December 1. Chairman Doughton indicated his approval of the Committee. In response to a question of the Secretary, Senator George and Mr. Paul indicated that in their opinion the wording of the motion passed by the Senate would be broad enough to cover other aspects of the inflationary gap problem in addition to compulsory savings. Senator George indicated that the motion could be changed if the Treasury desired revision and the Secretary asked to see a copy of the motion.

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Senator Barkley indicated that in his opinion the tax bill should not be delayed until after election, that this would be interpreted by commentators and others as a sign of weakness on the part of Congress. Senator George said he did not mean to indicate that the bill would be delayed until after election but that he felt that if the Senate desired to put a compulsory saving provision in the bill to take to conference, there would be considerable time to study the matter before the conferees finished their work.

Mr. Doughton indicated some irritation, although he did not frame it as a criticism, that the Treasury had not dealt with Mr. Stam in working out its spendings tax proposal. Mr. Paul indicated that as soon as copies of the preliminary plan were ready, they had been submitted to Mr. Stam with the approval of Senator George.

Chairman Doughton made a closing statement in which he took a somewhat more conciliatory attitude but did not indicate any basic change in his views on the subject.

RB

September 9, 1942

Shown to President this a.m. and report is in the
President's folder.

September 9, 1942

MEMORANDUM FOR THE SECRETARY

From: Mr. Paul

Subject: Action of the Senate Finance Committee on Tuesday, September 8, 1942.

1. **Spending tax:** Senator Byrd's motion to reject the entire Treasury proposal for a spending tax was adopted by a vote of 12 - 0. A few of the senators present refrained from voting. Senator La Follette's motion to adopt the Treasury spending tax without lowering exemptions below the Senate Committee levels of \$500, \$1,200, and \$300, was rejected.

2. **Sales tax:** Senator Donahoe's motion for a 10 percent retail sales tax to be used for the purchase of non-negotiable war bonds was rejected. Senator Cuffey's motion to adopt a retail sales tax at a 5 percent rate without exemptions for food was rejected by a vote of 13 - 6. An amendment by Senator Taft that food be exempt from the sales tax had been previously rejected by a tie vote of 9 - 9.

3. **"Victory" gross income tax:** On motion of Senator George, the Committee adopted, 13 - 6, a "victory" tax of 5 percent on all gross incomes in excess of \$200 (without any deductions ordinarily allowed under the income tax). The tax is to be collected at source. A post-war credit of part of the tax would be provided, against which a tax credit would be allowed currently for payments of life insurance, debts, and purchase of war bonds within limits. This would have the effect of reducing the 5 percent tax to a net of 2-1/2 to 3-3/4 percent. Mr. Starn estimated that the tax would produce \$3.6 billion gross and \$2.5 billion net after allowing for the refundable post-war credit.

At the beginning of the afternoon session the Treasury, at the request of the Chairman, commented briefly on the victory tax to the effect that (1) the exemptions were below the minimum subsistence level for families, (2) it would be preferable to integrate the proposed victory tax on a net basis with the income tax instead of adding a new gross income tax, and (3) that the post-war credit was defective and would result in at least ten million refunds each year.

Before adjournment the Treasury was instructed to bring in on Wednesday morning various alternative methods of integrating the "victory" tax on a net basis with the regular income tax. The sales tax seems to have been finally rejected and the question today will be whether to increase rates upon net income on a low exemption basis or go over to Senator George's gross income tax.

RB:dad
9/9/42

September 9, 1942
3:48 p.m.

Operator: Congressman Robertson.

HMJr: Hello. Hello.

Cong. Willis
Robertson: Yes, Mr. Secretary.

HMJr: I understand that there is a misunderstanding about your request to me about sending you down there. I - I thought that I'd said that if you didn't hear from me in a half hour, it would mean I couldn't do it.

R: Well, I didn't understand it. I thought - I thought that you said, "You'll hear from me in a half an hour

HMJr: Well

R: if I can't do it".

HMJr: I - I checked - well, it's very possible that I was wrong and possibly you could misunderstand me. In any case, I wanted to offer you my apology.

R: Well, that was all right, sir.

HMJr: But I looked around, and - and we couldn't find anybody to speak at this short notice. It's for today, isn't it?

R: For today, yes.

HMJr: Yeah. And we - I just had nobody I could send down.

R: Yes.

HMJr: And I wanted to let you know how sorry I was.

R: Well, I appreciate your calling me, because

HMJr: Because, it's - it's

R:I just called you on an off chance. I knew that there would be - and they can't prepare speeches in two or three minutes.

- 2 -

HMJr: No. Well, there was nobody that I could send. We don't have a speakers' bureau here

R: Yeah.

HMJr: and we - we rely on each State Administrator to take care of those matters.

R: Yes.

HMJr: And if there's anybody - I - he could have had my own car, if that had helped any.

R: Well, I wouldn't want that.

HMJr: But, as - we just didn't have the - anything, and I wanted you to know, because after all, we've been friends for years, and you'd be the last person I'd want to slight.

R: Well, I appreciate that. Well, we'll try to sell the bonds for you.

HMJr: Well, I - I hope you understand.

R: Oh, yes, and I'll get there. I'll be a little late. I can get this five o'clock bus. I'll be - I'll be about a half an hour late, but I can get there before the dinner's over, and time enough for the big Rally that starts at 8:30.

HMJr: Well, I - you - you're a good sport, and I appreciate it.

R: (Laughs) Well, thank you, sir.

HMJr: All right. Good-bye.

R: Thank you.

September 9, 1942
4:00 p.m.

HMJr: Hello.

Norman
Thompson: Yes, sir.

HMJr: Norman, will you get in touch with the Cadillac
Company

T: Yes, sir.

HMJr: and tell them that we appreciate very wery
much their having rented this car to us

T: Yes, sir.

HMJr: but on account of trying to save gas and
tires, we now would like to return it to them.

T: All right, I'll do that. I was sorry that
there's no legal way to work that.

HMJr: That's all right. You return it and then the -
the license plate on that could be put on the
Buick.

T: I see.

HMJr: See?

T: I'll do that, yes sir.

HMJr: Right.

T: All right, sir.

HMJr: Thank you.

September 9, 1942
4:17 p.m.

HMJr: Harold.

Harold Graves: Yes, sir.

HMJr: I wonder if you've got a fellow with a little extra pep and energy who could take this poster "Let's All Fight"

G: Yes.

HMJr: and I'd like to put it up over the door of the executive office to the White House to begin with, see?

G: Yes.

HMJr: Just the way it is over mine, and you'd have to get Forster's permission.

G: Yeah.

HMJr: And then put it over all the doors and all - over - in the entrances to all the buildings here in Washington.

G: You mean all the public buildings.

HMJr: All the public buildings.

G: Well, we can at least try.

HMJr: Try it. Starting with Forster. Tell him we'd like it to set an example. If we can do it over his, we can do it over anyone's.

G: We'll try it. I suspect

HMJr: Hello.

G: Hello.

HMJr: And then I'd like to have it - we've had this "bomber" one on the mail trucks now for about a month.

G: Yes.

HMJr: I'd like this one to go on the mail trucks.

G: I'm not sure where we are with respect to size on this

HMJr: It looks like the right size to me.

G: Well, I'll - I'll certainly look into that.

HMJr: Would you and give me a little written report?

G: Yes, I will. Yes, sir.

HMJr: How are you coming on the other proposal?

G: Well, we have sent out - we are sending out wires to all of our issuing agents today and to all the Fed's, and I have spent a good deal of time looking into the War Department and Navy Department situation, and also the Treasury.

HMJr: Yeah.

G: I checked with Mrs. Forbush as you suggested about complaints, and you'd be surprised at the very small number of complaints that have actually come in here about this matter. It's not

HMJr: Couldn't she dig up a hundred?

G: No - no. She couldn't dig up twenty.

HMJr: (Laughs)

G: And

HMJr: Well, anyway, I'll - I'll write you eighty.

G: (Laughs) Yeah. All right. Well, we're working on that, and we'll

HMJr: Okay. I'm - I'm just as serious as I was this morning.

G: Yes. Well, I know, and we'll be ready to talk to you Friday about it.

HMJr: Okay.

G: Yes, sir.

HMJr: Good-bye.

September 9, 1942
4:30 p.m.

HMJr: Hello.

Operator; Mr. Mack.

HMJr: Hello.

Clifton
Mack: Hello.

HMJr: Cliff.

M: Yes, sir.

HMJr: In your letter to me on those hundred trucks
that you wanted seized and were scheduled
originally for Manila

M: Yes, sir.

HMJr: You failed to say for whom they are.

M: They are for the British Purchasing Commission -
New Zealand.

HMJr: New Zealand. That's all I wanted to know.

M: Yes, sir.

HMJr: Okay.

M: Yes, sir.

September 9, 1942
4:56 p.m.

HMJr: Hello.

Operator: All right?

HMJr: Go ahead.

Operator: Go ahead.

HMJr: Hello.

Ronald Ransom: Henry, Ronald Ransom.

HMJr: How are you?

R: Fine. How are you?

HMJr: Alive - kicking.

R: That's good.

HMJr: Yeah.

R: We are discussing this afternoon the general idea of the further reduction of two per cent in the central reserve - city reserve requirements.

HMJr: Yeah.

R: The question of "timing"

HMJr: Yeah.

R: I can put you on the loud-speaker if you don't object. The Board members are here in the Conference Room.

HMJr: Anybody besides the Board members?

R: Nobody except our economists, Mr. Goldenweiser and Mr. Thomas, and Mr. Smeed, who handles the bank examinations. Is that satisfactory?

HMJr: Yeah. What's the janitor doing?

R: The janitor's off on a vacation. It's his annual-leave period.

HMJr: (Laughs) I see.

- 2 -

- R: It takes us almost as many people for us to reach a decision as it does for you.
- HMJr: I see.
- R: Can I put you on ?
- HMJr: That's known as "touché".
- R: That's touché. All right.
- HMJr: All right.
- R: Just one second.
- HMJr: All right.
- R: The question is one of timing as to whether it should be done effective or not tomorrow morning which is the time your own financing is to be announced, or whether it should be deferred until - oh say - ten days or so later, or effective perhaps on the 14th which would hit your - your bill announcement, you see. Now apparently the reserve position in New York would indicate that we would have to do a considerable amount in the open market between now and the 21st, and perhaps let you sell us some special certificates also in the meantime, or do something on this reserve situation. In other words, we do one or the other the first part of the month and perhaps we do the other the latter part of the month, so that it gets around to a question of your own feeling.
- HMJr: What would you do if you didn't do it tomorrow?
- R: Well, if we didn't do it tomorrow, that is announce it tomorrow, we could announce it on the 14th, effective, say - on some later date next week - 17th or 18th - that is only a suggestion.
- HMJr: Well, Bell is sitting here, and he liked what you say
- R: Yeah.
- HMJr: and I'm supposed - I don't, and I tell you why.
- R: All right.

- 3 -

HMJr: I think it's a sign of weakness to announce it on the day of the financing.

R: Yeah.

HMJr: I mean it looks as though we were kind of scared.

R: Yeah. That's a possibility. We'd be - discuss that too, as a real - a real possibility.

HMJr: Well, my curb-stone opinion, Ronald is - I'd rather see you do it on the 14th.

R: That is announce it on the 14th, effective later that week.

HMJr: Yeah, that's all right. Just I - I wouldn't want to see it announced tomorrow. I think it's too close. It's during the financing, and it looks as though we were worried.

R: Yean, and there's one other thing to be considered if we were worried as a result of the financing which we don't anticipate we will be, if we then announce it on the 14th, it would be admitting a failure, so in the meantime, we - we'll have to do whatever's necessary to keep the Thursday-Friday period, and Saturday period, from giving anybody any trouble.

HMJr: Well, don't - I don't mean to be rude, but with all respects aboard, I think you kind of should have thought of that a little earlier.

R: Well, we have thought of it anyhow.

HMJr: Yeah.

R: We didn't just

HMJr: I mean, it's a little bit late. It's five o'clock at night, and to think about the job that I would expect you people to do Thursday and Friday, if necessary.

R: Yes. Well, we will.

HMJr: I mean - I - I - I'm not - I'm just - I'm being very frank, as usual, but my own - my own hunch is - I - I wouldn't - just hold the wire one second, will you? Would you mind holding the wire one minute?

- 4 -

R: Okay.

HMJr: (Talks aside)
Helle.

R: Yes.

HMJr: I - I - my own hunch is, and I've got to go on that, my instinct tells me that I - I think it would be a mistake to announce it tomorrow morning.

R: Yes. You'd

HMJr: I

R: you'd prefer it definitely the 14th?

HMJr: Yes, sir.

R: Okay.

HMJr: And - I'm looking to you to do the good job that you always do.

R: Thanks. Okay.

HMJr: Thank you.

September 9, 1942
5:05 p.m.

Allan Sproul: Hello. Sproul.

HMJr: Hello.

S: What did you say?

HMJr: How are you?

S: All right.

HMJr: I've just done something that if you think I've made a mistake, I can still turn a somersault

S: (Laughs)

HMJr: but - the Federal Reserve Board, through Ronald Ransom, just called me up, and they're all in session, and they wanted to know if I thought it would be all right to announce tomorrow morning that they were going to reduce reserve requirements by two per cent

S: Yeah.

HMJr: and I told them I thought it was a great mistake on the morning of the financing.

S: Yeah.

HMJr: And that it was a sign of weakness.

S: I wouldn't turn a somersault on that.

HMJr: You wouldn't?

S: No, I think they ought to announce it the 14th, after this financing is out of the way, but before the payment date.

HMJr: That's what I told them - the 14th.

S: I think that's when they ought to do it.

HMJr: I told them the 14th.

S: Well, I think that you should stay right where you are then.

HMJr: Well, I felt kind of annoyed, in a mild way, that

- 2 -

at five o'clock at night on the eve of financing, they're getting cold feet that they may have to do a job tomorrow.

S: Well, I don't think that that's necessary to insure the success of this financing, and so I think that they'd better announce it after the financing, but before the payment date.

HMJr: Have you any - have you - how are - what's the temperature of your feet?

S: My feet are warm.

HMJr: Good. How's your heart?

S: My heart is steady and strong.

HMJr: Good. Now I'm going to give you some news that you're going to like, and I haven't told this yet to the Board, because when I talked to them, they had everybody but the janitor in there.

S: (Laughs)

HMJr: But this is for you only, and I'd - I'd like you to keep it a secret until Saturday.

S: All right. It's - that's done.

HMJr: And I'll tell Ransom tomorrow.

S: Yeah.

HMJr: This is what the bills are going - this new tax bill is going to be. You got a pencil?

S: Yeah.

HMJr: Five - eight - nine - ten - eleven - eleven.

S: What does that

HMJr: 108.

S: That sounds good to me.

HMJr: You like that?

S: Yes, I do.

- 3 -

HMJr: Good.

S: I think that's fine.

HMJr: Well, I just - it - that's between what Szymczak wanted and the original request from the Board.

S: I think that's fine.

HMJr: Well, I thought if we were going to do it, it might as well make it taste good.

S: That's the way I look at it. So long as you can do it without dynamiting your other market, and I think that we can take care of that.

HMJr: Well, it's five - eight - nine - ten - eleven - eleven.

S: That sounds fine to me. I'll - I'll sleep better tonight.

HMJr: Well, I - I want you to sleep better, and especially in view of the fact that the Federal Reserve Board seems to have cold feet.

S: Well, I -

HMJr: If there wasn't a shortage of rubber, I'd send them over a hot water bag.

S: (Laughs) Well, send them a hot brick.

HMJr: Well, it might - it might burn them - they might burn themselves.

S: (Laughs)

HMJr: All right.

S: Thank you.

HMJr: Good-bye.

S: 'Bye.

September 9, 1942
5:08 p.m.

Ronald
Ransom: Hello.

HMJr: Yeah.

Operator: Go ahead.

R: Hello.

HMJr: Hello, Ronald.

R: I just want to - nobody's on the line - I'm in my own office, just you and me, and I just want to thank you for saving my life, which you did. I'm just exactly one hundred per cent in agreement with you.

HMJr: Wonderful.

R: It took exactly what you said to get the result I wanted, so I would be very remiss if I didn't express appreciation.

HMJr: Well, now - well, that's very nice of you. I was - I was going to say, "I'd be damned", but I didn't. But

R: No, this mechanism of government is hard to operate as you well know, and it

HMJr: You seem to be having troubles over there.

R: Oh, God! My

HMJr: What?

R: This is always a bad month for me, but this particular matter I - we will now approach upon a different, and I think much saner angle. And unquestionably, your - I had already said exactly what you said, so we were just exactly one hundred per cent in accord.

HMJr: Well, I'm glad. I called up Sproul, and I said if I'm wrong, I can still turn a somersault

R: Yeah.

HMJr: and he said, "Don't you turn any somersaults".

- 2 -

- R: Yeah. We - we had - I had talked to Sproul at length, and Sproul and you and I had said the same thing exactly, but
- HMJr: Well, who over there needs a hot water bottle? I'd like to send them one - to warm up his feet.
- R: (Laughs) Well, the trouble with it is that you can't tell whether they need a hot water bottle or an ice pack.
- HMJr: I see.
- R: Yeah. That's the real difficulty, but nevertheless, the mechanism front moves along, I think that's all right, and we will - I - I think the 14th is - I want to talk to Allan again at length before the final decision on that is reached, but that looks all right.
- HMJr: Well, that's what he wanted - was the 14th.
- R: Yes, and in the meantime, why whatever's necessary will have to be done.
- HMJr: Yes.
- R: All right, next
- HMJr: Now wait a minute - wait a minute. This is for you and the Board members only - in secrecy until Saturday.
- R: Yes.
- HMJr: This is what we are going to do on these tax notes.
- R: Yes.
- HMJr: Got a pencil?
- R: Yeah.
- HMJr: But for you and the Board members only.
- R: Yes.
- HMJr: Five - eight - nine - ten - eleven - eleven.

- 3 -

R: That looks pretty good.
HMJr: 108.
R: Five - eight - nine - ten - eleven - eleven.
HMJr: Yeah.
R: 108.
HMJr: Yeah.
R: Thanks.
HMJr: Thank you.
R: Okay.

September 9, 1942
5:11 p.m.

HMJr: Hello. Yeah. Go on.

Operator: Go ahead.

Cong.
Cooper: Hello.

HMJr: Jerry.

C: Oh, Henry, how are you?

HMJr: Where were you, we had...

C: Well, I just want to tell you how much I appreciate your invitation, and I was just so sorry I couldn't get down there, but I got tied up on this Bill up here. We had three roll calls.

HMJr: Well, we had mint juleps and everything.

C: Oh my, I knew you'd do it up right...

HMJr: Yeah.

C: ...and I'm just sorry as I could be, Henry, but I just couldn't help it. There were three roll calls, and I just felt like I had to be here to vote on that.

HMJr: Well now, if you...

C: I asked Bob to tell you about it...

HMJr: He did.

C: ...and I was just so sorry.

HMJr: I'd like to take a minute and a half and tell you what I had on my mind.

C: All right. I'll be delighted, or come by to see you, anyway you want at any time.

HMJr: Well, you get up a little late in the morning, don't you?

C: Oh well, I usually get up about seven o'clock.

- 2 -

HMJr: The hell you do. Don't you kid me, Mister.

C: Yeah, seven, sometimes

HMJr: Yeah, I once called you at eight, and you - well, anyway.

C: Oh, yes, well

HMJr: You tell your constituency that.

C: Well, all right.

HMJr: Uh - is ten o'clock too late for you in the morning?

C: No. That would be fine.

HMJr: What?

C: That'll be fine.

HMJr: Do you want to drop by tomorrow morning?

C: Ten o'clock?

HMJr: Yeah.

C: Yeah, I'll be glad to, Henry.

HMJr: Okay.

C: All right.

HMJr: And I'll always tell your constituency that you get up at 6:30.

C: Oh, I know you'll clarify me.

HMJr: Okay.

C: All right. (Laughs) Thank you. I'll be over at ten in the morning.

HMJr: Thank you.

C: Thank you. Good-bye.

September 9, 1942
5:29 p. m.

HMJr: ...that we're going to be out of nickels inside of a week.

Ferdinand
Kuhn: Yeah.

HMJr: No pennies. I wish you'd be thinking of it and give me a little memo, something to - a little radio campaign that we could hook on to the War Bonds stuff.

K: Well, we've got the stuff all written, but it was turned down.

HMJr: Well, this is just for nickels and pennies.

K: Well, you remember this was a campaign to get the nickels and pennies out of the jars...

HMJr: Yeah.

K: ...out of the big kitty banks, and so on

HMJr: You got it?

K: Yeah.

HMJr: Well dust it off, and show it to me tomorrow.

K: You bet. All right, I'll do that.

HMJr: All right.

K: I'm sorry I can't come tonight.

HMJr: Well, we'll have you some other time.

K: I appreciate the invitation.

HMJr: O. K.

K: O. K.

September 9, 1942

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Mrs. Klotz phoned Miss Thompson today and told her that there was nothing the secretary could do about this. The clipping book was returned to Miss Thompson by a Secret Service Agent today.

THE WHITE HOUSE
WASHINGTON

September 8, 1942

Dear Henry:

Captain James Gorman and two members of the show came to see me about this show. They tell me that the Army Artillery Chief is willing to let them accept offers for production in different places, but the Major General who might soon be on the march, is opposed.

They now have an offer for Broadway. They have sold a great many bonds through the show thus far, and feel they are good enough to sell many more. They have worked hard and if they could get a request from you, if you think they are worth while, that they be allowed to accept the offer for Broadway, as well as in other places, they think they can turn in a good many bond sales.

I am only sending this over to you because they asked me to do so. This is their only scrap book, and I have promised to return it to them by registered mail.

Affectionately,

Walter Rosen

THE WHITE HOUSE
WASHINGTON

September 8, 1942

Dear Henry:

Captain James Gorman and two members of the show came to see me about this show. They tell me that the Army Artillery Chief is willing to let them accept offers for production in different places, but the Major General who might soon be on the march, is opposed.

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I am only sending this over to you because they asked me to do so. This is their only scrap book, and I have promised to return it to them by registered mail.

Affectionately,

Walter Rosenbach

270-A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 9, 1942

TO THE SECRETARY
FROM TED R. GAMELE

Re: MOTION PICTURE INDUSTRY SEPTEMBER DRIVE

War Activities Committee reports sales for the first few days of \$51,393,250. A substantial part of this figure represents the industry's purchase of F and G Securities. For example, Paramount Pictures, Inc., partner associates, and their subsidiaries, report purchase of \$26,014,838 included in the above figure.

In addition, you have received telegrams from 1500 individual theatres reporting sales totalling \$11,011,353. This latter figure is not included in the \$51,393,250.

There is no question but what this drive has been effectively extended down to every community in America, and I am convinced personally that the sales of yesterday and today directly reflect the efforts put forth by all branches of the industry.

UNITED STATES SAVINGS BONDS - SERIES B

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

(At issue price in thousands of dollars)

Date	September : daily : sales	Cumulative sales by business days			September as : percent of August
		September	August	July	
September 1942					
1	\$ 11,634	\$ 11,634	\$ 14,044	\$ 15,821	82.8%
2	14,748	26,381	36,222	30,701	72.8
3	18,305	44,687	50,797	47,523	88.0
4	17,804	62,491	63,785	77,320	98.0
5	19,166	81,657	86,789	95,044	94.1
8	49,400	131,057	111,748	116,643	117.3

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

September 9, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	September daily sales	Cumulative sales by business days				September as percent of August
		September	August	July	September as percent of August	
September 1942						
1	\$ 7,528	\$ 7,528	\$ 12,222	\$ 12,597		61.6%
2	9,811	17,339	28,810	21,986		60.2
3	9,397	26,735	41,258	32,441		64.8
4	10,678	37,414	54,105	49,175		69.2
5	10,713	48,127	71,552	62,561		67.3
8	18,550	66,678	84,777	84,413		78.7

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

September 9, 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 September sales to date with sales during the same number of business days in August and July 1942

(At issue price in thousands of dollars)

Date	September daily sales	Cumulative sales by business days				September as percent of August
		September	August	July	September as percent of August	
September 1942						
1	\$ 19,162	\$ 19,162	\$ 26,267	\$ 28,418		73.0%
2	24,558	43,720	65,032	52,687		67.2
3	27,702	71,422	92,055	79,964		77.6
4	28,482	99,904	117,890	126,495		84.7
5	29,880	129,784	158,341	157,605		82.0
8	67,950	197,734	196,524	201,056		100.6

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

September 9, 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 270-E
 September 1 through September 8, 1942
 Compared with sales quota for same period
 (At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual sales		Quota	Sales	Actual sales		Quota	Sales	Actual sales		Quota	Sales
	Daily	to Sept. 1 to date	Sept. 1 to date	to date as % of quota	Daily	to Sept. 1 to date	Sept. 1 to date	to date as % of quota	Daily	to Sept. 1 to date	Sept. 1 to date	to date as % of quota
1	\$ 11.6	\$ 11.6	\$ 14.9	77.9%	\$ 7.5	\$ 7.5	\$ 6.9	108.7%	\$ 19.2	\$ 19.2	\$ 21.8	88.1%
2	14.7	26.4	34.5	76.5	9.8	17.3	16.6	104.2	24.6	43.7	51.1	85.5
3	18.3	44.7	55.5	80.5	9.4	26.7	26.4	101.1	27.7	71.4	81.9	87.2
4	17.8	62.5	81.0	77.2	10.7	37.4	35.6	105.1	28.5	99.9	116.6	85.7
5	19.2	81.7	98.3	83.1	10.7	48.1	42.2	114.0	29.9	129.8	140.5	92.4
8	49.4	131.1	143.3	91.5	18.6	66.7	58.1	114.8	67.9	197.7	201.4	98.2
9			168.8				67.8				236.6	
10			193.4				76.7				270.1	
11			220.6				84.4				305.0	
12			239.2				90.1				329.3	
14			272.7				99.7				372.4	
15			288.2				105.0				393.2	
16			307.6				112.1				419.7	
17			327.2				119.2				446.4	
18			350.1				125.7				475.8	
19			365.4				130.5				495.9	
21			399.6				141.0				540.6	
22			415.7				147.0				562.7	
23			436.2				155.2				591.4	
24			457.1				163.4				620.5	
25			481.4				171.0				652.4	
26			497.4				176.6				674.0	
28			532.7				188.7				721.4	
29			549.2				195.5				744.7	
30			570.0				205.0				775.0	

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

September 9, 1942.

Source: Actual sales figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. Figures have been rounded and will not necessarily add to totals.

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

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 9, 1942

TO Mr. Thompson
FROM Mr. Haas

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of April 1942.

RECEIVED
DIVISION OF RESEARCH AND STATISTICS
SEP 10 1942
U.S. DEPARTMENT OF THE TREASURY
OFFICE

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under
Way, and the Names of Persons Working on Each,
for the month of April 1942

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. Two reviews of current developments in the high-grade securities markets were prepared, and memoranda were transmitted to the Secretary on April 2 and 17. Copies were given to Under Secretary Bell. - Mr. Haas, Mr. Murphy, Mr. Foy, Mr. Robbins, Mr. Rosen, Mrs. Miller, Miss Parker

The reviews contained, in addition to analysis of the current situation, the following special studies:

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 - (b) Comparison of yields of high-grade bonds during World Wars I and II. (April 2). - Miss Parker
 - (c) Carrying values of United States Government bonds held by banks. (April 17). - Mr. Robbins
 - (d) Corporate and municipal bond flotations. (April 17). - Mrs. Miller
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 3. Weekly memoranda were prepared commenting on changes in the yields of Treasury bonds and notes since March 19. Two memoranda, each with a table and chart, were prepared,

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under
Way, and the Names of Persons Working on Each,
for the month of April 1942

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

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and were transmitted to the Secretary on April 16 and 24. - Mr. Haas, Mr. Murphy, Mr. Brown, Mr. Sandelin, Mr. Conrad, Mr. Kroll

4. A maturity calendar was prepared as of April 1, for each issue of direct and guaranteed bonds and notes of the United States. - Miss Lagos
5. Yields on public marketable securities issued by the United States Government and by Federal agencies were computed daily on the basis of over-the-counter closing quotations. A daily table and a weekly table with comparative data for earlier periods were prepared summarizing this information. A chart for each issue was kept up to date showing daily price and yield figures together with comparative monthly data since 1935, since the date of issue, or since the date first traded. In addition, yields were computed daily on five high-grade corporate securities, three municipal securities, and two British Government issues. - Mr. Moody, Miss McCoy, Mr. Kroll
6. In response to the request by the Secretary on January 21, 1941, that measures be taken to obtain information to assist in carrying through the defense financing program, arrangements were made to obtain the necessary detailed statistics on the holdings of each issue of the public debt and of guaranteed securities by the various classes of holders. - Mr. Haas, Mr. Tickton, Mrs. Barnes, Mr. D. J. Leahy, Mr. Robbins, Miss Westerman, Mrs. Cambron, Mrs. Merkin, Miss Wood
 - (a) Supervision was given in the preparation by the Statistical Unit of the Division of Loans and Currency of 100 tables, showing the information as of March 31, received from 7,000 banks and insurance companies. The tables were completed on April 30, and were transmitted according to instruction by the Secretary.
 - (b) Tabulations were prepared, and were transmitted on April 9, to the Federal Reserve Banks of New York and Philadelphia, showing holdings of each issue of Government security in their respective districts, as of February 28.

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- (c) A tabulation was prepared, and was transmitted on April 9, to the Board of Governors of the Federal Reserve System showing, by classes of banks and by issues, the amount of Government securities owned on February 28, by the banks covered in the survey.
 - (d) A summary was prepared on April 6 of the data as of February 28, consisting of brief explanatory text and six tables for publication in the Bulletin of the Treasury Department for April.
 - (e) A memorandum and tables were prepared, and were completed on April 3, comparing subscriptions to the 2½ percent Treasury bonds of 1952-55, with subscriptions to several earlier issues; and comparing allotments to the 2½ percent Treasury bonds of 1952-55, with their ownership on February 28.
 - (f) A memorandum and tables were prepared, and were completed on April 9, comparing book and par values of United States Government obligations held by member banks of the Federal Reserve System as of December 31, 1941.
 - (g) Monthly tables and charts were prepared, and were completed on April 10, showing as of February 28, changes since June 30, 1941, in holdings of Government securities for the major classes of investors by type of security.
 - (h) An analysis was prepared on April 23, showing the absorption of the public marketable debt in March.
 - (i) A memorandum is being prepared, showing the coverage of various classes of investors in Government securities included in the survey.
 - (j) New letters were sent out to the banks and insurance companies on April 28, requesting comparable data as of April 30.
7. At the request of the Secretary on May 12, 1941, arrangements were made to prepare current statistical reports on the sales of United States savings bonds, series E, F, and G, and Postal savings stamps, on the basis of reports by the Treasurer of the United States, the Federal Reserve Banks, and the Post Office

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Department. The reports prepared during April were transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Tickton, Mr. Brown, Mr. D. J. Leahy, Mr. Kroll, Mrs. Grossman, Miss Schmidt, Miss Wood

- (a) Daily tables were prepared, showing the dollar volume, of savings bonds sold in April, by series, with cumulative totals.
- (b) Daily tables were prepared, containing a comparative statement of sales of bonds, by series, in February, March, and April, with cumulative totals. The dollar volume was shown, with the absolute and percentage changes in the two latest months from the respective preceding months.
- (c) A table was prepared on April 1, showing sales of savings bonds, by series, in dollar volume, in each month from May 1941 through March.
- (d) Supervision was given in the preparation by the Statistical Unit of the Division of Loans and Currency of monthly tables, completed on April 30, showing sales of savings bonds, series E, for the month of March, in dollar volume, by Federal Reserve districts, States, cities, and counties, classified by sales agent and denomination.
- (e) A table was prepared on April 6, showing sales of savings bonds, series E, in dollar volume, by States, from May 1941 through February.
- (f) Supervision was given the Statistical Unit of the Division of Loans and Currency in the preparation of a table completed on April 7, showing per capita sales of savings bonds, series E, from May 1941 through February, by States.
- (g) A table was prepared on April 9, showing sales of savings bonds, series E, by States, as a percentage of total sales in the eight-month period, May through December, and in January and February, as a percentage of total sales in the eight-month period.

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- (h) Supervision was given the Statistical Unit of the Division of Loans and Currency in the preparation of a table completed on April 18, showing total sales in dollar volume of savings stamps, by States, from May 1941 through March.
- (i) A table was prepared on April 20, showing estimated total value of savings stamps, and the number of units sold, by denomination, in each month from May 1941 through March.
8. In further response to the request of Mr. Graves on February 10, for the tabulation of pledges for the purchase of savings bonds, series E, and savings stamps, in Oregon, supervision is being given in the tabulation by the Statistical Unit of the Division of Loans and Currency now in progress. - Mr. Reagh, Mr. Kroll
9. In further response to the request of the Secretary on December 28, a table was prepared on April 2, showing daily changes in stock of series E savings bonds on hand with weekly tables appended, showing number of pieces of series E savings bonds sold by weeks through April 1. The table was transmitted to the Secretary. Copies were given to Under Secretary Bell, Mr. Graves, and Mr. Broughton. The table was discontinued thereafter by instruction of the Secretary. - Mr. Tickton, Mr. Kelenson
10. In further response to the request of the Secretary on December 31, weekly memoranda and tables were prepared from data wired by the Federal Reserve Banks, showing the number of agents qualified to issue series E, savings bonds, by type of agent and Federal Reserve district, for April 4, 11, 18, and 25, and for earlier comparative dates. The reports were prepared, and were transmitted to the Secretary on April 8, 16, 22, and 28, respectively. Copies were given to Under Secretary Bell and Mr. Graves. - Mr. Tickton, Mr. Kelenson
11. At the request of Mr. Graves on April 1, quotas were worked out for each county in the country separately for savings bonds, series E, and combined for series F and G. The tabulations of these quotas were mailed by the War Savings Staff to State Administrators on April 15 for their information and comment. On April 20 and 21, tabulations again were made, showing county quotas for May 1942 of all series combined, with a total for the country. Quotas for June are now being prepared. - Mr. Reagh, Mr. Brown, Mr. Kroll, Mrs. Grossman

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12. In response to the request of the Secretary on December 15, arrangements have been made to obtain monthly reports from corporations on the progress of the payroll savings plan for savings bonds, series E. The information received is edited and prepared as a basis for the analyses listed below. - Mr. Haas, Mr. Tickton, Mr. Keats, Mr. Kelenson, Miss Westerman
- (a) Supervision was given the Statistical Unit of the Division of Loans and Currency in preparing the basic information for March 31, received in April from approximately 22,000 corporations. - Mr. Tickton, Mrs. Barnes, Mrs. Cambron, Mrs. Nerkin
- (b) A memorandum and two tables were prepared from reports received in response to our letter of March 28, from 10,000 companies participating in the payroll savings plan during February. The first table showed the companies classified by size group, by degree of employee participation, and payrolls. The second table showed detailed data for each of the 40 largest companies. The report was prepared, and was transmitted to the Secretary on April 2. - A copy was given to Mr. Graves. - Mr. Tickton, Mr. Kelenson, Mrs. Cambron
- (c) Supervision was given the Statistical Unit of the Division of Loans and Currency in the preparation of a tabulation covering the same kind of information as that in the first table in (b) for 11,464 companies participating in the plan during March. The tabulation was transmitted to the Secretary and to Mr. Graves on April 24. - Mr. Tickton, Mr. Kelenson, Mrs. Cambron
- (d) Weekly tables were prepared, showing the number of organizations with payroll savings plans, Government and private, classified by size, type, and State, together with the number of employees eligible to participate. Tables were prepared as of March 28, April 4, 11, and 18, and were transmitted on April 3, 10, 17, and 24, respectively, according to instructions by the Secretary. - Mr. Tickton, Mr. Keats

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13. At the request of the Secretary on April 15, two tables were prepared, showing as of March 31, the operation of payroll savings plans, classified by the number of employees and the degree of employee participation (1) in firms having 5,000 employees or more; and (2) in firms with war supply contracts of two million dollars or more. The tables were transmitted to the Secretary on April 16. - Mr. Tickton, Mrs. Barnes, Mr. Keats, Mr. Kelenson, Mr. D. J. Leahy, Mr. Goldberg, Mr. Parsons, Miss Schmidt
14. At the request of the Secretary on April 21, a table in three parts was prepared, showing as of March 31, corporations participating in the payroll savings plan, and having 5,000 employees or more, with the number of employees in each, classified by size of company, by Federal Reserve districts, and States. The table was transmitted to the Secretary on April 22, and copies were given to Under Secretary Bell, Mr. Graves, and the War Savings Staff. The third part of the table was transmitted to Mr. Mills on April 23, with copies for each Federal Reserve Bank. - Mr. Tickton, Mrs. Barnes, Mr. Keats, Mr. Kelenson, Mr. D. J. Leahy, Miss Westerman, Mrs. Cambron, Mr. Parsons, Miss Schmidt
15. At the request of the Secretary on April 24, a table similar to that described in item 14 is being prepared for companies having 500 to 5,000 employees. - Mr. Tickton
16. At the request of Mr. Graves on April 13, photostats of lists submitted by the War Savings Staff's State Administrators, showing names of firms in the various Federal Reserve districts installing payroll savings plans, were transmitted to the respective Federal Reserve districts on April 17, under cover of a letter signed by Under Secretary Bell. - Mr. Tickton, Mr. Keats
17. At the request of Mr. Houghteling on April 21, copies of the forms returned by railroad companies participating in payroll savings plans were transmitted to Mr. Houghteling on April 23. - Mr. Tickton, Mrs. Barnes, Mr. Kelenson
18. At the request of Under Secretary Bell on April 9, the Division was represented in conferences on April 29 and 30 regarding the Treasury Department payroll allotment campaign for the purchase of savings bonds. Quotas were worked out for the various salary groups. - Mr. Reagh, Mr. Kroll, Miss McCoy

19. At the request of the Secretary on April 24, 1942, a memorandum was prepared, and was transmitted to him on April 28, concerning a survey to secure information on the time it took a selected group to obtain delivery of savings bonds purchased by mail or under the payroll savings plan. This memorandum suggested that the information be obtained through the Federal Reserve Banks. A draft of a letter requesting the Federal Reserve Banks to secure this information was prepared April 29, and is awaiting approval by Under Secretary Bell. - Mr. Tickton
20. At the request of the Secretary on April 27, arrangements are being made to prepare a room for the Secretary's use containing charts showing the progress of the savings bond campaign. There will be about 600 charts showing daily, weekly, and monthly data on the operation of the payroll savings plan in firms throughout the country. The first of these charts will be ready in May. - Mr. Tickton
21. In further response to the request of the Secretary on July 28, 1941, tables were prepared, summarizing sales from August 1941 through March, of Treasury notes, Tax Series A and Tax Series B, by series, type of purchaser, and denomination. The tables were transmitted to the Secretary on April 15. Copies were given to Under Secretary Bell, Mr. Buffington, and Mr. Kilby. - Mr. Tickton, Mr. Kelenson
22. Further progress was made in the study requested by the Secretary on December 6 of the sources of funds for Government borrowing. The reports and tables prepared during April were transmitted in accordance with instructions by the Secretary. - Mr. Haas, Mr. Murphy, Mr. Daggit, Mr. Lindow, Mr. Breithut, Mr. Weintraub, Mr. Mayo
 - (a) A revision was completed on April 14, of the basic, analytical table on the gross national product, showing the disequilibrium implicit in the estimated flow of goods and services, and the estimated application of income to various uses, for the fiscal year 1943. - Mr. Lindow, Mr. Breithut, Mr. Mayo
 - (b) Further revision was made of the table showing estimated sources of funds to finance the budgetary deficit for the fiscal year 1943, and was completed on April 3. - Mr. Murphy, Mr. Lindow

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- (c) An appendix to the table listed under (b) was completed on April 3, containing a detailed analysis of personal savings, business savings, and other corporate savings and accumulations for the fiscal year 1943. - Mr. Murphy, Mr. Lindow
- (d) A memorandum and three tables were prepared on April 10, on the revision of the series from 1929 through 1941 on revenue and expenditures of State and local governments, with estimates for the fiscal year 1943, on the basis of Department of Commerce refinements. - Mr. Mayo
- (e) A chart is being developed to present the disequilibrium analysis. - Mr. Lindow, Mr. Breithut, Mr. Mayo
- (f) A memorandum was prepared on April 10, concerning estimates of personal saving for use in the revision of the disequilibrium table dated April 14.- Mr. Breithut, Mr. Mayo
- (g) A memorandum was prepared on April 6, concerning the method of estimating business saving for the fiscal year 1943, as used in the disequilibrium table dated April 14. - Mr. Breithut, Mr. Mayo
- (h) A memorandum was prepared on April 20, for use in connection with the disequilibrium table concerning the estimated financial operations of Government corporations in the fiscal year 1943. - Mr. Mayo
- (i) A memorandum was prepared on April 24, developing estimates of gross national product for the calendar year 1943. - Mr. Mayo
- (j) A table was prepared, showing the valuation of items necessary in deriving income payment figures from national income figures for the calendar years 1940 and 1941, and the fiscal year 1943. - Mr. Breithut, Mr. Mayo
- (k) Further study was made of the curtailment in output of consumers' goods. - Mr. Weintraub
- (l) Data are being compiled for measuring monthly changes in consumers' cash surpluses, for use in estimating the "inflationary gap". - Mr. Daggit

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- (m) Further progress was made on the survey by the Bureau of Labor Statistics and the Bureau of Home Economics on consumer spending and saving. A meeting was attended on April 24 to discuss problems involved. - Mr. Daggit
 - (n) At the request of Assistant Secretary Gaston on April 21, a memorandum was prepared on the prospective reduction in the standard of living. Two accompanying tables were prepared, one showing the per capita average supply of consumers' goods and services for the calendar years 1932 through 1941, and the aggregate volume necessary in the fiscal year 1943 to provide the same per capita supply of consumers' goods and services; the other showing the BLS cost-of-living index with component changes since June 1939. The memorandum was transmitted to Assistant Secretary Gaston on April 24. - Mr. Daggit, Mr. Lindow, Mr. Breithut, Mr. Mayo
 - (o) Minutes on the conference with Mr. Hansen of the National Resources Planning Board on March 11 were prepared, and were completed on April 11. - Mr. Breithut
23. At the request of Under Secretary Bell, agenda, memoranda, and minutes were prepared in connection with the Treasury-Federal Reserve meetings held for the purpose of discussing financing policy. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Foy, Mrs. Miller
- (a) At the request of the Secretary on March 16, a study was completed on the advisability of issuing certificates of indebtedness. - Mr. Murphy, Mr. Lindow
 - (b) At the request of Mr. Broughton on March 6, a memorandum was prepared on the "Circular for Proposed Non-negotiable Short-term Securities", with a table attached, entitled "United States Business Savings Notes". The memorandum was transmitted to Mr. Broughton on April 24. -Mr. Foy

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- (c) At the request of Under Secretary Bell on March 11, a memorandum was prepared on the reaction of the Board of Governors and Federal Reserve Banks to two proposed tap issues, with a summary table analyzing the replies from the Chairman of the Board of Governors and the Presidents of four Federal Reserve Banks. The memorandum was transmitted to the Under Secretary on April 14. - Mr. Murphy, Mrs. Miller
- (d) A memorandum with table on the estimated volume of excess reserves on April 15, assuming that New York and Chicago were reclassified as reserve cities, was completed on April 25. - Mrs. Miller
- (e) A memorandum was prepared, and was transmitted to the Secretary on April 27, on the member bank reserve position and the coming financing. - Mr. Murphy
- (f) At the request of the Secretary on April 29, a memorandum was prepared on the financing program agreed upon at the Federal Reserve Board on the afternoon of April 28, with suggested modifications for use at the meeting in the Secretary's office on the same date. - Mr. Murphy
- (g) In further response to the request of Under Secretary Bell on February 20, a study is being made of a special security for short-term funds. - Mr. Murphy, Mr. Lindow, Mr. Foy
- (h) In further response to the request of Under Secretary Bell on February 20, a study is being made of a special security for long-term funds. - Mr. Murphy, Mr. Lindow, Mr. Foy
- (i) At the request of Mr. Broughton on April 30, a review is being made of the revised, proposed circular for short-term non-market securities. - Mr. Murphy, Mr. Foy
- (j) A table is being prepared to show estimated excess reserves as of December 31, 1941, if Chicago and New York City were reclassified as reserve cities, and if all other reserve cities, except the 12 reserve bank cities, were reclassified as country bank cities. - Mr. Murphy, Mr. Foy, Mrs. Miller

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- (k) Minutes were prepared with respect to the meeting with representatives of the Federal Reserve System held on April 28, and a draft was prepared summarizing the program agreed upon. - Mr. Lindow
- (l) Minutes are being prepared of three meetings held on April 29, with the Advisory Committee of Bankers. - Mr. Murphy
24. Three proposals of the RFC that the Secretary request that corporation to purchase stock in a bank were examined. - Mr. Murphy, Mr. Sandelin, Mr. Rosen, Miss Parker, Mrs. Miller
25. In further pursuance to the request of the Secretary on July 8, 1941, a table was prepared, and was transmitted to him on April 20, showing airplane deliveries from October 1941 through March 1942. - Mr. Tickton
26. At the request of the Secretary on November 3, arrangements have been made to obtain certain information on the progress of the programs under Lend-Lease, the Maritime Commission, and the Army Air Corps. - Mr. Haas, Mr. Lindow, Mr. Wagner
- (a) A chart is being prepared to show appropriations, allocations, obligations, and disbursements, for Lend-Lease purchases, through March 31.
- (b) A chart is being prepared to show appropriations, contracts awarded, and disbursements of the Maritime Commission through March 31.
- (c) A chart is being prepared to show appropriations, contracts awarded, and disbursements, under the Army Air Corps, through March 31.
27. Four conferences in the Secretary's and the Under Secretary's offices were attended on April 1 (two meetings), April 4, and 15, for the purpose of discussing financing problems. - Mr. Lindow
28. A memorandum was prepared to Under Secretary Bell, and was forwarded to him on April 20, transmitting letters addressed to the three Federal supervisory agencies of banks, requesting that data be furnished on the par value of United States securities. - Mr. Murphy, Mr. Tickton, Mr. Robbins

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29. At the request of Mr. Buffington on April 6, a memorandum with a table was prepared on a survey of probable new security offerings, and was transmitted to him on April 7. - Mr. Foy, Mr. Rosen
30. At the request of Mr. Buffington on April 6, a memorandum with a table was prepared on prospective new capital issues, and was transmitted to him on April 28. - Mr. Foy, Mrs. Miller, Miss Parker
31. At the request of Mr. Kilby on April 13, three tables were prepared, showing an analysis of subscriptions to recent issues of Government securities on a basis as comparable as possible with that which he used for the new certificates. The tables were transmitted to Mr. Kilby on the same date. - Mr. Murphy, Mrs. Miller, Miss Lagos
32. At the request of Under Secretary Bell on April 6, an alternative reply was prepared, for his signature, to a letter from Mr. A. B. Wilkinson, Knoxville, Tennessee, with respect to deposits in the Civil Service Retirement Fund as against purchases of war bonds by Civil Service employees. The letter was mailed on April 9. - Mr. Murphy
33. At the request of Under Secretary Bell on April 13, a memorandum was prepared on a proposal to issue a special series of savings bonds to religious, educational, charitable organizations, and unions. The memorandum was transmitted to Under Secretary Bell on April 17. - Mr. Sandelin
34. At the request of Under Secretary Bell on April 17, a reply was prepared for signature of the President to a letter from Vice President Wallace with respect to compulsory savings as against voluntary savings. The letter was transmitted to the President on April 21. - Mr. Murphy
35. At the request of Mr. Broughton on March 19, a letter was prepared to Mr. C. Raymond Allen, concerning Treasury policy on withdrawal of savings deposits for investment in Defense savings bonds. The letter was signed by Under Secretary Bell on April 11. - Mr. Murphy, Mr. Rosen
36. At the request of Under Secretary Bell on April 17, a reply was prepared, for signature of the Secretary, to a letter from Senator Vandenberg, with respect to voluntary purchases of War savings bonds. A memorandum to the Under Secretary was prepared also, and was transmitted to him on April 20. The letter to the Senator was mailed on April 21. - Mr. Murphy

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37. At the request of Under Secretary Bell on April 22, a revision was made of a reply prepared by Mr. Cunningham to a letter from Senator Brooks, with respect to the use of War savings bonds as prizes. The letter to the Senator was transmitted to the Under Secretary on April 24. - Mr. Murphy
38. In response to various verbal requests from members of the War Savings Staff, information was furnished by telephone, concerning consumer income, expenditures, etc. A table was prepared, and was forwarded on April 21, showing estimated income payments in the fiscal year 1942, employment in February 1942, and Federal expenditures, taxes, and borrowing in the fiscal years 1942 and 1943. In addition, a 19-page manuscript containing questions and answers on the savings bond campaign was edited and revised. This information was given for use in preparing material for release by the War Savings Staff. - Mr. Lindow, Mr. Breithut, Mr. Mayo, Mr. Wagner
39. At the request of Mr. Kuhn on April 9, a review was made of an address for delivery by Mr. Oscar R. Kreutz of the Federal Savings and Loan Insurance Corporation in Atlanta on holdings and building savings volume during the war period. The address was discussed with Mr. Kuhn on April 9. - Mr. Murphy
40. At the request of Under Secretary Bell on April 13, a memorandum was prepared on recent developments in consumer credit, and was transmitted to him on April 13. - Mr. Murphy
41. At the request of the Secretary on April 14, a memorandum was prepared on consumer credit, together with a table and a chart showing the changes and the amount outstanding from December 1940 to date. The report was transmitted to the Secretary on April 14, and a copy was given to Mr. Buffington. - Mr. Murphy, Miss Lagos

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42. At the request of Under Secretary Bell on April 25, a study was made of the third tentative draft of Regulation W, Amendment No. 4, to be effective May 1, submitted by Mr. Chester Morrill, Secretary, Board of Governors of the Federal Reserve System. A letter was prepared to Mr. Morrill for signature of the Secretary. The letter was mailed on April 28. - Mr. Murphy
43. Charts were prepared, and were transmitted to the Secretary on April 3, showing the effect of rationing on personal saving. - Mr. Murphy, Mr. Lindow
44. A conference was attended in Mr. White's office on April 7, on the problems of preventing inflation by use of consumer expenditure rationing and forced saving. - Mr. Lindow
45. At the request of Under Secretary Bell on April 14, comments were prepared on a memorandum addressed to him by Mr. A. L. Mills, Jr., with respect to the deposit of legal bank reserves with the Treasury. The memorandum was discussed with the Under Secretary on April 23. - Mr. Murphy
46. A memorandum was prepared on interest rates and price freezing, and was transmitted to the Secretary on April 23. - Mr. Murphy
47. A memorandum was prepared on April 7; reviewing the report of the Secretary of Commerce to the President, dated March 21, 1942, covering war and defense activities of the RFC and its subsidiaries through March 7, 1942. - Mr. Wagner
48. At the request of Under Secretary Bell on April 1, a memorandum was prepared on the proposal of Governor Black of the Farm Credit Administration to impose a special income tax upon profits derived from the sale of agricultural and forest land. The memorandum was transmitted to the Under Secretary on April 17. - Mr. Murphy, Mr. Weintraub
49. At the request of Under Secretary Bell on April 7, a reply was prepared for signature of the Secretary to the letter from the Director of the Bureau of the Budget with respect to increased postal rates on third class and air mail. The letter was transmitted to the Director of the Bureau of the Budget on April 10. - Mr. Murphy

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50. At the request of Under Secretary Bell on April 10, a study was made of a plan submitted by the Curtis Publishing Company for organizing American business in cooperation with the Government to help stabilize present and post-war conditions. A memorandum entitled "The Gallager Plan for Sale of 'Merchandise Bonds'" was transmitted to the Under Secretary on April 24. - Miss Parker
51. At the request of the Division of Tax Research on April 1, a letter was prepared for signature of Mr. Paul, to Mr. Carl H. Chatters, in regard to his estimates of the ownership of State and local government securities by individuals, and the bases used in their derivation. The letter was mailed on April 7. In response to a reply from Mr. Chatters on April 19, a letter was prepared, and was transmitted to Mr. Paul on April 29 for his signature, addressed to Mr. Chatters, describing in detail the method used in making the Treasury estimates of the ownership of State and local government securities. - Mr. Murphy, Mr. Lindow, Mr. Conrad
52. A memorandum was prepared, and was transmitted to Mr. Blough on April 8, on Treasury estimates of the ownership of State and local government securities outstanding. - Mr. Lindow
53. At the request of Mr. Heffelfinger on April 9, a letter was prepared for signature of the Secretary to Senator Tydings, giving the amount of United States and State and local government securities held by the various types of banks and by insurance companies. The letter was transmitted to the Senator on April 10. - Mr. Conrad
54. Analysis of Mr. Viner's proposal for a new system of allotting Treasury bills has been abandoned since the reason for such analysis has been eliminated by the institution of a posted bill rate. - Mr. Murphy
55. At the request of Under Secretary Bell on March 21 and 30, an analysis was made of a memorandum by Dr. Burgess entitled "Treasury War Borrowing and the Banks", and a reply to Dr. Burgess was prepared commenting on the memorandum. The reply was transmitted to the Under Secretary on April 7. - Mr. Murphy
56. At the request of Mr. Upham on March 30, a memorandum was prepared and was transmitted to him on April 1, on interest-bearing United States securities subject to surtax and the amount held by banks. - Mr. Conrad

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57. The analysis of a proposed industrial loan corporation bill of 1942, requested by Mr. Morris on December 16, has been superseded by Executive Order 9112, March 26, authorizing all banks to finance contracts to facilitate the prosecution of the war. - Mr. Foy
58. At the request of Mr. Buffington on April 15, a table was prepared, showing a comparison of inventories and bank loans of 25 large corporations. The table was transmitted to Mr. Buffington on April 16. - Miss Parker
59. At the request of Mr. Buffington on April 21, data were obtained on the J. I. Case Threshing Machine Company, and were transmitted to him on that date. - Mrs. Miller
60. At the request of Under Secretary Bell on April 17, a letter was prepared, for signature of the Secretary, to Mrs. Roosevelt, transmitting an analysis of the tax proposals of Dr. Joseph E. Goodbar, submitted by Mr. George A. Miller. The letter was transmitted to the Under Secretary on April 20. - Mr. Murphy, Mr. Rosen
61. At the request of Under Secretary Bell on April 6, a review was made of a draft of an article for his signature for distribution to Latin American newspapers. The article was discussed with the Under Secretary on April 15. - Mr. Murphy
62. At the request of Under Secretary Bell on April 15, drafts of letters were prepared, commenting on proposed amendments to the National Housing Act. Drafts of these letters, addressed to the Bureau of the Budget and to the Senate Committee on Banking and Currency, were forwarded to the Legal Division on April 17. - Mr. Lindow, Mr. Wagner
63. At the request of Mr. Tietjens on March 26, a report was reviewed on S. 2146, a bill to amend the Home Owners Loan Act of 1933, as amended, and on S. 2147, a bill to amend Title IV of the National Housing Act, as amended, and S. 2148, a bill to amend the Federal Home Loan Bank Act, as amended. A revised proposed report was prepared, addressed to Senator Wagner, Chairman of the Committee on Banking and Currency, for signature of the Secretary, and a memorandum was prepared to Mr. Tietjens, explaining the changes. Both were transmitted to Mr. Tietjens on April 7. - Mr. Murphy, Mr. Sandelin

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64. At the request of Mr. Tietjens on April 25, a review was made of a proposed report on S. 2325, a bill to reduce interest rates on mortgage loans made by Federal land banks and by the land bank commissioner on loans by the RFC for drainage and similar districts. The report was transmitted to Mr. Tietjens on April 27.- Mr. Murphy

II. Projects or studies under way

1. A study is being made of the relative interest costs of short- and long-term borrowing. - Mr. Foy, Mr. Barnett, Mr. Rosen
2. A study is being made of the effect of the maturity, call period, coupon, premium, and size of issue on the prices and yields of United States securities. - Mr. Conrad
3. A memorandum is being prepared on a negotiable security for continuous sale. - Mr. Murphy
4. A study is being made of developments in the reserve position of the banks. - Mrs. Miller
5. Historical tables are being prepared which will present various data on new Treasury notes and bonds and on guaranteed new issues. Three tables have been completed. Others are in process. - Mr. Conrad, Mr. Rosen
6. A revision is being made as of June 30, 1941, of the estimates of the ultimate increase in interest costs which would result from removal of the tax-exemption privilege from all public securities. - Mr. Murphy, Mr. Lindow, Mr. Conrad
7. A study is being made of war-financing measures of belligerent nations in the present war. - Mr. Sandelin
8. A study is being made of the market action of the various maturity classes of Government securities in relation to the type of holder. - Mr. Conrad
9. At the request of Mr. Surrey on January 1, a study is being made of the amortization of bond premium and discount. - Mr. Murphy

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10. A memorandum is being prepared on the desirability of conducting the war finance as it was in the last World War, by war loan drives. - Mr. Foy
11. At the request of Assistant Secretary Gaston on January 20, a review is being made of "A Memorandum on Financing the War", by Mr. Robert L. Owen. - Mr. Foy
12. A study is being made of the post-war effects of a large volume of demand debt. - Mr. Murphy, Mr. Lindow, Mr. Foy
13. A study is being made of the sources of funds available for borrowing by the British Government comparable to the study in progress for this country, as described in Financial Analysis, I, item 22. - Mr. Weintraub
14. At the request of Under Secretary Bell on March 30, a study is being made of replies to the circular letter of March 20 from the Secretary to 7,500 owners of Series F and G savings bonds - Mr. Murphy
15. At the request of the Division of Tax Research on March 30, cooperation is being given in preparing a report on tax-exempt securities. The following items were prepared during the month. - Mr. Murphy, Mr. Lindow, Mr. Conrad
 - (a) A review was made of estimates of tax differentials on various classes of securities - Mr. Lindow, Mr. Conrad
 - (b) A memorandum was transmitted to Mr. Blough on April 2, containing a proposed appendix to the report, entitled "Estimate of the market value of the tax-exemption privilege of long-term high-grade State and local securities as of March 1, 1942". A revision of the proposed appendix as of April 1, 1942, was transmitted to Mr. Blough on the same date. - Mr. Murphy, Mr. Lindow, Mr. Conrad

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- (c) A memorandum was transmitted to Mr. Blough on April 10, containing a proposed appendix to the report entitled "Treasury estimates of the ownership of State and local government securities outstanding". - Mr. Lindow, Mr. Conrad
16. At the request of Mr. George F. Milton, Consultant, Defense Savings Staff, on March 23, a complete file of tables is being prepared giving the history of sales of Defense savings bonds. - Mr. Reagh
17. At the request of Mr. Buffington on April 11, a memorandum is being prepared, analyzing reports received concerning subscriptions to the issue of 3 percent certificates of indebtedness. - Mr. Murphy, Mr. Tickton, Mr. Robbins, Miss Westerman
18. At the request of Mr. Buffington on April 10, a memorandum is being prepared on new capital issues used to refund bank loans. - Mr. Murphy, Mr. Foy
19. A memorandum is being prepared on the relationship of selective control of bank credit and of new capital issues. - Mr. Murphy
20. At the request of Mr. Bartelt on April 10, comments are being prepared on a memorandum prepared by Mr. Loanman in accordance with the request of Under Secretary Bell, that consideration be given to the change of the basis of public debt statements appearing in the Secretary's Annual Report from the so-called revised or actual basis to the so-called unrevised Daily Treasury Statement basis. - Mr. Murphy, Mr. Lindow, Mr. Tickton
21. At the request of Under Secretary Bell on April 21, a study is being made of currency in circulation. - Mr. Weintraub
22. At the request of Mr. Buffington on April 15, a memorandum is being prepared on the implications for Treasury financing of the enforcement by the Securities and Exchange Commission of the Public Utility Act of 1935. - Mr. Murphy, Mr. Rosen
23. At the request of Mr. Sloan on April 18, a memorandum is being prepared on the effect of sales of War savings bonds on living costs of families with specified incomes. - Mr. Lindow, Mr. Wagner

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24. At the request of Under Secretary Bell on May 31, 1940, replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125, 76th Congress, 3rd Session. - Mr. Haas, Mr. Murphy, Mr. Foy
25. At the request of Under Secretary Bell on June 16, 1941, cooperation was given in preparing replies to the list of questions accompanying a letter from Senator Tydings of May 5. The information is for use by the Senate Committee created to find ways and means of automatically balancing the Federal Budget in times of peace. A proposed reply was sent to the Under Secretary on June 18, 1941. - Mr. Murphy, Mr. Foy
26. At the request of the Office of the General Counsel on April 11, a memorandum is being prepared on H.R. 6886, a bill to provide for tolls with respect to the use for commercial navigation, of the improved inland waterways of the United States, for the purpose of reimbursing the United States for expenditures made in improving such waterways. - Mr. Murphy, Mr. Foy, Mr. Lindow
27. At the request of Under Secretary Bell on April 20, a review was made, and a revision is being prepared of Mr. White's draft of a reply to Representative Patman, with respect to H.R. 6391, a bill to provide for issuance of non-negotiable United States bonds to Federal Reserve Banks and terminating the authority of the Treasury to issue other interest-bearing obligations of the United States to commercial banks, and for other purposes. - Mr. Murphy

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period April-June 1942, and fiscal 1943. The statement was transmitted to the Bureau of Accounts. - Mr. Delcher
2. The regular monthly summary comparison was prepared, showing estimated receipts and actual receipts in March 1942 on the daily Treasury statement basis. - Mr. Delcher

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3. The regular monthly detailed comparison was prepared, showing estimated and actual receipts in March 1942, based on the collections classification. - Mr. Delcher
4. A revision of the budget estimates of receipts for the fiscal years 1942 and 1943 was prepared, and was transmitted to the Director of the Bureau of the Budget on April 21. - Mr. O'Donnell, Mr. Daggit, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Jorgensen, Mr. Lusk, Mr. Colclough, Mr. Chevraux, Mr. Saunders, Miss Smith
5. A forecast of the monthly distribution of receipts in the fiscal years 1942 and 1943 was prepared on the basis of the revised budget estimates. - Mr. O'Donnell, Mr. Daggit, Mr. Delcher, Miss Spiegel, Mr. Colclough, Miss Smith
6. In connection with the proposed revision of the revenue laws in 1942, a number of revenue estimates, listed below, were prepared at the request of Senator George, Assistant Secretary Sullivan, Mr. Paul, Mr. Tarleau, and the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Jorgensen, Mr. Delcher
 - (a) A detailed estimate was prepared, and was transmitted in a memorandum to Mr. Blough on April 30, of the revenue yield of a net value-added tax, assuming six different taxpayers' bases, on two tax credit assumptions.
 - (b) Estimates were completed, and were transmitted in a memorandum to Mr. Blough on April 15, of the yield from estate and gift taxes on the basis of four changes, and their combined effect.
 - (c) A table was completed, and was transmitted in a memorandum to Mr. Blough on April 16, showing for each tax under miscellaneous revenue the present expected revenue and the expected increase under the rates proposed by the Treasury.
 - (d) An estimate was completed, and was transmitted in a memorandum to Mr. Blough on April 9, of the increase in revenue from a 100 percent tax on net incomes in excess of \$5,000.

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- (e) Estimates were completed, and were transmitted in a memorandum to Mr. Blough on April 13, of the additional revenue resulting from reduction of personal exemptions and credit for dependents under the present and proposed laws, with analysis of six aspects of its effects.
- (f) Estimates were completed, and were transmitted in a memorandum to Mr. Blough on April 16, on the bases of the present law and proposed rates, for mandatory joint returns, on several separate assumptions.
- (g) A table was prepared, and was transmitted in a memorandum to Mr. Blough on April 16, giving the tax base used for estimates of individual and corporate income and excess-profits taxes.
- (h) In connection with the Boland Bill (H.R. 6358) and the Treasury proposals for taxing capital gains and losses, estimates were prepared, and were transmitted in a memorandum to Mr. Blough on April 15, of the revenue yield, on six different assumptions.
- (i) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on April 6, of the effect of proposals to eliminate percentage depletion and the option to charge as an expense intangible development costs, and the combined effects of both.
- (j) A revision was prepared, and was transmitted to Mr. Blough in a memorandum on April 9, of the estimates from the individual income tax submitted to Mr. Blough on March 2. The revision allowed for the interacting effect of the entire Treasury program, on five different assumptions.
- (k) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on April 13, of the net income of all net income corporations, with specified component detail.
- (l) An estimate was prepared, and was transmitted in a memorandum to Mr. Tarleau on April 13, of the flat percentage rate on long-distance telephone calls necessary to yield the revenue which would be raised under the bracket rates proposed by the Treasury on March 3.

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- (m) Estimates were prepared, and were submitted in a memorandum to Mr. Blough on April 14, of the increase in income taxes if interest on outstanding issues of State and local government securities be made subject to all Federal income taxes, on three different assumptions.
- (n) Estimates were prepared, and were transmitted in a letter to Mr. Stam on April 15, of the increase in revenue over the estimated yield under the present law for each of four income tax schedules, on two assumptions.
- (o) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on April 15, of the distribution of the number of taxable returns based on the calendar year 1941 income.
- (p) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on April 15, of the yield of a compulsory savings plan of 5 percent of gross income.
- (q) Two tables were prepared, and were transmitted under cover of a memorandum to Mr. Blough on April 16, showing the estimated increase in revenue from the proposed tax program and the estimated full-year effect of indicated excises at forecast fiscal year 1943 levels of business.
- (r) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on April 16, of the combined effect of specified reductions of personal exemptions and of substitution of a new surtax rate schedule.
- (s) A table was prepared, and was transmitted in a memorandum to Mr. Paul on April 17, showing the latest estimates of net income taxes, and dividends of corporations with positive net income, 1936 through 1942.
- (t) A table was prepared, and was transmitted in a memorandum to Mr. Blough on April 17, showing the estimated receipts in the fiscal year 1943, assuming enactment of the Treasury's proposals, effective July 1, 1942.

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- (u) Two tables were prepared, and were transmitted under cover of a memorandum to Mr. Paul on April 21, showing estimated revenue for the fiscal year 1943, assuming enactment effective July 1, 1942, of the Treasury program and the estimated increase due to changes incorporated in the Treasury program.
- (v) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on April 22, of the effect of limiting the special credit for earned income, in connection with mandatory joint returns, to \$50 instead of \$100.
- (w) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on April 22, of the effects of specified reductions of personal exemptions and dependent credits respectively, on the basis of the Treasury's proposed surtax schedule.
- (x) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on April 22, of the yield of the mandatory joint returns provision after specified allowances, and of their combined effect.
- (y) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on April 25, of the portion of the excess-profits tax under the Treasury proposal which would be considered as compulsory savings.
- (z) An estimate was prepared, and was transmitted in a memorandum to Assistant Secretary Sullivan on April 28, of the number of individuals affected by the President's proposal to limit net income after taxes to a maximum of \$25,000 on two bases.
- (a') A tabular exhibit was prepared, and was transmitted under cover of a memorandum to Mr. Blough on April 28, showing the estimated loss in revenue from proposed individual income tax changes with respect to three specified types of credit.
- (b') Tentative estimates were prepared of the effect of six proposed changes in corporation taxes at five income tax rates.

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(c') The following material was prepared, for reproduction in the confidential Committee print, of data on the proposed revenue bill of 1942, submitted to the Committee on Ways and Means of the House of Representatives:

Exhibit 1. Estimated receipts, fiscal year 1942 and fiscal year 1943 (April 1942 revision).

Exhibit 7. Estimated excess profits net income and excess-profits credit of corporations estimated to pay excess-profits taxes on calendar year 1942 incomes.

Exhibit 8. Estimated revenue effect of corporation income-tax changes proposed by the Joint Committee on Internal Revenue Taxation.

Exhibit 9. Estimated effect on corporation taxes of the Robertson proposal.

Exhibit 10. Estimated revenue effect on corporation taxes at levels of income estimated for calendar year 1942 of the Robertson proposal No. 2.

Exhibit 22. Statement entitled "Capital-stock tax and declared value excess-profits tax data" with four tables.

Exhibit 23. Estimated revenue effect on corporation taxes at levels of income estimated for calendar year 1942, of repeal of capital stock and declared value excess-profits taxes.

Exhibit 24. Estimated revenue effect on corporation taxes at levels of income estimated for calendar year 1942 of the Robertson proposal No. 3.

Exhibit 27. Estimated calendar-year liabilities for the capital-stock and declared value excess-profits taxes.

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7. Studies were completed for revising and improving methods of estimating revenues from taxes on the following: - (a) small cigarettes; (b) coin-operated machines; (c) bowling alleys; and (d) matches. - Mr. Daggit, Mr. Colclough, Mr. Saunders, Miss Smith

II. Projects or studies under way

1. Progress has been made on the analysis of each component of the September revised estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1942 and 1943. - Mr. Daggit, Miss Spiegel, Mr. Colclough, Miss Smith
2. An analysis is in preparation of each component of the April revised estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1942 and 1943 - Mr. Daggit, Mr. Colclough
3. In connection with the proposed revision of the revenue laws in 1942, a number of revenue estimates, listed below, are being prepared at the request of the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Lusk, Mr. Delcher
 - (a) An estimate is being made of the additional revenue if mutual non-life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable as stock non-life insurance companies taxable under Section 204, and the exemption under Section 101(11) were restricted to local mutual companies of the assessment type.
 - (b) An estimate is being made of the revenue which would result if the Canadian corporate tax system were substituted for the present system in this country.
 - (c) An estimate is being made of the total revenue and increase over the existing law which would result from the adoption of the British individual and corporate income and excess-profits tax structure.
 - (d) With reference to the excess-profits estimate completed on January 17, a breakdown is being made of the income and tax figures before and after the proposed change in the excess-profits tax credit, by detailed industrial and size classifications of corporations.

- (e) An estimate is being made of the revenue which would result from modification of treatment of capital gains and losses by providing that the decedent's basis for the computation be made the basis in the hands of the persons receiving the property.
 - (f) An estimate is being made of percentage depletion.
 - (g) An estimate is being prepared of the increase in revenue under the present and the proposed rates from adoption of (1) the Wood Plan and (2) mandatory joint returns as recently proposed.
 - (h) An estimate is being prepared of the effect of the latest estimate of revenue from mandatory joint returns on the community property States.
 - (i) An estimate is being prepared of the number of taxpayers under the manufacturers', wholesale, and retail forms of sales taxes comparable with Treasury estimates of sales tax revenue yields.
 - (j) Estimates are being prepared of yield from the tax on capital gains and losses assuming modification on three bases, under a number of variations which might be incorporated.
 - (k) Estimates are being prepared of the yield from a specified withholding tax; compulsory savings tax, on two bases; and a specified war consumption tax, on two assumptions.
4. Studies are in process for estimating revenues from proposed taxes on soft drinks, candy, and chewing gum.- Mr. Daggit, Miss Spiegel, Miss Smith
5. A study is in process for revising and improving methods of estimating revenues from the tax on transportation of persons. - Mr. Daggit, Miss Spiegel, Miss Smith

Economic Conditions Related to Fiscal
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business situation were prepared, and were transmitted to the Secretary on April 6, 13, 20, and 27. - Mr. Haas, Mr. Daggit, Mr. Chevraux, Miss Ziegler

These memoranda contained in addition to analysis of the current situation the following special studies:
 - (a) Percentage change in retail sales by type of store from February 1941 to February 1942. (Chart in memorandum of April 6.) - Mr. Daggit, Mr. Colclough, Miss Spiegel
 - (b) National income payments and related components. (Chart in memorandum of April 13.) - Mr. Daggit, Mr. Colclough
 - (c) Percentage change in the FRB index of industrial production and selected components in February and March 1942 compared with the 1935-39 average. (Chart in memorandum of April 27.) - Mr. Daggit, Mr. Chevraux, Mr. Colclough
2. Monthly or weekly reports are received from 25 individual companies, in response to the Secretary's requests giving confidential data on new orders and sales. The data in these reports are tabulated and charted currently for the Secretary's information, and are also combined into an index of new orders, which accompanies the memorandum on the business situation. - Miss Washabaugh, Miss McLachlan
3. Memoranda on employment under the Work Projects Administration were prepared on April 6, 13, and 20. - Miss Washabaugh, Miss McLachlan
4. Compilations were made of daily quotations on selected commodities, and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, and exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevraux
5. In further response to the request of Mr. Leon Henderson of July 19, 1941, copies of charts on commodity prices were transmitted to him, as indicated below. - Mr. Daggit

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11. The Dow-Jones composite stock averages as of the end of each month were brought up to date as of March 31. - Mr. Daggit, Miss Spiegel
12. A reply was prepared on April 25, for signature of the Secretary, to a letter from Mr. R. W. Wilson, President of the Advance Aluminum Castings Corporation, suggesting an inventory of idle manufacturing space. The letter was mailed on April 29. On the same date, a letter was prepared for signature of the Secretary to Mr. Donald Nelson, referring Mr. Wilson's letter to the War Production Board for consideration. - Mr. Lindow
13. For use in revenue estimating, an estimate was made of the Standard Statistics index of 420 stock prices, unrevised, for the year 1941 and for December 1941. - Mr. Daggit, Miss Spiegel
14. For use in revenue estimating, forecasts were made of five basic business indexes for the fiscal years 1942 and 1943. - Mr. Daggit, Mr. Colclough, Mr. Saunders, Miss Smith

Actuarial Problems

I. Projects or studies completed

1. At the request of Mr. Fisher, Chief, Retirement Division, Civil Service Commission, on January 28, the Board of Actuaries has prepared sets of factors to determine the immediate annuities of those eligible for retirement under section 1(d) and section 5(a) of the Civil Service Retirement Act, as amended on January 24. A reply to the request was prepared, was signed by the three Board members, and was mailed on April 11. - Mr. Reagh, Mr. Brown, Mr. Kroll
2. In further response to the request of Dr. Falk of the Social Security Board on January 7, a final check was made of the Second Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund. Two signed copies received from the Social Security Board on March 27 were signed by the Secretary, and were transmitted to both Houses of Congress on April 7. Printer's proof was reviewed and was forwarded to the Bill Clerk of the House of Representatives on April 25. - Mr. Reagh, Mr. Brown, Miss Westerman

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The movements of the BLS index of 28 basic commodities compared with the BLS wholesale price index of 889 commodities were shown from 1936 to date. Four charts, as of April 4, 11, 18, and 25, were transmitted on April 7, 14, 21, and 28, respectively.

Four charts showed the movements of the indexes of 12 foodstuffs and 16 industrial raw materials, and percentage changes for each commodity from August 1939 and from December 6, to current dates. These charts, as of April 2, 10, 17, and 24, were transmitted on April 7, 14, 21, and 28, respectively.

6. In further response to the request of the Secretary on January 28, memoranda and charts were prepared on export freight movements and lighterage freight in storage and on hand for unloading in New York Harbor, as of March 27, April 3, 10, 17, and 24, and were transmitted to him on April 1, 8, 15, 22, and 29, respectively. Copies were given to Mr. Kamarck in further response to his request of December 4. - Mr. Daggit
7. A memorandum was prepared, and was transmitted to Assistant Secretary Gaston on April 3, confirming data supplied by telephone on the BLS cost-of-living and the BLS all-commodity indexes. - Mr. Daggit, Miss Spiegel
8. At the request of the Secretary on April 28, a memorandum analyzing the OPA price ceiling plan was prepared, and was transmitted to him on April 30. - Mr. Daggit
9. At the request of the Secretary on April 28, reports were transmitted to him on April 30, on (a) Mr. Daggit's talk with Mr. MacKeachie of the War Department relative to the reaction of the OPA price ceiling order on sales, and (b) Mr. Daggit's telephone conversation with Mr. Bofinger of the A & P Company of New York on the same subject. - Mr. Daggit
10. A table was prepared, and was transmitted to the Secretary on April 3, showing the Department of Commerce series on salaries and wages, July 1941 revision, for the years 1939, 1940, and 1941, and January 1942. - Mr. Daggit, Miss Spiegel

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3. At the request of Under Secretary Bell on March 19, comments were prepared on a draft regarding taxation of pension trusts, and a memorandum was transmitted to him on April 2. - Mr. Reagh

II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement Law. Under the law, such a valuation must be prepared as of July 1, 1940. The valuation is well under way. - Mr. Reagh, Mr. Brown
2. Several years ago a committee was organized for the purpose of studying ways and means to extend retirement benefits to all Government employees regardless of Civil Service status. The working committee, the Subcommittee on Retirement, has again become active. A report has been prepared but has not yet been submitted to the main committee. - Mr. Reagh, Mr. Brown
3. At the request of Mr. A. R. Pilkerton, Auditor of the District of Columbia, an actuarial quinquennial valuation is being made of the Policemen's and Firemen's Pension Fund of the District of Columbia. This valuation is being made by the Treasury Department in accordance with the 1942 District of Columbia Appropriation Act, approved July 1, 1941. Substantial progress has been made in the basic work for the valuation. - Mr. Reagh Mrs. Groesman
4. At the request of the Division of Tax Research, several conferences have been attended with members of the Division of Tax Research, the Legal Staff of the Bureau of Internal Revenue and the Legislative Counsel regarding proposed changes in the tax laws relating to pension trusts and the taxation of insurance companies. - Mr. Reagh

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5. The Chief Counsel's office of the Bureau of Internal Revenue requested a member of the Government Actuary's office to appear in Dallas, Texas, on May 4, at a hearing before the United States Board of Tax Appeals, to testify as to whether the Austin Mutual Life Insurance Company of Austin, Texas, can qualify as a life insurance company for tax purposes. A member of the staff is assisting in the preparation of the testimony.-
Mr. Brown

Other Projects or studies

1. Publications

- (a) All the material submitted for the April issue of the Treasury Bulletin was reviewed and edited. -
Mr. Lindow, Mr. Lynch

The following tables were revised and expanded for the April issue:

1. Sales of United States savings bonds since May 1941. - Mr. Lindow, Mr. Brown, Mr. Kroll
 2. Sales of Postal savings stamps since May 1941 - Mr. Lindow, Mr. Brown, Mr. Kroll
 3. Over-the-counter closing quotations of public marketable securities issued by the United States Government and by Federal agencies. - Mr. Brown, Mr. Kroll
 4. The table showing offerings and maturities of Treasury bills. - Mr. Lindow, Mr. Lynch
 5. A page was substituted for the complete chapter on net capital movements to the United States, 1935 through January 1942 -
Mr. Lindow
- (b) For the publication Prices and Yields of Public Marketable Securities issued by the United States Government and by Federal Agencies, computations were made and copy was prepared for the issue covering the month of March. - Mr. Brown, Mr. Kroll

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- (c) Arrangements have been made to transmit to Mr. Schwarz's office, for use of the Christian Science Monitor, the weekly figure of yield on partially tax-exempt long-term Treasury bonds. - Mr. Brown

2. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Mr. Lindow, Mr. Foy, Miss Ziegler, and other members of the staff in appropriate fields of work

During April 570 letters were received in the Division and 544 were handled as required.

3. Charts

Charts are prepared and continuously brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of April is attached.

Work completed in the Graphic Section, Division of
Research and Statistics, during April 1942.

Type of work	For Division of R & S	For Others	Total
Photographic:			
New charts:			
Total charts completed	46	27	73
Bond book charts completed	-	-	-
Charts brought up to date:			
3 bond chart books brought up to date	26 times	-	26(t)
All other charts brought up to date	659	39	698
Miscellaneous:			
Total jobs	21	18	39
Photographic:			
Photographs:			
Total jobs	79	32	111
Number of-			
Negatives	223	39	262
Contact prints	555	130	685
Enlargements	118	77	195
Photostats:			
Total jobs	179	63	242
Number of-			
Lettersize copies	4,662	2,337	6,999
All other copies	3,414	1,622	5,036
Photolith:			
Total jobs	24	5	29
Number of-			
Zinc and paper plates	120	8	128
Miscellaneous:			
Total jobs	31	13	44

Type of work	Jan.	Feb.	Mar.	April	May	June	Total
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A. Graphic:

New charts completed	81	79	67	73			
Charts brought up to date	764	719	748	698			
Bond book charts completed	2	1	-	67			
3 bond books brought up to date	26 (t)	24(t)	26(t)	26(t)			
Miscellaneous	19	30	24	39			

B. Photographic:

Photographs:

Total jobs	116	121	138	111			
Number of-							
Negatives	409	512	373	262			
Contact prints	837	758	745	685			
Enlargements	376	434	454	195			

Photostats:

Total jobs	297	312	279	242			
Number of-							
Lettersize copies	9,074	11,623	8,573	6,999			
All other copies	3,400	3,298	4,927	5,036			

Multilith:

Total jobs	17	16	31	29			
Number of-							
Zinc plates	144	163	331	128			

Miscellaneous:

Total jobs	31	18	19	44			
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SEP 9 1942

My dear Mr. President:

I am enclosing report on our experts
to some selected countries for the period
ending August 20, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,
The White House.

Del. by S. S. Agent 5:40
9/9/42

Enclosure

HDV/ofs
9/8/42

HDV

FILE COPY

September 5, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending August 20, 1942

1. Exports to Russia

Exports to Russia, as reported during the ten-day period ending August 20, 1942, amounted to \$23,325,000, as compared with \$33,940,000 and \$53,799,000 during the same periods in July and June, 1942, respectively. Among the military equipment exported during the period under review were 18 light bombers, 36 fighter planes and 27 tanks. (See Appendix G.)

2. Exports to Free China

Exports to Free China, as reported during the period under review, amounted to \$192,000, as compared with \$590,000 and \$2,707,000 during July and June, 1942, respectively. Military equipment accounted for about 79% of the total. (See Appendix B.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Sweden and Switzerland amounting to \$324,000 and \$167,000, respectively.

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9/5/52

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SUMMARY OF UNITED STATES DOMESTIC EXPORTS TO SELECTED
COUNTRIES AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED DURING
THE PERIOD INDICATED 1/

(In thousands of dollars)

	10-Day Period ended AUG. 20, 1942	10-Day Period ended AUG. 10, 1942	Total Domestic Exports August 1, 1942 to August 20, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. R.	\$23,325	\$14,970	\$38,295	\$742,941
China	192	208	400	97,720
India	48	30	78	2,858
Netherlands	167	357	524	11,537
Denmark	324	260	584	18,056
Portugal	5	1	6	9,743
French North Africa 2/	1,773	29	1,802	6,305

Treasury Department, Division of Monetary Research

September 2, 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.

Includes Morocco, Algeria, and Tunisia.

APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 26, 1941 - August 20, 1942 1/

(In Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to U.S.S.R.</u>
July 26, 1941 - Jan. 24, 1942	\$ 32,758	\$ 96,902
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	26,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,556
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Total	\$ 100,723	\$ 782,056

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1 figures are given for 10-day period instead of week except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of commerce this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research September 4, 1942

ISF/efs 9/4/42

APPENDIX C

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
August 20, 1942

	Unit of <u>Quantity</u>	<u>Quantity</u>	Value (Thousands of Dollars)
TOTAL EXPORTS			\$ 23,325
Principal Items:			
Aircraft			
Light bombers (2 eng. A-20)	No.	18	5,150
Fighters (P-39)	No.	21	
Fighters (P-40)	No.	15	
Aircraft accessories, including engine parts			
	-	-	2,449
Ammunition			
.30 cal.	No.	10,000,000	2,261
.32, .38 and .45 cal.	No.	3,000,000	
.50 cal.	No.	2,628,000	
37 mm. armor piercing	No.	8,860	
75 mm. armor piercing and high explosive	No.	25,497	
Anti-aircraft armor piercing	No.	21,840	
20 mm. tracers (aircraft)	No.	15,883	
20 mm. high explosive (Orlikon)	No.	45,000	
Military tanks - medium (M-3)	No.	27	2,160
Military tank parts & accessories	-	-	1,242
Pork and sausage	Lb.	2,703,969	1,005
Iron and Steel plates, sheets and strip	M.Lb.	7,698	860
Motor trucks	No.	457	678
Steel bars and rods	M.Lb.	7,257	547

Treasury Department, Division of Monetary Research September 4, 1942

ISW/cfs 9/4/42

APPENDIX B

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
August 20, 1942**

(Thousands of Dollars)

TOTAL EXPORTS**\$ 192****Principal Items:****Military equipment****152****Relief supplies - drugs and biologics****15****Aluminum plates, sheets, bars and rods****10****Scientific instruments****6****Relief supplies - surgical and hospital****4**

Treasury Department, Division of Monetary Research September 3, 1942

ISF/cfs 9/4/42

SEP 9 1942

My dear Mr. Secretary:

I am enclosing copy of Report on our exports to some selected countries for the period ending August 20, 1942. (9-5)

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State,

Washington, D. C.

Enclosure

Del. by Sturgis (Messenger)
5:39 9/9/42

NBW/efs

9/8/42 *g/pw*

FILE COPY

September 5, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending August 20, 1942

1. Exports to Russia

Exports to Russia, as reported during the ten-day period ending August 20, 1942, amounted to \$23,325,000, as compared with \$33,940,000 and \$53,799,000 during the same periods in July and June, 1942, respectively. Military equipment accounted for 60% of the total. (Use Appendix C.)

2. Exports to Free China

Exports to Free China, as reported during the period under review, amounted to \$192,000, as compared with \$590,000 and \$2,707,000 during July and June, 1942, respectively. Military equipment accounted for about 79% of the total. (See Appendix D.)

3. Exports to Selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Sweden and Switzerland amounting to \$324,000 and \$167,000, respectively.

ISW/ers 9/5/42

STRICTLY CONFIDENTIAL

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SUMMARY OF UNITED STATES DOMESTIC EXPORTS TO SELECTED
COUNTRIES AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED DURING
THE PERIOD INDICATED 1/

(In thousands of dollars)

	10-Day Period ended Aug. 20, 1942	10-Day Period ended Aug. 10, 1942	Total Domestic Exports August 1, 1942 to August 20, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. R.	\$23,325	\$14,970	\$38,295	\$742,941
China	192	208	400	97,720
India	48	30	78	2,858
Netherlands	167	357	524	11,537
Sweden	324	260	584	18,056
Portugal	5	1	6	9,743
French North Africa 2/	1,773	29	1,802	6,305

Treasury Department, Division of Monetary Research

September 2, 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.

1/ Includes Morocco, Algeria, and Tunisia.

April 9/2/42

APPENDIX B

**Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 26, 1941 - August 20, 1942 1/**

(Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to U.S.S.R.</u>
July 26, 1941 - Jan. 24, 1942	\$ 32,798	\$ 98,902
Jan. 26 - Jan. 31	6,978	9,608
Feb. 1 - Feb. 10 2/	4,889	17,318
Feb. 10 - Feb. 20	4,853	20,174
Feb. 20 - Feb. 28 3/	2,924	20,119
Mar. 1 - Mar. 10	2,879	32,809
Mar. 10 - Mar. 20	8,054	28,478
Mar. 20 - Mar. 31 4/	2	42,478
Apr. 1 - Apr. 10	4,876	21,648
Apr. 11 - Apr. 20	5,375	64,904
Apr. 21 - Apr. 30	2,827	30,328
May 1 - May 10 5/	296	28,642
May 11 - May 20	1,872	14,000
May 21 - May 31 6/	2,533	20,180
June 1 - June 10	3,399	12,704
June 11 - June 20	2,797	57,799
June 21 - June 30	1,664	49,219
July 1 - July 10	7,900	35,697
July 11 - July 20	599	17,240
July 21 - July 31 7/	3,866	38,809
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	21,323
Total	\$ 100,723	\$ 782,096

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1 figures are given for 10-day period instead of week except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research September 4, 1942

ISW/afc 9/4/42

SECRET

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APPENDIX G

**Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
August 20, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 23,325
Principal Items:	
Military equipment	14,010
Pork and sausage	1,005
Iron and steel plates, sheets and strip	860
Motor trucks	678
Steel bars and rods	547
Tracklaying tractors	505
Copper wire, insulated	411
Surgical and medical instruments	318
Lathes	302
Aluminum and alloys, crude	267
Iron and steel billets	260
Iron and steel wire and manufactures	247

Treasury Department, Division of Monetary Research September 4, 1942**MSF/cfs 9/4/42**

APPENDIX B

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
August 20, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 192
Principal Items:	
Military equipment	152
Relief supplies - drugs and biologics	16
Aluminum plates, sheets, bars and rods	10
Scientific instruments	6
Relief supplies - surgical and hospital	4

Treasury Department, Division of Monetary Research September 3, 1942

IW/cfs a/h/bs

SEP 9 1942

Dear Deans:

I have received Mr. Rostow's letter of August 23 and the enclosed draft of a cable to the London Embassy on bookkeeping procedures for reciprocal aid. We have examined the materials, and, in view of the difficulties of stating values at this time, we are in agreement with the directives of the draft cable.

Very sincerely yours,

(Signed) Henry

Secretary of the Treasury

Honorable Dean Acheson,
Assistant Secretary of State,
Washington, D. C.

Orig. File Direct to Dr. White's
Photostatic File - NMC office

By Messenger, Sturgis, 5:35 9/9/42

JH:dal
9-9-42

SEP 9 - 1942

Dear Eds:

I have received Mr. Heston's letter of August 25 and the enclosed draft of a cable to the London Embassy on bookkeeping procedures for reciprocal aid. We have examined the materials, and, in view of the difficulties of stating values at this time, we are in agreement with the directives of the draft cable.

Very sincerely yours,

(Signed) Henry

Secretary of the Treasury

Mr. E. R. Stettinius, Administrator,
Office of Lend-Lease Administration,
515 - 22nd Street, N. W.,
Washington, D. C.

Orig. File direct to Dr. White's
Photostatic File - NMC Office

By Messenger, Sturgis, 5:35 9/9/42

JEM:dl
9-2-42



DEPARTMENT OF STATE
WASHINGTON

August 25, 1942

My dear Mr. Secretary:

Mr. Acheson did not have an opportunity before he left on vacation to discuss with you the rather troublesome question of reporting the value of the aid our forces are receiving from the British, Australian and New Zealand Governments, and from the Fighting French authorities, in various parts of the world. You may recall the cables sent from London by Mr. Stettinius and Mr. Harriman, copies of which are attached for convenience, expressing the view that no records in money terms should be kept.

Mr. Acheson asked me to send you a copy of his letter to Mr. Stettinius, and a copy of a draft cable which he prepared, for your views. Mr. Stettinius will, I believe, call a meeting soon of those most interested in this policy.

Sincerely yours,

A handwritten signature in cursive script that reads "Eugene V. Rostow".

Eugene V. Rostow
Executive Assistant to
Assistant Secretary.

Enclosures:

1. Copies of cables from Mr. Stettinius and Mr. Harriman
2. Letter to Mr. Stettinius from Mr. Acheson.
3. Draft of cable.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

DEPARTMENT OF STATE

PARAPHRASE

CONFIDENTIAL

Telegram no. 4244

Dated: July 29, 1942 midnight

From: LONDON

Rec'd: July 29, 1942 11:26 p.m.

FROM HARRIMAN AND STETTINIUS FOR ACHESON AND MORGENTHAU.

The question of requiring dollar values to be placed on reciprocal aid received from the British by us has been studied by us. The conclusion has been reached by us that it would be unwise for OLLA to require valuation and it would present major practical difficulties. Stettinius' cable of July 29, no. 4245 to McCabe gives our reasons for this conclusion. In this cable Stettinius has asked McCabe to discuss this matter with you immediately.

After much consideration this conclusion was reached by us. In order that he can put the policy of not requiring dollar values into effect as soon as possible, we hope you agree and will advise McCabe accordingly. Since reciprocal aid is being received in increasing volume daily, prompt action is desired.

WINANT.

DCA:MBJ

7/30/42.

Copies to: Mr. Hopkins (2)
Mr. Stettinius (1)
Mr. McCabe (1) via Stettinius
Mr. Morgenthau (1) direct

DEPARTMENT OF STATE

PARAPHRASE

CONFIDENTIAL

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Mr. McCabe (1) via Stettinius
Mr. Morgenthau (1) direct

DEPARTMENT OF STATE

PARAPHRASE

CONFIDENTIAL

Telegram no. 4245

Dated: July 29, 1942 midnight

From: LONDON

Rec'd: July 30, 1942 12:30 a.m.

FROM STETTINIUS FOR MCCABE.

The question of placing dollar value on reciprocal aid furnished by the British has been studied by me and I have discussed this also with British and United States officials in London. The views which follow have the approval of Hopkins and Harriman, whom I have also consulted.

One. I am convinced that major practical difficulties would be encountered in an attempt to require dollar values to be placed on reciprocal aid and as a result of this study I deem it unwise.

(A) Services being rendered and facilities loaned to us by the British represent a great variety of different types of equipment. There are not available here records of values. Because of the acute shortage of manpower the British do not in many cases even for their own use keep value data, although of course they keep records of supplies. Value data must be compiled for the particular arrangement in the case of real estate facilities and services, etc. The manpower necessary to prepare estimates of the value of such services and supplies is not had by the British. Any attempt to reach an agreement on values they also oppose on policy grounds. Consequently, if we insist, we shall have to prepare the estimates of values ourselves. In attempting to estimate values for these items the results would be of questionable significance and the loss of manpower involved would be great. Since whatever person who makes the estimate will go to great lengths as a practical matter to make and estimate what he can sustain, the difficulty is not avoided by requiring values only "when readily available".

The receipts which the British prepare and ask us to sign are very often expressed in general terms without detailed supporting inventories for the reasons given above.

Under

DEPARTMENT OF STATE

PARAPHRASE

CONFIDENTIAL

Telegram no. 4246

Dated: July 29, 1942 midnight

From: LONDON

Rec'd: July 30, 1942 12:30 a.m.

FROM STETTINIUS FOR MCCABE.

The question of placing dollar value on reciprocal aid furnished by the British has been studied by me and I have discussed this also with British and United States officials in London. The views which follow have the approval of Hopkins and Harriman, whom I have also consulted.

One. I am convinced that major practical difficulties would be encountered in an attempt to require dollar values to be placed on reciprocal aid and as a result of this study I deem it unwise.

(A) Services being rendered and facilities loaned to us by the British represent a great variety of different types of equipment. There are not available here records of values. Because of the acute shortage of manpower the British do not in many cases even for their own use keep value data, although of course they keep records of supplies. Value data must be compiled for the particular arrangement in the case of real estate facilities and services, etc. The manpower necessary to prepare estimates of the value of such services and supplies is not had by the British. Any attempt to reach an agreement on values they also oppose on policy grounds. Consequently, if we insist, we shall have to prepare the estimates of values ourselves. In attempting to estimate values for these items the results would be of questionable significance and the loss of manpower involved would be great. Since whatever person who makes the estimate will go to great lengths as a practical matter to make and estimate what he can sustain, the difficulty is not avoided by requiring values only "when readily available".

The receipts which the British prepare and ask us to sign are very often expressed in general terms without detailed supporting inventories for the reasons given above.

Under

Under Lend Lease they are willing to rely on these records for their credit. I am convinced that more records should not be insisted upon by OLLA if they do, since a vast amount of work would be involved in the compilation of them.

(B) It is unwise to value reciprocal aid because the dollar sign would be emphasized, which it has consistently been sought to banish from the Lend Lease picture and to divert attention from the concept of a common pool of resources by the President. The actual and relective (?) extent of the sacrifice represented by the aid which the British are providing for us cannot be adequately expressed by any money figure. A real dislocation is represented by every unit of labor moved to meet American needs, since British production is so circumscribed by limitations of material, transportation facilities, labor and factory and storage space for every article provided and every bit of factory or storage space made available.

Two. Certain difficulties such as reporting to Congress will be created in not having a money value to place on reciprocal aid received and I realize this. These difficulties can be met, I believe, by telling the story in terms of tons of food delivered, maintenance facilities provided for planes and tanks and trucks, war material made available and thousands of men transported and housed, etc. The considerations I have set forth above in any event far outweigh such difficulties.

Three. I am also cabling Acheson and Morgenthau. Please show this cable to them and discuss it with them. The necessary steps to put his (?) policy decision into operation should be taken if they agree. The release from the necessity of wasting army manpower in the United Kingdom to estimate value of supplies and weapons which the Army receives here would probably be welcomed by McCloy; will you please advise. Without the necessity of making further independent detailed inventories, this change of policy should permit Army to sign such receipts as may be satisfactory to the British Government and forward them to Washington.

Four. To keep records of any kind of miscellaneous services and facilities would clearly be entirely impracticable. In the proposed reverse Lend-Lease agreement this has already been recognized and provided for. In OLLA's accounting instructions to them appropriate provision should be made and I suggest you make this clear to the Departments concerned.

WINANT.

DCA:MBJ 7/30/42.
Copies to: Mr. Hopkins (2); Mr. Stettinius (3); Mr. McCabe (1)

Under Lend Lease they are willing to rely on these records for their credit. I am convinced that more records should not be insisted upon by OLLA if they do, since a vast amount of work would be involved in the compilation of them.

(B) It is unwise to value reciprocal aid because the dollar sign would be emphasized, which it has consistently been sought to banish from the Lend Lease picture and to divert attention from the concept of a common pool of resources by the President. The actual and selective (?) extent of the sacrifice represented by the aid which the British are providing for us cannot be adequately expressed by any money figure. A real dislocation is represented by every unit of labor moved to meet American needs, since British production is so circumscribed by limitations of material, transportation facilities, labor and factory and storage space for every article provided and every bit of factory or storage space made available.

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WINANT.

DCA:MBJ 7/30/42.
Copies to: Mr. Hopkins (?); Mr. Stettinius (3); Mr. McCabe (1)

August 23, 1943

Dear Ed:

I am interested in the cables which you and Mr. Harriman sent from London about how to report the receipt of aid received by us from the British Government on the lend-lease basis. I am in complete agreement with your view that as few people as possible, both on our side and on the British, be withdrawn from the prosecution of the war to engage in bookkeeping of this sort.

It is my view, however, that a record of quantities should be kept in all cases of articles received by us as reciprocal aid, and that the record should also, where practicable, be expressed in monetary terms.

In the field, as I see it, receipts might be obtained which describe what is transferred in sufficient detail to support a rough but accurate estimate of value, without asking Army or Navy personnel in the field to attempt to report the value of what they have received. The receipts could be forwarded to a staff, either in Washington or elsewhere, which should be able to coordinate the reports and receipts received from field officers, and, if properly organized, to assign value to some items, and make an intelligible report of others, perhaps in the form suggested in your cable memorandum of July 22. For any kind of value estimates, of course, a good rule of thumb is possible or desirable. The one in charge could be told not to go to great lengths to make estimates of money values, but instead to seek a rough estimate of the value of the program. Simple rule of thumb techniques for computing the value of individual goods and services in the United States might be used. Lend-lease receipts provided in the field should be coordinated in the reports, in collaboration with the agencies actually receiving the

reports

Very truly yours,

W. S. Stettinius, Jr.

Director

Office of Lend-Lease Administration
Washington, D. C.

August 23, 1943

Dear Ed:

I am interested in the cables which you and Mr. Harriman sent from London about how to report the receipt of aid received by us from the British Government on the lend-lease basis. I am in complete agreement with your view that as few people as possible, both on our side and on the British, be withdrawn from the prosecution of the war to engage in bookkeeping of this sort.

It is my view, however, that a record of quantities should be kept in all cases of articles received by us as reciprocal aid, and that the record should also, where practicable, be expressed in monetary terms.

In the field, as I see it, receipts might be obtained which describe what is transferred in sufficient detail to support a reasonable estimate of value, without asking Army or Navy personnel in the field to attempt to report the value of what they have received. The receipts could be forwarded to a small staff, either in Washington or elsewhere, which should be able to coordinate the reports and provide general instructions to field officers, and, if properly instructed, to assign field officers to make an intelligible report of value, perhaps in the form suggested in your cable of March 27, 1943. In any kind of case, however, the instructions should be as simple as possible and as direct as possible. The field officers should not be asked to go to great lengths to make estimates of money values, but instead to seek a rough estimate of the value of the material. Simple rules of thumb techniques for estimating the value of quantities of goods and services in the United States might be used. Lend-lease accounting provided in the United States would be provided in the field, in collaboration with the agencies actually receiving the aid.

Very truly,
Reports

W. R. Stettinius, Jr.

Director

Office of Lend-Lease Administration
Washington, D. C.

Reports from abroad prepared in this way could be the basis, if desired, of a consolidated program of bookkeeping in Washington which could further translate the reciprocal aid records into the value here of equivalent materials and services. That bookkeeping in turn would not aim at complete dollar value records, but would be directed towards the preparation of reports which could be more meaningful than a room full of the original receipts for each gun and plane supplied to the troops.

My administrative suggestions are, of course, tentative, and are designed only to illustrate the point of principle I wish to raise. I should appreciate your views on this proposal, and on the attached draft of a cable in reply to Mr. MacLellan. When we are all of one mind on this problem, which I trust will be soon, I suggest that we do inform the Army and Navy, and seek an appropriate revision of their instructions to field officers.

Sincerely yours,

DEAN ACHESON

Enclosure:
Draft of cable.

August 23, 1942

MEMORANDUM,
LONDON.

With reference to your no. 4344, of July 21, from Stettinius and Harrison to Sargent and Latham, and your no. 4345, of July 22, from Stettinius to McCabe, we are at this moment:

One. All parties are agreed that quantitative records are essential but that as few people as possible be engaged in keeping them; that whatever records we want should be prepared by United States personnel. Such records will not be submitted for approval to the British, if they so prefer, and will not affect the broader issues of lend-lease settlement.

Two. Army and Navy personnel in the field should be instructed not to attempt reporting in money values, except where such values are readily assignable.

Three. A staff group at one or more central offices in Washington and perhaps elsewhere, as convenient, should be directed to coordinate field reports and receipts of officers into a clear picture, using money values where such values can be obtained without effort, and presenting the program otherwise as suggested in paragraph two of telegram 4345. Rule of thumb techniques for computing values might be used to reach broad estimates.

Four.

August 22, 1942

W. L. H. Y,
L. W. H. Y.

With reference to your no. 4344, of July 21, from Stettinius and Harrison to Morgenthau and Acheson, and your no. 4345, of July 22, from Stettinius to McCabe, we suggest this program:

One. All parties are agreed that quantitative records are essential but that as few people as possible be engaged in keeping them; that whatever records we want should be prepared by United States personnel. Such records will not be submitted for approval to the British, if they so prefer, and will not affect the broader issues of lend-lease settlement.

Two. Army and Navy personnel in the field should be instructed not to attempt reporting in money values, except where such values are readily assignable.

Three. A small group at one or more central offices in Washington and perhaps elsewhere, as convenient, should be directed to coordinate field reports and receipts of officers into a clear picture, using money values where such values can be obtained without effort, and presenting the program otherwise as suggested in paragraph two of telegram 4345. Rule of thumb techniques for computing values might be used to reach broad estimates.

Four.

Four. These reports could be used in Washington for any further bookkeeping desired, and could be translated into the dollar value of equivalent U. S. supplies and services. It will be made clear in the next Report to Congress that full reports on the reciprocal aid program in monetary terms are impossible, and that the objective in reporting will be to present as clear a picture, in broad outline, as considerations of secrecy permit. Detailed instructions are being prepared here with Army, Navy and Lend-Lease officials.

Five. This cable has been approved by Messrs. Hopkins, Morgenthau, Stettinius and McCabe.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860


 BOX 680
 BENJAMIN FRANKLIN STATION
 WASHINGTON, D. C.

September 9th, 1942.

SECRET

Dear Dr. White:

The gold and dollar figures for August are
 as follows:

	<u>Aug. 7</u>	<u>Aug. 15</u>	<u>Aug. 28</u>	<u>Aug. 31</u>
Total Gold (incl. Belgian)	758	761	771	773
Official Dollar Balance	<u>158</u>	<u>166</u>	<u>170</u>	<u>195</u>
Total Gold and Dollars	916	927	941	968
Less: Belgian Gold	110	105	110	110
Scattered Gold	168	180	182	182
Gold Reserve against immed- iate liabilities	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
AVAILABLE GOLD AND DOLLARS.	<u>628</u>	<u>632</u>	<u>644</u>	<u>666</u>

We had a special payment of \$15 million for wool
 during the month.

Yours sincerely,

T. K. Bewley
 T. K. Bewley.
 Director of Monetary Research

Dr. H.D. White,
 Director of Monetary Research,
 U.S. Treasury,
 Washington, D. C.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 312

Information received up to 7 A.M., 9th September, 1942.

1. NAVAL

HOME WATERS. Night 7th/8th. Our light forces attacked 2 escorted merchant ships off DIEPPE and CHERBOURG respectively. In each attack, the escorts were damaged by gunfire, and it is possible one merchant ship was hit by torpedo. One motor torpedo-boat and one motor gunboat slightly damaged.

MEDITERRANEAN. 7th. One of H.M. Submarines torpedoed a 9,000 ton ship in convoy west of CRETE.

2. MILITARY

EGYPT. Night 6th/7th. Our patrols were active in Northern and Central sectors. In the South, increased movement of enemy mechanical transport was reported. 7th. Little activity reported.

RUSSIA. Russian attacks in Northern and Central sectors reduced. On DON Front Russians have slightly extended a bridgehead on the Southern bank north-west of KLETSKAYA.

3. AIR OPERATIONS

WESTERN FRONT. 8th. Bostons, escorted by Spitfires, of which 2 are missing, attacked 2 whale oil ships at HAVRE and CHERBOURG. No hits claimed. One enemy aircraft crossed southwest coast, causing slight damage at SELCOMBE. A JU 88 was destroyed by Beaufighters 185 miles south-south-west of BISHOP'S ROCK.

8th/9th. 249 aircraft despatched to attack FRANKFURT, where weather was not favourable. 7 missing and 3 crashed. 13 enemy aircraft flew over East Anglia and Southern England. Damage slight. 2 were destroyed and one damaged by night fighters.

EGYPT. Night 6th/7th. Wellingtons bombed TOBRUK HARBOUR and EL DABA landing ground. 7th. Our fighters (one missing) destroyed 5 enemy fighters over battle area. Night 7th/8th. 15 enemy aircraft flew over DELTA area. 3 shot down by night fighters.

MEDITERRANEAN. 7th. Allied aircraft bombed a southbound convoy southwest of CRETE. One ship was hit and near misses were obtained on others.

4. INTELLIGENCE

A movement of Japanese aircraft from Central and South China to TONKING and BURMA is reported to have taken place during the latter part of August. It is estimated that as a result of this, the total number of aircraft in BURMA, THAILAND and INDO-CHINA is now about 300 and that the number in Central and South CHINA has been reduced to about 120.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

333
JK

DATE Sept. 9, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Bombing Raids over Western Europe during August, 1942.

1. The month of August marked the beginning of U.S. Army Air Force raids over Western Europe with Flying Fortresses. Seven such raids were conducted in August largely on points in occupied France, without the loss of a single Fortress. These were all high-altitude daylight raids. The degree of bombing accuracy is reported to have been unusually high, due in large part to the Norden bombsights. Eleven or twelve Flying Fortresses took part in six of the raids, and seven were sent out to bomb Rotterdam on August 27. Escort was provided by British fighter planes.

2. The R.A.F. made seventeen bombing raids over Western Europe in August, with a loss of 122 planes. The largest raid was the one over Kassel, in which 306 planes participated. Secret British Operations Reports give some details on eight large-scale R.A.F. bombing raids. In these raids the losses ranged from 3-1/2 percent to 12-1/2 percent, and averaged slightly over 7 percent of the planes participating.

(British Operations Reports.
Official Communiqués and press despatches)

Bombing Raids over Western Europe during August

	<u>R.A.F.</u>	<u>U.S.A.</u>	<u>Total</u>
I. <u>Raids over Western Europe Reported during August</u>	17	7	23
II. <u>Bomber losses in raids over Western Europe</u>	122	0	122
III. <u>Cities reported attacked</u>			
A. Germany			
Amonberg (industrial)	1		1
Coblentz (railway and industrial center)	1		1
Duisburg (port, railway and industrial center)	1		1
Dusseldorf (steel and armaments production)	1		1
Emden (port, shipbuilding)	1		1
Flensburg (sub.building, port)	1		1
Frankfort (railway and manufacturing center; railway and electrical equipment, rubber center)	1		1
Kassel (locomotive, aircraft and tank manufacturing; railway repair shops)	1		1
Mainz (motor, locomotive and chemical works)	3		3
Nuremberg (manufacturing)	1		1
Osnabrueck (rail center; steel, copper and aluminum works)	2		2
Saarbruecken (railway center, coal and iron industry)	1		1
West Baden	1		1
Wiesbaden (small industries)	1		1
Total reported attacks on German cities during August	17	0	16

	<u>R.A.F.</u>	<u>U.S.A.</u>	<u>Total</u>
III. <u>Cities reported attacked (con.)</u>			
B. Occupied Areas			
Abbeville (airfield, rail sheds, port)	1	1	2
Amiens (railway yards)		1	1
Cherbourg (port, airport, ship- building)		1	1
Dunkirk (3rd French port, petro- leum refineries)		1	1
Gdynia (Baltic port)	1		1
Havre (port, shipyards, power station)	2		2
La Pallice (port)	1		1
Le Trait (sub.building yards)		1	1
Meaulte (aircraft plants)		1	1
Rotterdam (port)		1	1
Rouen (rail center, shipyards, fuel tanks, power stations)		1	1
Wevelghem (airdromes)		1	1
	<hr/>	<hr/>	<hr/>
Total reported attacks on cities in Occupied Areas during August	5	9	14
Total reported attacks on Western European cities in August	22	9	30