

October 2, 1942
10:52 a.m.

HMJr: Hello.

Operator: Mr. Cox.

HMJr: Hello.

Operator: Go ahead.

HMJr: Oscar?

Oscar
Cox: Yes, Mr. Secretary.

HMJr: Have - have you got too much to do or do you want another little job?

C: Oh, I always have got plenty of time for friends.

HMJr: Good. Well, I've just gotten a memorandum on this tire-making machinery for the Russians.

C: Yeah.

HMJr: They tell me that's just as bad as the oil refinery.

C: That's what my fellows tell me too. I asked them while they were looking at this other stuff to look - take a look at some of the related ones.

HMJr: Well, unless you want another blast through the papers, I suggest in whatever capacity you serve Lend-Lease, you get busy.

C: Yeah. Well, I - I was going to do that, and I'm glad you corroborate the thing.

HMJr: Joe O'Connell knows all about it.

C: Right.

HMJr: But he - he says it's just as bad as the other one....

C: Yes.

HMJr:and follows more or less the same lines except that W.P.B. is in on this one.

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C: Yeah. Well, that's the same impression I get from my fellows who have been looking at it.

HMJr: Well, there's no reason why that couldn't be straightened out in twenty-four hours.

C: I don't think so. Well, let me get them to work on it.

HMJr: Okay.

C: I appreciate it.

HMJr: Well, Joe knows all about it.

C: Good. We'll be in touch with him.

HMJr: Okay.

C: Thanks.

October 2, 1942
10:55 a.m.

FINANCING

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

H.M.JR: Do you fellows know what you want?

MR. BELL: No. I don't think it has jelled yet. (Laughter. It is between, I think, the two-percent bond and the note. I am not so sure that the one and a half percent note, September 15, '46, that these people recommended is all right. I don't know how George feels about it. I wouldn't mind dropping back a year.

H.M.JR: Look at George and Murphy, both here. They both look healthy. I was about to send flowers. (Laughter)

MR. HAAS: Looks are very deceptive.

MR. BELL: They look pretty good this morning. The good weather--

H.M.JR: That is why I am surprised they are in. (Laughter)

MR. BELL: Neither one of them play golf so the weather doesn't mean much, except their general health.

H.M.JR: Maybe they play croquet. (Laughter)

What about the short-term thing?

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MR. BELL: The note?

H.M.JR: Yes.

MR. BELL: The one and a half percent note of September 15, '46 is a pretty good suggestion, I think.

H.M.JR: Do you know how many of those tax notes you sold?

MR. BUFFINGTON: Nine hundred and twenty-nine million.

H.M.JR: What?

MR. BUFFINGTON: We sold eight hundred and forty-five million of the new ones in two weeks.

H.M.JR: How much have you sold the last two days?

MR. BELL: Three hundred and thirty million on the 30th.

MR. BUFFINGTON: We sold fifty million of the A's.

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Mr. Gastoni

Please talk to the Secretary about
this on Monday.

October 2, 1942
10:59 a.m.

Operator: Go ahead.

HMJr: Hello.

McCormack's Secretary: Mr. Secretary?

HMJr: Yes.

McCormack's Secretary: Mr. McCormack.

Cong. John W. McCormack: Hello, there. Is this the Secretary?

HMJr: Yes, John.

M: How are you, Henry?

HMJr: I'm alive.

M: That's good. I know how we all are.

HMJr: Yeah.

M: Up in the - in the Comptroller's position in Boston, Mass....

HMJr: Yeah.

M:John Gurley, you know, the brother of Jim, he's a very high type fellow, Johnny is.

HMJr: Yes.

M: Damn able fellow, and I hope that you're going to recommend him because we're going to have Curley down here next year, and he's going to be Congressman, and if it's going to be done, which I hope, why, I think the quicker the better - wouldn't - and, because we're going to have him with us for two years, Henry, and he's a damn able fellow.

HMJr: Yeah. Well, give me a chance to look into it, will you, John?

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M: Yes. I talked to the Chief about it a couple of times....

HMJr: Yes.

M:and, frankly, Johnny Curley - I wouldn't hold against Johnny any thoughts about the other fellow....

HMJr: Yes.

M:and I think the other fellow is charged with a lot of things he never did, see?

HMJr: Yeah.

M: I don't know - I - that's my frank opinion. I'm not defending him at all....

HMJr: Yes, yes.

M:but we got to look at things practically. But Johnny was collector of - in Boston - and he's a high-grade fellow. I've - I have a profound respect for Johnny, and if it's - I hope it will be done, because I think it would be highly advisable. And then the other fellow is - I can assure you with all - with all of the bad things that one can conjure against him personally, he was always right in every campaign.

HMJr: Yeah.

M: I can assure you of that, see?

HMJr: I see.

M: Because I personally - because I'm the one fellow up there that can call the turn with him because they haven't got anything on me and I'm independent of them all, and I can - and I try to appraise each one of them honestly as I can, see?

HMJr: I'm sure you do, John.

M: And Curley has been right in every campaign.

HMJr: Yeah.

M: I know that.

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EMJr: Well, let - let me look into it.

M: All right, fine, Henry.

EMJr: Thank you.

M: Goodbye.

October 2, 1942
11:05 a.m.

FINANCING

Present: Mr. Bell
Mr. Buffington
Mr. Haas
Mr. Murphy
Mr. Baker
Mr. Eccles
Mr. Sproul
Mr. Szymczak
Mr. Piser
Mr. Draper
Mr. Goldenweiser
Mr. Rouse
Mr. Williams

H.M.JR: We had a little good news. They tell me we have sold nine hundred and twenty-nine million of those tax notes.

MR. SPROUL: Not bad.

MR. BELL: The Reserve Board ought to really feel good.

MR. ECCLES: We feel pretty good on that one.

H.M.JR: Fifty million were A's?

MR. BUFFINGTON: Fifty million A's and seven hundred and ninety-four million of the new C's, making a total from the 14th of eight hundred and forty-five million A's and C's.

H.M.JR: George, let's get out a little puff on the back for that.

MR. BELL: We are getting out a press release.

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MR. BUFFINGTON: It isn't quite as much of a puff as we would like to make.

H.M.JR: Blow yourself up. (Laughter)

MR. BELL: I assumed that the telegram you sent out last night would be used by the chairmen, plus this press release which we are sending to the banks, also. With the two together, I think the executive managers might go to town on it. Do you think they will?

MR. BUFFINGTON: Originally the Secretary's wire was in the press release; they took it out. I thought it might be well to let them know they had permission in the press release.

MR. SZYMCAK: New York did not do bad - three hundred and forty-one.

MR. ECCLES: It is what we expected, but we are awfully glad to have it confirmed. (Laughter)

MR. DRAPER: We are a little surprised.

MR. ECCLES: I felt there was a lot of that money around - that kind of money. I have been just as sure of it, but I couldn't prove it. I have had a conviction of it for a long while.

H.M.JR: I am delighted.

MR. ECCLES: I think you are going to find a continuing excellent sale of that bond.

H.M.JR: You know, the war bonds did all right. They took in a hundred and forty-one million by telegraph that last day.

MR. ECCLES: What did you get in total for the month?

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MR. BELL: Eight hundred and thirty-eight, including those wire reports.

MR. SPROUL: I don't think you want to repeat that business of wire reports and get five weeks in one month unless you want to wear down the staffs of the reserve banks. We had over a hundred people working until twelve and one o'clock in the morning to get out those figures, and they are people in hard-worked departments, anyway. They are going to get worn down for something which they, and we, don't see as absolutely necessary, if that sort of thing were repeated.

H.M.JR: Well, these motion picture theater people did a swell job, and wanted to get the credit. They really did go to town - that is, the motion picture theater owners. I mean, it was the theater owners that put on a perfectly swell drive. So between now and then you work out something.

MR. BELL: We have said that the wire reports will be included hereafter in the monthly figures.

H.M.JR: Did we?

MR. BELL: Yes. I might say, Mr. Secretary, that in our estimates - cash position estimates, we only put in four hundred million for tax notes and we have gotten five hundred million dollars more. We could bring this cash financing down a little. I don't recommend it because your November is going to be big, and I would rather see the November come down a little than see this one come down.

H.M.JR: I agree.

MR. ECCLES: You have some leeway which is a comfortable--

H.M.JR: We need it.

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MR. BELL: More than we have had.

H.M.JR: We need it. I would rather have the November four billion than four and a half.

MR. BELL: I would, too.

H.M.JR: Does anybody disagree with that?

MR. ECCLES: I think it is better to have this four billion instead of cutting this to three and a half and then put November to four and a half. If you could have four each month, I think it is much better - keep both months four.

H.M.JR: Does anybody disagree on that?

MR. SZYMCAK: No, I think that is all right.

H.M.JR: That is that.

You fellows in New York who are in contact with the markets, have you got any fresh viewpoints?

MR. SPROUL: I have just the ordinary contact with the market and made no special canvass. Mr. Rouse can tell you that better than I can.

H.M.JR: Would he?

MR. ROUSE: The atmosphere that I get in the New York market, of course, has been complicated by the heavy take of the Treasury of funds, and we have seen some supply of short stuff. But looking to this financing, what appears to be the most natural thing and suitable, as far as the conversation goes, both with the larger banks and with the dealers, reflects a substantial demand throughout the country and in New York for - demand for income.

They would like best of all, and feel that an offering of a two and a quarter percent bond and a one and three quarters, whether a note or a bond, hitting two

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areas that have not been hit since February when the two and a quarters were issued last, would have all the atmosphere of a successful deal. One man went so far as to say he thought a two and a quarter percent bond alone would do the job. He wouldn't like to see it, but was emphasizing his point about the two and a quarter.

In talking with large banks like the Chase - I was talking with Green there yesterday afternoon, and he strongly recommended the two and a quarter and the one and three-quarters. Both those things have been the atmosphere in those institutions, individually, and not as group talk, for the past two months, I would say. They feel they have been "two'd" to death, as one chap put it.

H.M.JR: That is the worst thing that should happen to them! (Laughter)

MR. ECCLES: We ought to "one and a half" them to death for a while.

H.M.JR: Then he would say, "Give us a two and we will love it." Why isn't that an idea? Let's fool them and give them a one and a half or a one and three-quarters.

MR. ROUSE: You are still doing market financing, I should say, and I think you would want to have the atmosphere that goes with market financing.

MR. ECCLES: To a very limited degree, though, Bob, I think that atmosphere is pretty fast disappearing.

H.M.JR: How about the short-term thing?

MR. ROUSE: We have a pretty steady supply of short-term securities for the past three or four months. We had the certificates in June; we had the certificates in August; we had the certificate and note in September; and we have had the dual purpose note in September.

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There is, for the time being - with the increasing amount of bills, there is a sufficient supply of short-term securities and I think there is, what we say in the market, a competitive situation between the certificates, notes, and tax notes, if you get into the short note area.

H.M.JR: If we did this two, when would this fall - what month?

MR. ROUSE: In March, '50-'52.

H.M.JR: We have a June, a September, and a December, haven't we?

MR. ROUSE: If you did the two it would be practically the same situation that you had in July when you did the two in July; that is seven years and five months to the call date.

H.M.JR: That was December 15, '49-'51.

MR. BELL: Yes.

MR. ECCLES: Just move this up three months.

MR. ROUSE: Seven years, three months to the call date, and nine years, five months to maturity. The prices were the same, that is, the two and a quarter, '52-'55 in July were just about on a two fourteen basis; two and a half, '56-'58 were around the two and a quarter basis where they are today.

H.M.JR: We have a March 15, '48-'50.

MR. ROUSE: Yes, it would interfere as between the call date and that maturity.

H.M.JR: Would you put another one in there?

MR. ROUSE: Yes, sir.

H.M.JR: And this would be--

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MR. ROUSE: Fifty-'52.

MR. BELL: Assuming that the '48 call security would be out of the way before you got to March?

MR. ROUSE: I am not fearful of these amounts because we are going to have to increase in this same area by a very substantial amount as we go on, and I think we have got to face that - we might as well face it now as later.

H.M.JR: As I feel today, certainly as the thing was expressed here the other day with the Fed - I think every three months we ought to get out a two percent. That is the way I feel this morning.

MR. ECCLES: I feel that way. I have felt that you have got to keep this thing as simple as possible and that the two is something that has been pretty generally accepted as the top for the banks. They are going to be expected to take a lot. We are going to give them the funds and they can have as many of the two's as they want - at least as many of the two's as the Treasury requires funds and as they want. There will be a combination between the bills, on the one hand, and the two's on the other. That is the range. What has been happening is that the banks, when the short rate was very low and you had a bill rate of almost nothing, and the note rate - you take up until the last six months of the last year, the rates in the five-year category or less are pretty low. They have been strengthening considerably in that category without changing the rate structure on the longer bonds, which is certainly what I have felt should be brought about - that the spread was too great.

But the bank investment policy, when they could get nothing, or practically nothing, on short term, we were naturally pushed more out into the two's and a half and into the longer-term securities.

Looking to the past, that is what they were doing. They were buying more heavily of the longer stuff and keeping large excess reserves. I think that was pretty true.

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Today, while they can get what is available to them in the certificates and in the notes, one percent, one and a quarter, one and a half, they can invest more fully their funds in that field, and they do not need as much in the long term.

I think that there may be an indication today of a shortening of portfolios rather than a lengthening of portfolios; the two percent on the one side, with the variety in between of four or five or six different - and the bills on up - and it seems to me the sort of a pattern that we should have available for the banks and the public to the extent they want to take that security, but largely for the banks. To go beyond that two, I feel, just as I expressed myself the other day, you are making a fundamental change that should not be done at this time without a lot of consideration.

H.M.JR: I don't feel inclined to agree with it.

MR. ECCLES: I am not saying that you do, but I know there is still - Bob expressed the view of the market on that - some of the market, at least.

H.M.JR: I think this: If we decide to go through with it - the sooner we make up our minds the better - these people who see the market ought to tell it to them in very friendly, but very firm terms, that this is an administration policy, that we are going to go ahead, and we expect their cooperation, so there won't be any shilly-shallying about it. I mean, tell them, "This is what, after careful consideration, we have decided, and this is the program."

MR. SPROUL: I don't think it should be an administration program at this point, and I am not looking at it solely from the point of the market, although I think that the market combination of a two and a quarter and the long note or the short fixed maturity bond is unnatural at this time and may mean the difference between having a very successful offering on this relatively large amount - the largest amount so far - and of an offering that just gets by. But I also think

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it fits into the general program; that it is not such a fundamental change, nor is it something that will break down either the general program of financing, or certainly not the pattern of rates which we have had.

It would seem to me that we need a companion piece to the restricted two and a half percent registered obligation, and that the best we can do on such a companion piece is a two and a quarter percent, fully-marketable bond. That will get, I feel, a large play from the banks outside the money centers which have the excess reserves that we now want to get into use, and it will get some play from non-bank investors who don't want a registered security. I think that is important, from a policy standpoint, to make that move as quickly as possible. I don't think it interferes, either with the general program or with the pattern of rates.

As far as cost to the Treasury is concerned, I think it would not cost you any more, probably, than trying to combine a shorter term, a two-percent issue, with some further distribution of the two and a half by opening them up for subscription to a larger variety of buyers, or in some way to the banks. I think that would cost you just as much, probably, as the offering of the two and a quarter.

I don't think the maturity is too long for banks which would go for a two and a quarter in preference to this long note or short bond, which would be offered with it. They would have their choice there, and insofar as they did go for it, I think it would still be within the banking range and also within the range of some non-bank investors.

It seems to me that marketwise, yes, you are still doing market financing to some extent, although it is more and more administration policy, but more important than that, that it fits into the program and fills a place there that ought to be filled at this time.

Until we get those excess reserve funds outside the money centers into use, I think we are stymied on having a decent national credit policy; too, and

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forced into the position of doing temporary things with respect to New York and Chicago, because we have a special situation there, and are unable to deal with the thing as a whole.

MR. ECCLES: Allan, what assurance have you that a two and a quarter would get those into use, where a two percent wouldn't?

MR. SPROUL: I think they would just go into use more quickly and larger amounts; and what tells me that is just my common sense. The two and a quarter will get more money than the two.

MR. WILLIAMS: Do you think the issuance of a two and a quarter, now, would do away with the necessity later on of altering the two and a halves?

MR. SPROUL: I don't think - it certainly would not involve any necessity of altering the two and a halves; it would probably do away with that necessity. We would have a companion piece there, as I say, fully marketable, and if you didn't want to take a registered security, two and a half, you could take a fully-marketable two and a quarter, and there would be - an element of discrimination would be gone because you would have an off-set in your fully marketable, as against a quarter of one percent.

MR. BELL: Allan, do you think that if the bankers outside of New York and Chicago understood pretty well that two percent was the limit for banks that they wouldn't come in with these excess reserves? They are now sitting around waiting for a two and a quarter, probably.

(The Secretary and Mr. Haas left the conference temporarily.)

MR. SPROUL: I think they would come in more slowly, and I think it is important to get them in as fast as possible.

MR. ECCLES: I don't believe that the excess reserves would go into bonds at all. I think that the tendency is to shorten, if anything, the range of bonds because of this higher yield that we are getting now on certificates

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and notes. If you can't get out the excess reserves with the one-year certificates, with the reduction of the discount rate, with the bill - the posted bill rate - and with the change we discussed the other day--

MR. SZYMCZAK: And with the repurchase agreement--

MR. ECCLES: ... and with the change we discussed the other day of making bills available up to some amount - a hundred thousand, or two hundred thousand, to the smaller institutions who won't bid.

Now, that is the way - that is the range in which you are going to get this excess reserve. What they are now holding in excess is the liquidity portion of the bank that represents the greatly increased deposit structure that they have no assurance of how long they will hold. Unless they feel that they can be almost made - the equivalent cash - I think they are still going to hold. I think the last thing they will do with these excess reserves is to put them in bonds. I don't think that the two and a quarter will touch the excess reserve problem, Allan - or the two, either, for that matter.

MR. SPROUL: That is a matter of opinion. The three-eighths percent bill we have done quite a bit with, but I don't think it will go much further.

MR. ECCLES: I think we have to go further on the bill.

MR. ROUSE: I had five reports from country banks scattered throughout New York State, and they didn't know how to bid, didn't want to know, weren't interested in the three-eighths or half rate. They were interested in the bond rate.

MR. SZYMCZAK: In what rate?

MR. ROUSE: The bond rate.

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MR. SZYMCAK: That was from where?

MR. ROUSE: They were scattered small banks throughout New York State, as our bank relations men have been throughout the State. There just happened to be five of them that passed over my desk yesterday.

MR. ECCLES: I don't think the two and a quarter meets the feeling that there is discrimination, that the mutual savings and the building and loan get two and a half; and to make a general market issue of two and a quarter to meet that - it is neither fish nor fowl. You don't satisfy anybody to do that. Of course, you are establishing a general market rate.

(The Secretary and Mr. Haas re-entered the conference.)

H.M.JR: I am sorry, I wanted to go back to January and see what we have done. I want it visually. George said he didn't have it the way I wanted. If it is any good I will sell it to each of you for a penny apiece.
(Laughter)

MR. ROUSE: In saying a two and a quarter and one and three-quarters, I had in mind the November and December financing. We were talking here Tuesday of a reopening of the registered two and a half in the hope it would produce in the neighborhood of the same amount we got last time - a billion and a quarter - and on the basis of the four billion dollar offering, we might then be on the basis of doing only one issue.

At this time, as far as I can see, I would revert to the two percent bond - the two percent bond carried as one issue - again having in mind that December, which would be a tax month, would be an interim financing, generally speaking.

H.M.JR: One issue of two percent?

MR. ROUSE: In November.

MR. DRAPER: Do you mean a two and a quarter, now?

MR. ROUSE: To do the job along the lines that Allan mentioned, of trying to bring in funds from the

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reserve cities and the country banks, and get those excess reserves working and palliate this feeling in the country banks that they have been discriminated against with respect to the two and a half's; generally create an atmosphere of a successful financing and then revert to the two percent bond in November, accompanied by the two and a half reopening.

MR. SZYMCAK: What do you do in December?

MR. ROUSE: Short-term.

MR. ECCLES: What if they find there will be a two and a quarter opened up?

MR. ROUSE: With the volume over the whole period, I don't think we can limit ourselves; I think it would be unwise to limit ourselves to the two percent bond. I think we ought to have available the two and a quarter so that they can interchange and give some difference. It is just a matter of psychology, as far as I can see.

H.M.JR: Say that again, will you, Bob?

MR. ROUSE: The Chairman raised this question of reverting to the two percent bond. I don't think there is any problem, mark wise, of reverting to a two percent bond; that people would still want to continue to fill out their holdings of two percent bond, but we have got to widen the group we go at, which we would do with the two and a quarter. I think the two percent has got to carry the bulk of the load. I think, at intervals, as we have done, we have got to widen the list of coupons we are using so that we have a little greater variety than if we are restricted to notes and a two percent bond.

MR. ECCLES: You have got lots of market bonds out for them to take now.

MR. ROUSE: They don't want to buy them in the market; they want to buy direct from the Treasury at par.

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MR. ECCLES: Of course, sooner or later in this picture the banks have got to understand that what is looked upon as the natural, normal type of financing is out the window. This is a controlled market; we have got power to buy direct from the Treasury. The banks don't want us to use that power. We don't want to use it. The financing has got to be done. You are going to do all you can by selling securities outside the banks. When you get down to the point where that does not get you enough money, through taxes and selling outside, then either the banks can keep their funds idle or they can come in and get - I shouldn't say they can keep their funds idle, - what I should say is that we give them whatever funds are necessary, and you pay them up to two percent - you give them the funds, then pay up to two percent.

Now, if the banks don't want to play along with this kind of a range, up to two percent - comparatively high rates in the notes and certificates, with that variety - then all they are going to do in this picture, it seems to me, would be force direct purchasing. I don't believe the banks are going to sit with idle funds and take - and not take the two percent because they can't get two and a quarter.

The banks, as I have seen it over the years I have been here, have never been satisfied when the rate was three percent. When I first came over here in the fall of '34, I will never forget my first experience; how the market was tight and difficult, and the two and seven-eighths practically failed. It was a partially tax exempt issue, too. The banks figured that the rate was too low. As you look back, there has always been that tendency, and I just don't feel that the two and a quarter is any other than an effort on the part of the banks to get a better rate, and I think it will weaken your whole structure.

If the two percent - what is now being given to the banks - was not adequate to give them a satisfactory income; as this thing expands, then I would say to give them two and a quarter. When it can be shown that they need more revenue to get by, I am certainly for paying them.

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H.M.JR: I can see we will have meetings over the week-end, Sproul and Rouse in one corner, and some of the others in another corner, because everything - they will take the two and a quarter just as nicely next month?

MR. ROUSE: It doesn't fit as well with the two and a half; that is what I had in mind. I can see a half spread between the interest rates and the dual issues. I think that is quite satisfactory.

H.M.JR: But you could save the two and a half for December?

MR. ROUSE: A quarter of one percent between issues would be a little different, I think.

H.M.JR: Supposing though, we wanted to put on a big drive in December, wouldn't it - what would it be?

MR. ROUSE: You mean take an amount sufficient to cover you for two or three or four months, fifteen or twenty billion dollars?

H.M.JR: No.

MR. SPROUL: I don't think December is the month for a big drive. I think January would be better for a big drive. December is the tax payment month; January is a reinvestment month. I think January is the better month for the big drive. I think you ought to do it then with preparation beforehand and a big selling campaign.

H.M.JR: Some of these bankers think December--

MR. ECCLES: Instead of spending your money for Christmas, sell them bonds; get them to buy bonds for Christmas presents; make that as a basis for your campaign. Otherwise the money will be spent for Christmas, and they will have bills to pay in January and won't be able to buy bonds.

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MR. HAAS: It would cut down the pressure on the price ceilings, too. If we are going to do a big job, I was thinking of saving the tap issue until December.

MR. SPROUL: I don't think you need to throw that tap issue into a big drive. I think that is a restricted market issue which is aimed at a certain group of investors as funds which accumulate from month to month, and it shouldn't hit them at the end of the quarter period.

H.M.JR: Well, Marriner, why don't you do this - with this extra four hundred million that came in, I don't see why we should raise our bills right now.

MR. ECCLES: We are not advocating that the bills be raised until - you see, you have been getting a hundred a week new money, and on October 21 it will drop down to fifty million a week. It is our idea to keep it to the hundred million a week of new money, and that doesn't come until October 21. That is three weeks away.

MR. BELL: It has been suggested that you go up to four hundred fifty on October 21.

MR. ECCLES: That is quite a while away, but that merely keeps up the hundred million of new money we have been raising now for several months. Until we get the bills up to a considerably higher level than they are now, we all feel that we should continue to get a hundred million new money a week until you reach some point where we think that we have possibly got enough bills in the market to meet the situation.

H.M.JR: Well, couldn't you people have a little more discussion amongst yourselves and see--

MR. ECCLES: I don't think it would do any good.

MR. DRAPER: We are pretty well talked out.
(Laughter)

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MR. ECCLES: It is just a question - some of us have certain views.

MR. SZYMCZAK: I think we all agree that you can get all the money you need on the two-percent. It is just a question of whether you are going to get a larger subscription or not and whether you want a larger subscription.

MR. ECCLES: Here is another thing in connection with that, though, that we all do agree that you should not put the one-percent note out. We all agree that this is just as good a time as any to ask for four billion dollars, and don't designate the amount of notes or bonds, but just four billion, and say, "Here are two offerings, take your pick."

H.M.JR: Do you like that?

MR. ECCLES: Yes. We are agreed on that, as I understand it.

MR. SPROUL: Yes, I think on these--

H.M.JR: We like that, don't we?

MR. BELL: Yes.

MR. SPROUL: On these minor points--

MR. HAAS: I think it is too late for that. We were for that some time ago. I think you have reached the stage where the Treasury will have to designate the type of securities and the amounts in each one.

H.M.JR: You don't want that now?

MR. HAAS: No. In a month or two the trend will be the other way. It is good in peace time, but now we are getting into higher financing, and I think it is a trend in the wrong direction.

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MR. ECCLES: The Canadians do it when they want their big money. They just make an offering, "Here are two pieces of paper; take your choice," and it has been working very well.

MR. HAAS: It isn't an important thing between these two issues.

MR. SPROUL: I think it fits into the war financing and very large offerings.

MR. BELL: If we had done it on the last two issues - had gotten two billion dollars on your long notes and about a billion in your certificates, that is the way it would have worked out instead of a billion and a half each.

MR. HAAS: With a fixed pattern of rates I think you have to indicate when the rate pattern gets rigid, because the banks will go out and take the high interest rates.

MR. SPROUL: That is what you would think they would do, but their custom overcomes their intelligence, and they don't do it. (Laughter)

MR. WILLIAMS: Was there any discussion on Wednesday as to the likelihood in the future of changing this two and a half to a fully marketable security? It seems to me the question is as to whether we put out a two and a quarter now as related to that, indirectly.

MR. BELL: You mean the two and a half tap?

MR. WILLIAMS: Yes.

MR. BELL: If we change, to that extent you sometimes eliminate the banks.

MR. ECCLES: That is right, we would.

MR. BELL: I don't see how it meets the banking problem outside of New York that you have been talking about.

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MR. ECCLES: If you meet the smaller bank's problem up to, say, the million dollar point--

MR. WILLIAMS: Allan's argument was for a fully marketable two and a quarter as a companion-piece to the two and a half. If later there is enough pressure to bring about a change in this present two and a half tap, it does throw some - does have some influence on his position.

MR. BELL: You do increase bank deposits when you allow the commercial banks to buy any security, even though they up the percentage of their savings deposits.

MR. ECCLES: That is right.

MR. SPROUL: I have a question on that, both administratively and on that ground. We could resist any pressure that might develop for widening the ability to buy the two and a half, and we could resist it better if we had a fully marketable two and a quarter.

There are four or five things, Mr. Secretary, in the minor category, some of which we have touched on here, which we think we are pretty well agreed on: increase the issue of bills on October 21; roll-over of certificates at the end of the month could be two billion on the one-year certificate to pick up five hundred million.

MR. ECCLES: Or more even.

MR. SPROUL: Your issue this time, we think, could be four billion; let the market decide what proportions it would take it in. The issue should be left open four or five days to give a chance to do some work on it, and the payment dates should be split as on the last issue so that the funds would be taken out of the market on different days.

H.M.JR: I don't think there would be any trouble on that.

MR. ECCLES: We were agreed on the one and a half if you put out the two percent.

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H.M.JR: One and a half to run for--

MR. ECCLES: To run to December of '46.

MR. ROUSE: If you are going to leave the books open, it would be preferable to make the offering on Wednesday, because Monday is generally a holiday, a carryover of Columbus Day, and a good many banking institutions are likewise closed so that it would be better, in order to leave them open, to open the books on Wednesday morning and carry it through Saturday night. That would mean that the reserve banks would have to work over the week end, but that wouldn't hurt them. We can do it in our shop.

H.M.JR: It rushes us here awfully.

MR. BELL: How is that?

H.M.JR: It rushes us - it rushes me.

MR. ROUSE: The second best would be to open Thursday and carry through Saturday night.

H.M.JR: Open Thursday? I can make up my mind. When are those fellows coming down, Tuesday? We could see them Tuesday and get together with you gentlemen Tuesday afternoon and close it.

MR. BELL: That means announce it Wednesday morning?

MR. ROUSE: Settle it at lunch time in order to get the word out to the banks so that the necessary mechanical job can be done.

MR. BELL: We have got to go out pretty well--

MR. ROUSE: Tuesday noon, yes, I think it would be better all along the way if we could make that time.

H.M.JR: When are they coming from - when to when?

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MR. BELL: Nine to eleven-fifteen.

MR. ROUSE: Nine to eleven.

H.M.JR: You Fed people come over. If you don't insist on beef steak, we will settle it at lunch.

MR. SZYMCAK: You mean Tuesday?

H.M.JR: Tuesday.

MR. ECCLES: All right, sir. Do you want to have the meeting at two o'clock? That would be right after lunch. You wouldn't want to meet before lunch.

H.M.JR: We will meet at lunch - one o'clock at lunch - and we will settle it at lunch.

MR. ROUSE: Would the first payment date be the second Monday following? I think that is the 21st.

MR. BELL: I would like to have the first payment around the 15th. I would like to think about this over-all - these split dates and leaving open--

H.M.JR: Why don't you and anybody that is interested get together on that? I can make up my mind.

MR. ECCLES: What do you mean, your split dates, Dan?

MR. SPROUL: Split payment dates.

MR. ECCLES: I think that is--

MR. BELL: How about allotting in full to all non-bank subscribers for the bonds? Would the banks get them within a couple of weeks anyhow?

MR. ECCLES: No, I would doubt that.

MR. BELL: They would get all they want on subscriptions, wouldn't they?

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MR. SZYMCAK: That is right.

MR. ECCLES: We only want them to take what is left over. What would be the objection to that?

MR. SPROUL: I think we could consider that on this offering.

MR. BELL: It wouldn't do any more harm than it would if they got the full prorata allotment. You might keep a few of them out there in the hands of individuals.

MR. ECCLES: It would be a good thing for the banks to find out that--

MR. BELL: They are underwriters.

MR. ECCLES: ... they are the last line of defense here, so to speak, and we don't want the banks to take any more than is necessary, and we expect them to take what is necessary when you have placed all you can place outside. They are in a very different category than other investors in this picture, and the sooner they learn that, the better.

MR. ROUSE: If you do a two-percent issue, particularly - it is usually true - and somewhat of the two and a quarter percent issue - that you will find that the volume taken on a hundred percent allotment will not be so large, and you will have - you will give out those figures, of course, and they don't look too well.

MR. ECCLES: You can't make it look well by having big over-subscriptions by sweetening the issue in order to meet a type of demand, if the size of this job - if we are going to approach this from that standpoint, we are going to get licked.

MR. ROUSE: Then you have to go to a different type in the way of big organization drives.

H.M.JR: Well, let's call it a day. Are you going to be down here Tuesday, Rouse, when these fellows come in from New York?

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MR. ROUSE: I had not discussed that with Dan. It depends on your judgment.

MR. SPROUL: I think it would be good for him to be down, and I could be in New York.

H.M.JR: Would that be all right with you?

MR. BELL: You would interview the people in the market?

MR. SPROUL: Yes.

H.M.JR: Could you arrange it that way?

MR. SPROUL: Yes.

October 2, 1942
1:05 p.m.

HMJr: Yes.

Operator: Operator.

HMJr: Yes.

Operator: Mr. Blough?

HMJr: Yes.

Operator: Right. Go ahead.

Roy
Blough: Hello.

HMJr: Yes.

B: Mr. Paul asked me to call you. This is Roy.

HMJr: Yes.

B: You recall the somewhat difficulty we've had with Stam trying to go directly to the people in the Bureau.

HMJr: Yes.

B: Well, he has an amendment here. The Committee has not yet passed on it, but very likely will adopt it....

HMJr: Yeah.

B:which will give that specific power.

HMJr: Yes.

B: We're having lunch with him at the suggestion of some Senators to try to work out something which might be mutually acceptable.

HMJr: Yeah.

B: I thought you ought to know about it in case....

HMJr: Well, what....

B: Hmm?

HMJr: Well, what can I do?

B: I don't know - I frankly don't know whether there is anything you can do.

HMJr: Well, there's no reason in the world why anybody should go except through the Secretary of the Treasury.

B: Well, I quite agree.

HMJr: And I - I object strenuously.

B: Well, I'd like to be able to say that, yes.

HMJr: Well, I wish they'd get hold of Walter George and say that I - I absolutely object strenuously for anybody outside of the Treasury to go anywhere except through the Secretary of the Treasury.

B: All right, I'll see that that's done.

HMJr: What?

B: I'll see that that's done. I don't know that there's anything else that you'd be able to do in this case.

HMJr: No, I object strenuously.

B: All right.

HMJr: Is George around?

B: The meeting has just broken up. He's probably talking to the press.

HMJr: Oh.

B: He would - I could no doubt get him for you in the course of....

HMJr: Well, he most likely is the way I am. He's on his way to lunch.

B: Yes.

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HMJr: But try that.

B: All right, we shall do it. Thank you.

October 2, 1942
4:24 p.m.

Cliff
Mack: Yes.

HMJr: Mr. I. F. Stone is in Mrs. Klotz' room.

M: Yes.

HMJr: He's going out to Akron to take photographs of second-hand rubber-making machinery.

M: Yes, sir.

HMJr: He'd like to know a couple of the items that we're - that we're in the market for for the Russians.

M: All right, sir.

HMJr: Is there any reason why you can't tell him?

M: I think we can give him some. You know that's the matter that's over in Jeffer's office now.

HMJr: I know.

M: Yes. And I think we can do that all right. If he can give me just a few minutes, I'll - I'll get some - I'll get some of the information for him and call him.

HMJr: Yes. Well, I think the best thing would be to send him over there.

M: Yes. Well, all right, fine.

HMJr: I'll - I'll send him over to you.

M: Yes, sir.

HMJr: I think that's the best thing.

M: All right, fine.

HMJr: And I don't think that that's any military secrets or anything.

M: Well, I don't think so as to - as to the types of material, no.

HMJr: It's second-hand.

M: Yes, some of it is second-hand and some is new.

HMJr: Well, it's the second-hand he's interested in.

M: All right. All right, and I'll see that he has that information.

HMJr: It's - it's - well, if he wants to take pictures, it's - it's second-hand.

M: Second-hand. All right, sir, and I'll get that information for him.

HMJr: Right.

M: Yes, sir.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 2, 1942

TO Secretary Morgenthau

FROM Mr. Paul

Senator Vandenberg made a speech yesterday in the Senate on your press conference comments concerning the Senate Finance Committee's vote to freeze the social-security pay-roll taxes at present levels for the year 1943.

The Senator prefaced his remarks with a comment that he disliked to disagree with you in any respect, that he has deep respect for your earnestness and personal and public integrity, and that you and he are warm personal friends.

Senator Vandenberg then charged that your press conference statement "is in violent conflict with the facts and so likely to lead to totally unfounded conclusions, and to mislead not only public opinion but also congressional decisions regarding this vitally important matter, that I wish to explore the problem promptly and without further delay." The Senator asserted that your press comments were "a straight-out charge that the action of the Senate Finance Committee, by a vote of 12 to 4, in freezing pay-roll taxes at existing 1 percent levels for 1943, is a threat to the solvency of the social-security trust dedication."

As his principal argument in denying this supposed charge the Senator referred to statements made by you before the House Ways and Means Committee on March 24, 1939, with reference to an appropriate social-security reserve fund. The Senator quoted your comments, as follows:

"We should not accumulate a reserve fund any larger than is necessary to protect the system against unforeseen declines in revenues or increases in the volume of benefit payments. Specifically, I would suggest to Congress that it plan the financing of the old-age-insurance system with a view to maintaining for use in contingencies an eventual reserve amounting to not more than three times the highest prospective annual benefits in the ensuing 5 years."

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The Senator then asserted that in 1939 Congress did precisely what you recommended, and he referred to the amendment then adopted that requires the Board of Trustees of the Federal Old Age and Survivors Trust Fund to report immediately to the Congress whenever it is of the opinion that during the ensuing five years the trust fund will exceed three times the highest annual expenditures anticipated during that five-fiscal-year period. He then said that the trust fund is thirty times what is required in any of the next five years, and is six times the total requirements of these years; and that "the trust fund today is twice as big as Mr. Morgenthau has said is its maximum necessity." The Senator concluded this portion of his comments with the assertion that in recommending against the adoption of the Vandenberg amendment, you are "magnificently wrong".

The latter part of the Senator's speech is speculation of the reasons for your press statement. He first quoted the final portion of your comments, as follows: "Passage of the Vandenberg amendment would also require substantial adjustment in the Government's plans for war financing. It would, in effect, reduce the flow of anti-inflationary funds into the Treasury by over \$1,500,000,000." On the basis of this the Senator charges that you want to do precisely what you wanted to do with the social security funds in 1935, and precisely the thing that you were denied by the action of Congress in 1939, namely "to use the flow of presently unnecessary reserve funds as a reservoir into which he can pour a comparable part of . . . War bonds". The Senator states that this is an objective with which it is exceedingly difficult to quarrel in view of the tremendous task of finding funds to pay enormous war bills but that any enforced draft upon the resources of the country to pay the war bills should be done openly and in the name of the war effort, and that it should apply to everybody and should not be applied exclusively to industrial workers and employers.

At the close of the Senator's speech is the following summary:

"In conclusion, I submit that the statement made by the Secretary of the Treasury is without justification in respect to its charge that there is anything in the action of the Senate Finance

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Committee which threatens the integrity of the reserve fund. Secondly, I submit that in the latter part of his statement he is going far afield and dealing 'too little and too late' with a tremendous red-ink deficit when he leans upon a diversion of the ultimate use of these funds for the purpose of meeting war deficits."

After Senator Vandenberg finished his speech Senator Wagner stated that although he is opposed to the Senator's amendment he did not wish to comment on it at the time but would discuss it and oppose it when the tax bill comes before the Senate.

Vandenberg PP 7910-7913

United States
of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 77th CONGRESS, SECOND SESSION

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WASHINGTON, THURSDAY, OCTOBER 1, 1942

No. 167

Senate

Norman Gerstenfeld, D. D., minister of the Washington Hebrew Congregation, offered the following prayer:

Thou shalt be the shield of our hopes,
the power of strength of our souls, the
of our hands, the vision of our
of the love in our hearts; Bless
the deliberations of this body, so that
our men will find the leadership for
of courage and of faith, so that
our men will have strength to go forward
and build Thy world of righteousness.

Thou with these good men who bear
the burden of the conscience of this
land. Establish Thou, O God,
the labor of their souls, and grant unto
generations to come an abundant
of the seeds the brave hearts of
the are sowing. Guide our country
and our sons and lead us onward
in vision. Amen.

THE JOURNAL

request of Mr. BARKLEY, and by
unanimous consent, the reading of the
of all of the proceedings of the calendar
of Wednesday, September 30, 1942,
dispensed with, and the Journal was
read.

MESSAGES FROM THE PRESIDENT— APPROVAL OF A BILL

Messages in writing from the Presi-
dent of the United States were communi-
cated to the Senate by Mr. Miller, one
of the Secretaries, who also announced
on September 29, 1942, the President
approved and signed the act
to make transportation and
facilities available for military
where military necessity exists, by
authorizing the removal to other points
of merchandise in customs custody.

CORRECTION OF THE RECORD

Mr. CLARK of Missouri. Mr. President,
yesterday in the course of some re-
solutions which I made, I used one para-
graph which has been omitted in the
of yesterday. I said:

Initially, I may say that I followed the
of the leader and voted against the
of that bill offered by the Sen-
ator Alabama [Mr. BANKHEAD] giving
of Secretary of Agriculture a veto power
of decisions of the Price Administrator.
I thought this would be a delusion
of the farmer. Beyond con-

troversy this speedily proved to be true when
the Secretary proceeded to sell the farmers
down the river.

I ask that that paragraph be included
in the permanent Record.

The VICE PRESIDENT. Without ob-
jection, it is so ordered.

Mr. BARKLEY. The Senator from
Missouri does not include in his request
that several paragraphs of his speech
which were printed in the Record be
deleted?

Mr. CLARK of Missouri. No; I do not.
Mr. BARKLEY. The Senator wants
them all to remain?

Mr. CLARK of Missouri. Yes; I want
them all to remain.

MESSAGE FROM THE HOUSE

A message from the House of Repre-
sentatives, by Mr. Chaffee, one of its
reading clerks, announced that the House
had passed a bill (H. R. 7408) to amend
the act of October 9, 1940, entitled "An
act to restrict or regulate the delivery of
checks drawn against funds of the United
States, or any agency or instrumentality
thereof, to addresses outside the United
States, its Territories, and possessions,
and for other purposes," in which it re-
quested the concurrence of the Senate.

ENROLLED JOINT RESOLUTION SIGNED

The message also announced that the
Speaker had affixed his signature to the
enrolled joint resolution (H. J. Res. 346)
extending for 2 months the period for
which overtime rates of compensation
may be paid under the acts of June 28,
1940 (54 Stat. 876), October 21, 1940 (54
Stat. 1206), and June 3, 1941 (55 Stat.
241), and it was signed by the Vice Presi-
dent.

PETITION AND MEMORIAL

Petitions, etc., were presented, and re-
ferred as indicated:

By Mr. GAPPER:

A memorial of sundry citizens of Fort
Scott, Kans., remonstrating against the use
of sugar in the manufacture of alcoholic
beverages; ordered to lie on the table.

The petition, numerously signed, of mem-
bers of the congregation of Shawnee Com-
munity Methodist Church, Shawnee, Kans.,
praying for the enactment of Senate bill 860,
to prohibit the sale of alcoholic liquor and
to suppress vice in the vicinity of military
camps and naval establishments; ordered to
lie on the table.

TAXATION OF STATE, COUNTY, AND MUNICIPAL BONDS—PROTEST OF 24 MISSISSIPPI MAYORS

Mr. BILBO. Mr. President, I wish to
present to the Senate for appropriate
reference and publication in the body
of the Record a joint telegram signed
by 24 mayors of cities of my State pro-
testing against the tax which has been
suggested against the income of State,
county, and municipal bonds.

There being no objection, the telegram
was referred to the Committee on Finance
and ordered to be printed in the
Record, as follows:

JACKSON, Miss., September 28, 1942.

Senator THOMAS G. BROWN,

Washington, D. C.:

We, the undersigned members of the ex-
ecutive committee of the Mississippi Municipal
Association, desire to protest against the
passage of that provision in the new revenue
measure now pending which proposes to tax
the income on State, county, and municipal
bonds. This would automatically increase
the cost of all future municipal financing.
We are at the present time having to bear
unusual and unexpected costs necessitated
by civilian defense; are also called upon to
pay part of the costs of the Federal food-
stamp plan and other Federal agencies. Our
municipal incomes are bound to shrink
sharply because of reduced inventories in
the gasoline, oil, and tire businesses as well
as in other businesses. No doubt some of
these people will have to retire from busi-
ness, and we will lose privilege taxes hereto-
fore collected from them. Serious reductions
in our municipal income will no doubt ne-
cessitate considerable refunding of bonds and
the interest rate which we have to pay
would certainly be increased if this measure
is passed. We respectfully urge you to op-
pose the passage of the measure on the floor
of the Senate.

The names which are signed to this tele-
gram are signed by telegraphic authority
conferred upon Mayor W. J. Byrne, the chair-
man of this committee.

Mayor J. P. Nanney, Tupelo; Mayor
L. L. Broyles, Aberdeen; Mayor J.
W. Milner, Gulfport; Mayor F. H.
Deshon, Water Valley; Mayor C.
Patterson, New Albany; Mayor B.
E. Williams, Charleston; Mayor
Gordon L. Lyon, Indianola; Mayor
S. E. Keesler, Greenwood; Mayor
J. C. Miller, Laurel; Mayor T. W.
Lewis, Jr., Columbus; Mayor Harry
J. Landry, Friarpoint; John A.
Swamy, Commissioner, Biloxi;
Mayor Geo. Calhoun, Hattiesburg;

7909

Mayor T. M. Dye, Clarksdale; Mayor W. E. Howell, Durant; Mayor A. F. Latimer, Shaw; Mayor E. H. Reber, Fayette; Mayor J. A. Maxwell, Drew; Mayor M. Prince, Philadelphia; Mayor W. J. Stockett, Woodville; Mayor L. C. Probst, Grenada; Mayor J. C. Hamilton, Vicksburg; Mayor S. A. Kramer, McComb; Mayor A. E. Wood, Clinton.

REPORT OF COMMITTEE ON THE DISTRICT OF COLUMBIA

Mr. McCARRAN, from the Committee on the District of Columbia, to which was referred the bill (H. R. 4971) to prohibit the issuance of alcoholic beverage licenses in certain localities in the District of Columbia, to prohibit advertising the price of such beverages, and for other purposes, reported it with amendments and submitted a report (No. 1628) thereon.

BILLS INTRODUCED

Bills were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. McKELLAR:

S. 2815. A bill to amend the Selective Training and Service Act of 1940, as amended, to provide for the more equitable determination of quotas and assist in retaining manpower necessary for the production of agricultural commodities; to the Committee on Military Affairs.

By Mr. McCARRAN:

S. 2816. A bill to provide for suspending the enforcement of certain obligations against the operators of gold and silver mines who are forced to cease operations because of the war; to the Committee on the Judiciary.

By Mr. THOMAS of Oklahoma:

S. 2817. A bill to permit certain persons charged with or convicted of crimes against the United States to serve in the armed forces; to the Committee on Military Affairs.

HOUSE BILL REFERRED

The bill (H. R. 7408) to amend the act of October 9, 1940, entitled "An act to restrict or regulate the delivery of checks drawn against funds of the United States, or any agency or instrumentality thereof, to addresses outside the United States, its Territories, and possessions, and for other purposes," was read twice by its title and referred to the Committee on Finance.

AMENDMENT TO THE REVENUE BILL

Mr. LANGER submitted an amendment intended to be proposed by him to the bill (H. R. 7378) to provide revenue, and for other purposes, which was referred to the Committee on Finance and ordered to be printed.

INVESTIGATION OF REQUISITIONING OF RAILROAD PROPERTY

Mr. REED (for himself, Mr. JOHNSON of Colorado, Mr. CHAVEZ, and Mr. HATCH) submitted the following resolution (S. Res. 297), which was referred to the Committee on Interstate Commerce:

Resolved, That the Committee on Interstate Commerce, or any duly authorized subcommittee thereof, is authorized and directed to make a full investigation of the practices and policies followed by the War Production Board, the Office of Defense Transportation, and the Reconstruction Finance Corporation, directly or through subsidiary agencies, with respect to the requisitioning or other acquisition of railroad

property. The committee shall report to the Senate as soon as practicable the results of such investigation, together with its recommendations, if any, for necessary legislation.

THE PRESERVATION OF SMALL BUSINESS—ADDRESS BY SENATOR MURRAY

[Mr. MEAD asked and obtained leave to have printed in the Record a radio address on the subject The Preservation of Small Business in the War Emergency, delivered by Senator Murray on September 29, 1942, which appears in the Appendix.]

THE FARM PROBLEM

[Mr. THOMAS of Oklahoma asked and obtained leave to have printed in the Record questions propounded by Charles Dana Bennett, representing the National Grange, and a copy of the replies made by Senator THOMAS of Oklahoma, in connection with the radio program on the farm problem at Washington, D. C., Sunday, September 27, 1942, which appear in the Appendix.]

ADDRESS BY JOHN TEMPLE GRAVES II, BEFORE EXECUTIVES' CLUB, CHICAGO

[Mr. BANKHEAD asked and obtained leave to have printed in the Record an address entitled "Not Made To Die," delivered on August 7, 1942, by John Temple Graves II, Birmingham, Ala., before the Executives' Club, at Chicago, which will appear hereafter in the Appendix.]

ADDRESS BY LT. GOV. ODELL SHEPARD TO THE MILITARY ORDER OF THE PURPLE HEART

[Mr. MALONEY asked and obtained leave to have printed in the Record an address delivered by Hon. Odell Shepard, Lieutenant Governor of Connecticut, in Derby, Conn., September 26, 1942, at the annual banquet of the Military Order of the Purple Heart, which appears in the Appendix.]

THE FARM SITUATION IN THE MIDDLE WEST

[Mr. CAPPER asked and obtained leave to have printed in the Record an editorial written by Frank Mota for the Hays News with respect to the farm situation, which appears in the Appendix.]

THE UNNAMED ALLY—ARTICLE BY LOUIS LIPSKY

[Mr. MEAD asked and obtained leave to have printed in the Record an article entitled "The Unnamed Ally of the United States," written by Louis Lipsky, and published in the September issue of the Free World, which appears in the Appendix.]

THE CRISIS IN FARM LABOR

[Mr. LA FOLLETTE asked and obtained leave to have printed in the Record an article entitled "Keep Skilled Labor on the Farms," published in the October 3 issue of the Prairie Farmer, and an editorial by Ralph Ammon, director of the Wisconsin Department of Agriculture, which appear in the Appendix.]

CALL OF THE ROLL

Mr. VANDENBERG obtained the floor. Mr. HILL. Mr. President, will the Senator from Michigan yield to me to suggest the absence of a quorum?

Mr. VANDENBERG. Does the Senator think that advisable?

Mr. HILL. I do.

Mr. VANDENBERG. Very well.

Mr. HILL. I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The Chief Clerk called the roll and following Senators answered to names:

Allen	Gillette	Owen
Andrews	Green	Page
Bailey	Gurney	Reese
Bankhead	Hatch	Reid
Barbour	Hayden	Robinson
Barkley	Herring	Tracy
Bilbo	Hill	Wagner
Bona	Holman	Wells
Bridges	Johnson, Calif.	Whelan
Brown	Johnson, Conn.	White
Buckner	La Follette	Wiley
Burton	Langer	Wills
Butler	Lee	
Byrd	Lodge	
Capper	Lucas	
Caraway	McCarran	
Chandler	McFarland	
Chaves	McKellar	
Clark, Idaho	McNary	
Clark, Minn.	Maloney	
Connally	Maybank	
Danaher	Mead	
Davis	Millikin	
Dawsey	Murdoch	
Doney	Murray	
Elliander	Horris	
George	Nye	
Gerry	O'Daniel	
	O'Mahoney	

Mr. HILL. I announce that the Senator from Virginia (Mr. GLASS) and the Senator from Delaware (Mr. ROSS) are absent from the Senate because of illness.

The Senator from South Dakota (Mr. BULOW) is necessarily absent.

The Senator from West Virginia (Mr. KILGORE) and the Senator from Michigan (Mr. WALLACE) are absent from official business in connection with the Committee to Investigate National Defense.

The Senator from Pennsylvania (Mr. GUFFEY) and the Senator from Missouri (Mr. TRUMAN) are detained by important public business.

Mr. McNARY. The Senator from Montana (Mr. AUSTIN) and the Senator from Illinois (Mr. BROOKS) are necessarily absent.

The Senator from Maine (Mr. STEWART) is absent on business of the Senate in connection with investigations of the Truman committee.

The VICE PRESIDENT. Senators having answered to names, a quorum is present.

SOCIAL SECURITY PAY-ROLL TAXES

Mr. VANDENBERG. Mr. President, I wish to discuss briefly a press statement made 2 days ago by the distinguished Secretary of the Treasury, Mr. Morgenthau, Jr., at his press conference regarding the action of the Finance Committee in voting to increase social-security pay-roll taxes at levels for the year 1943. I feel a great responsibility in this matter, because of the action of the Finance Committee in its motion; and the new title of the tax bill is the text of Senate bill which I introduced in the Senate on September 17, 1942.

I dislike to sharply disagree with Secretary Morgenthau in any aspect, but tremendously perplexing burden he carries as he faces the well-understandable task of finding the money to pay our enormous war bill. I have deep respect for his earnestness, for his personal and public integrity, and I am happy to add that we are well-

friends. Furthermore, I freely admit that no one may safely be dogmatic in dealing with all the speculative arithmetic which is necessarily involved in decisions under the social-security act. But in the present instance it seems to me that the Secretary's recent speech is in violent conflict with the facts and is likely to lead to totally unduly pessimistic and to mislead not only public opinion but also congressional action regarding this vitally important matter, that I wish to explore the matter promptly and without further delay. I should have spoken sooner except that I did not want to interrupt or delay the debate on the latest version of the so-called anti-inflation bill.

President, in presenting this subject to me go back for a moment to the background. Congress substantially re-enacted the Social Security Act in 1939 as a result of an impartial, independent study which was made by an advisory commission created under the authority of the Senate Finance Committee. The formula at that time between the Social Security Act as originally written and the Social Security Act as it came into operation in the 4 subsequent years of 1939, the great fundamental question was whether the social-security law should operate on a so-called full reserve basis.

Members may remember the discussion which used to rotate around the \$47,000,000,000 trust fund contemplated by 1939, which drew attention to the thing about which I am talking—namely whether governmental, tax-supported old-age insurance had to be on a full reserve basis, precisely as though it were being administered by private insurance companies and sustained on the basis of actuarial calculations necessary in the operation of private companies.

In 1939 Congress decided that the full reserve should be abandoned. It abandoned the full reserve with the ultimate assistance of the Secretary of the Treasury, Mr. Morgenthau. Instead, a contingent reserve basis was initiated. The system was but substantially on an as-you-go basis.

As a result, in 1939 a schedule of pay-rolls for old-age benefits against which employers and employees was established for the subsequent 10 or 12 years. Under the schedule, at the present time employers are paying 1 percent upon pay-rolls and employees are paying 1 percent upon pay-rolls. Under the existing statute, unless amended prior to New Year's, pay-rolls taxes increase 100 percent; become 2 percent on employers and 1 percent on employees on January 1, 1943.

One week ago today the Senate Finance Committee, by a vote of 4 to 1, concluded that pay-rolls taxes should be frozen at the existing 1-percent level for the year 1943. In other words, in the face of the other stupendous tax burdens which are accumulating in the new tax system, it was deemed proper, wise, prudent, equitable, in the face of indisputable facts justifying such action, that employers and their 49,000,000 pay-

roll workers in this country should be saved a 100-percent increase in their social-security taxes in 1943.

That action was promptly condemned by the distinguished Secretary of the Treasury in his statement at his press conference on Monday, September 28. I read from the report of the press conference in the Washington Times-Herald of Tuesday, September 29:

In his attack—

That is the attack of the Secretary—on the Vandenberg amendment, issued at his press conference yesterday, Morgenthau said the passage of the amendment "would jeopardize the program for financing old-age and survivors' insurance."

I further quote:

"Sound financing requires the social-security contributions be collected at the scheduled levels, especially during a period of very high incomes and employment such as this."

Mr. Morgenthau continued.

Mr. President, this is a straight-out charge that the action of the Senate Finance Committee, by a vote of 12 to 4, in freezing pay-roll taxes at existing 1 percent levels for 1943, is a threat to the solvency of the social-security trust deduction.

Whatever else may be involved in the controversy—and I shall come to some of the other phases of it a little later—I deny upon the basis of the facts as I shall present them, and upon the basis of Mr. Morgenthau's own calculations, that there is one scintilla of justification for even remotely suggesting that the action of the Senate Finance Committee, in freezing these pay-roll taxes at existing levels in 1943, jeopardized in any degree whatsoever the integrity of the social-security fund, and I shall undertake to prove my assertion beyond any possibility of contradiction.

Mr. President, there are only two purposes for which pay-roll taxes under the Social Security Act, in respect to old age pensions, may appropriately be used within a reasonable recognition of the trust character of the funds themselves. One is for the payment of current benefits and administrative expenses, and the other is to accumulate essential contingent reserves. Now let us test the existing situation in respect to these two legitimate uses of social-security pay-roll taxes. Is there any need for an increase in these taxes January 1, 1943, to pay current benefits in 1943? Let us look at the record.

For the fiscal year ending June 30, 1942, the receipts from social-security taxes amounted to \$973,000,000. That sum was collected at the 1 percent rate. Against such collections the total withdrawals, or payments, were only \$141,000,000.

If that was the relationship in 1942 it is inevitably the relationship in 1943, because the collections are larger on account of the general employment which the country enjoys, and the benefit payments will be at the lowest possible estimate, because of the disappearance almost of unemployment from the American economy. Indeed, the pay-roll tax collection, if continued at 1 percent

in 1943, will produce as much as was originally estimated to be produced from a 2-percent tax in 1943. Certainly so long as only \$141,000,000 is needed to meet obligations, and anything like \$973,000,000 is being collected, there can be by no stretch of the imagination any remote argument that an increase in these pay-roll taxes is necessary to meet current obligations and administrative expenses.

All right. That clears itself away, it seems to me, beyond any chance of controversy whatever, and leaves the only possible argument at the point of the necessary and appropriate reserve—the same old argument that we had in 1939, and which was substantially settled by Congress itself in 1939.

Now let us see what the reserve ought to be, Mr. President, because we have got to find that figure before we can determine whether the existing revenues are adequate. What should the reserve be? I will call Mr. Morgenthau himself as my witness as to what the reserve ought to be. Mr. Morgenthau, testifying on March 24, 1939 before the House Ways and Means Committee, when this matter was settled and liquidated by Congress itself, said:

We should not accumulate a reserve fund any larger than is necessary to protect the system against unforeseen declines in revenues or increases in the volume of benefit payments. Specifically—

Mr. Morgenthau speaking—

Specifically, I would suggest to Congress that it plan the financing of the old-age insurance system with a view to maintaining for use in contingencies an eventual reserve amounting to—

These are the critical, significant words—

amounting to not more than three times the highest prospective annual benefits in the ensuing 5 years.

That is Mr. Morgenthau's definition of the essential reserve which should be created behind social-security pay rolls. He added a suggestion that the reserve might be a little larger in the initial years, but this is his fundamental formula, and I ask Senators to bear it in mind as we proceed. The Secretary of the Treasury's formula in respect to social-security pay-roll reserve is that the reserve is adequate when it is three times the prospective benefit payments during the 5 subsequent years.

Congress in 1939 did precisely what the Secretary recommended. While it did not in terms write this formula as a directive in the law, it did write a provision in title II of the Social Security Act to create a board of trustees of the Federal Old Age and Survivors Trust Fund, and among other things the board is required—and I quote from the statute—to report immediately to the Congress whenever the board of trustees is of the opinion—

What opinion?

that during the ensuing 5 fiscal years the trust fund will exceed three times the highest annual expenditures anticipated during that 5-fiscal-year period.

So, Mr. President, in testing the validity of Mr. Morgenthau's amazing statement at his press conference last Monday, it must be tested against his own rule and against the action of the Congress itself in asserting that the appropriate reserve, the only reserve necessary, is a reserve which equals three times the anticipated benefit payments during the 5 subsequent years.

All right. Now, let us see where we stand under that rule. The assets of the trust fund, which is to say the reserve, were \$3,227,000,000 at the end of the fiscal year 1942.

The reserve is not merely 3 times the anticipated benefit payments during the 5 subsequent years; the reserve is not only already 3 times the amount set up by Mr. Morgenthau in his own testimony as the essential test of the integrity of the reserve funds; it is not only 3 times what it ought to be—it is 30 times what is required in any 1 of these subsequent 5 fiscal years, and it is 6 times the total requirements of the next 5 fiscal years.

There just cannot be any denial of those figures. The trust fund today is twice as big as Mr. Morgenthau has said is its maximum necessity. Yet when the Senate Finance Committee proposes to maintain a tax collection at existing bases instead of adding 100 percent to the payroll-tax burden of 40,000,000 workers in this country and all their employers, in spite of the fact that the trust fund at this moment is 100 percent better off than Mr. Morgenthau himself said it needed to be, Mr. Morgenthau has the I almost need not say this proposal jeopardizes the program for financing old-age and survivors insurance, and that it violates sound financing. I submit that he is magnificently wrong.

Mr. President, let us go to an even better source of information. Let us go to Dr. A. J. Altmeyer, Chairman of the Federal Security Agency of the Social Security Board. Dr. Altmeyer has been the administrator of this law ever since it was initiated. He is a very able administrator. I sent him a questionnaire about 4 weeks ago, and I submitted certain specific questions to him. I want to read one of his answers bearing squarely upon the question of whether Mr. Morgenthau was entitled to make this frontal attack upon an action by the Senate Finance Committee by a vote of 12 to 4.

Question to Dr. Altmeyer from me:

What pay-roll tax, on employer and employee, is necessary in 1943 in order to maintain a "reserve" which is "three times the highest annual expenditure expected in the next 5-year fiscal period?"

That is the question I am discussing at the moment before the Senate. What is Dr. Altmeyer's answer—the answer of the chief administrator of this law? This is contained in a letter under date of September 2, 1942, and Dr. Altmeyer speaking:

With continuance of the conditions assumed in table 3 of the trustees' report—

And that is the normal contemplation of what is about to happen economically under the Social Security Act in 1943—

If no taxes whatever—

Says Dr. Altmeyer—

If no taxes whatever were collected in the fiscal year 1943, the trust fund at the end of the year would be about \$3,100,000,000, which would still be more than three times the highest annual anticipated expenditure during the next 5 fiscal years.

In other words, Mr. President, when Mr. Morgenthau's own rule is applied to the net result of the action of the Senate Finance Committee, instead of producing a situation endangering the integrity of the social-security trust fund, it appears that if no taxes at all were collected in 1943, still the trust fund would measure fully to the Secretary's own specifications in respect to its integrity. Yet the Secretary of the Treasury says we are about to jeopardize the social-security fund by keeping pay-roll taxes where they are for another year.

What are these projected benefit payments in the next 5 years? Again I am quoting Dr. Altmeyer:

A simple projection of the expenditure figures in table 3 of the trustees' report would result in an estimate of about \$463,000,000 in benefit payments and administrative expenses for the fiscal year 1947. With this projection, three times the highest annual expenditure during the 5 years beginning in 1943 would be approximately \$1,400,000,000.

That is the sum total of the requirement under Mr. Morgenthau's own pronounced rule as to the necessities of this reserve fund—\$1,400,000,000. According to Dr. Altmeyer you will have in excess of \$3,000,000,000 in the fund. Yet the Secretary says that this action of the Senate Finance Committee in postponing for 12 months the 100-percent increase in the burden upon 40,000,000 workers in this country and their employers is a threat to the integrity of the fund.

Continuing Dr. Altmeyer says:

If retirement of present potential beneficiaries is assumed, however, annual expenditures in 1947 would amount to approximately \$765,000,000.

In other words, he is making a new calculation and carrying it to the utmost extreme of the challenge which this trust fund could possibly meet.

Under such an assumption, three times the highest annual expenditures during the 5 years after 1942 would be \$2,300,000,000.

In other words, even though the benefit payments and the administrative expenses under the old-age pension section of the social-security law be figured at the maximum possibility of drain, the reserve fund today, without another penny in it, is 50 percent bigger than it needs to be under Mr. Morgenthau's own specifications; yet Mr. Morgenthau undertakes to say to the Congress and to the country that the action of the Senate Finance Committee threatens the validity and integrity of the trust fund. I deny it vehemently. I deny it on the basis of every available fact. I deny the justification for any such propaganda.

I do not want to leave any misunderstanding about Dr. Altmeyer. Dr. Altmeyer is opposed to the action of the Senate Finance Committee in freezing the pay-roll taxes for 1943. I suppose that is perfectly natural.

Mr. WAGNER. Mr. President, the Senator yield for a question?

Mr. VANDENBERG. I yield.

Mr. WAGNER. Did any representatives of the agency which deals with the question appear before the Finance Committee in reference to the reserve offered by the Senator?

Mr. VANDENBERG. They did not appear. Mr. WAGNER. Then there were no hearings at all?

Mr. VANDENBERG. None were necessary. The statement of the committee is so conclusive that the committee does not require any additional testimony.

Referring to Dr. Altmeyer's statement, I have such profound respect for him that I would not leave any semblance of misunderstanding with regard to the fact that the increased pay-roll taxes will come in precisely as originally projected. He probably has a sound technical reason for it, although I have not been totally unable to derive his answer to my question. However, I never knew of the head of an administrative agency in this Government agreeing that his revenue would be reduced. That would be a "fake."

This raises the question, Why did Mr. Morgenthau make this statement? He has been extremely critical of the Government's plans for 1943, in respect of his criticism of the date. I sympathize with what I think the reason for making the statement which he made. He himself said in the final portion of his interview that is what he says:

Passage of the Vandenberg amendment would also require substantial changes in the Government's plans for 1943. It would, in effect, reduce the flow of inflationary funds into the Treasury.

Not into the social-security trust fund into the Treasury—by over \$1,500,000,000.

The administration's record in social security has been clear and consistent. In January the President committed himself based on the assumption that the rate increases in social security contributions would go into effect in 1943, and that in addition \$200,000,000 new contributions would be used to expand the social-security program.

There you are, Mr. President. The Secretary of the Treasury has done precisely what he wanted to do in the social-security funds in 1943, the system started, and produced something which he was denied by the Congress in 1939. He wanted the flow of presently uncommitted funds as a reservoir into the Treasury a comparable part of his program.

Mr. President, that is an objective which it is exceedingly difficult to achieve. Certainly I have total sympathy with the Secretary in the tremendous task he confronts in finding the funds for our enormous war bills, but I think that if there must be an encroachment upon the resources of this country for our war bills, it should be done openly.

It should be done frankly and in the name of the war effort. It should apply equally to everybody. It should not approach in disguise the

reserve funds, and it should not be used exclusively to the workers on our pay rolls and their employers. I do not believe that the trust fund of the social-security law should be used in a collateral fashion, for any whatsoever except social-security purposes.

I confront a tremendous problem in respect to the necessity for finding adequate funds to meet our war bills. This device would be only a drop in the bucket, even from a practical standpoint. If we shall have finished with our war, we shall have succeeded in raising, let us say, \$8,000,000,000 more in total revenues of the Government for the present fiscal year will be about \$10,000,000,000. The expenditures will be about \$17,000,000,000. The difference is \$7,000,000,000. The war bond purchase plan of the Government has been anticipated to raise more than \$12,000,000,000, and it is doing that. If we take \$12,000,000,000 from \$50,000,000,000 we have \$38,000,000,000 left. If we allocate, say, \$10,000,000,000 of the balance to normal expenses by insurance companies and other purchasers we still have \$28,000,000,000 in this fiscal year for which there is absolutely no provision, either by way of bonds or by way of a program of safe Government borrowing. The budget for the following fiscal year is already fixed at \$10,000,000,000.

When we face these enormous figures in respect to the deficit which must be met by the Treasury, I submit that a better plan is necessary than a makeshift assault upon the trust funds of the social-security system—to get \$10,000,000,000 in 1943. To get \$10,000,000,000 in 1943, it is only a drop in the bucket. If it be considered from a practical point of view, there must be a better plan than that. The Secretary, instead of making up press propaganda of this kind, had better be considering an all-around program adequate to meet his all-out responsibility.

However, entirely aside from the practical point of view, I submit as a moral condition that there is utterly no justification for increasing the pay-roll taxes under the Social Security Act for purposes except social-security purposes; in order to pay our war bills, the taxes of the country must be taxed, in addition to everything else we are doing, the tax must fall equally on every citizen of this country, and not merely on the prospective beneficiaries of the social-security system.

President, there is only one other alternative involved. There are pending substantial proposals for the expansion of social-security coverage, and for an increase in social-security benefit payments in various categories. Whenever Congress is ready to take that action there will be no resistance from me to gearing the social-security pay-roll taxes to whatever level is necessary to pay for social-security benefits; but there is no prospect of such action by Congress, certainly not in 6 months. We are moving into a period when automatically these taxes will increase on January 1. I submit

that if they are increased on January 1 for other than social-security benefits, it will be distinctly difficult subsequently to divert them back to social-security purposes if and when the social-security law itself is expanded. I submit that the freezing of these taxes at 1 percent on next January 1 would be directly helpful to the ultimate project of expansion of the coverage of the law itself, and the creation of adequate new benefits under it.

In conclusion, I submit that the statement of the Secretary of the Treasury is without justification in respect to his charge that there is anything in the action of the Senate Finance Committee which threatens the integrity of the reserve fund. Consequently, I submit that in the latter part of his statement he is going far afield in dealing "too little and too late" with a tremendous red-ink deficit when he leans upon a diversion of the ultimate use of these funds for the purpose of meeting war deficits.

I must not leave that statement without explanation. There is nothing illegal, illegitimate, or immoral about the way in which these trust funds operate when they reach the Social Security Board. They must be invested in Government bonds. Obviously the funds themselves flow into the general reservoir of the Government. That is all within the contemplation of the law. I am not complaining upon that score, except as these pay-roll taxes are consciously padded for these collateral purposes; but I am complaining that the chief fiscal agent of the Government should give the country to understand that there is a threat to the integrity of the greatest trust fund in the world in an action by the Senate Finance Committee which merely takes his own rule, applies it to the existing reserves, and finds the existing reserves under the Social Security Act twice as competent as he himself has said they need to be.

Mr. President, I submit that the action of the Senate Finance Committee should stand and that these pay-roll taxes should be frozen at present levels for 1943; and I submit that the Secretary of the Treasury should be held more accurate in his statements to the American people upon this subject.

Mr. WAGNER. Mr. President, as the sponsor of the original social-security law, I have naturally been interested in its enforcement and success. I oppose the amendment offered by the senior Senator from Michigan (Mr. VANDENBERG), but his is not the time to make an address regarding it, and I do not propose to do so. I hope that when the tax bill shall be before the Senate I may have an opportunity to discuss the provisions of the amendment at some length.

I deeply regret that an amendment so serious, affecting the security of 50,000,000 workers, should have been adopted in the committee without hearings of any kind.

In response to my request for information bearing upon the issue, the Chairman of the Social Security Board has transmitted copy of a letter sent to the Senator from Michigan setting forth much of the pertinent data.

The Senate and the country will be greatly interested to know that our national organizations, far from seeking reductions in pay-roll taxes for social-security purposes, have written me opposing the Vandenberg amendment and strongly urging a further increase in taxes with a corresponding increase in insurance protection.

I offer the communications to which I have referred for the RECORD, to be printed as a part of my remarks.

There being no objection, the letters were ordered to be printed in the RECORD, as follows:

FEDERAL SECURITY AGENCY,
SOCIAL SECURITY BOARD,
Washington, D. C., September 29, 1942.
Hon. ROBERT F. WAGNER,
United States Senate,
Washington, D. C.

DEAR SENATOR WAGNER: In answer to your request for material bearing upon the question of the old-age and survivors insurance tax increase, I am enclosing a copy of a letter which I sent to Senator VANDENBERG in answer to a similar request which I received from him some time ago.

If there is any further information you desire, please do not hesitate to call upon me.

Sincerely yours,

A. J. ALTMAYER,
Chairman.

SEPTEMBER 9, 1942.
Hon. ARTHUR H. VANDENBERG,
United States Senate,
Washington, D. C.

DEAR SENATOR VANDENBERG: This is in reply to your letter of August 18, in which you raise several questions relating to contribution rates under the old-age and survivors insurance program and the size of the Old-Age and Survivors Insurance Trust Fund. I note that you address yourself to the issue of whether the contribution rates scheduled in the law are necessary to the functioning of the system as it now stands, and that you wish to exclude for the time being any reference to a broadened system or to the use of the funds in financing the war. I am pleased to have the opportunity to discuss these questions with you, and am answering your specific questions in order below and in accordance with your numbering.

(1) The Senate Finance Committee report in 1939 emphasized, as did the bill itself, that the maximum "reserve" required was "three times the highest annual expenditures expected in the next 5-fiscal-year period." Is it not a fact that your board's report for this year shows that the fund today exceeds thirty times the highest annual benefits of the next 5 years?

With regard to the first sentence of your question neither the Senate Finance Committee report in 1939 nor the Social Security Act amendments of that year indicate that the maximum reserve required is three times the highest annual expenditures expected in the next 5-fiscal-year period. The amended law provides only that a report be made to Congress whenever the board of trustees anticipates that the trust fund will exceed three times the highest annual expenditures anticipated during the ensuing 5 fiscal years.

The Senate Finance Committee report contained no definite statement of policy concerning the size of the reserve required but implied acceptance of a recommendation on the subject by the Secretary of the Treasury. Estimates of the size of the reserve in various years are presented on page 17 of the report, and in the discussion of these estimates it is noted that the reserve shown "will conform closely to the recommendation of the Secre-

10/2/42

200

C
Handed to the President at Cabinet
today by HM, Jr.

The attached letters for the President's
signature were probably dated 10/8 as they
were made public on 10/9.

10-2-42

Dear Mr. President:

In connection with its consideration of the 1942 Revenue Bill, the Senate Finance Committee has adopted an amendment offered by Senator Vandenberg which would freeze the contributions of employers and employees for old-age and survivors' insurance at the present level of 1 percent. Under existing law, the rate of contributions will increase automatically to 2 percent on January 1, 1943.

We believe that adoption of the Vandenberg amendment, particularly at this time when employment and wages are at record levels, would jeopardize the financial stability of the old-age and survivors' insurance system, would interfere with the anticipated consideration of a more comprehensive Social Security program by the Congress and would necessitate adjustments in the Government's plans for war financing and inflation control.

We urge you to inform the Chairman of the Senate Finance Committee and the Chairman of the Ways and Means Committee that it is essential to allow the increased rate of contributions to go into effect on January 1, 1943, as provided by existing law. We also suggest that you indicate your intention to submit to the Committees, as soon as their work on the current tax bill is completed, a plan for a comprehensive expansion and extension of the Social Security program along the lines of your January Budget Message.

- 2 -

We are advised that labor groups are vigorously opposed to a reduction in the scheduled rate of contributions. President Green of the American Federation of Labor, in a letter addressed to Senator George, has taken a very strong position against the Vandenberg amendment and has urged the adoption of "an extended social security program financed by equal contributions of at least 5 percent of payrolls by both employers and employees." President Murray of the Congress of Industrial Organizations has also taken a strong stand against the Vandenberg amendment.

Suggested letters to Senator George and Congressman Doughton, prepared for your signature, are attached.

Faithfully yours,

H. MORGENTHAU JR.
Secretary of the Treasury

FRANCES PERKINS
Secretary of Labor

HAROLD D. SMITH
Director of the Budget

PAUL V. MC NUTT
Administrator, Federal
Security Agency

The President
The White House

ARTHUR J. ALTMAYER
Chairman, Social Security Board

Attachments

E-R:ted
10/1/42

10-8-42

Revised
 in present
 1949

by our Senators:

I note that the Senate Finance Committee has tentatively included in the pending tax bill an amendment by Senator Vandenberg freezing the present rates of contributions for old-age and survivors' insurance, instead of permitting them to increase automatically on January 1, 1943, as provided by law.

This amendment is causing considerable concern to many persons favored under the old-age and survivors' insurance system. The financial obligations which will have to be met in paying benefits imply greatly the increase in rates. A failure to allow the scheduled increase in rates to take place under present favorable circumstances would cause a real and justifiable fear that adequate funds will not be accumulated to meet the heavy obligations of the future and that the claim for benefits awaiting under the present law may be jeopardized.

In 1939, in a period of underemployment, we departed temporarily from the original schedule of contributions, with the understanding that the original schedule would be resumed on January 1, 1943. There is certainly no sound reason for departing again under present circumstances. Both employment and the income from which contributions are made are at a very high peak - the highest since the inauguration of the system. In fact, the volume of paying power is so great that it threatens the stability of the cost of living. The increase in rates at the present time is not only in accord with the necessities of the social security system itself, but at the same time would contribute to the non-inflationary financing of the rapidly mounting war expenditures. The accumulation of additional surpluses would be favored in United States Government securities and would thereby assist in financing the war.

This is the time to strengthen, not to weaken, the social security system. It is time now to prepare for the security of workers in the post-war years, as seen as the Congress has allowed of the pending tax bill I am pleading to enact a comprehensive

-2-

program for expanding and extending the whole social security system along the lines laid down in my Budget Message last January. This program would involve substantial further increases in rates of contribution.

This is one case in which social and fiscal objectives, war and post-war aims are in full accord. Expanded social security, together with other fiscal measures, would set up a bulwark of economic security for the people now and after the war and at the same time would provide anti-inflationary sources for financing the war.

In the light of these considerations, I suggest the desirability of permitting the increase in the rates of contribution of old-age and survivors' insurance to go into effect on January 1, 1943, as provided in existing law.

Sincerely yours,

FRANKLIN D. ROOSEVELT

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

BB:smh
10/1/42

Dear Mr. Doughton:

I note that the Senate Finance Committee has tentatively included in the pending tax bill an amendment by Senator Vandenberg freezing the present rates of contributions for old-age and survivors' insurance, instead of permitting them to increase automatically on January 1, 1943, as provided by law.

This amendment is causing considerable concern to many persons insured under the old-age and survivors' insurance system. The financial obligations which will have to be met in paying benefits amply justify the increase in rates. A failure to allow the scheduled increase in rates to take place under present favorable circumstances would cause a real and justifiable fear that adequate funds will not be accumulated to meet the heavy obligations of the future and that the claims for benefits accruing under the present law may be jeopardized.

In 1939, in a period of underemployment, we departed temporarily from the original schedule of contributions, with the understanding that the original schedule would be resumed on January 1, 1943. There is certainly no sound reason for departing again under present circumstances. Both employment and the income from which contributions are made are at a very high point - the highest since the inauguration of the system. In fact, the volume of purchasing power is so great that it threatens the stability of the cost of living. The increase in rates at the present time is not only in accord with the necessities of the social security system itself, but at the same time would contribute to the non-inflationary financing of the rapidly mounting war expenditures. The accumulation of additional contributions would be invested in United States Government securities and would thereby assist in financing the war.

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-2-

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This is one case in which social and fiscal objectives, war and post-war aims are in full accord. Expanded social security, together with other fiscal measures, would set up a bulwark of economic security for the people now and after the war and at the same time would provide anti-inflationary sources for financing the war.

In the light of these considerations, I suggest the desirability of permitting the increase in the rates of contribution of old-age and survivors' insurance to go into effect on January 1, 1943, as provided in existing law.

Sincerely yours,

FRANKLIN D. ROOSEVELT

Honorable Robert L. Doughton
Chairman, Committee on Ways and Means
House of Representatives

REB:smh
10/1/42

TREASURY DEPARTMENT

216

INTER OFFICE COMMUNICATION

DATE

October 2, 1942

TO Secretary Morgenthau
FROM Randolph Paul

Mr. Blough talked with you regarding the tax bill amendment giving Mr. Stam (with the approval of either the Chairman or the Vice-Chairman of the Joint Committee on Internal Revenue Taxation) the right to go directly to the Bureau of Internal Revenue, including the Chief Counsel of the Bureau, for information, data, suggestions, estimates, and statistics. At the suggestion of Senator LaFollette, the matter was held over for action in the afternoon, and Messrs. Stam, Surrey, Blough, and I had lunch together in an attempt to come to some better agreement. As was to be expected, no basis for agreement was found.

When I was called to the White House by Mr. Hopkins to discuss some points in connection with the Executive Order on the Price Control bill, I asked Messrs. Tarleau and Blough to speak to Senator George and tell him of your feeling about the amendment. They did so and found Senator George sympathetic. He expressed the opinion that, in view of the apparently strong feeling in the matter on both sides, it would be better not to have the amendment placed in the bill but rather wait until next week in an attempt to work out something which would be more acceptable to the Treasury.

However, the Committee was unwilling to postpone action, and on motion of Senator Guffey voted, without dissent, in favor of the amendment. Senators LaFollette, Barkley, Brown, and possibly other Senators whose support we might have been able to obtain, were not in the room at the time.

After the session, Senator Walsh told me that I should not consider the matter as one personal to me or to the Treasury Department; that the Committee was simply showing its authority.

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Before returning to the Committee this afternoon Mr. Blough spoke, at my request, to Chairman Eccles and Harold Smith, indicating that their Departments would be affected by the amendment. Both of them expressed the feeling that there was very little that could be done since a show of resistance was likely to encourage rather than restrain Congressional action along this line.

hsc

SECTION 515. JOINT COMMITTEE ON INTERNAL REVENUE TAXATION -- POWER TO OBTAIN DATA.

Chapter 48 (relating to joint committee) is amended by adding at the end thereof the following new section:

"SEC. 5012. ADDITIONAL POWERS TO OBTAIN DATA.

"(a) The Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Joint Committee, upon approval of the Chairman or Vice-Chairman, is authorized to secure directly from the Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), or directly from any executive department, board, bureau, agency, independent establishment or instrumentality of the Government, information, suggestions, data, estimates and statistics, for the purpose of making investigations, reports and studies relating to internal revenue taxation.

"(b) The Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), executive departments, boards, bureaus, agencies, independent establishments and instrumentalities are authorized and directed to furnish such information, suggestions, data, estimates, and statistics directly to the Joint Committee on Internal Revenue Taxation or to the Chief of Staff of such Joint Committee, upon request made pursuant to this section."

MEMORANDUM

TO: Secretary Morgenthau
FROM: Randolph Paul

October 2, 1942

Attached is a copy of a letter which I have sent to Senator Walsh explaining the reasons for the Treasury Department's opposition to a proposal to preclude the renegotiating agencies under section 403 of the Sixth Supplemental National Defense Appropriation Act from reducing a contractor's profit below 5 percent of his sales after income and excess profits taxes.

REP.

Attachment.

COPY

October 2, 1942.

My dear Senator:

In connection with the deliberations of the Subcommittee of the Finance Committee designated to consider amendments to section 403 of the Sixth Supplemental National Defense Appropriation Act, you have requested the comments of the Treasury Department with respect to the suggested amendments to that Act contained in "Committee Print No. 5."

While the amendments contained in this print differ in many details from the amendments which have been proposed by the War, Navy, and Treasury Departments and by the Maritime Commission, I shall confine my comments to what I believe to be the salient feature of Committee Print No. 5. I refer to the proposal to limit the definition of excessive profits in such a way as to leave subject to renegotiation only those profits which exceed 5 percent of the contractor's total war business after deduction of Federal income and excess profits taxes.

- 2 -

In the testimony of Mr. Robert Eichholz of this Department before the Subcommittee on September 30, he indicated that the problem of securing war materials as cheaply as possible involves more than taxation and profit limitation alone. In cases in which the Government is being charged an excessive price for implements of war, the contractor's profit is only one of the cost elements of such price. The excessiveness of profits, by which I mean the amount remaining to the contractor after deduction of all direct and indirect manufacturing costs, will be adequately controlled by the excess profits tax amendments agreed upon by the Finance Committee, while the contractor will at the same time be left an adequate incentive to efficient and economical operation. Mr. Eichholz also pointed out that a flat profit limitation provision does not serve to control cost elements other than profits. Indeed, such a limitation may often operate to increase such cost elements because it eliminates incentives to efficiency and thereby encourages wasteful expenditure of labor and materials. He stated that it was, therefore, the view of the Treasury Department that a flat profit limitation provision would be an

- 3 -

undesirable substitute for section 403. Admittedly, if section 403 is so administered as to take into account only a contractor's profits and to limit those profits by agreement, the section is open to the same objections as may be made to a profit limitation provision. The Department feels, however, that section 403 offers a real possibility of an effective approach to the problem of controlling excessive prices if such prices are renegotiated primarily with an eye to the reasonableness of all elements of cost.

Committee Print No. 5 in effect incorporates in section 403 the evils of a flat profit limitation provision, in that the contractor is guaranteed a return, after deduction of Federal taxes, of 5 percent of his sales. It is thus open to the same criticisms which are applicable to profit limitation. Under the provisions of the print, no matter how excessive a price may be, no renegotiation may be undertaken if the contractor's profits do not exceed the 5 percent figure. The renegotiating agencies are thus forced to look primarily at the contractor's profits rather than to the reasonableness of the costs for which he is being reimbursed by the Government.

- 4 -

Furthermore, the 5 percent figure appears to be unduly high if used as a minimum below which renegotiation can not operate. Without having had the opportunity to make a detailed study of the effects of this provision as it might apply to particular taxpayers, it is nevertheless believed that the overwhelming majority of concerns holding substantial war contracts will not net 5 percent on their sales after payment of the income and excess profits taxes contained in H.R. 7378. The elaborate renegotiation mechanism would thus apply only to a very few companies, probably mostly very small companies with a slow capital turnover. If, on the other hand, the 5 percent figure were lowered to 2 or 3 percent, the provision would operate very erratically. Companies enjoying rapid rates of turnover would escape renegotiation, while companies having slow rates of turnover would not.

It should also be observed that Committee Print No. 5 proposed to include in the measure of profits not subject to renegotiation 5 percent of "net sales and the gross amount received for services, including the amounts billed by the contractor or subcontractor

- 5 -

under any cost-plus-a-fixed-fee contract and allowed for reimbursement." This language would apparently include contracts such as facilities and construction contracts which contemplate no profits to the contractor. It would also include contracts such as management contracts which contemplate an extremely small return to the contractor. In the case of companies holding such contracts together with fixed price and cost-plus-a-fixed-fee contracts, the company would be allowed much greater than a 5 percent return on the latter types of contracts because a much less than 5 percent return would be received on the former types of contracts.

In any event, it is believed that a measure of profits not subject to renegotiation should not be cast in terms of profits after deduction of Federal income and excess profits taxes. Renegotiation involves arriving at a reasonable price for articles purchased from a contractor. The reasonableness of a price should be possible to determine without reference to individual and corporate taxes on income. The implication that a contractor is entitled to a fixed rate of return on his

- 6 -

sales after all taxes, would appear to be that such a contractor is to be given a favored position not enjoyed by other taxpayers under our revenue laws. I feel that the question of what is a reasonable profit on a war contract is separate and distinct from the question of the percentage of income to be left the contractor after payment of Federal income and excess profits taxes. The former question is a procurement problem and the latter is a tax problem. I feel that it is unwise to combine these two questions in the way which is attempted by Committee Print No. 5.

In addition, the proposed deduction of income and excess profits taxes would result in substantial administrative difficulties. Since the tax liabilities of many contractors may not be finally determined for many years to come, renegotiation agreements would have to be reopened far in the future to take account of tax deficiencies later assessed or tax refunds later returned to the contractor. Where the tax initially paid by the contractor in respect of any year was sufficient to cause his net profit after taxes to be less than 5 percent, and a substantial part of the tax were

- 7 -

later refunded thus making his net return after taxes more than 5 percent, section 403 would discriminate in his favor unless the renegotiating agency were able to commence renegotiation at the time of the refund. It is not clear under Committee Print No. 5, however, that the renegotiating agency would be permitted to renegotiate at that time. On the other hand, if the tax initially paid by the contractor were insufficient to reduce his net return after taxes below 5 percent, and his contracts were therefore renegotiated, a later deficiency asserted against him might be sufficient to reduce his net return after taxes below 5 percent. In such a case it is not clear what remedy the contractor would have to recover the profits which he had returned to the Government by way of the renegotiation procedure.

We want you to feel that we shall be glad to cooperate with your Subcommittee in its further study of this complicated problem and to place before you all data on the subject which is in our possession.

Sincerely yours,

Randolph E. Paul /s/
Randolph E. Paul,
General Counsel.

Honorable David I. Walsh,
United States Senate,
Washington, D. C.

TREASURY DEPARTMENT

221 *gr*

INTER OFFICE COMMUNICATION

DATE

Oct. 2, 1942.

TO Secretary Morgenthau
FROM Mr. Paul

~~XXXXXXXXXX~~

I believe you will be interested in an article in today's New York Herald Tribune by James Washington Bell, Dean of the School of Business Administration, Northwestern University. The article refers to a recent study of the National Board of Economic Research which estimates the national income of the current fiscal year at \$109,000,000,000, of which \$73,000,000,000 will go to those with incomes between \$1750 and \$10,000. The study recommends that \$40,000,000,000 be raised in taxes and that the additional \$15,000,000,000 over the Treasury estimate should fall upon the middle group, principally upon those with incomes between \$4,000 and \$10,000. The study estimates that \$35,000,000,000 of annual borrowing is the limit of Federal borrowing without inviting inflation.

Mr. Bell's article questions the assumption that no more than \$35,000,000,000 can be safely borrowed this year, but argues that heavier taxes are nevertheless necessary and should be placed on the increased consumer capacity of those in the middle income group to avoid dangerous inflation.

- 2 -

The article commends the major changes made by the Senate Finance Committee in the pending revenue bill as a step in the right direction, but criticizes the Committee for not having gone far enough.

The Committee is criticized specifically for having rejected without due consideration the Treasury's proposed "spendings tax", which the writer says has much merit in it. It would be an effective attack upon the dual problem of raising money and checking inflation, and it would be most effective in checking the heaviest expenditures on consumers' goods which are made by the "nouveaux riches", that is war laborers.

In further commenting on the "spendings tax" Mr. Bell expresses the belief that, as proposed by the Treasury Department, it was unreasonably drastic because it was, in effect, a backdoor method of limiting annual incomes to \$25,000.

The article concludes with the following: "The Committee's hastily improvised Victory tax is a piece of patchwork, not integrated with the existing income tax. It is a feeble substitute for the spendings tax or for a general sales tax."

ASP

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

229
(Rec'd
10-6-42
10:08 am)

DATE

October 2, 1942

TO Secretary Morgenthau
FROM Randolph Paul

I think it would be a good idea for me to talk to Parkinson with regard to the attached copy of the Dow-Jones ticker.

BSI

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Dow-Jones October 1, 1942 4:25 P. M.

PARKINSON ON INFLATION PROBLEM

Sale of government bonds to commercial banks rather than heavier taxing of individuals and greater sales of war bonds to individuals is an inflationary threat, Thomas L. Parkinson, President of Equitable Life Assurance Society, told Chamber of Commerce of State of New York.

There is need for taxing excess income of individuals, Mr. Parkinson said, to prevent inflation. Everyone knows where this excess income lies, he said, but no one has political courage to get it.

One of the great dangers of inflation lies in the possibility of a flight from currency, Mr. Parkinson said. At the moment people are hoarding currency so the danger is not active at present, he said. He pointed out, however, that bank deposits which were 67,000,000,000 dollars at start of year have risen to 75,000,000,000 dollars due to government bond sales to commercial banks.

Executive Department of Government has attempted to handle the great problem of inflation piece-meal in different departments, Mr. Parkinson charged. He urged that all departments should work together and give Congress the benefit of their recommendations rather than to demand that Congress alone solve the problems.

"I would rather take a chance with Congress than with any administration or any administrative agency," Mr. Parkinson said.

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October 5, 1942

Dear Mr. Parkinson:

I read with interest your statement to the Chamber of Commerce of New York as reported by Dow-Jones. Won't you drop in on me the next time you are in Washington so that we can discuss this subject? I was very sorry to have missed you on the last occasion you called on me.

Sincerely yours,

Randolph E. Paul

Mr. Thomas L. Parkinson,
President,
Equitable Life Assurance Society,
New York City.

[PUBLIC LAW 729—77TH CONGRESS]

[CHAPTER 578—2D SESSION]

[H. R. 7565]

AN ACT

To amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to aid in the effective prosecution of the war, the President is authorized and directed, on or before November 1, 1942, to issue a general order stabilizing prices, wages, and salaries, affecting the cost of living; and, except as otherwise provided in this Act, such stabilization shall so far as practicable be on the basis of the levels which existed on September 15, 1942. The President may, except as otherwise provided in this Act, thereafter provide for making adjustments with respect to prices, wages, and salaries, to the extent that he finds necessary to aid in the effective prosecution of the war or to correct gross inequities: *Provided*, That no common carrier or other public utility shall make any general increase in its rates or charges which were in effect on September 15, 1942, unless it first gives thirty days notice to the President, or such agency as he may designate, and consents to the timely intervention by such agency before the Federal, State, or municipal authority having jurisdiction to consider such increase.

Sec. 2. The President may, from time to time, promulgate such regulations as may be necessary and proper to carry out any of the provisions of this Act; and may exercise any power or authority conferred upon him by this Act through such department, agency, or officer as he shall direct. The President may suspend the provisions of sections 3 (a) and 3 (c), and clause (1) of section 302 (c), of the Emergency Price Control Act of 1942 to the extent that such sections are inconsistent with the provisions of this Act, but he may not under the authority of this Act suspend any other law or part thereof.

Sec. 3. No maximum price shall be established or maintained for any agricultural commodity under authority of this Act or otherwise below a price which will reflect to producers of agricultural commodities the higher of the following prices, as determined and published by the Secretary of Agriculture—

(1) The parity price for such commodity (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials) or, in case a comparable price has been determined for such commodity under and in accordance with the provisions of section 3 (b) of the Emergency Price Control Act of 1942, such comparable price (adjusted in the same manner), or

(2) The highest price received by such producers for such commodity between January 1, 1942, and September 15, 1942 (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials), or, if the market for such commodity

was inactive during the latter half of such period, a price for the commodity determined by the Secretary of Agriculture to be in line with the prices, during such period, of other agricultural commodities produced for the same general use; and no maximum price shall be established or maintained under authority of this Act or otherwise for any commodity processed or manufactured in whole or substantial part from any agricultural commodity below a price which will reflect to the producers of such agricultural commodity a price therefor equal to the higher of the prices specified in clauses (1) and (2) of this section: *Provided*, That the President may, without regard to the limitation contained in clause (2), adjust any such maximum price to the extent that he finds necessary to correct gross inequities; but nothing in this section shall be construed to permit the establishment in any case of a maximum price below a price which will reflect to the producers of any agricultural commodity the price therefor specified in clause (1) of this section: *Provided further*, That modifications shall be made in maximum prices established for any agricultural commodity and for commodities processed or manufactured in whole or substantial part from any agricultural commodity, under regulations to be prescribed by the President, in any case where it appears that such modification is necessary to increase the production of such commodity for war purposes, or where by reason of increased labor or other costs to the producers of such agricultural commodity incurred since January 1, 1941, the maximum prices so established will not reflect such increased costs: *Provided further*, That in the fixing of maximum prices on products resulting from the processing of agricultural commodities, including livestock, a generally fair and equitable margin shall be allowed for such processing: *Provided further*, That in fixing price maximums for agricultural commodities and for commodities processed or manufactured in whole or substantial part from any agricultural commodity, as provided for by this Act, adequate weighting shall be given to farm labor.

Sec. 4. No action shall be taken under authority of this Act with respect to wages or salaries (1) which is inconsistent with the provisions of the Fair Labor Standards Act of 1938, as amended, or the National Labor Relations Act, or (2) for the purpose of reducing the wages or salaries for any particular work below the highest wages or salaries paid therefor between January 1, 1942, and September 15, 1942: *Provided*, That the President may, without regard to the limitation contained in clause (2), adjust wages or salaries to the extent that he finds necessary in any case to correct gross inequities and also aid in the effective prosecution of the war.

Sec. 5. (a) No employer shall pay, and no employee shall receive, wages or salaries in contravention of the regulations promulgated by the President under this Act. The President shall also prescribe the extent to which any wage or salary payment made in contravention of such regulations shall be disregarded by the executive departments and other governmental agencies in determining the costs or expenses of any employer for the purposes of any other law or regulation.

(b) Nothing in this Act shall be construed to prevent the reduction by any private employer of the salary of any of his employees which is at the rate of \$5,000 or more per annum.

(c) The President shall have power by regulation to limit or prohibit the payment of double time except when, because of emergency conditions, an employee is required to work for seven consecutive days in any regularly scheduled work week.

SEC. 6. The provisions of this Act (except sections 8 and 9), and all regulations thereunder, shall terminate on June 30, 1944, or on such earlier date as the Congress by concurrent resolution, or the President by proclamation, may prescribe.

SEC. 7. (a) Section 1 (b) of the Emergency Price Control Act of 1942 is hereby amended by striking out "June 30, 1943" and substituting "June 30, 1944".

(b) All provisions (including prohibitions and penalties) of the Emergency Price Control Act of 1942 which are applicable with respect to orders or regulations under such Act shall, insofar as they are not inconsistent with the provisions of this Act, be applicable in the same manner and for the same purposes with respect to regulations or orders issued by the Price Administrator in the exercise of any functions which may be delegated to him under authority of this Act.

(c) Nothing in this Act shall be construed to invalidate any provision of the Emergency Price Control Act of 1942 (except to the extent that such provisions are suspended under authority of section 2), or to invalidate any regulation, price schedule, or order issued or effective under such Act.

SEC. 8. (a) The Commodity Credit Corporation is authorized and directed to make available upon any crop of the commodities cotton, corn, wheat, rice, tobacco, and peanuts harvested after December 31, 1941, and before the expiration of the two-year period beginning with the 1st day of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated, if producers have not disapproved marketing quotas for such commodity for the marketing year beginning in the calendar year in which such crop is harvested, loans as follows:

(1) To cooperators (except cooperators outside the commercial corn-producing area, in the case of corn) at the rate of 90 per centum of the parity price for the commodity as of the beginning of the marketing year;

(2) To cooperators outside the commercial corn-producing area, in the case of corn, at the rate of 75 per centum of ~~the~~ rate specified in (1) above;

(3) To noncooperators (except noncooperators outside the commercial corn-producing area, in the case of corn) at the rate of 60 per centum of the rate specified in (1) above and only on so much of the commodity as would be subject to penalty if marketed.

(b) All provisions of law applicable with respect to loans under the Agricultural Adjustment Act of 1938, as amended, shall, insofar as they are not inconsistent with the provisions of this section, be applicable with respect to loans made under this section.

(c) In the case of any commodity with respect to which loans may be made at the rate provided in paragraph (1) of subsection (a), the President may fix the loan rate at any rate not less than the loan rate otherwise provided by law if he determines that the loan rate so fixed is necessary to prevent an increase in the cost of feed for livestock and poultry and to aid in the effective prosecution of the war.

SEC. 9. (a) Section 4 (a) of the Act entitled "An Act to extend the life and increase the credit resources of the Commodity Credit Corporation, and for other purposes", approved July 1, 1941 (U. S. C., 1940 edition, Supp. I, title 15, sec. 713a-8), is amended—

(1) By inserting after the words "so as to support" a comma and the following: "during the continuance of the present war and until the expiration of the two-year period beginning with the 1st day of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated,".

(2) By striking out "85 per centum" and inserting in lieu thereof "90 per centum".

(3) By inserting after the word "tobacco" a comma and the word "peanuts".

(b) The amendments made by this section shall, irrespective of whether or not there is any further public announcement under such section 4 (a), be applicable with respect to any commodity with respect to which a public announcement has heretofore been made under such section 4 (a).

SEC. 10. When used in this Act, the terms "wages" and "salaries" shall include additional compensation, on an annual or other basis, paid to employees by their employers for personal services (excluding insurance and pension benefits in a reasonable amount to be determined by the President); but for the purpose of determining wages or salaries for any period prior to September 16, 1942, such additional compensation shall be taken into account only in cases where it has been customarily paid by employers to their employees.

SEC. 11. Any individual, corporation, partnership, or association willfully violating any provision of this Act, or of any regulation promulgated thereunder, shall, upon conviction thereof, be subject to a fine of not more than \$1,000, or to imprisonment for not more than one year, or to both such fine and imprisonment.

Approved, October 2, 1942.

[PUBLIC LAW 729—77TH CONGRESS]

[CHAPTER 578—2D SESSION]

[H. R. 7565]

AN ACT

To amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to aid in the effective prosecution of the war, the President is authorized and directed, on or before November 1, 1942, to issue a general order stabilizing prices, wages, and salaries, affecting the cost of living; and, except as otherwise provided in this Act, such stabilization shall so far as practicable be on the basis of the levels which existed on September 15, 1942. The President may, except as otherwise provided in this Act, thereafter provide for making adjustments with respect to prices, wages, and salaries, to the extent that he finds necessary to aid in the effective prosecution of the war or to correct gross inequities: *Provided*, That no common carrier or other public utility shall make any general increase in its rates or charges which were in effect on September 15, 1942, unless it first gives thirty days notice to the President, or such agency as he may designate, and consents to the timely intervention by such agency before the Federal, State, or municipal authority having jurisdiction to consider such increase.

SEC. 2. The President may, from time to time, promulgate such regulations as may be necessary and proper to carry out any of the provisions of this Act; and may exercise any power or authority conferred upon him by this Act through such department, agency, or officer as he shall direct. The President may suspend the provisions of sections 3 (a) and 3 (c), and clause (1) of section 302 (c), of the Emergency Price Control Act of 1942 to the extent that such sections are inconsistent with the provisions of this Act, but he may not under the authority of this Act suspend any other law or part thereof.

SEC. 3. No maximum price shall be established or maintained for any agricultural commodity under authority of this Act or otherwise below a price which will reflect to producers of agricultural commodities the higher of the following prices, as determined and published by the Secretary of Agriculture—

(1) The parity price for such commodity (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials) or, in case a comparable price has been determined for such commodity under and in accordance with the provisions of section 3 (b) of the Emergency Price Control Act of 1942, such comparable price (adjusted in the same manner), or

(2) The highest price received by such producers for such commodity between January 1, 1942, and September 15, 1942 (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials), or, if the market for such commodity

was inactive during the latter half of such period, a price for the commodity determined by the Secretary of Agriculture to be in line with the prices, during such period, of other agricultural commodities produced for the same general use; and no maximum price shall be established or maintained under authority of this Act or otherwise for any commodity processed or manufactured in whole or substantial part from any agricultural commodity below a price which will reflect to the producers of such agricultural commodity a price therefor equal to the higher of the prices specified in clauses (1) and (2) of this section: *Provided*, That the President may, without regard to the limitation contained in clause (2), adjust any such maximum price to the extent that he finds necessary to correct gross inequities; but nothing in this section shall be construed to permit the establishment in any case of a maximum price below a price which will reflect to the producers of any agricultural commodity the price therefor specified in clause (1) of this section: *Provided further*, That modifications shall be made in maximum prices established for any agricultural commodity and for commodities processed or manufactured in whole or substantial part from any agricultural commodity, under regulations to be prescribed by the President, in any case where it appears that such modification is necessary to increase the production of such commodity for war purposes, or where by reason of increased labor or other costs to the producers of such agricultural commodity incurred since January 1, 1941, the maximum prices so established will not reflect such increased costs: *Provided further*, That in the fixing of maximum prices on products resulting from the processing of agricultural commodities, including livestock, a generally fair and equitable margin shall be allowed for such processing: *Provided further*, That in fixing price maximums for agricultural commodities and for commodities processed or manufactured in whole or substantial part from any agricultural commodity, as provided for by this Act, adequate weighting shall be given to farm labor.

Sec. 4. No action shall be taken under authority of this Act with respect to wages or salaries (1) which is inconsistent with the provisions of the Fair Labor Standards Act of 1938, as amended, or the National Labor Relations Act, or (2) for the purpose of reducing the wages or salaries for any particular work below the highest wages or salaries paid therefor between January 1, 1942, and September 15, 1942: *Provided*, That the President may, without regard to the limitation contained in clause (2), adjust wages or salaries to the extent that he finds necessary in any case to correct gross inequities and also aid in the effective prosecution of the war.

Sec. 5. (a) No employer shall pay, and no employee shall receive, wages or salaries in contravention of the regulations promulgated by the President under this Act. The President shall also prescribe the extent to which any wage or salary payment made in contravention of such regulations shall be disregarded by the executive departments and other governmental agencies in determining the costs or expenses of any employer for the purposes of any other law or regulation.

(b) Nothing in this Act shall be construed to prevent the reduction by any private employer of the salary of any of his employees which is at the rate of \$5,000 or more per annum.

(c) The President shall have power by regulation to limit or prohibit the payment of double time except when, because of emergency conditions, an employee is required to work for seven consecutive days in any regularly scheduled work week.

SEC. 6. The provisions of this Act (except sections 8 and 9), and all regulations thereunder, shall terminate on June 30, 1944, or on such earlier date as the Congress by concurrent resolution, or the President by proclamation, may prescribe.

SEC. 7. (a) Section 1 (b) of the Emergency Price Control Act of 1942 is hereby amended by striking out "June 30, 1943" and substituting "June 30, 1944".

(b) All provisions (including prohibitions and penalties) of the Emergency Price Control Act of 1942 which are applicable with respect to orders or regulations under such Act shall, insofar as they are not inconsistent with the provisions of this Act, be applicable in the same manner and for the same purposes with respect to regulations or orders issued by the Price Administrator in the exercise of any functions which may be delegated to him under authority of this Act.

(c) Nothing in this Act shall be construed to invalidate any provision of the Emergency Price Control Act of 1942 (except to the extent that such provisions are suspended under authority of section 2), or to invalidate any regulation, price schedule, or order issued or effective under such Act.

SEC. 8. (a) The Commodity Credit Corporation is authorized and directed to make available upon any crop of the commodities cotton, corn, wheat, rice, tobacco, and peanuts harvested after December 31, 1941, and before the expiration of the two-year period beginning with the 1st day of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated, if producers have not disapproved marketing quotas for such commodity for the marketing year beginning in the calendar year in which such crop is harvested, loans as follows:

(1) To cooperators (except cooperators outside the commercial corn-producing area, in the case of corn) at the rate of 90 per centum of the parity price for the commodity as of the beginning of the marketing year;

(2) To cooperators outside the commercial corn-producing area, in the case of corn, at the rate of 75 per centum of the rate specified in (1) above;

(3) To noncooperators (except noncooperators outside the commercial corn-producing area, in the case of corn) at the rate of 60 per centum of the rate specified in (1) above and only on so much of the commodity as would be subject to penalty if marketed.

(b) All provisions of law applicable with respect to loans under the Agricultural Adjustment Act of 1938, as amended, shall, insofar as they are not inconsistent with the provisions of this section, be applicable with respect to loans made under this section.

(c) In the case of any commodity with respect to which loans may be made at the rate provided in paragraph (1) of subsection (a), the President may fix the loan rate at any rate not less than the loan rate otherwise provided by law if he determines that the loan rate so fixed is necessary to prevent an increase in the cost of feed for livestock and poultry and to aid in the effective prosecution of the war.

SEC. 9. (a) Section 4 (a) of the Act entitled "An Act to extend the life and increase the credit resources of the Commodity Credit Corporation, and for other purposes", approved July 1, 1941 (U. S. C., 1940 edition, Supp. I, title 15, sec. 713a-8), is amended—

(1) By inserting after the words "so as to support" a comma and the following: "during the continuance of the present war and until the expiration of the two-year period beginning with the 1st day of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated,".

(2) By striking out "85 per centum" and inserting in lieu thereof "90 per centum".

(3) By inserting after the word "tobacco" a comma and the words "peanuts".

(b) The amendments made by this section shall, irrespective of whether or not there is any further public announcement under such section 4 (a), be applicable with respect to any commodity with respect to which a public announcement has heretofore been made under such section 4 (a).

SEC. 10. When used in this Act, the terms "wages" and "salaries" shall include additional compensation, on an annual or other basis paid to employees by their employers for personal services (excluding insurance and pension benefits in a reasonable amount to be determined by the President); but for the purpose of determining wages or salaries for any period prior to September 16, 1942, such additional compensation shall be taken into account only in cases where it has been customarily paid by employers to their employees.

SEC. 11. Any individual, corporation, partnership, or association willfully violating any provision of this Act, or of any regulation promulgated thereunder, shall, upon conviction thereof, be subject to a fine of not more than \$1,000, or to imprisonment for not more than one year, or to both such fine and imprisonment.

Approved, October 2, 1942.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

233

DATE

OCT 2 - 1942

TO Secretary Morgenthau
FROM Mr. Paul

I have had a talk with Mr. Shoaf, who was brought in by Congressman Jere Cooper, and have also had him see Mr. Cairns and Mr. O'Connell. He is interested in obtaining a job in the Treasury Department, and is not too particular about the type of work, so long as it will pay at least \$5,000 a year.

Mr. Shoaf has been practicing law in Covington, Tennessee, a town of about 3500 inhabitants, for the past twenty odd years. Neither I nor the others who talked with Mr. Shoaf were at all impressed by him and we do not believe that his services could be utilized to advantage. Not only is he without any familiarity with the sort of problems he would be called upon to face in our work but, more important, he did not display the slightest indication that he could learn.

We attempted to explain something of the nature of the work in the Procurement Division and in Foreign Funds, and he was appalled rather than pleased to learn that the problems were difficult and not subject to routine handling. I think Mr. Shoaf wants a \$5,000 job because his private practice is "drying up" and is not interested primarily in making a contribution or in taking on any real responsible work.

RSP

Let Mr. Shoaf "cook" for
a while and see what happens
Paul

OCT 2 - 1942

Dear Mr. Nelson:

I wish to thank you for your letter of September 28, 1942 and the enclosures relating to the testimony of Dr. Wilbur Nelson before the Senate Finance Committee. Let me assure you that I very much appreciate the spirit of your letter.

I am in full sympathy with the efforts being made by your organization to provide this country with the needed strategic and critical metals. The Treasury is deeply concerned that your efforts shall not be hampered by unwise tax legislation. At the same time we in the Treasury are also necessarily concerned that special tax privileges should not be secured under the guise of assisting the war effort. We have been giving a great deal of attention to mining problems and I do not believe we have advocated the introduction or retention of measures which would interfere with mining production. Our proposals grant very extensive relief in the case of additional production and have been specifically designed to cope with those situations where taxes might have been interfering with mineral production. In surveying the problems we have given careful consideration to all of the points which Dr. Nelson has raised.

If, despite the relief we have proposed, you feel that serious tax interference would remain, we shall be glad to review the whole matter in a special study. From the point of view of sound tax policy we feel that taxation measures should not be asked to accomplish what can be done better in other ways. Shot-gun methods of providing stimulation for mining through tax legislation would convey benefits where they are unwarranted in order to meet a special situation.

It is certainly not the desire of the Treasury to deprive the Congress of views which conflict with our

- 2 -

own on tax matters. Indeed, we have made it a point to inform the Committees when disagreements existed. Orderly handling of tax legislation, however, makes it necessary to have matters relating to such legislation handled through the Treasury where the responsibility is lodged. It is my understanding from your letter that you recognize the necessity for this centralization of responsibility and that in cases of disagreement as to tax policy you would like to present your opinions to us. We are in hearty accord with this procedure. Indeed, we have sought to ascertain the views of your organization on matters relating to the tax bill, including the appropriate rate of excess profits tax and including also the issue which was the occasion of my previous letter. In order that the record may be clear, I should like to set forth more fully the factual background on this most recent matter.

At our suggestion, Dr. Nelson first met with members of the Treasury staff in Mr. Blough's office on August 8, 1942. This meeting produced a very satisfactory exchange of general views on the problems of taxation of mining, and it was our understanding that there was general agreement on the broad principles involved. A second meeting in the Treasury on August 26, 1942 was devoted to more detailed discussion of methods of implementing the broad considerations previously discussed. In that meeting, Dr. Nelson indicated that he considered the Johnson amendment unduly complicated and advanced an alternative proposal for increasing the percentage depletion allowance on mines. The Treasury's proposed substitute for the Johnson amendment was explained and discussed. At a third meeting with Dr. Nelson on August 31, 1942, in the Treasury, the discussion related principally to questions regarding the treatment of strategic metals under the excess profits tax exemption. The Treasury's proposal for relief for accelerated production of mines was reviewed briefly and Dr. Nelson was advised that the final details had not been settled, but that a copy of the proposal would be sent to him when these details were settled. A copy of the proposal was made available to Dr. Nelson on the 8th of September, - two days before there was any hearing on the subject.

- 3 -

At each of the three meetings in the Treasury Dr. Nelson promised to furnish case data and other information supporting his arguments. None of this material was ever received.

As I wrote you previously, Dr. Nelson appeared before the Senate Finance Committee on August 13 without discussing with us the testimony he expected to give. Again on September 10 he appeared before the Subcommittee of the Senate Finance Committee, without previously communicating to us his views on the Treasury's proposed substitute for the Johnson amendment or the nature of his intended testimony. I believe it is only fair to say that he had been made sufficiently aware of the Treasury's position on the depletion allowance to make him realize that his suggestions were contrary to Treasury policy. Treasury representatives had repeatedly pointed out to Dr. Nelson the objections to increasing depletion allowances as a basis for stimulating mineral production.

After Mr. Paul's telephone conversation with you, to which you refer in your letter of September 28, Dr. Nelson made a further appearance before the full Committee on September 21, without discussing the problem or his intended testimony with anyone in the Treasury, although there was opportunity to do so, not only prior to the hearing date but also at the Committee hearing room in advance of the proceedings.

I wish to assure you again that I welcome your views and hope that there may be no further misunderstandings in connection with either this revenue act or further acts.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Donald M. Nelson,
Chairman, War Production Board,
Washington, D. C.

RB:REP:mv

Del. by Sturgis 2:42 10/2/42

Photo file in Diary

File to White direct.

WAR PRODUCTION BOARD
WASHINGTON, D. C.

September 28, 1942

OFFICE OF
WALD M. NELSON
CHAIRMAN

My dear Mr. Secretary:

Thank you for your letter of September 25.

I regret exceedingly the mix-up which occurred regarding Dr. Wilbur Nelson's testimony before the Senate Finance Committee. Mr. Batt authorized Dr. Nelson to testify, not knowing of the arrangement I had made with Mr. Paul. I was absent from the city on the day he testified, and Dr. Nelson came up to see Mr. Batt and told him he had been unable to get anywhere with Mr. Paul. Mr. Paul evidently did not make available to him the Treasury proposal.

I think we should work out some procedure by which we would have an opportunity to present to the Treasury our point of view regarding the effect of taxes on production, because we are called upon to testify. Committees of Congress take exception, often violent, when we refuse to state our position to them.

I am really worried about the effect of the Treasury proposals on the production of some of the critical metals like molybdenum, tungsten, copper, and so forth. I realize that the Treasury wants to close up loop holes, and I am fully in sympathy with this objective, but we have a real problem in increasing the production of domestic ores. I am told repeatedly by experts, some of whom like Dr. Nelson have no connection with the mining business, that it is impossible to get increased production from new properties unless the tax laws permit larger adjustments for depletion.

I can assure you that there is no desire on the part of our organization to contest in any way the Treasury's position in respect to the presentation of tax matters, but there might be times when from the standpoint of production we would disagree and in those cases we would like to present our opinions to you.

I am sending you herewith copy of a memorandum which Dr. Nelson wrote to Mr. Batt concerning his testimony.

Again, we regret that this misunderstanding occurred.

Sincerely yours,


Donald A. Nelson

The Honorable
The Secretary of the Treasury

Enclosure



WAR PRODUCTION BOARD

COPY

Washington, D. C.

September 21, 1942

MEMORANDUM

TO: Mr. W. L. Eatt
Vice Chairman

FROM: Dr. Wilbur Nelson

RE: Testimony before Senate Finance Committee on Excess Profits as they relate to Mining Enterprises - September 21, 1942.

It has been apparent for some time that excess profit taxes are a real impediment to increasing the production of mines. The reasons are obvious. Mining is a wasting capital enterprise. As production increases, the taxes tend upward to the maximum of 85 - 90%. There is every incentive to leave all minerals in excess of the base year's production in the ground, rather than to take them out in a year when excess profits would have to be paid on the ores mined. This is quite a different situation than the usual business enterprise.

The Eastern Congressmen and Senators are all well aware of this problem. Several suggested amendments to the Excess Profits Tax Law have been made.

I have been pressing for relief since early August. From the beginning, however, I have made no suggestion as to the manner in which relief was to be granted. I have simply stated from time to time, both in public and in private hearings, that some relief should be given in order to obtain the maximum production which the war effort demands, locally and nationally, and Mr. Eatt and Mr. Eatt as to the form of the relief.

At a meeting of the Finance Committee on September 17, 1942, before the Senate Finance Committee in the latter part of August and seemed to give the needed relief. The Treasury objected to the amendment in its then form. We discussed the matter at some length with the Treasury, who promised to send us their suggestions. Although we repeatedly requested their suggestions, the Treasury failed to make them available to us.

At a meeting of the Finance Committee on September 17, 1942, Mr. Eatt directed the Treasury to furnish us with a copy of their suggestions, which was done. The following day I was called before the Senate Finance Committee again and testified what we had very little time to do over the Treasury's suggestions in detail, but that most of them seemed all right. The only one which I did not like was the amendment which was based relief on the ore reserves and the temporary nature of the uncertainty of reserves and the fact that it would tend to slow down development work. If the Treasury formula - the higher the charges the smaller the exemptions from tax; therefore, instead of a stimulus to mining enterprises, which we so badly need, the amendment would tend to slow down the work.

Memorandum to W. L. East

- 2 -

September 21, 1944

The Committee, also, seemed to be dissatisfied with the Treasury proposal and gave the Treasury new instructions. Although I asked Randolph Paul to furnish me a copy of their new proposal, I never received such a copy.

On Friday I was told that the Committee would hear me on Monday. I obtained a copy of the Treasury's proposal at this time, but not from the Treasury. I appeared this morning before the Senate Finance Committee and testified very briefly that the Johnson Amendment, as changed by the Treasury, would not act as a stimulant to increased mining production. A copy of my statement is attached hereto.

Mr. Paul questioned my authority to testify on behalf of the War Production Board.

tt: Copy of statement made at the
Senate Finance Committee hearing
by Wilbur Nelson

STATEMENT BY DR. WILLIAM LIND - SENATE DEBATE FINANCE
COMMITTEE HEARING - SEPTEMBER 21, 1942.

The WPB through me wishes to thank this committee for the consideration you have already given to taxation as it affects mine production, since I appeared before you August 1, 1942.

However, the WPB is at all concerned over what we understand to be the proposed action with respect to relief for mining companies from the Excess Profits Tax on additional mine production. This is the relief which the so-called Johnson Amendment, which we endorsed, was designed to accomplish. We understand that this Johnson Amendment has been modified at the suggestion of the Treasury by the introduction of a complicated formula. We strongly feel that the Treasury formula applied to the Johnson Amendment will adversely affect mine production. As a matter of fact we feel it will definitely slow down development work which would disclose additional reserves; for the formula for tax relief suggested by the Treasury is based on ore reserves which means proven ore. The less proven ore the greater is the tax relief - the more proven ore the smaller becomes the tax relief.

At a time, when the war effort demands that we prove up adequate ore reserves and produce all we can, the Treasury suggests to us as a basis for giving relief through excess profits exemption, a complicated formula based on ore reserves.

I cannot stress too strongly the fact that under present operating conditions a lack of proven ore reserves will quickly and adversely affect production in many mines at a time when we want accelerated production. The WPB is of the opinion that the original Johnson Amendment applied as an additional and not an alternate credit, as suggested by the Treasury, would definitely tend to increase the production of those minerals necessary in the War Effort.

May we urge that instead of complicated formulae, percentages, and ratios based on ore reserves, some simple factor be applied in all cases regardless of ore reserves.

Perhaps this might be done by granting an additional depletion allowance upon the gross production in excess of normal production, normal production meaning the average annual production during the base period years. This would be a simple understandable provision.

The mines want something they can understand as giving them relief. They could understand the original Johnson proposal. They could understand this suggestion of mine as to an additional depletion allowance. Any provision which appears complicated and appears to furnish a field for future controversies with the tax officials will not give the stimulus to mine production which we must have at this time.

COPY

THE  SUN

OCT 2 1942

**The Price Of Kicking A
Caddie Is Hard To Determine**

The Appellate Division, New York State's second highest court, has written into its records that \$5,000 is too high a price for kicking a caddie on a golf course. The kicke had won a verdict for that amount from the kicker, who happens to be William A. Julian, Treasurer of the United States; but the appellate court has rendered the curious decision that the verdict will be set aside unless the boy agrees to accept \$2,500.

restricted entirely to the price of kicking a caddie. That the caddie was kicked seems to be established. That the kicking of a caddie constitutes a tort is admitted by the court when it permits the assessment of any damage. But the precise cash equivalent of the mental and physical anguish suffered by the kicked caddie is debatable, and it is upon this point that the lower and higher courts are in disagreement.

Even if one accepts the doubtful proposition that law is not affected by latitude, it is incontestable that prices are. This case originated at Bolton Landing, on the shores of Lake George, far up in New York State. It is not to be assumed, therefore, that what would be a fair price in Alabama would necessarily be a fair price at Bolton Landing, or that the figure representing justice at Colorado Springs would agree with either.

Furthermore, there are kicks and kicks. There is the accidental kick, which an apology will square almost anywhere. There is what may be called the impersonal kick when the golfer's fury against the cussedness of ball, bunkers and sand traps is suddenly vented upon the caddie; naturally, this comes higher. Finally, there is the kick direct, intended for the caddie and motivated by wrath against the caddie, which is, of course, most expensive of all.

Obviously, the court dealt with a question involving some delicate calculations and nice discriminations; it is not surprising that it was a 3-to-2 decision. And we do not yet know whether in his present golfing Mr. Julian (1) has difficulty in getting a caddie and (2) how big his present caddies are.

OCT 2 - 1942

Hon. S. R. Glenn,
Collector of Internal Revenue,
Louisville, Kentucky.

Dear Mr. Glenn:

I acknowledge with thanks the receipt of your letter of September 21, 1942, transmitting a photostatic copy of an interesting Federal tax bill issued in Kentucky in 1864. In return for your kindness, I am enclosing a copy of a Federal tax return which was filed in 1867 by a New York resident.

Although you are correct in saying that the 1913 Act imposed the first effective income tax following the adoption of the Sixteenth Amendment, it is nevertheless true that there were a number of Civil War income tax acts, namely, the Acts of 1861, 1862, 1864, 1865, 1866, 1867 and 1870. As you know, of course, the income tax provisions of the Act of 1894 were declared unconstitutional in the famous Pollock case.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Enc.

25

Collector Glenn sent you photostat of an interesting Federal tax bill issued in Kentucky in 1864. In return you are sending him copy of a Federal tax return which was filed in 1867 by a NY resident

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

September 23, 1942

TO Leo Diamond

FROM Kay Alger

Mr. Paul would like you to answer this letter. Will you please have an acknowledgment prepared for the Secretary's signature immediately, and then Mr. Paul remembered that Chuck Kades had a copy of the first income tax return photographed and mentioned that you might send it to Mr. Glenn along with your answer.

Kay

Attachment

1



OFFICE OF THE COLLECTOR
DISTRICT OF KENTUCKY

IN REPLYING REFER TO

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

LOUISVILLE, KY.
September 21, 1942.

Paul 247

PERSONAL

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

My dear Mr. Morgenthau:

I am enclosing photostatic copy of an old tax bill which was sent in to me from Lawrenceburg, Kentucky.

I had always been under the impression that the first income tax law was passed under Cleveland and was held unconstitutional by the Supreme Court; that then the Constitution was amended and that the first income tax law was effective in 1913. However, the enclosed tax bill, dated November 1864, discloses that there was an income tax at that time, setting out the amount and the rate.

I thought ~~this~~ old bill might be of interest to you. For that reason, I am sending it to you.

Sincerely yours,

S. R. Glenn
S. R. Glenn, Collector

FOR DEFENSE

BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

(19)

UNITED STATES INTERNAL REVENUE.

H. District State of *Virginia*
Richmond, 1864

Div. No. _____

Mr. W. C. ...

Collector's Office,
To The United States
(FOR INTERNAL REVENUE.)

Tax on Income for the year 1864, viz:

Income exceeding \$500 and not exceeding \$5,000:	Amount, \$	at 3 per cent
Income exceeding \$5,000:	" \$	" 10 " "
		Total . . .

AMOUNT TAX.	

Less Tax withheld . . .

Tax on the following articles, for the year ending May 1, 1864:

	RATE	ABSTRACT NO.	
Billiard Tables, kept for private use	\$10 each.	247	
Carriage, valuation over \$20 and not over \$10	1 "	249	
" " " 100 " " 20	2 "	248	<i>248</i>
" " " 200 " " 30	3 "	260	
" " " 300 " " 50	6 "	262	
" " " 500	10 "	268	
Pianofortes, &c., valuation over \$100 and not over \$500	2 "	267	
" " " 200 " " 400	4 "	268	
" " " 400	6 "	269	
Sold Plates, kept for use	cs. 30c. per cs.	270	
Silver Ware, " " "	cs. " "	277	
Sold Watches, kept for use, valuation not over \$500	\$1 each.	273	
" " " " " " over \$500	2 "	272	
Watches			

Amount of Tax \$ *7.11*

Penalty

Total \$ _____

Received Payment,

John R. Beckley
Collector.

UNITED STATES INTERNAL REVENUE.

ANNUAL TAXES, 1867.

By the act of June 30, 1864, as amended by the first section of the act of March 2, 1867, it is made the duty of any person liable to annual tax, on or before the first day of March in each year, to make a return to the assistant assessor of the district wherein he resides, of his income, and of the articles in Schedule A owned or kept by him on the first day of March.

Every person failing to make such return by the day specified will be liable to be assessed by the assistant assessor according to the best information which he can obtain; and in such case the assistant assessor will add fifty per cent. to the amount of the tax, and from the valuation and enumeration so made there can be no appeal.

In case any person shall deliver to an assessor any false or fraudulent list or statement, with intent to defeat or evade the valuation or enumeration required by law, the assistant assessor will add one hundred per cent. to the tax.

The assessment list, when completed, will be returned to the collector, who will "give notice by advertisement in one newspaper published in each county in his collection district, if any there be, and if not, then in a newspaper printed in an adjoining county, and by notification, to be posted in at least four public places in each county in his collection district, that the said duties have become due and payable, and state the time and place within said county at which he or his deputy will attend to receive the same;" and to any sum unpaid after the thirtieth day of April, and for ten days after demand, there will be an addition of five per cent. as a penalty for such neglect, and of interest at one per cent. per month.

Guardians, trustees, executors and administrators, and persons acting in any other fiduciary capacity, are required to make returns of the income belonging to minors, or other persons for whom they act, and the income tax will be assessed upon the amount returned, after deducting such sums as are exempted by law: provided that the exemption of one thousand dollars shall not be allowed on account of any minor or other beneficiary of a trust except upon the statement of the guardian or trustee, made under oath, that the minor or beneficiary has no other income from which the said amount may be exempted and deducted.

When coupons of United States bonds, or gold received as interest on bonds, are sold within the year, the amount of legal tender currency received therefor should be returned as income under paragraph 9.

When any person has gold, or coupons payable in gold, on hand at the close of the year, its value should be returned at the value of gold at the close of the year. This value in New York was 134.

Articles embraced in Schedule A must be returned in the list printed on this sheet.

The following table may be used for converting Avoirdupois into Troy ounces:

10 ounces Avoirdupois equal	9 ounces Troy.	40 ounces Avoirdupois equal	37 ounces Troy.
20 " " " "	19 " " "	50 " " " "	45 " " "
30 " " " "	27 " " "	100 " " " "	91 " " "
40 " " " "	36 " " "	200 " " " "	182 " " "
50 " " " "	45 " " "	500 " " " "	456 " " "
60 " " " "	54 " " "	1000 " " " "	912 " " "
70 " " " "	63 " " "		

Where any articles named in Schedule A are owned, possessed, or kept by a partnership, firm, association, or corporation, they must be returned to the assistant assessor of the district in which such partnership, firm, association, or corporation has its office or principal place of business.

When such articles are held by an individual, the return will be made in the district in which he or she resides.

Detailed Statement of Income, Gains, and Profits of *John R. Boone*
of *8 West 21st Street*, County of *New York*, and State of
New York, during the year 1866, and of Carriages, &c., owned or kept
by him, March 1, 1867.

1. From profits in any trade, business, or vocation, from which income is actually derived, or any interest therein whenever carried on.....	
2. From the payment of debts in a former year considered lost, and which have not paid a previous income tax.....	
3. From rents.....	
4. From farming operations—Amount of live-stock sold.....	147 10
Amount of agricultural products sold.....	
5. From profits realized by sales of real estate purchased since December 31, 1863.....	
6. From interest on any bonds or other evidences of indebtedness of any railroad, canal, turnpike, canal navigation, or slack-water company; or interest or dividends on stock, capital, or deposits in any bank, trust company, savings institution, insurance, railroad, canal, turnpike, canal navigation or slack-water company.....	1842 87
7. From dividends of any incorporated company other than those above mentioned.....	3346 00
8. From gains and profits of any incorporated company not divided.....	
9. From interest on notes, bonds, or other securities of the United States.....	542 67
10. From interest on notes, bonds, mortgages, or securities other than those enumerated above.....	73 33
11. From salary other than as an officer or employee of the United States.....	
12. From salary or pay as an officer or employee of the United States.....	
13. From profits on sales of gold or stocks, whenever purchased.....	
14. From all sources not above enumerated.....	
Gross income.....	5951 97

DEDUCTIONS.

1. Exempt by law.....	\$1,000 00	
2. National, State, county, and municipal taxes paid within the year.....	667 31	
3. Losses actually sustained during the year from fire, shipwreck, or incurred in trade, and not already deducted in ascertaining profits.....		
4. Losses on sales of real estate purchased since December 31, 1863.....		
5. Amount paid for hired labor to cultivate land from which income is derived.....		
6. Amount paid for the live stock which was sold within the year.....		
7. Amount actually paid for rent of homestead.....		
8. Amount paid for usual or ordinary repairs, excluding payments for new buildings, perma- nent improvements or betterments.....	31 73	
9. Interest paid out or falling due within the year.....	360 00	
10. Salary or pay as an officer or employee of the United States from which a tax has been withheld.....	1842 87	3901 91
11. Interest or dividends from corporations enumerated above in paragraph 6.....		2050 06
Taxable income.....		102 50
Amount of tax at 5 per cent.....		6 40

108,90
57.14 201.04

CARRIAGES, GOLD WATCHES, BILLIARD TABLES, GOLD AND SILVER PLATE

SCHEDULE A—SECTION 100, ACT JUNE 30, 1894, AS AMENDED JULY 13, 1902.

No.	TAXABLE ARTICLES	RATE.	AMOUNT OF TAX
	Carrriage, phaeton, carryall, rockaway, or other like carriage, and any coach, hackney coach, omnibus, or four-wheeled carriage, the body of which rests upon springs of any description, which is kept for use, for hire, or for passengers, and which is not used exclusively in husbandry or in the transportation of merchandise, valued at exceeding three hundred dollars and not exceeding five hundred dollars, including harness used therewith.....	\$6 00	
	Carrriages of like description valued at above five hundred dollars.....	10 00	
2	Gold watches, composed wholly or in part of gold or gilt, kept for use, valued at one hundred dollars or less.....	1 00	2 00
	Gold watches, composed wholly or in part of gold or gilt, kept for use, valued at above one hundred dollars.....	2 00	
	Billiard tables kept for use, and not subject to special tax.....	10 00	
	Oz. plate of gold, kept for use, per ounce troy.....	50	
88	Oz. plate of silver, kept for use, per ounce troy, exceeding 40 ounces, used by one family.....	50	4 40
			6.40

STATE OF

COUNTY OF

} 88.

being sworn according to law, deposes and says,

that the within statement contains a full, true, particular, and correct account of his income for the year A. D. 1867, which he has received, whether derived from any kind of property, rents, interest, dividends, or salary, or from any profession, trade, employment, vocation, or from any other source whatever, from the first day of January to the thirty-first day of December, A. D. 1867, both inclusive, and subject to an income tax under the excise laws of the United States; and that he has not received, and is not entitled to receive, from any or all sources of income together, any other sum for the said year besides what is herein set forth in all, except such amounts as, though justly due to the affiant, are not good and collectible; and that he is honestly and truly entitled to make the deductions from his income for said year as specifically stated in detail, in accordance with the true intent of the excise laws of the United States; that the statement of the number or weight and value of the articles enumerated in schedule A, owned, possessed, kept by him, or of which he had the care or management, on the first day of March, A. D. 1867, is also just and true; and that the rates and amounts therein contained are stated in legal tender currency.

J. P. Boone

Sworn and subscribed, this 1st day of April, A. D. 1867, before me.

J. M. Robison

Assistant Assessor Division District, State of

Assessors should ask the following Questions:

- Had your wife any income last year?
- Did any minor child of yours receive any salary last year?
- Have you included in this return the income of your wife, and salary received by minor children?
- Have you any stocks, and what are they?
- Have you bought or sold stocks or other property?
- Have you any United States securities?
- Have you kept any bank account?
- Is your income estimated, or taken from your books?
- Have any of the deductions claimed in your return already been taken out of the amount reported as profits?
- Did you estimate any portion of your profits in making your return for previous years?
- Was any portion treated as worthless, and, if since paid, have you included it in this return?

UNITED STATES INTERNAL REVENUE
ANNUAL TAXES ~~MARCH~~, 1867.

To April 1867

in Division District.

and State of
Tax - 108.96
92.14
with interest \$201.64

TAKE NOTICE

That, in pursuance of the acts of Congress, you are required to make out a return, according to the forms within, as far as the same may be applicable to your case, and deliver the same to me, at my office, WITHIN TEN DAYS FROM THE DATE HEREOF, or an addition of FIFTY PER CENTUM will be made to the proper tax.

Dated this _____ day of _____, 1867.

Assistant Assessor

Given at _____

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Friday, October 2, 1942.

Press Service
No. 33-48

Secretary Morgenthau announced today that sales of Treasury Tax Savings Notes during September totaled \$929,000,000, or more than double the sales of \$418,000,000 during the preceding month. With the exception of the first month of issue in August, 1941, when sales totaled \$1,037,000,000, this was the largest monthly total on record. This showing demonstrates the effectiveness of the work of the Victory Fund Committees, officials said.

The September total includes the sales of Series A, B and C Notes. Sale of Series A and B Notes was suspended on Saturday, September 12, and new Series A and C Notes, which provide greater flexibility, were placed on sale on Monday, September 14. The principal change in Series A Notes was the raising of the limit which might be presented in payment of taxes in any one year from \$1200 to \$5000 and extending the maturity of the notes to three years. This limit applies separately to Federal income, estate and gift taxes. In the case of joint returns, husband and wife are each permitted to present a maximum of \$5000 in Series A Notes in any one year in payment of taxes of each class.

Of the total of \$929,000,000 in Tax Savings Notes sold last month, the sum of \$846,000,000 represented the purchase of new notes issued on and after September 14, 1942. The balance of \$83,000,000 represented sales of old Series A and B Notes prior to September 14, of which approximately \$48,000,000 were exchanged for the new series notes during September.

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Sales of Tax Savings Notes in September by Federal Reserve districts, etc., follows:

Boston - - - - -	\$57,615,000
New York - - - - -	341,925,000
Philadelphia - - - -	71,303,000
Cleveland - - - - -	107,724,000
Richmond - - - - -	35,295,000
Atlanta - - - - -	20,386,000
Chicago - - - - -	148,650,000
St. Louis - - - - -	44,803,000
Minneapolis - - - -	14,859,000
Kansas City - - - -	20,965,000
Dallas - - - - -	12,961,000
San Francisco - - - -	52,042,000
Treasury - - - - -	709,000
Unclassified - - - -	<u>67,000</u>
TOTAL - - - - -	\$929,303,000

-000-

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 2,
1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Recent Changes in Prices and Yields of Government Securities

During the week ended last night, prices of practically all Government securities lost ground. Although fairly evenly distributed throughout the week, declines were most pronounced on Tuesday following the announcement that the Treasury would borrow approximately \$4 billions in the market in October.

The new 1-1/4 percent notes due March 1945 closed yesterday at 100, unchanged from the quotation of a week ago. The taxable 2's of December 1949-51 (offered in July) declined 2/32 during the week, closing last night at 100-4/32. The taxable 2-1/2's of 1967-72 were quoted at 100-31/32 at the close yesterday, down 5/32 from a week ago.

With the exception of the 2-1/2's of 1967-72 among the taxable issues, and the 2's of 1953-55 and 2-1/4's of 1954-56 among the tax-exempt issues, prices of all Government securities outstanding on March 19 are currently quoted below their levels of that date. It should be noted, however, that in addition to the foregoing bonds, nine other tax-exempt issues also have lower yields than on March 19, this discrepancy being due to the amortization factor previously discussed in a number of the memoranda of this series. (See attached chart and tables.)

This week's offering of Treasury bills was awarded at an average rate of 0.373 percent, slightly above the average rate of a week ago. Small declines occurred during the week in the prices of all outstanding certificates of indebtedness.

Purchases by the Federal Reserve Banks for their individual investment accounts and for the System Account aggregated \$367 millions during the week ended last night (with Thursday's figures on a preliminary basis). The total consisted of \$250 millions of bills, \$65 millions of certificates, \$46 millions of other taxable issues (including \$40 millions of the new 1-1/4 percent notes) and \$5 millions of tax-exempt issues. Sales were

Secretary Morgenthau - 2

confined to \$70 millions of bills, and bill maturities totaled \$130 millions, so that the net increase in the holdings of the System Account and individual bank portfolios was \$167 millions.

Effective last Wednesday, the procedure of handling securities acquired under repurchase agreements was changed. Bills now purchased under such agreements are held in the investment accounts of the individual banks and are not transferred to the System Account as was the former practice.

Attachments

Table I 257
 Price and Yield Changes of United States Securities
 September 24, 1942 to October 1, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	Sept. 24, 1942	Oct. 1, 1942	Change	Sept. 24, 1942	Oct. 1, 1942	Change
(Decimals are thirty-seconds) 1/			(Percent)			
TAXABLE SECURITIES						
<u>Bills</u>						
Average rate last issue	-	-	-	.37	.37	.00
<u>Certificates</u>						
1/2 ²⁸ 11/1/42	100.014	100.008	-.006	.36	.40	+.04
5/8 2/1/43	100.047	100.041	-.006	.49	.50	+.01
.65 5/1/43	100.008	100.004	-.004	.64	.64	.00
7/8 8/1/43	100.085	100.080	-.005	.77	.78	+.01
<u>Variable Notes</u>						
3/4 ²⁸ 3/15/43	100.04	100.03	-.01	.48	.54	+.06
3/4 9/15/44	99.16	99.16	.00	1.01	1.01	.00
1-1/4 3/15/45	100.00w1	100.00	.00	1.25w1	1.25	.00
3/4 12/15/45	98.29	98.28	-.01	1.10	1.11	+.01
1 3/15/46	99.03	99.03	.00	1.27	1.27	.00
1-1/2 12/15/46	100.03	100.04	+.01	1.48	1.47	-.01
<u>Variable Bonds</u>						
2 ²⁸ 3/15/48-50	101.06	101.04	-.02	1.77	1.78	+.01
2 6/15/49-51	100.10	100.07	-.03	1.95	1.97	+.02
2 9/15/49-51	100.07	100.06	-.01	1.97	1.97	.00
2 12/15/49-51	100.06	100.04	-.02	1.97	1.98	+.01
2 12/15/51-55	100.01	100.02	+.01	2.00	1.99	-.01
2-1/2 3/15/52-54	103.14	103.12	-.02	2.10	2.10	.00
2-1/4 6/15/52-55	100.30	100.28	-.02	2.14	2.15	+.01
2-1/2 3/15/56-58	103.03	102.28	-.07	2.23	2.25	+.02
2-1/2 6/15/62-67	100.14	100.14	.00	2.47	2.47	.00
2-1/2 9/15/67-72	101.04	100.31	-.05	2.44	2.45	+.01
TAX-EXEMPT SECURITIES						
<u>Wholly Tax-exempt Notes</u>						
1-3/4 ²⁸ 12/15/42	100.10	100.09	-.01	.34	.36	+.02
1-1/8 6/15/43	100.17	100.16	-.01	.39	.41	+.02
1 9/15/43	100.19	100.18	-.01	.39	.41	+.02
1-1/8 12/15/43	100.30	100.28	-.02	.36	.39	+.03
1 3/15/44	100.25	100.24	-.01	.47	.48	+.01
3/4 6/15/44	100.15	100.13	-.02	.48	.51	+.03
1 9/15/44	100.31	100.31	.00	.51	.50	-.01
3/4 3/15/45	100.15	100.14	-.01	.56	.57	+.01
<u>Partially Tax-exempt Bonds</u>						
3-3/8 ²⁸ 6/15/43-47	102.02	101.30	-.04	.51	.61	+.10
3-1/4 10/15/43-45	102.23	102.20	-.03	.66	.70	+.04
3-1/4 4/15/44-46	103.25	103.22	-.03	.80	.83	+.03
4 12/15/44-54	106.22	106.19	-.03	.95	.97	+.02
2-3/4 9/15/45-47	105.06	105.04	-.02	.98	.98	.00
2-1/2 12/15/45	104.26	104.22	-.04	.98	1.01	+.03
3-3/4 3/15/46-56	109.00	108.30	-.02	1.10	1.10	.00
3 6/15/46-48	107.00	106.28	-.04	1.08	1.10	+.02
3-1/8 6/15/46-49	107.12	107.09	-.03	1.10	1.11	+.01
4-1/4 10/15/47-52	114.22	114.19	-.03	1.24	1.25	+.01
2 12/15/47	104.05	104.04	-.01	1.18	1.18	.00
2-3/4 3/15/48-51	107.13	107.12	-.01	1.34	1.34	.00
2-1/2 9/15/48	106.25	106.26	+.01	1.32	1.31	-.01
2 12/15/48-50	104.03	104.02	-.01	1.31	1.32	+.01
3-1/8 12/15/49-52	110.19	110.16	-.03	1.57	1.58	+.01
2-1/2 12/15/49-53	106.06	106.02	-.04	1.59	1.61	+.02
2-1/2 9/15/50-52	106.16	106.11	-.05	1.63	1.65	+.02
2-3/4 6/15/51-54	108.07	108.02	-.05	1.73	1.75	+.02
3 9/15/51-55	110.10	110.06	-.04	1.75	1.77	+.02
2-1/4 12/15/51-53	104.27	104.24	-.03	1.68	1.69	+.01
2 6/15/53-55	103.15	103.13	-.02	1.65	1.65	.00
2-1/4 6/15/54-56	105.07	105.05	-.02	1.76	1.76	.00
2-7/8 3/15/55-60	109.24	109.20	-.04	1.99	2.00	+.01
2-3/4 9/15/56-59	109.00	108.26	-.06	2.01	2.02	+.01
2-3/4 6/15/58-63	109.05	108.31	-.06	2.07	2.08	+.01
2-3/4 12/15/60-65	109.24	109.19	-.05	2.10	2.11	+.01

Treasury Department, Division of Research and Statistics.

October 1, 1942.

1/ Decimals in prices of certificates are true decimals.

Price and Yield Changes of United States Securities
March 19, 1942 to October 1, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	March 19, 1942	Oct. 1, 1942	Change	March 19, 1942	Oct. 1, 1942	Change
	(Decimals are thirty-seconds) 1/			(Percent)		
TAXABLE SECURITIES						
ills						
Average rate last issue	-	-	-	.20	.37	+17
Certificates						
1/28 11/1/42	-	100.008	-	-	.40	-
5/8 2/1/43	-	100.041	-	-	.50	-
.65 5/1/43	-	100.004	-	-	.64	-
7/8 8/1/43	-	100.080	-	-	.78	-
Taxable Notes						
3/4 3/15/43	100.12	100.03	-.09	.37	.54	+17
3/4 9/15/44	99.31	99.16	-.15	.76	1.01	+25
1-1/4 3/15/45	-	100.00	-	-	1.25	-
3/4 12/15/45	99.21	98.28	-.25	.84	1.11	+27
1 3/15/46	99.29	99.03	-.26	1.02	1.27	+25
1-1/2 12/15/46	-	100.04	-	-	1.47	-
Taxable Bonds						
28 3/15/48-50	101.28	101.04	-.24	1.67	1.78	+11
28 6/15/49-51	101.04	100.07	-.29	1.83	1.97	+14
2 9/15/49-51	-	100.06	-	-	1.97	-
2 12/15/49-51	-	100.04	-	-	1.98	-
2 12/15/51-55	100.12	100.02	-.10	1.96	1.99	+03
2-1/2 3/15/52-54	103.23	103.12	-.11	2.09	2.10	+01
2-1/4 6/15/52-55	101.06	100.28	-.10	2.12	2.15	+03
2-1/2 3/15/56-58	103.05	102.28	-.09	2.24	2.25	+01
2-1/2 6/15/62-67	-	100.14	-	-	2.47	-
2-1/2 9/15/67-72	100.27	100.31	+04	2.46	2.45	-01
TAX-EXEMPT SECURITIES						
Wholly Tax-exempt Notes						
1-3/4 12/15/42	101.11	100.09	-1.02	2/32*	.36	-4/32*
1-1/8 6/15/43	101.04	100.16	-.20	.22	.41	+19
1 9/15/43	101.03	100.18	-.17	.26	.41	+15
1-1/8 12/15/43	101.16	100.28	-.20	.26	.39	+13
1 3/15/44	101.10	100.24	-.18	.34	.48	+14
3/4 6/15/44	100.27	100.13	-.14	.37	.51	+14
1 9/15/44	101.16	100.31	-.17	.39	.50	+11
3/4 3/15/45	101.00	100.14	-.18	.41	.57	+16
Partially Tax-exempt Bonds						
3-3/8 6/15/43-47	103.21	101.30	-1.23	.41	.61	+20
3-1/4 10/15/43-45	104.06	102.20	-1.18	.57	.70	+13
3-1/4 4/15/44-46	105.06	103.22	-1.16	.72	.83	+11
4 12/15/44-54	108.11	105.19	-1.24	.91	.97	+06
2-3/4 9/15/45-47	106.06	105.04	-1.02	.94	.98	+04
2-1/2 12/15/45	105.28	104.22	-1.06	.90	1.01	+11
3-3/4 3/15/46-56	110.08	108.30	-1.10	1.11	1.10	-01
3 6/15/46-48	107.28	106.28	-1.00	1.09	1.10	+01
3-1/8 6/15/46-49	108.08	107.09	-.31	1.13	1.11	-.02
4-1/4 10/15/47-52	115.20	114.19	-1.01	1.33	1.25	-.08
2 12/15/47	104.23	104.04	-.19	1.15	1.18	+03
2-3/4 3/15/48-51	107.28	107.12	-.16	1.38	1.34	-.04
2-1/2 9/15/48	107.07	106.26	-.13	1.33	1.31	-.02
2 12/15/48-50	104.21	104.02	-.19	1.28	1.32	+04
3-1/8 12/15/49-52	110.22	110.16	-.06	1.65	1.58	-.07
2-1/2 12/15/49-53	106.16	105.02	-.14	1.60	1.61	+01
2-1/2 9/15/50-52	106.20	106.11	-.09	1.66	1.65	-.01
2-3/4 6/15/51-54	108.18	108.02	-.16	1.74	1.75	+01
3 9/15/51-55	110.20	110.06	-.14	1.78	1.77	-.01
2-1/4 12/15/51-53	104.29	104.24	-.05	1.70	1.69	-.01
2 6/15/53-55	103.10	103.13	+03	1.68	1.65	-.03
2-1/4 6/15/54-56	104.28	105.05	+09	1.80	1.76	-.04
2-7/8 3/15/55-60	110.00	109.20	-.12	2.00	2.00	.00
2-3/4 9/15/56-59	109.10	108.26	-.16	2.01	2.02	+01
2-3/4 6/15/58-63	109.12	108.31	-.13	2.07	2.08	+01
2-3/4 12/15/60-65	110.00	109.19	-.13	2.10	2.11	+01

Treasury Department, Division of Research and Statistics.

October 1, 1942.

1/ Decimals in prices of certificates are true decimals.
2/ Excess of price over zero yield.

OCT 2 - 1942

My dear Mr. President:

There is enclosed a suggested form of letter for your signature, acknowledging the gift received from the Industrial Shop workers of the Pearl Harbor Navy Yard.

In accordance with the provisions of the Second War Powers Act, 1942, this contribution will be accepted as a donation to the United States and will be placed to the credit of an appropriation from which ships of the Navy are built.

I feel that these employees are entitled to a letter from you.

You will note, also, that there is a place for your indorsement of the check, with instructions as to the ink to be used attached to the accompanying penholder. After the check has been indorsed, please return it so that it can be placed in course of collection for deposit of the proceeds in the Treasury.

Faithfully yours,
(Signed) H. Morgenthau, Jr.

The President
The White House.

By Mess^{rs}. Harmon 5:10 10/2/42
Marked Attn.: Mr. Forster
Photo file in Diary.
Orig. file to Thompson

Dear Sirs:

Your gift of \$70,000 will spur each and every one of us on the home front to harder work and greater sacrifice. I accept it gladly, on behalf of a grateful nation.

You at Pearl Harbor went through the full horror of December 7, 1941, the day that will live in infamy. On that day you risked your lives to beat off a treacherous attack. Since then you have worked like Trojans to build up our fighting Navy. Now you are giving your dollars so that the infamy of that day can be avenged.

In response to your request, I have this day given instructions that a plaque be placed on a new motor torpedo boat, testifying to the fact that it was contributed by the men and women of the Pearl Harbor Navy Yard.

With all good wishes,

Cordially and sincerely yours,

M. M. Dana, Commander, U. S. Navy, and
Tony Tedaro, Machinist,
Navy Yard, Pearl Harbor, T. H.

FK/cgk

THE WHITE HOUSE
WASHINGTON

October 20, 1944.

Respectfully,
Secretary of the Treasury
appropriate acknowledgment.

September 23, 1942.

Respectfully referred to the
Secretary of the Treasury for ap-
propriate acknowledgment.

H. H. McINTYRE
Secretary to the President

M. M. Dana, Commander, U. S. Navy, &
Tony Todaro, Machinist,
Navy Yard, Pearl Harbor, T. H.

Letter to the President, dated 9/15/42, together with contribution
to War Fund: \$70,000.00 Certified Check, dated 9/7/42,
drawn on and certified by the Pearl Harbor Branch of the
Bank of Hawaii, payable to Franklin D. Roosevelt, President
of the U. S. A., signed by M. M. Dana and Tony Todaro,
Trustees of 1942 Labor Day Fund. Check is written on a
fragment of wing flap taken from a Jap plane shot down over
Pearl Harbor on December 7, 1941. Also send speedball pen
to be used in endorsing check. See copy of letter attached.
Receipt requested.

Copy filed 335-Contribution.

Navy Yard, Pearl Harbor, T. H.
15 September, 1942

The Honorable Franklin D. Roosevelt
President of the United States of America
Washington, D. C.

Dear Mr. President:

On Labor Day many of the industrial shop workers of the Pearl Harbor Navy Yard contributed their day's pay in an action instigated and pursued by the men on their own initiative. They felt that this token donation along with their work, might further assure the continuance of the American way of life. Their desire to see a name plate inscribed with "Pearl Harbor" caused them to accumulate this Fund regardless of expressed official discouragement.

The men understand that certain technicalities and restrictions cover the naming of air or sea craft, but it is hoped that a way will be found to swell the pride of the shop men who are doing much to keep our ships fit to fight. They are proud of their slogan, "We Keep Them Fit To Fight". While the men are contributing indirectly through bonds, they hope that their sentiments can be as clearly expressed and accentuated as recently was the return of certain Japanese decorations.

The Fund is forwarded to you for use as you deem best. As relief or entertainment organizations have separate drives for those specific causes, it is suggested that the Fund be turned into the Treasury and a name plate placed on a piece of armament to the end that the men may enjoy vicariously that satisfaction that comes in the returning the unpleasantness of December 7th. The check is written on a fragment of wing flap taken from a Jap plane shot down over Pearl Harbor on that day.

The men have asked Tony Todaro, a Machinist, the originator of the plan insofar as the labor of Labor Day should constitute a direct contribution, and their Shop Superintendent to act as trustees for the Fund and to act to the end that their sentiments shall be placed before you.

Accordingly, it is with pleasure and pride that we transmit to you this check in the name of all the men and women connected with the United States Navy Yard at Pearl Harbor.

Yours truly,

M. M. Dana
M. M. DANA
Commander, U.S. Navy
Tony Todaro
TONY TODARO
Machinist, P.H.N.Y.



Analysis of Exposure to Payroll Savings Plans
September 26, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.....	487	490	99
(2) Firms with 500 to 4,999 employees.....	5,378	6,027	89
(3) Firms with 100 to 499 employees.....	<u>23,275</u>	<u>27,852</u>	<u>84</u>
(4) Subtotal - large firms.....	29,140	34,369	85
(5) Firms with less than 100 employees.....	<u>115,421</u>	*	*
(6) Total business organizations.....	144,561	*	*
II. Governmental organizations.....			
	*	*	*
III. Grand total.....			
	<u>144,561</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	7,871,731	*	*
(2) Firms with 500 to 4,999 employees.....	7,121,451	*	*
(3) Firms with 100 to 499 employees.....	<u>5,339,046</u>	*	*
(4) Subtotal - large firms.....	20,332,228	*	*
(5) Firms with less than 100 employees.....	<u>2,875,513</u>	*	*
(6) Total business organizations.....	23,205,741	32,000,000 1/	73
II. Governmental organizations			
(1) Federal Government.....	2,031,131	2,400,000 1/	85
(2) State and local governments.....	<u>1,378,242</u>	<u>2,700,000</u>	<u>51</u>
(3) Total governmental organizations.....	<u>3,409,373</u>	<u>5,100,000</u>	<u>67</u>
III. Grand total.....			
	<u>26,615,114</u>	<u>37,100,000 1/</u>	<u>72</u>

October 2, 1942.

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

1/ Excludes agricultural employees, military personnel, employees on WPA or NYA or CCC projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.

* Data not available.

Firms Employing 500 Persons or More Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Sept. 19	Sept. 26		Apr. 18	Sept. 19	Sept. 26
Alabama.....	41	65	65*	83	49	78	78
Arizona.....	9	14	14	14	64	100	100
Arkansas.....	16	17	17*	20	80	85	85
Northern California.....	122	137	138	175	70	78	79
Southern California.....	121	146	146	146	83	100	100
Colorado.....	25	31	31	31	81	100	100
Connecticut.....	114	145	145	162	70	90	90
Delaware.....	15	18	18	22	68	82	82
District of Columbia.....	32	44	44	47	68	94	94
Florida.....	28	40	40	43	65	93	93
Georgia.....	86	123	123	123	70	100	100
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	465	465	559	70	83	83
Indiana.....	88	136	138	165	53	82	84
Iowa.....	22	29	29*	39	56	74	74
Kansas.....	25	25	25	25	92	100	100
Kentucky.....	38	48	48	50	76	96	96
Louisiana.....	29	46	46	48	60	96	96
Maine.....	48	58	58	61	79	95	95
Maryland.....	84	105	105	106	80	99	99
Massachusetts.....	237	311	313	338	70	92	93
Michigan.....	265	282	282	282	94	100	100
Minnesota.....	79	81	81	82	96	99	99
Mississippi.....	26	33	33	33	79	100	100
Missouri.....	103	129	129	142	73	91	91
Montana.....	3	4	4	4	75	100	100
Nebraska.....	23	25	25	32	72	78	78
Nevada.....	4	4	4	5	80	80	80
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	183	183	211	67	87	87
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	877	879	1,087	70	81	81
North Carolina.....	103	133	135	137	75	97	99
North Dakota.....	0	0	0	0	-	-	-
Ohio.....	412	455	458	498	83	91	92
Oklahoma.....	31	51	51	51	61	100	100
Oregon.....	48	54	54	54	89	100	100
Pennsylvania.....	551	598	599	629	88	95	95
Rhode Island.....	61	76	76	84	73	90	90
South Carolina.....	84	98	98	99	85	99	99
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	74	76	115	43	64	66
Texas.....	63	106	106	106	59	100	100
Utah.....	8	10	10	11	73	91	91
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	106	106	106	88	100	100
Washington.....	49	72	72	79	62	91	91
West Virginia.....	36	72	72	72	50	100	100
Wisconsin.....	127	143	143	154	82	93	93
Wyoming.....	1	4	4	4	25	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	<u>4,864</u>	<u>5,850</u>	<u>5,865</u>	<u>6,517</u>	<u>75</u>	<u>90</u>	<u>90</u>

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

October 2, 1942.

* Data are for September 19, inasmuch as no September 26 report was received.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Sept. 19	Sept. 26		Apr. 18	Sept. 19	Sept. 26
Alabama.....	149	250	250*	285	52	88	88
Arizona.....	43	67	67	67	64	100	100
Arkansas.....	44	55	55*	116	38	47	47
Northern California.....	512	672	680	680	75	99	100
Southern California.....	756	1,015	1,020	1,178	64	86	87
Colorado.....	113	135	135	135	84	100	100
Connecticut.....	277	485	512	712	39	68	72
Delaware.....	21	56	56	87	24	64	64
District of Columbia.....	52	144	145	192	27	75	76
Florida.....	147	203	204	204	72	99	100
Georgia.....	133	390	391	416	32	94	94
Idaho.....	31	32	32	34	91	94	94
Illinois.....	1,300	1,860	1,871	2,253	58	83	83
Indiana.....	415	638	642	642	65	99	100
Iowa.....	165	204	204*	272	61	75	75
Kansas.....	276	286	286	286	97	100	100
Kentucky.....	136	187	187	272	50	69	69
Louisiana.....	179	273	273	321	56	85	85
Maine.....	60	171	171	187	32	91	91
Maryland.....	177	284	287	405	44	70	71
Massachusetts.....	639	1,018	1,032	1,532	42	66	67
Michigan.....	689	937	947	1,030	67	91	92
Minnesota.....	376	436	439	439	86	99	100
Mississippi.....	59	79	80	97	61	81	82
Missouri.....	472	665	668	668	71	99	100
Montana.....	40	49	49	49	82	100	100
Nebraska.....	103	115	120	123	84	93	98
Nevada.....	14	19	19	21	67	90	90
New Hampshire.....	89	137	138	145	61	94	95
New Jersey.....	463	938	949	949	49	99	100
New Mexico.....	33	39	39	42	79	93	93
New York.....	2,060	3,555	3,580	4,257	48	84	84
North Carolina.....	282	447	450	549	51	81	82
North Dakota.....	14	19	19	19	74	100	100
Ohio.....	1,126	1,532	1,553	2,135	53	72	73
Oklahoma.....	166	294	294	349	48	84	84
Oregon.....	211	285	286	286	74	99	100
Pennsylvania.....	1,682	2,133	2,144	2,144	78	99	100
Rhode Island.....	154	256	259	333	46	77	78
South Carolina.....	71	152	152	178	40	85	85
South Dakota.....	21	25	25	25	84	100	100
Tennessee.....	199	341	356	444	44	77	80
Texas.....	326	604	618	1,378	24	44	45
Utah.....	36	44	44	44	82	100	100
Vermont.....	59	64	65	72	82	89	90
Virginia.....	281	392	393	422	67	93	93
Washington.....	234	349	350	350	67	99	100
West Virginia.....	134	206	207	272	49	76	76
Wisconsin.....	278	451	459	680	41	66	68
Wyoming.....	17	22	22	22	77	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	<u>15,365</u>	<u>23,061</u>	<u>23,275</u>	<u>27,852</u>	<u>55</u>	<u>83</u>	<u>84</u>

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

October 2, 1942.

* Data are for September 19, inasmuch as no September 26 report was received.

October 2, 1942

My dear Admiral Leahy:

I beg to acknowledge receipt of your letter of October 1 and wish to inform you that I, personally, will be glad to receive a representative of "The Security Control".

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Admiral William D. Leahy,
Chief of Staff to the
Commander-in-Chief of the Army and Navy,
Washington, D. C.

By Messenger

Harmon 510
10/2/42
Del. to White House

THE JOINT CHIEFS OF STAFF
WASHINGTON
October 1, 1942

SECRET

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

My dear Mr. Secretary:

The Joint United States Chiefs of Staff have established an agency, known as the Security Control, for the purpose of regulating and coordinating the activities of Governmental agencies with respect to military operations. It consists of a senior officer from the Army and one from the Navy.

In any military operation in which we participate abroad, there are innumerable lines of action which agencies such as the Department of the Treasury can perform which will contribute to its success. On the other hand, uncoordinated activity might be extremely detrimental.

Generally speaking, when an action is contemplated, the Department of the Treasury will be informed of the general plan. If it appears that there is some way in which the Department of the Treasury can be helpful, the Security Control will call on you for assistance. It will inform either you or someone whom you designate of pertinent parts of the plan and in what way your organization can be of help. Directives can then be issued to subordinate agencies of the Department of the Treasury to carry out the required action without the necessity of subordinates having knowledge of the plan as a whole.

The Joint Chiefs of Staff are confident that they will have the full cooperation of all Governmental agencies, and also that it will be much more efficiently rendered if certain officials in the highest levels are acquainted with the purpose for which requests for assistance are made.



SECRET

SECRET

Representatives of the Security Control will call on you in the near future and discuss this subject in more detail.

Sincerely yours,

For the Joint U. S. Chiefs of Staff:

William D. Leahy

WILLIAM D. LEAHY
Admiral, U. S. Navy
Chief of Staff to the
Commander in Chief of the Army and Navy

SECRET

MEMORANDUM FOR THE SECRETARY.

October 2, 1942.

Mail Report

In mail that was moderate, both as to quantity and as to temper, Bonds have replaced taxes as the subject-of-the-week. Interest in compulsory purchase of Bonds continued, with at least a dozen letters, several of them from employers, asking immediate adoption of some plan of enforced savings. At the same time, a few letters spoke against coercive methods employed by organizations in connection with the installation of payroll deduction programs.

Thanksgiving, December 7, and Christmas, in particular, were named as especially opportune times for promotion of Bond and Stamp sales. Several persons, usually those of foreign birth who are familiar with European systems, have written of the advantages of premium Bonds, and others have suggested tax-exempt Bonds, non-interest bearing Bonds, or long-term Bonds of fifty years or more. Conversion of frozen funds into War Bonds, and similar use of idle sums maintained for municipal improvements have been urged, along with such ideas as Stamp bonuses, and Stamps in payment of debts at race tracks. Abolition of the limitations on amounts of Bonds that may be purchased has been repeatedly advised. Reports of abuse of the privilege of cashing Bonds have declined in number, while individual complaints have increased slightly, totalling 22, with only 7 relating to delays in delivery incident to payroll deduction plans.

The public is still replying to the question of why Bond sales are lagging, at least 8 communications having been devoted exclusively to that subject. In addition to Government waste, the reasons that were advanced include: The threat of higher taxes; hoarding, which has followed rumors that the Government will freeze bank accounts; possibility of compulsory Bond purchases; and inflation, without general salary increases. A number of persons have asked that the Treasury publish assurances that its Bonds will not be repudiated at the end of the War.

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Memorandum for the Secretary.

October 2, 1942.

Few dissenting voices were heard among those discussing tax matters. For every 5 advocates of the Sales Tax, there were but 2 opponents, and for a Savings Sales Tax, there were 6 who approved and 1 who disapproved. The Ruml Plan was endorsed by 5 correspondents, and the withholding tax, as such, was endorsed by 4 others -- neither of these proposals receiving any definite opposition. Of the several plans now under consideration, only the spending tax failed to draw any favorable comment. However, opposition to it was by no means so frequent or emphatic as in previous weeks. Even the subject of generally higher personal taxes failed to call forth objections from more than 7 or 8 persons. In requesting exemptions for income taxes, correspondents have concentrated this week on Bond investments and alimony payments, occasionally appealing for allowances on expenditures for illness, education and debt retirement.

The few letters which dealt with the Social Security tax concurred with the Senate Finance Committee in its opinion that this tax should be held to the present 1 percent, rather than increased.

Among the many articles on taxation clipped and forwarded to the Treasury, the column published on September 18, by Westbrook Pegler, in which he discussed the tax policy of the Treasury Department, ranked ahead of all others in the number of times that it was submitted.

Necessity for Governmental economy, and dangers of inflation were stressed in some 50 letters, and there was the usual undercurrent of strong anti-labor sentiment. The most vehement protests received during the week were those against silver restrictions, contained in 15 communications forwarded by Members of Congress for reply by the Treasury.

The number of letters referred to the Treasury by the White House during September reached an all-time high of 1,877. This figure exceeds that for any month subsequent to January 1937, the date of the first available

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Memorandum for the Secretary.

October 2, 1942.

records, and is far ahead of totals for September 1940, and for September 1941, which amounted to 259 and 519, respectively. Several campaigns accounted for the greatly increased volume of mail forwarded by the White House. From Illinois and Maryland came 598 postal cards opposing a Sales Tax and advocating a gross income tax, and from members of the Townsend Club came 119 letters also supporting a gross income tax.

S. E. Forbush
by Kay Pearson

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General Comments

Russell S. Graves, Financial Secretary, Lake County Industrial Union Council, Griffith, Indiana. It has been called to my attention, and the attention of this Council, that there are at the present time several cases containing motors, motor parts, etc., now laying in an open yard where they were put some time in May of this year. These cases are stenciled and destined for China. We cannot see why the delay in re-shipping these to the war fronts, therefore suspicion is aroused. I should like to request that there be an investigation made, and determine whether or not this is some of the several carloads of material which have been lost in route as reported some time ago in the newspapers. If this material is to be shipped, then it should have gone out long ago. It is only ruining, setting out in the weather where it is now. * * *

WPA worker of New York City. Our Government is in great need of money. I really do feel bad about the whole situation, the Bond drive, etc. Our Government could save at least a billion dollars by disposing of the WPA offices at 70 Columbus Avenue, New York City. We are at war - get rid of the fat Political Payroll Department - 9 bosses to 14 workers. All high-salaried men - get rid of them and save money for our country.

David Little, Dalco Manufacturing Co., N.Y.C. Some years ago, my partner was in Japan, and on his return, brought me a 5 yen note for a souvenir. It has just come to light, and I send it to you for whatever purpose you choose. To me, it is anathema.

Mrs. Clara M. Knight, Jacksonville, Fla. Sometime ago I read an article where the Government said they wanted the people to pay up their mortgages on property, in place of buying new things with their money at this time, when so much is needed for defense purposes. I have a

mortgage of \$6,500 on a piece of property, payable \$85 per month. This mortgage was originally \$12,500, and I want to pay the balance off in full. The Insurance Company holding the mortgage refuses to accept payment in full on account of their losing the interest, and they consider the risk good. * * * Is there any way at all to get the Insurance Company to accept a payment in full at this time, since the Government would like to have the people use their money in this way? . . .

Inez Phillips, Student of Kinley Smith Jr. High School, Jacksonville, Fla. We are proud to be Americans. We realize that our freedom is at stake, and that we should play an important part in preserving the ideals of America. You are doing a big work in helping lead our country. Miss Davis, our History Teacher, asked that I make a report on you, your work and the background that you have that enables you to be so valuable to the country, when you are needed most. I consider it an honor to make a report on you. I shall watch the papers daily to see what you are doing. Is there anything special that you would like for me to discuss with my class? I shall make a report every Friday.

Ruth Nitta, President, John C. Luiz, Principal, Central Intermediate School, Honolulu, Hawaii. Members of the Lima Kokua o' Hawaii, a student organization of this school in Honolulu, are sending you this check for \$500. Please use the money to buy a bomber for General MacArthur. Lima Kokua o' Hawaii is a Hawaiian name which means, "The Helping Hand of Hawaii". This organization used to be "Young America Wants To Help", but since December 7, we have felt that Hawaii needs help too, so we have changed the name and purpose to aid Hawaii. * * * This amount was raised by collecting and selling salvage materials such as tinfoil, rags, newspapers and magazines, donations by clubs, classes, from operetta and movie proceeds, and from dances. Every student in Central has

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had a patriotic share in raising this money. Every student in Central, in the effort to raise this amount, has put his heart and soul in the speedy victory that will come to the Allies in this war.

Members of the Roofers Union, Medford, Oregon. Enclosed herewith is check for \$636.10, a donation from the Members of the Roofers Local No. 140, Medford, Oregon. We put the roofs on Camp White at Medford, and take this way of showing our appreciation for the privilege of living and working in a free country.

William R. Furlong, Commandant, Navy Yard, Pearl Harbor, T.H. Mr. Carl Freiner, leading man at this Navy Yard, has asked me to forward his check for \$50 to the Treasury Department to be used toward the war effort. I explained the advisability of his buying Bonds. He replied that he can buy Bonds, but that he desires to give something to the Government which will not be returned to him.

W. T. Clark, Los Angeles, Calif. In reference to your proposed Social Security levy being boosted to a total of 5% next year, I wonder why in heck you cannot get it through your head that such a boost would hit the low-paid white-collar worker hard in the stomach; because he would have just that amount taken from his \$75 to \$90 monthly pay with which to support himself and family -- who are now finding it hard to get enough to eat and clothes to wear. Cannot you understand that your wild plans to curb inflation hit millions of us low-paid men with families from whom there is no danger of our causing inflation, since we barely earn enough to buy bread and butter, and a scant supply of clothing? And it so happens we must contribute to the Social Security. Thank God we have a man like Senator Vandenberg to protest us from your lack of consideration of the poorly paid millions.

A Linen Supply Man (Postmarked, New York City.) I am always interested in the statistics that come from your office which show how much money we need to win this

damnable war. I am a linen supply man. Today our industry is being hard pressed, and I feel that if we should, for any reason, be forced to close up, a great source of revenue, running into many hundreds of thousands of dollars, may be lost to the Treasury Department. * * * Due to the exigencies of the war, there are many restrictions being placed on our business. We are being harried by the W.P.B., by the O.P.A., and by many other Government bureaus. But in addition thereto, Mr. Thurman Arnold is now conducting an investigation of our industry which, due to my long association with this business, I think is entirely and totally unjustified. I say this because it is my opinion that the investigations now being conducted by the Department of Justice are entirely too promiscuous, and in all fairness to the American business man, as a whole, I think the time has come to make an investigation of Mr. Arnold's office, because I believe that his absolute fanaticism in crucifying business men today is going to cause the loss of hundreds of thousands of dollars to your office. * * Of course, our industry is not the only one that is suffering under this dictatorship. However, I am of the opinion that the sooner some of the other Cabinet officers grab this fellow Arnold and bring him to a stop, the better it will be for everybody concerned, and especially the Treasury Department.

H. Allen, Cambridge, Mass. We anti-Nazis of America are very grateful and appreciate your grand efforts in aiding Russia to exterminate those beastly Nazis. Keep it up, and we'll win.

Gus Kleinschmidt, (Food Store), Ortonville, Minnesota. * * * For years a certain fine substantial, God fearing, well thought of family, C. A. Milletz, living approximately 12 miles west of Ortonville, have traded with us. Here is a family worthy of the name "farmer", highly successful as small grain growers and breeders of fine beef cattle and hogs. * * * The family is composed of aged parents, both invalided, two daughters in middle life, and two sons -- John the elder and Albert about forty years, the younger, both being unmarried.

John and Albert are in fair physical shape, John being hard of hearing, while Albert, although slight in stature, is in good shape to all appearances. These people farm a considerable amount of acreage - well over 300 acres. John takes care of the livestock, while Albert is the land man, with the girls assisting whenever that is necessary. * * * Albert, the younger brother and the land man, is to be inducted into service coming Monday, October 5. Members of the family have tried to secure his deferment until the forepart of December, enabling them to properly attend to the various things that have to be done in the fall on the farm. However, this all seems to have fallen on deaf ears as far as the authorities are concerned. I can tell you this, based on intimate knowledge of this family, that Albert would be by far a greater contribution to the war effort where he is, than Albert as a soldier in the U. S. Forces. * * * This family will be compelled to drop at least 160 acres, and no doubt they will also be compelled to curtail their livestock activities. I don't believe this is a good idea, nor what our Government wants. * * * In closing I want to say again that we face an awful problem in this farm-labor shortage. We have our store cluttered up by sale bills announcing quitting farming, and all stuff for sale - more than I have ever seen before. * * * I feel that the thing I saw in Canada this summer is really what we ought to have in our own country. Up there, you know, no employee may quit his job without 7 days' notice, and no employer may fire his help without 7 days' notice, and on top of that, no one is hired without a Government permit. If our farm-labor was allowed to remain where needed, and proven so with all conditions right, and they quit, fine. Put them into the Army and not into a war plant, and with a little Canadian employment red tape, it could be worked and would be far greater in its war contribution than a lot of this other stuff that is floating around. * * *

Favorable Comments on Bonds

J. D. Davis, Cashier, Love County National Bank, Marietta, Oklahoma. Your general letter of Sept. 11, addressed to all War Bond workers, has been received, and I am surprised to know that any impression is being spread abroad that the volunteers' War Bond program is a failure. It appears to me that it is much more successful than was during the other War. I had considerable to do with the sale of Bonds in World War I and I saw our customers, and others, buy a great many Bonds, and many of them bought them under pressure and then sold them or traded them or forfeited them for balance due as fast as they could. * * * I believe it was all due to the fact of the pressure that was put on the people to buy. They might have purchased just as many voluntarily, if they had believed it to be their patriotic duty. * * * I have been telling them here that it is not only a patriotic duty to buy when they can, but it is a great safeguard against the day that is to come when we have the War won, and when about the only people that have any money at that time will be those that have it invested in Bonds. I believe that the present Bond selling program is much sounder and better than it was in the first War. * **

George J. Bartel, County Superintendent of Schools, Kewaunee County, Kewaunee, Wis. (Answer to circular letter.) I deeply feel for you in the efforts you are making to hold up under the most extreme conditions that any Secretary of the Treasury in our Government has ever had. In your letter of Sept. 11 there is no doubt in my mind about your statement. Keep up the magnificent work that you have so bravely carried on thus far.

A. M. Blum, Blum & Jacobson, Attorneys at Law, Chicago, Ill. * * * I emptied the baby's bank account today and bought War Bonds, but I must confess to you that I did it with considerable doubt that we were acting wisely. I feel very positive that the War cannot be financed

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by voluntary purchasing of Bonds. This means that sooner or later every one will be forced to do their duty. I fear that if I continue to buy Bonds and do not leave a reserve, I may find myself in serious difficulty later on. I therefore urge you to recommend the passage of a law to compel everybody to purchase Bonds, based upon last year's income tax return. I cannot suggest how much it would be, because I for one, think that I should and would be willing to use every cent beyond my necessary living expenses for that purpose. The sooner such a law is passed, the sooner the fear of the future will be removed. You will also save the nation the tremendous cost of drives that are now taking place.

Robert Joseph Brown, Arkansas Gazette, Little Rock, Ark. I celebrated my 80th birthday the 19th of July by investing in a War Savings Bond of \$25 denomination. * * * I shall buy a Bond each month until the first one matures assuring me of \$25 in cash each month for the succeeding ten years. Each month as I draw my \$25, I shall put with the money enough more cash to buy a new \$50 Bond, and shall continue to so invest for the next ten years, when the first of this second series will mature, and I shall have a regular monthly income of \$50 for the next ten years, which will put me right on top of the world. In fact, I will be seated right along side of the well-known Mr. Riley, helping him live that alluring life of his, of which we have all heard such intriguing mention. If I make up my mind to hang on for another ten years of investment, thus insuring me of a culminating monthly income of \$100, why then I can tell Mr. Riley to "move over", and I'll take his seat for myself. Anyhow, I want you to know I'm in this thing "for the duration", and then some! Thank you for the opportunity.

C. H. Veale, Mayor, Tulsa, Oklahoma. The City of Tulsa is at present, and until after the war, confronted with a problem of great importance. * * * The taxpayers of our City voted a large bond issue for the improvement of waterworks, sewerage, streets, construction of fire

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department and other essentials. * * * Our national war problem has made it impossible for our City to proceed with these improvements as a whole, it being impossible to secure material and equipment, and, as a result, a portion of our bond issue is frozen through the duration. * * * Since this money is lying idle in our banks, and could be made use of to our Federal Government during the war, would it not be possible for the Government to use this money, issuing to the City of Tulsa, and other municipalities of like circumstances, a bond or bonds upon which a rate of interest, that would justify the city, would be paid by the Federal Government for the use of this money, providing that after the duration, this money would be released to the municipalities, that they might continue their improvement program. * * * The facts I have just set forth will help originate programs in municipalities throughout the United States at the conclusion of the War, and at such a time as material and equipment may be secured, and would also be a great aid to our Government in our all-out War effort, with the release of millions of dollars that will be frozen under such circumstances. * * *

R. E. Lillard, Manager, Fort Smith Cotton Oil Company, Fort Smith, Ark. From our experience through our own plant, I am sure the voluntary War Bond program is not a failure. It was a surprise to notice the way our "darkies" were buying War Bonds when they will not save a dime for other purposes. The thing that makes us sick, however, is the wasteful spending of this War Bond money in Government projects which look unnecessary to us. We realize we have to have more equipment and more of everything to win the war, but when we hear a man bragging about making \$3,000,000 on building Camp Gruber, and see four country boys leaving our farm in middle Oklahoma to go to Colorado to work on a ski camp as carpenters when they cannot even build a pigeon box, and draw \$16 a day and \$22 on Saturday and Sunday, it makes us wonder about buying War Bonds ourselves, and it rather shakes the patriotism of our people. We

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realize the Government is not at fault itself, but there is something seriously wrong and we think the Government is hugging too close for political reasons to the boys running the Labor Unions - not the Unions themselves.

H. C. Cooley, Northern School Supply Co., Great Falls, Montana. As one who has supported the War Bond program, and representing a company which has supported that program, we take this opportunity to express our appreciation of your letter of the 11th, clarifying your recommendation. At the same time, we take the opportunity to offer some friendly criticism and suggestions "from the wide open spaces"; which may not be helpful, but which are sincere. First, there is entirely too much contradictory information coming from Washington and hampering both war finance and civilian morale. This is due to those responsible for some certain thing "sounding off" without first ascertaining the effect on some other part of the program. Second, our American citizenship is reasonably intelligent and fully aware of the serious problems we face. * * * No single group or class should place selfish interests ahead of patriotism; and there are many of us who believe that some groups and some classes have not yet recognized the above, and perhaps do not care to recognize it. Third, it is evident that the successful prosecution of the war will take an amount of money far beyond individual comprehension. That being true, it is difficult to understand why any one should not get right behind a comprehensive sales tax program. * * * Fourth, if a thing is right today, then it is not necessary to wait until after the November election to enact it into law; and those who would defer correct action in the interest of the War effort until after the November elections, may well be open to some question as to just when the war began.

Harry P. Hurwich, President, Tribune Publishing Co., Hyde Park, Mass. I am writing this letter to express my appreciation to the Treasury Department for the plates and mats which were furnished us on the first series of

the War Savings Staff Campaign of sponsored advertisements. We would appreciate very much receiving additional material along these same lines. It is our opinion that another series of similar advertisements could be used to great advantage. We feel that these advertisements in our communities will lead to increased sales of War Bonds and War Stamps. * * *

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Unfavorable Comments on Bonds

F. R. Peake, President, Community Federal Savings and Loan Association, Berkeley, Calif. We bought \$20,000 worth of "Tap" Bonds last month. We had some of the "G" Series before. Last week there appeared the attached display advertisement in our local paper. I happened to meet an ex-regular Army officer who asked if I had seen it. I told him I had and he wanted to know if we were buying War Bonds. He then said that we and our customers had a right to ask that our money be more wisely spent than in paying \$45 a week as a starting salary to novices of high school age, with the implied promise that there would be rapid advancement even over that figure. I think he made a good point and the Treasury Department would get better response from the people on its War Bond program if other Departments of the Government would show average common sense. You will note that the advertisement is one of the United States Employment Service. I realize that the Chief Executive unfortunately does not know the value of money, but certainly there must be some under him who have some conception of what it means. A Government that throws money away like ours is, is not keeping faith with the people.

D. C. Whitehouse, Meadville, Pa. It seems to me that the position taken by the House on the amendment to the Farm Price Bill is inflationary, and therefore in direct opposition to the interests of any one investing in War Bonds. The final passage of any such amendment would certainly tend to discourage and ultimately stop any purchases as I might make.

Thomas J. Cooke, Brooklyn, N.Y. * * * A large percentage of my savings funds is in U. S. Savings and War Bonds the value of which is threatened by inflation, made serious by political-minded Congressmen, favoring the enrichment of special groups of citizens, notably the

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profiteering farm group and some labor groups. In view of this fact, can you supply any good reason why I should continue to respond to the never-ending radio appeals to buy more and more Bonds when I am conscious of the fact that my savings are being poured into the pockets of the aforesaid profiteers, while the Bonds I now hold grow less and less in purchase value?

Charles N. Reichling, S. & F. Tool Company, Detroit, Mich. The men in our plant complain that it takes two weeks to a month to have the Bonds issued after they are paid for. It is also reported that the Federal Reserve Bank in Detroit is still writing out Bonds for July. Some way should be devised to issue the Bonds more promptly.

John B. Hoff, Investments, Reading, Pa. We, the small investment men of the country, would like to do our part towards the War effort through the sale of U. S. Defense Bonds. We have been trained to market securities and why should we not take the lead at this time in the sale of these Bonds? The hitch seems to be that we have just been forgotten. Is not labor and capital of industry compensated for their efforts in the name of patriotism? Then why is it we should not be the principal agents to handle the situation and be paid for our efforts? We are expected to encourage the sale of War Bonds, spend our money and time in sales effort and advertising, perhaps rightly so, yet we are not compensated for even the handling charges. * * * I feel that the investment man today has a place in this War economy -- first, to sell War Bonds, and secondly, to handle any other financing, buying or selling of securities which may or may not be directly of benefit to the War effort, but which will take care of some of the excess money due to the war effort. If I am wrong, I should like to be corrected.

Mildred J. Crider, Rantoul, Ill. * * * I am an employee of the Chanute Field training field, being under Civil Service. During the month of May, 1942, we were asked to take out 10% of our wages in War Bonds, to start

with our May 31st pay. Well, I was one of the many who signed up for the Bonds, asking for over 10% to be taken out of my pay, which amounted to \$18.75, or a Bond a month. We were told that this would take 60 to 90 days before we would get a Bond. To date, not one person from Chanute Field, who is under the Air Corps Employment, Civil Service, has received a Bond, and every one is cancelling their Bonds right and left. I do not want to do this, as I feel that I should help my country, but I do not like to be told that I will get the Bonds, and then keep watching for them. Right now I have 4 Bonds coming to me, and have received no word about them at all. I called the Employment Office and they don't know a thing about it. * * * I am asking for the hundreds of other employees in the category I am in. If we are not going to get any Bonds, and still have the money taken out, I am going to cancel mine and buy them at the local Post Office, to be sure I get them. (Forwarded to Bond Division, War Department, as responsible agency.)

Arthur L. Johnson, Executive & Legislative Secretary, General Welfare Federation of America, Washington, D.C.
* * * The Treasury Department officials at Chicago, according to a signed statement by Dr. Francis E. Townsend, published in his "Townsend Weekly" of May 23, 1942, gave an authorization to him to engage in the selling of War Savings Stamps through the "Townsend Foundation". Subsequently, your Department, through Mr. Harold N. Graves, wired Dr. Townsend commending the sale of War Bonds by the "ten thousand Townsend Clubs", and their members. There is nothing wrong about any of this, except, perhaps, that it makes the Government authority for the statement that there are 10,000 Townsend Clubs, when there are less than 1,200 active ones. But here is how the authorization has been misused: A facsimile of the telegram was run on the front page of the Townsend Weekly, of June 6, 1942, and a huge money-making racket has been started which on the face of it, is fraudulent. * * * Dr. Townsend is getting hundreds of old people to sell the Bonds and

turn them in to the mysterious "Townsend Foundation" at Chicago, under the flat representations that the old people will in this way help the Government and themselves by helping the "Plan". This, of course, is a physical impossibility, unless the Bonds are converted into cash, in which case they won't help the Government, but will rather hinder it and cause it the extra expense of printing the Bonds, and handling them in their sale and surrender. * * * No one steps in to stop Dr. Townsend in any manner. When he was caught red-handed in an income tax fraud, involving the tearing out of pages from corporation records, and substituting new pages, a "lien" was merely filed against property he might have in Los Angeles County, Calif., and no effort made to follow up on it for years, so that he hasn't yet paid his 1937 income taxes, as we understand it from the press and from the Federal Court records at Los Angeles. Of course, Dr. Townsend may be a "saint" to some, who is immune from prosecution, except for his offense against Congress, for which he received a Presidential pardon and splendid nation-wide publicity. * * * To the end that this Townsend racket may be stopped, once and for all, we are submitting to you the conclusive evidence of fraud per se mentioned above in this letter. * * * We are unable to submit to you any evidence as to what the "Townsend Foundation" is, as only your Department or some other Federal agency has the means of ascertaining what this mysterious "Foundation" is. * * * From what I know about Dr. Townsend, however, and I know plenty, I feel perfectly safe in saying that if your agents act quickly and catch him unawares, before he has a chance to doctor up his records, as he did previously when you were after him, you will find that the "Townsend Foundation" is just the Townsend family. * * * This is plainly indicated when he says in an appeal to the Townsend Club members dated August 8, 1942 -- "Many of us can spare a dime or a dollar per week from our salaries or income to invest in Government Savings Stamps. I, for one, am going to invest \$5 every week for the duration of the War and donate the Bonds to the Townsend Foundation. I am asking all of you who can do so to send me, each week, all the money you can spare for this purpose. I will put it with mine and buy Stamps with it, and send the Stamps to the Townsend Foundation". * * * If Dr. Townsend

urged the old people, as a matter of aiding their country, to buy War Bonds and Stamps, and keep them for their own use, we would commend him for his patriotism. But when he urges them to buy them to build a FORTUNE for an organization which is but his alter-ego, we say that it is time that every arm of the Federal Government reached out and grabbed him by the coat collar and shook him loose of his ill-gotten war profits, that stand to make him a millionaire when he cashes these Bonds, added to what he has already pocketed through similar frauds. * * * Has your Department ever checked up on his income tax returns during the last nine years? If so, have you found where he made any return for the hundreds and thousands of dollars handed to him on the side at his various meetings? For instance, the \$65 they told me in Southern California in May was handed to him "for the dear Doctor personally", at a meeting that month down near Long Beach? Has he ever made any accounting of the thousands upon thousands of dollars he has taken in, even in flour sacks and gunny sacks, by means of his "dollar a handshake" racket at the conclusion of his meetings? Or has he included in his income tax returns the \$17,682.43 he admits he cleared in 1941 on his \$1.00 per copy "FLASH", sent through the mails full of false and fraudulent information? I believe you would find plenty to send him to jail for a number of years, if all the true facts were brought out in this regard. * * *

Thomas Murphy, Albany, New York. * * * I am in a position to know railroad employees are not subscribing to the purchase of Bonds, commensurate to their earning power. I know definitely the official and supervisory offices in the different departments of railroads are very busy in handling the tremendous volume of business, and while it is the very patriotic duty of every citizen to do all possible for our Government, time does not permit for the essential requirement to be forcibly impressed upon the minds of our employees by individual railroad offices. Notices of Bond sales have been posted on bulletin boards and publicity given same, but the response has not been great enough. Railroad men are without question the highest exemplification of organized labor, excellent citizens, but pressure in the right direction is not applied in this matter. * * *

Floyd Roberts, Chairman, Bargaining Committee of Bendix Local 874, UWA-CIO, Wayne, Mich. In our determination to help further our War effort, we take this means of pointing out to you some of the conditions that exist in one of our most vital War industries, namely the Bendix Aviation Corporation, Wayne Division, Wayne, Mich. * ** The majority of the workers in the Wayne Bendix Plant are satisfied with the wage structure as set up in our agreement, but are thoroughly disgusted with working conditions within the Plant, and the attitude of local management toward our War effort. The lackadaisical manner in which this Company operates has been the direct cause of an enormous turnover of labor. They have also been directly responsible for keeping a goodly number of skilled Machine Operators walking the streets after they had quit or been discharged by refusing to give them a disposition or Clearance Slip so they could obtain employment elsewhere. * ** Here are outlined briefly some of the others. The Bendix Local took it upon themselves to earn a Minute Man Flag. The officers and stewards of the Local Union handled the drive from start to finish; after two or three weeks, secured the necessary 90% pledged to buy Bonds. It took the management nearly two months to get the flag. After finally getting the flag, the Company refused to fly it. Many employees have Bonds paid for, fully three months before they receive their Bonds. * ** Since July 6 of this year, our Committee has asked the Bendix Management each and every week to cooperate in increasing our War production by setting up a Labor-Management War Production Committee. This request has been denied. Our Committee has been intimidated at every meeting in their attempt to settle grievances. They are told if our Union will withdraw nine Labor Board Cases, they will have a chance to win a few grievances. * ** We urge you to make an investigation of this Plant, the policy under which it operates. We are confident that we can help get the maximum in production with the minimum turnover in labor if this Management is forced to cooperate. * **

Favorable Comments on Taxation

Lew Hahn, National Retail Dry Goods Association, N.Y.C. (Telegram) Bureau of smaller stores National Retail Dry Goods Association in conference today with small retailers present from many parts of the nation, adopted resolution urging inclusion of Ruml pay-as-you-go income tax plan in Revenue Act now under consideration. Regard it as highly important step for war and post-war planning.

Mrs. Gitla Leimin, N.Y.C. I am following with great interest the new income tax plan, which the U. S. Treasury would like to adopt for the United States. The same income tax plan "pay-as-you-go" was adopted in 1919 in little Austria, with less than seven million inhabitants. And it got hold of hundreds of thousands of new taxpayers, which never before in their life paid any taxes. The new taxpayers did not feel the few cents (Groschen) which were deducted weekly from their payroll bags, and the others who paid taxes before, were glad that somebody took the troubles off of them, and they could pay their taxes in 52 weekly deductions. What could be made in peacetime in little Austria should be possible to make in the United States at war with 130 million people understanding that a war must be financed. The Treasury Department has to take care that any hardship be avoided. If the Treasury accepts, I would like to offer an income tax plan from my 19 years' experience as payroll clerk in Vienna, who had to handle the income tax deductions for 200 to 1,600 workers weekly, and partly monthly, from the payroll to the monthly and annual reports to the revenue office. (Detailed suggestions follow.) * * * It is only right that the Treasury Department demand the taxes for a very prosperous year like 1942, before it adopts a compulsory savings plan. The taxes are the revenues of the Treasury, the compulsory savings would be a debt. * * *

Earle M. Ash, New Orleans, La. I am writing in reference to the Treasury Tax Savings Notes, Series A-1945. I find

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they are a wonderful thing for the working man and should by all means be advertised, ballyhooed and placed at his disposal. * * * To date I have found only three men (out of hundreds that I spoke to) that knew of the existence of Tax Notes. I went to my local bank, Member of the Federal Reserve System, to the local Post Office, and to the Collector of Internal Revenue before I learned that the Notes were sold by the Federal Reserve Bank. No one knew who handled them except the collector. We do not have the opportunity to go to the Federal Reserve Bank to purchase Tax Notes while they are open, nor is it convenient for us to go to the Post Office to send the money in safely. * * * Here is my suggestion -- have a representative of the Treasury Department or of the Federal Reserve Bank call on the shipyards, factories, and especially the contractors on large construction jobs. Construction men are like gamblers, plenty today and broke next month. Get it while they have it. * * * If this is impossible, have the applications placed at all major places of employment where they will be readily accessible to all employees. * * * The men are making the money NOW and NOW is the time to collect the portion of it that will go for income tax. As I see it, you can collect a good portion of the 1943 income tax between now and January 1, 1943. * * * For the sake of the working man, please push and advertise the sale of these Notes for two reasons -- to collect revenue NOW, and to protect the men from themselves. You would be surprised to know how many men think if they are drafted into the Army they won't have to pay the income tax they owe. * * *

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Unfavorable Comments on Taxation

Neal S. Wood, St. Louis, Mo. I have been following the efforts to produce a tax bill for the year 1942. I believe the current year is a shining example of a condition which should not be permitted to exist. That is, a year allowed to go almost completely by before either the individual or the business man knows what his taxes will be. * * * In following the program of the tax bill it appears that the opposition of the Treasury Department to the Ruml Plan has been the chief cause of its failure of adoption. I have seen many excellent ideas tossed aside because the originator of the idea was not the individual or the Department which would administer it. I hope the Treasury Department of the United States of America is "big" enough to consider the plan on its merits alone.

Edmond F. Connelly, Legislative Department, Associated Industries of Massachusetts, Boston, Mass. News reports credit to you the statement that the freezing of the Old-Age Benefit tax at 1 percent for the year 1943 would "jeopardize the program of financing of Old-Age and Survivors Insurance", and complicate the first step in the fight against inflation. * * * Unless I am gravely mistaken, there seems to be little doubt but that the continuance of the 1 percent Old-Age Benefit tax would bring in adequate revenue to fulfill the purpose and pay the benefits under our Old-Age Benefit system. I am fully aware of the extremely difficult problems with which the Treasury Department must cope in its responsibility of financing the war program, and of maintaining a sound economy by the prevention of inflation. I believe, however, that a thorough analysis of the overall problem warrants the conclusion that freezing of the Old-Age Benefit tax at 1 percent would have little detrimental effect upon the measure of success in meeting the financial and inflation problems which we have. * * * The great threat of this additional 1 percent tax would fall upon those companies which are least able to pay the tax. They are the companies which are small and have been unable to participate in the production of war goods. They are also the companies which many agencies of the Government are trying to help by various means. * * *

- 20 -

A Voter. (Postmarked, New York City.) If newspaper reports are correct, my tax bill will be almost \$7,000 this year, as against about \$2,000 last - principally because I had to sell my last cash assets to pay my 1941 tax, and this sale put me into higher 1942 brackets. Your laws ignore the fact that half my net income goes to alimony. You ignore the fact that an earned income such as mine requires high expenses to earn it, even though they are not "deductible", unless I were able to hire a C.P.A. to follow me around with an adding machine and a ledger. * * * You ignore the fact that I have to support two college children over 18, part of a mother-in-law, etc. You ignore my insurance commitments which are reinvested in Government Bonds. O.K. -- Now just where do you think I am going to get the money? Sure -- I can and will take my children out of college. Sure, I can and will cancel my life insurance. You can't get me to sell my capital assets because I've sold them all already. But in 1943 you are going to ask me to accrue the balance of this \$7,000 before March 15th, while simultaneously accruing a pro rata of at least a \$7,000 bill for 1943, and no one knows how much more. * * * You make it impossible for me -- a World War I veteran -- to consider volunteering for war service because of the fantastic debt which would hang over me. * * * Sure, I'll try to pay it. But nine months of 1942 have gone by and you haven't even told me yet what it is; you are preparing to enact retroactive legislation covering a time in which I innocently made honorable commitments I now cannot default. * * *

OCT 2 - 1942

MEMORANDUM FOR THE PRESIDENT:

You may be interested in the following summary of the Treasury's handling of the Draeger Shipping Company case.

The Foreign Funds Control investigation of the records and affairs of the Draeger Shipping Company established conclusively that this firm, even after our entrance into the war, continued to serve as a cloak for the Schenker interests -- a German world-wide freight forwarding system owned by the German government -- and to help them avoid war-time controls and preserve their markets until after the war. On September 22, the Foreign Funds Control revoked this company's operating license and referred the case to the Alien Property Custodian with a recommendation that it be vested and liquidated. In accordance with the Foreign Funds Control recommendation, the Alien Property Custodian promptly vested this firm and its liquidation has been started.

This company has not been handling shipments for Government agencies but has acted exclusively for private concerns, and its liquidation will not cause any shortage of freight forwarding facilities.

In the course of its normal business Draeger Shipping Company, Inc., had in its possession detailed information concerning ship movements. We have accordingly referred our report on Draeger Shipping Company, Inc., to the Attorney General, the Secretary of War, and the Secretary of the Navy for whatever action they may deem desirable with respect to the personnel of this firm or with respect to any other of its activities in which they may be interested.

(Signed) H. Morgenthau, Jr.

Del. by Sturgis 12:30 10/2/42

Copy in Diary.

File to Faul-direct

SCHMIDT:eps 9/25/42

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

October 2, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended September 23, 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.

(init) E.M.B.

inc:10/5/42

OCT 2 - 1942

Dear Sir:

I have received your letter of September 23 enclosing a memorandum, dated September 22, on the valuation of reciprocal Lend-Lease aid, and asking for the approval of this Department to the procedure outlined therein. I understand that approval by this Department to the procedure which you wish to adopt is not necessary, so my comments are to be interpreted merely as advisory suggestions.

It seems to me that the important thing is to have records which would enable this Government to properly value at this time or at some later time the reciprocal aid received by this Government. Your suggested procedure would seem to permit this with the following qualification.

The memorandum does not state that, in the event that a foreign government supplying reciprocal aid places a monetary value upon that aid, the forces in the field should report to the Lend-Lease Administration a physical description of the aid received as well as the monetary value stated by the foreign government. On this point the memorandum does not make it clear whether the Lend-Lease Administration will necessarily accept valuations made by the foreign government or whether it reserves the right to review and discuss such valuations. The memorandum does not specify that the descriptive information necessary for a judgment of the valuation shall in all cases be reported to the Lend-Lease Administration.

I would suggest, therefore, that there be added to the end of point (2) on page 2 the phrase "together with information concerning the articles, materials, information or services sufficiently descriptive to form the basis for an approximate judgment of value."

Very sincerely yours,
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. E. B. Stettinius, Jr., Administrator,
Office of Lend-Lease Administration,
515 Twenty-Second Street, N.W.

Del. by Sturgis 2:42
10/2/42
Photo file in Diary
File taken direct to
White's office

HDW:JEN:chah
9/29/42.

Treasury Department
Division of Monetary Research

297

Date September 29, 1942 19

To: Secretary Morgenthau

Appended is a memorandum from Mr. Paul to yourself with respect to Treasury responsibility in the valuation of reciprocal Lend-Lease aid. Apparently the Executive Orders make it appropriate for Stettinius to consult with you, though your approval is not necessary.

Also appended is a re-draft of a letter that may be satisfactory in the light of Mr. Paul's memorandum.

MR. WHITE
Branch 2058 - 214 $\frac{1}{2}$

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Mr. Paul

You have asked whether under the Lend-Lease Act, ^{1/} and Executive Orders and Regulations issued thereunder, the Secretary of the Treasury has any responsibility to ascertain the value and keep a record of the benefits received by the United States from the nations receiving lend-lease aid. I find nothing which would impose such responsibility upon you. However, should any articles actually come into the possession of the Department of the Treasury under the lend-lease agreements, it would, of course, be necessary that the ordinary departmental records be made of such property.

The Lend-Lease Act contains no express provision directing any particular officer or agency of the United States to perform the above duties with respect to benefits received by the United States. The only provision in the Act dealing with such property which in any manner affects the Treasury is section 6(b), which provides, as it appears in the Code:

^{1/} Act of March 11, 1941, c. 11, 55 Stat. 31 (U.S.C., 1940 ed., title 22, secs. 411-419).

- 2 -

"All money and all property which is converted into money received under section 412 from any government shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended with respect to the defense article or defense information for which such consideration is received, and shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year; but in no event shall any funds so received be available for expenditure after June 30, 1946."^{2/}

Since that section deals only with such property after it has been converted into money, it is not pertinent to the present inquiry.

It is not clear from the Executive Orders and Regulations issued under the Act whether the duties concerning which you inquire are imposed upon the Office of Lend-Lease Administration or the Board of Economic Warfare. It is, however, clear that either one or the other of the agencies has those duties and that, therefore, they are not duties of the Secretary of the Treasury.

^{2/} Section 3(a)(2) and section 5 both deal with determination of value but only with respect to lend-lease articles exported to foreign governments.

- 3 -

By Executive Order No. 8751 dated May 2, 1941, 6 Fed. Reg. 2301, the President established the Division of Defense Aid Reports and defined its powers, functions, and duties. By Regulation No. 1 dated June 20, 1941, 6 Fed. Reg. 3266, and issued pursuant to the Act and the above-mentioned Executive Order, the President directed as follows:

"1. The Executive Officer of the Division of Defense Aid Reports, or his designee from that Division, after consultation with representatives of the Treasury Department and the Bureau of the Budget, shall determine the value of defense articles, defense services and defense information transferred or received by the United States. The Executive Officer is also empowered to obtain any information which he may deem necessary to a proper valuation from any department or agency of the Government."^{3/}

Executive Order No. 8926 dated October 28, 1941, 6 Fed. Reg. 5519, revoked Executive Order No. 8751 and established the Office of Lend-Lease Administration. The Order defined the Administrator's functions and delegated

^{3/} Sections 2, 3, and 4 of that Regulation, respectively, detail the manner in which the value of defense articles, services, and information shall be computed.

- 4 -

to him all of the President's powers under the Lend-Lease Act. It made no mention, however, of Regulation No. 1.

Executive Order No. 9128 dated April 18, 1942, 7 Fed. Reg. 2809, defined additional functions and duties of the Board of Economic Warfare. The Order specifically provided that Executive Order No. 8926 was amended and superseded to the extent of any inconsistency. It provided in paragraphs (c) and (d) as follows:

"c. Advise the State Department with respect to the terms and conditions to be included in the master agreement with each nation receiving lend-lease aid under the Act of March 11, 1941, entitled 'An Act Further to Promote the Defense of the United States and for Other Purposes,' and Acts amendatory or supplemental thereto.

"d. Provide and arrange for the receipt by the United States of reciprocal aid and benefits (other than arms, munitions, or weapons of war as defined in the President's Proclamation of May 1, 1937, as amended) from the government of any country whose defense shall have been determined by the President to be vital to the defense of the United States pursuant to the Act of March 11, 1941 (Public Law 11, Seventy-seventh Congress), and determine the terms upon which such aid and benefits shall be received, including the authorization of other governmental agencies to receive such aid and benefits."

- 5 -

Finally, the President on May 20, 1942, issued a statement clarifying and interpreting Executive Order No. 9128. That statement provides in part:

"In negotiations regarding lend-lease master agreements, subsidiary agreements, and arrangements for their implementation, including reciprocal aid to the United States, the Department [of State] will obtain the advice, and with respect to the importation of materials and commodities (other than arms and munitions) will obtain the participation of the Board and keep it fully informed." (7 Fed. Reg. 3848).

While I cannot advise you with any degree of certainty that Regulation No. 1 of June 20, 1941, is still in effect, it is clear that the duties concerning which you inquire are either imposed upon the Lend-Lease Administrator by that regulation or are imposed upon the Board of Economic Warfare by Executive Order No. 9128.

I have examined the draft of a Lend-Lease agreement with one of the United Nations (Australia) which I understand is typical of such agreements. Nothing therein affects my conclusion since the only pertinent provision of that agreement is that each Government shall keep appropriate records of aid received.

RGF

General Counsel.

TREASURY DEPARTMENT

303

INTER OFFICE COMMUNICATION

DATE Sept. 28, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Mr. Stettinius' memorandum on valuation of reciprocal aid.

There is attached a letter and memorandum from Mr. Stettinius on the valuation of reciprocal aid and a proposed reply. Mr. Stettinius would like to have the reply Monday, September 28.

The procedure outlined is:

1. Forces in the field will not be required to place money values on reciprocal aid received;
2. If the foreign government places a monetary value on aid rendered, the forces in the field shall report that value to the Lend-Lease Administration;
3. If the foreign government does not place a monetary value on aid rendered, the forces in the field shall report the physical description to the Lend-Lease Administration.

The attached reply points out that (2) does not specify that physical descriptions as well as the foreign government's estimate of value shall be reported when the foreign government states a value. This would be necessary if the Lend-Lease Administration were to attempt to make a rough check of the valuation and discuss it currently or at some later date.

ROUTE SLIP

To Mr. Harry White

From F. V. Icker

Date 9-25-42

Remarks:

Dear Harry,

Ed is most anxious to have this matter cleaned up by Monday morning if at all possible. If you could see to it that it gets to the Secretary promptly and phone me when he has approved we would all be most appreciative.

Sincerely yours,

Fred Ecker

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. Stettinius, Jr.
Administrator

September 23, 1942.

My dear Mr. Secretary:

I am enclosing a memorandum setting forth the conclusions of the Office of Lend-Lease Administration regarding the valuation of reciprocal lend-lease aid. As you know this problem has been pending for a considerable time and has been thoroughly discussed with all of the interested departments.

I hope you will be able to advise me that the views expressed in this memorandum have the approval of the Treasury Department.

Sincerely yours,



E. R. Stettinius, Jr.

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

Enclosure.



OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. Stettinius, Jr.
Administrator

September 22, 1942.

MEMORANDUM

VALUATION OF RECIPROCAL LEND-LEASE AID

Representatives of the Office of Lend-Lease Administration have made a thorough investigation of the problems involved in valuing reciprocal lend-lease aid received from other United Nations and have discussed those problems both with the United States Army and British authorities in London and with representatives of the War Department in Washington. That investigation and those discussions have disclosed the following facts:

(1) Aid furnished under reciprocal lend-lease consists of a great variety of articles, materials, information and services. A substantial part of this aid is received in such form and under such circumstances as to render its valuation in monetary terms extremely difficult.

(2) To require even approximate valuations of reciprocal aid to be made by the United States armed forces in the field would be impossible without seriously interfering with their operations.

(3) To assign values to items received as reciprocal aid at a central point in any Lend-Lease

FOR DEFENSE

BUY
UNITED STATES
SAVINGS
BONDS
AND STAMPS

country would involve the employment of man-hours and equipment vitally needed in the actual conduct of the war.

The Office of Lend-Lease Administration fully recognizes its responsibility to maintain records of reciprocal lend-lease transfers. However, this responsibility, to the extent possible, should be carried out so as to impose the least burden on the armed forces in the midst of war.

On the basis of its investigation and in the light of the foregoing considerations, the Office of Lend-Lease Administration has reached the following conclusions:

(1) The Office of Lend-Lease Administration will not require the United States War or Navy Departments, the War Shipping Administration, or any other Government department or agency to place a dollar value on any articles, materials, information, or services made available under reciprocal lend-lease.

(2) Where a country making available reciprocal lend-lease aid advises the United States department or agency receiving such aid as to the value of the articles, materials, information or services so furnished, such department or agency receiving such aid should transmit such value to the Office of Lend-Lease Administration.

(3) Where a country furnishing reciprocal lend-lease aid deems it impracticable to submit a monetary value for articles, materials, information or services made available as reciprocal aid, the United States Government department or agency receiving such aid should obtain and transmit to the Office of Lend-Lease Administration information concerning such articles, materials, information or services in terms sufficiently descriptive to form the basis for an approximate judgment of value for any purpose for which such value may be required.

OCT 2 - 1942

My dear Mr. President:

I am enclosing report on our exports to some selected countries for the period ending September 20, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

HDW/efa
10/1/42

Del. by Sturgis 12:30 10/2/42

Extra copies taken direct to
Dr. White's office 10/2/42

File in Diary

HDW

FILE COPY

October 1, 1942

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

1. Exports to Russia

Exports to Russia as reported to the Treasury Department during the ten-day period ending September 20, 1942 amounted to \$44,434,000. Among the military equipment exported were 167 tanks, 26 light bombers and 31 fighter planes. (See Appendix C.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$11,000 as compared with \$855,000 during the previous ten-day period. Military equipment amounted to only \$2,000. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to French North Africa, amounting to \$122,000.

ISP/efs
10/1/42

**Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
From Export Declarations Received
During the Period Indicated 1/**

(In Thousands of Dollars)

	<u>10-Day Period ended Sept. 20, 1942</u>	<u>10-Day Period ended Sept. 10, 1942</u>	<u>Total Domestic Exports Aug. 1, 1942 to Sept. 22, 1942</u>	<u>Total Domestic Exports July 28, 1941 to July 31, 1942</u>
U. S. S. R.	\$44,434	\$24,339	\$219,960	\$742,941
Free China	11	855	4,116	97,730
Spain	1/	9	314	2,898
Switzerland	12	9	669	11,537
Sweden	14	17	2,307	18,096
Portugal	89	51	307	9,743
French North Africa 2/	122	—	2,041	6,305

Treasury Department, Division of Monetary Research

September 29, 1942

- 1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.
- 2/ Includes Morocco, Algeria and Tunisia.
- 3/ Less than \$500.

15/cfs
6/29/42

APPENDIX B

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

(Thousands of Dollars)

	Exports to <u>Free China</u>	Exports to <u>U.S.S.R.</u>
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,855	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
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	4,856	51,698
Apr. 11 - Apr. 20	5,355	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 6/	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	35,940
July 21 - July 31 7/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 8/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,434
Total	\$ 104,439	\$ 963,321

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 29, 1942

ISF/efs 9/29/42

APPENDIX C

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

	<u>Unit of</u> <u>Quantity</u>	<u>Quantity</u>	<u>Value</u> <u>(Thousands</u> <u>of Dollars)</u>
TOTAL EXPORTS			\$ 44,434
Principal Items:			
Military tanks			7,085
Light, M-3	No.	114	
Light, n.e.s.	No.	3	
Medium, M-3	No.	4	
Medium, M-4, A-2	No.	46	
Ammunition			6,997
.30 caliber balls	No.	26,784,000	
.30 caliber tracers	No.	6,644,500	
.30 caliber armor piercing	No.	4,477,040	
.30 caliber incendiary	No.	665,000	
.303 caliber balls	No.	1,000,000	
.303 armor piercing	No.	1,000,000	
.45 caliber balls	No.	6,270,000	
.455 caliber balls	No.	3,334,000	
.50 caliber balls	No.	200,000	
.50 caliber tracers	No.	997,520	
.50 caliber armor piercing	No.	2,545,730	
.50 caliber incendiary	No.	767,742	
81 mm. mortar shells	No.	26,208	
37 mm. armor piercing shells	No.	294,473	
37 mm. armor piercing shot	No.	65,520	
High explosive shells	No.	136,860	
75 mm. gun high explosive shells	No.	2,736	
20 mm. Oerlikon gun tracers	No.	74,000	
20 mm. Oerlikon gun high explosive shells	No.	40,080	
Aircraft			6,353
Light bombers (2 eng. A-20)	No.	26	
Fighters (P-39)	No.	12	
Fighters (P-40)	No.	19	

SECRET

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APPENDIX G

Page 2

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of Dollars)</u>
Copper, aluminum, brass and bronze manufactures	-	-	2,590
Aircraft parts and accessories	-	-	2,487
Meat products	Lb.	7,070,293	2,231
Machine tools	-	-	2,103
Submachine guns, .45 caliber	No.	7,515	1,974
Electrical machinery and apparatus	-	-	1,397
Metals and manufactures, n.e.s.	-	-	1,349
Iron and steel bars and rods	Lb.	14,592,734	1,306
Wire and manufactures	Lb.	8,467,347	1,197
Machinery and vehicles, n.e.s.	-	-	1,186
Parts and accessories for automatic arms-	-	-	1,023
Other foodstuffs, n.e.s.	-	-	733
Parts and accessories for tanks	-	-	545
Explosives	-	-	510
Ordnance combat vehicles	-	-	433
20 mm. Gerlikon guns, anti-aircraft	No.	20	143

Treasury Department, Division of Monetary Research

October 1, 1942

NVP/efs
10/1/42

Regraded Unclassified

APPENDIX D

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

(Thousands of Dollars)

TOTAL EXPORTS \$ 11

Principal Items:

Electrical machinery and parts	5
Woven wire screen cloth	2
Military equipment	2
Wool felts, not woven	2

Treasury Department, Division of Monetary Research September 29, 1942

HVF/cfs
9/29/42

SECRET

Treasury Department 316
Division of Monetary Research

Date October 1 1942

To: Secretary Morgenthau
From: Mr. White

Original of this report appended
to prepared letter to President.

MR. WHITE
Branch 2058 - Room 214½

Treasury Department
Division of Monetary Research

317

Date...October 1...1942

To: Miss Chauncy

From: Mr. White

The tables for transmittal to the Secretary of State differ from those being sent to the President in that certain military figures are not broken down.

MR. WHITE
Branch 2058 - Room 214½

SECRET

SECRET

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October 1, 1942

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

1. Exports to Russia

Exports to Russia as reported to the Treasury Department during the ten-day period ending September 20, 1942 amounted to \$44,434,000. Among the military equipment exported were 167 tanks, 26 light bombers and 31 fighter planes. (See Appendix C.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$11,000 as compared with \$855,000 during the previous ten-day period. Military equipment amounted to only \$2,000. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to French North Africa, amounting to \$122,000.

ISF/efa
10/1/42

**Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
From Export Declarations Received
During the Period Indicated 1/**

(In Thousands of Dollars)

	<u>10-Day Period ended Sept. 20, 1942</u>	<u>10-Day Period ended Sept. 10, 1942</u>	<u>Total Domestic Exports Aug. 1, 1942 to Sept. 20, 1942</u>	<u>Total Domestic Exports July 28, 1941 to July 31, 1942</u>
U. S. S. R.	\$44,434	\$24,339	\$219,560	\$742,941
Free China	11	855	4,116	97,728
Spain	2/	9	314	2,858
Switzerland	12	9	669	11,537
Sweden	14	17	2,307	18,896
Portugal	89	51	307	9,743
French North Africa 2/	122	—	2,841	6,305

Treasury Department, Division of Monetary Research

September 29, 1942

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

2/ Includes Morocco, Algeria and Tunisia.

3/ Less than \$500.

APPENDIX B

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

(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
<u>1942</u>		
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	8,058	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
Aug. 21 - Aug. 31 4/	2,850	112,492
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Total	\$ 104,439	\$ 963,321

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Treasury Department, Division of Monetary Research, September 29, 1942

ISF/efs 9/29/42

APPENDIX C

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

	<u>Unit of</u>	<u>Quantity</u>	<u>Value</u> (Thousands of Dollars)
TOTAL EXPORTS			\$ 44,434
Principal Items:			
Military tanks			7,085
Light, M-3	No.	114	
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Medium, M-3	No.	4	
Medium, M-4, A-2	No.	46	
Ammunition			6,997
.30 caliber balls	No.	26,784,000	
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81 mm. mortar shells	No.	26,208	
37 mm. armor piercing shells	No.	294,473	
37 mm. armor piercing shot	No.	65,520	
High explosive shells	No.	136,860	
75 mm. gun high explosive shells	No.	2,736	
20 mm. Oerlikon gun tracers	No.	74,000	
20 mm. Oerlikon gun high explosive shells	No.	40,080	
Aircraft			6,355
Light bombers (2 eng. A-20)	No.	26	
Fighters (P-39)	No.	12	
Fighters (P-40)	No.	19	

SECRET

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APPENDIX C

Page 2

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of Dollars)</u>
Copper, aluminum, brass and bronze manufactures	-	-	2,590
Aircraft parts and accessories	-	-	2,487
Meat products	Lb.	7,070,293	2,231
Machine tools	-	-	2,103
Submachine guns, .45 caliber	No.	7,515	1,974
Electrical machinery and apparatus	-	-	1,397
Metals and manufactures, n.e.s.	-	-	1,349
Iron and steel bars and rods	Lb.	14,392,734	1,306
Wire and manufactures	Lb.	8,467,347	1,197
Machinery and vehicles, n.e.s.	-	-	1,186
Parts and accessories for automatic arms-	-	-	1,025
Other foodstuffs, n.e.s.	-	-	733
Parts and accessories for tanks	-	-	545
Explosives	-	-	510
Ordnance combat vehicles	-	-	433
20 mm. Gerlikon guns, anti-aircraft	No.	20	143

Treasury Department, Division of Monetary Research

October 1, 1942

MVF/efs
10/1/42

Regraded Unclassified

APPENDIX D

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

(Thousands of Dollars)

TOTAL EXPORTS

\$ 11

Principal Items:

**Electrical machinery and parts
Woven wire screen cloth
Military equipment
Wool felts, not woven**

**XXXXXX
XXXXXX
XXXXXX
XXXXXX**

Treasury Department, Division of Monetary Research September 29, 1942

**MVP/ofs
9/29/42**

OCT 2 - 1942

My dear Mr. Secretary:

I am enclosing report on our exports to some selected countries for the period ending September 20, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

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

Enclosure

Del. by Sturgis 2:42 10/2/42

Extra copies taken direct to
Dr. White's office 10/2/42

File in Diary

EDW/efs
10/1/42

EDW

FILE COPY

October 1, 1942

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

1. Exports to Russia

Exports to Russia as reported to the Treasury Department during the ten-day period ending September 20, 1942 amounted to \$44,434,000. Military equipment amounted to \$27,812,000 or about sixty-three per cent. (See Appendix C.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$11,000 as compared with \$855,000 during the previous ten-day period. Military equipment amounted to only \$2,000. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to French North Africa, amounting to \$122,000.

ISP/efs
10/1/42

Summary of United States 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 Sept. 20, 1942	10-Day Period ended Sept. 10, 1942	Total Domestic Exports Aug. 1, 1942 to Sept. 20, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
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Switzerland	12	9	669	11,537
Sweden	14	17	2,907	18,096
Portugal	69	51	307	9,743
French North Africa 2/	122	—	2,041	6,305

Treasury Department, Division of Monetary Research

September 29, 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.
- ✓ Less than \$500.

7/62
1/29/42

SECRET

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APPENDIX B

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

(Thousands of Dollars)

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July 11 - July 20	590	33,940
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Treasury Department, Division of Monetary Research, September 29, 1942

ISP/efs 9/29/42

SECRET

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APPENDIX C

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

(Thousands of Dollars)

TOTAL EXPORTS

\$ 44,434

Principal Items:

Military equipment	27,812
Steel plates, bars, billets and rods	1,966
Industrial machinery and parts, n.e.s.	1,849
Canned sausage	1,403
Electrical machinery and apparatus	1,389
Trucks, motorcycles and parts	1,272
Wire and manufactures	1,197
Aluminum and alloys	1,031
Copper bars, pipes, sheets and wire	1,016
Hams, bacon and pork	828
Grinding machines and parts	723
Dried egg products	551
Brass and bronze plates, sheets, bars, rods, etc.	543
Rubber and manufactures	471
Chemicals and related products, excluding military	438
Road machinery, parts and accessories	413
Tools	297
Men's boots and shoes	185
Railway track material, casings, etc.	182
Cheese products	160
High octane motor fuels	154
Relief supplies	116

Treasury Department, Division of Monetary Research September 29, 1942

MVP/efs 9/29/42

APPENDIX D

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

(Thousands of Dollars)

TOTAL EXPORTS

\$ 11

Principal Items:

**Electrical machinery and parts
Woven wire screen cloth
Military equipment
Wool felts, not woven**

**11
11
11
11**

Treasury Department, Division of Monetary Research September 29, 1942

**MV7/efs
9/29/42**

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 341

Information received up to 7 A.M., 2nd October, 1942.

1. NAVAL

A Westbound Channel convoy was attacked last night by E-boats off SOUTH DEVON. Mine laying is suspected and the convoy has gone to PLYMOUTH. A Polish destroyer and the escorts engaged the E-boats. One of H.M. trawlers was sunk by mines.

2. MILITARY

EGYPT. 30th. An infantry attack by United Kingdom troops on a brigade front was launched at first light against enemy positions in the MUNASSIB Area. On the right the objective was gained and consolidated but elsewhere no firm footing on the objective was established. The attack was continued.

MADAGASCAR. ANTALAHA on the northeast coast was occupied on 26th.

RUSSIA. The Germans are making progress in their penetration into the Northern part of STALINGRAD. There has been some local German progress south of the TEREK and towards TUAPSE from the northeast.

3. AIR OPERATIONS

WESTERN FRONT. On first single Mosquitos made successful low level attacks on chemical works at SLUISMIL and an oil refinery at GHENT. During other operations a tanker, two minesweepers and a 200 ton ship were damaged. 1st/2nd. 137 aircraft were despatched - WISMAR 58, two missing; Dornier factory, WISMAR 20; FLENSBURG 27, 12 missing; LUBECK 25, 3 missing; anti-shipping 7. Primary reports indicate that weather conditions were unfavourable.

EGYPT. 30th. Our light bombers attacked A.T. and gun positions in the Southern sector. Our fighters destroyed three enemy aircraft and damaged a fourth. One of them is missing.

RUSSIA. German bombers started fires in the town and harbour at ARCHANGEL on 29th/30th and 30th/1st. No damage reported to British ships or material.

Treasury Department
Division of Monetary Research

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Date October 2, 1942 19

To: **Secretary Mergenthau**

From: **Mr. Horlich**

Subject: **Of Possible Interest: Map of New
Guinea showing roads and trails.**

You may be interested in the attached
map of New Guinea showing roads and trails.
The recent Japanese advance was along the
trail from Buna, through Kokoda and Efogi,
to Ioribaiwa.

SOUTH - EAST
New Guinea

ROADS ———
TRAILS ·····



TO:

Secretary Merges 323

You may be interested
in the marked passages
on Pages 13 and 14.

Tung's rubric
right on "adjustment
to ~~decisions~~ F. K.

pushing my point"

MR. KUHN

334

10-2-42

INTELLIGENCE REPORT 43

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morgenthau, Jr.

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ATTENTION FOCUS

The public mind was fastened during the week on the following principal topics by the media of information:

Fighting Fronts

Battle for Stalingrad
Japanese attacks in the Solomons
Wendell Willkie's travels
Fighting in New Guinea
German attack on a convoy to Russia
British raids in North Africa

The Domestic Front

The congressional debate on inflation control
The scrap drive
Nationwide gas rationing
Cancellation of the Louis-Conn fight

Russian resistance at Stalingrad received twice the prominence of any other story — even the resistance of the farm bloc in Congress. Reports from Russia were optimistically colored, highlighting every Soviet gain. Headlines about the southwest Pacific told mainly of Japanese counter-attacks repulsed, of Japanese ships and planes destroyed.

The rise and fall of the farm bloc was treated dramatically and with obvious alarm. At the turn of the week, press and radio reported that victory for the Administration was assured on a compromise basis. Newspapers went all-out for the scrap drive.



EDITORIAL ATTITUDES

WILLKIE AND A SECOND FRONT

Wendell Willkie gave fresh fervor to the debate over a second front. But even without his statement from Moscow, the second front would have continued this week to be a major topic of

editorial interest. Commentators have been greatly concerned over a possible impairment of allied relations on this issue and over a fear that the promised invasion attempt may come too late.

As to the propriety of Mr. Willkie's "public prodding," editorial opinion split violently, with little regard for past expressions on the second front issue. In the opinion of the Washington Post, "It can be said without hesitation that the public prodding which our military leaders are getting is the insurance of victory...For it is obvious, as we have said before, that too many of our war leaders have contracted a long war habit of mind, and, moreover, that the strategists of the United Nations are still unable to work out a coordinated strategic scheme based upon comprehensive attack."

But the equally interventionist Philadelphia Record declared, "We just aren't in possession of all the facts. Under the circumstances it is dangerous to keep shouting 'we want a second front'...Decisions in global warfare must be made not by cheerleaders, but by those who know the facts."

The Scripps-Howard newspapers, which have been campaigning for a second front in the air, rebuked Mr. Willkie even more harshly: "We doubt if any public figure has, since the outbreak of this war, uttered a statement so ill-advised, or advocated a course so weighted with danger and possible disaster...To term it shocking is gross understatement...Applause and flash bulbs have apparently caused Mr. Willkie to talk out of turn. This is no time for Innocents Abroad."

Middle ground was more typically represented by the New York Herald-Tribune which felt that "A public agitation to 'prod' the soldiers into adventures against their better judgment would be a disaster of the first

magnitude; it is, on the other hand, essential for the people to create that atmosphere of aggressive urgency which will permit and encourage bold decisions to be made."

A large portion of the editorial comment on this subject was directed toward the thesis that the public must depend on its military leaders for decisions as to the time and place of an allied invasion thrust at Germany. Through much of this comment, however, appeared a strong sense of urgency and anxiety. Some of the observations seemed to reflect a good deal of doubt as to the wisdom and imagination of the United Nations' military leaders at the present time.

Only a few commentators went quite so far, however, as the usually conservative Detroit Free Press, which remarked that "A man need not be a Communist to feel that an element of politics, rather than the limitations of military practicality, explains the weary delay in going to Russia's rescue." Positive demands for second front action came from a large and apparently growing minority of news interpreters.

FARM BLOC FIGHT

The sudden resurgence of farm bloc strength in the Congressional debate on price control came as a painful shock to most editorial commentators. They reacted, overwhelmingly, with vehement indignation.

Major eastern newspapers, such as the New York Times, New York Herald-Tribune, Philadelphia Record, Baltimore Sun and Washington Post declared that Congress had failed the country. Feeling in the South was typified by the Montgomery Advertiser which remarked that "...This act of the House in refusing to stabilize wages and prices is almost incomprehensible."

In the Middle West, the Indianapolis News said that "Indiana takes no pride in the fact that its delegation in Congress supports this stimulation of the inflation that will inflict poverty and chaos on the country..." The St. Louis Post Dispatch characterized the farm bloc leaders in Congress as "soldiers of greed." On the West coast, the San Francisco Chronicle observed more temperately, "The people, we believe, are with the President in this matter and Congress is not pleasing them."

At the same time, farm bloc support was notably stronger than last week with a number of southern and western papers springing to its defense. The Denver Post, for example, questioning whether there is any real need for Government limitation of farm prices, said: "The American people would be ahead financially by letting farm prices rise to levels profitable to the farmers instead of paying taxes to subsidize the farmers."

The chief argument of farm bloc partisans rested on the failure of the Administration to announce specific proposals for wage control. A considerable number of commentators, those supporting the President's program, as well as those opposed to it, continued to condemn the Administration, along with Congress, as responsible for the inflation crisis. Representative of this point of view was a comment in the San Francisco News: "It is because Congress has given special protection to farm prices — and because the President has given special protection to industrial wages — that the Government's effort to control the cost of living is threatened with collapse."

With emergence of a probability that the Administration would secure a compromise victory over the farm bloc in the Senate, editorial castigation of Congress decreased somewhat and gave way to renewed criticism of

Mr. Roosevelt. Commentators, in general, do not like the compromise. Some of them label it an outright victory for the farm leaders. There is a prevalent fear that serious inflation under the pressure of agricultural and labor demands may become a terrible reality.

COMPLACENCY?

Tough speeches during the week by Messrs. Bard, Nelson, Somervell, and Hershey evoked outraged editorial protest. The commentators, while acknowledging the timeliness and usefulness of these statements, insisted that the Government itself is responsible for the apathy about which its spokesmen complain.

"It is scarcely arguable," observed the New York Times, "that, if we remained too long complacent, it was for one pre-eminently important reason — because the official leaders of our war effort encouraged us to do so... The pattern of realism must be set by those in the high command because it is they who best know the facts."

In connection with these speeches, and also in regard to news from the southwest Pacific, Government information policy in general came in for sharp editorial criticism. Belated announcement of the sinking of the Yorktown disturbed a number of commentators. And there were some who complained, as did Fletcher Pratt in discussing the situation in the Solomons, that "There is good reason to believe that some of the stories...are being held out on us."



POPULAR REACTIONS

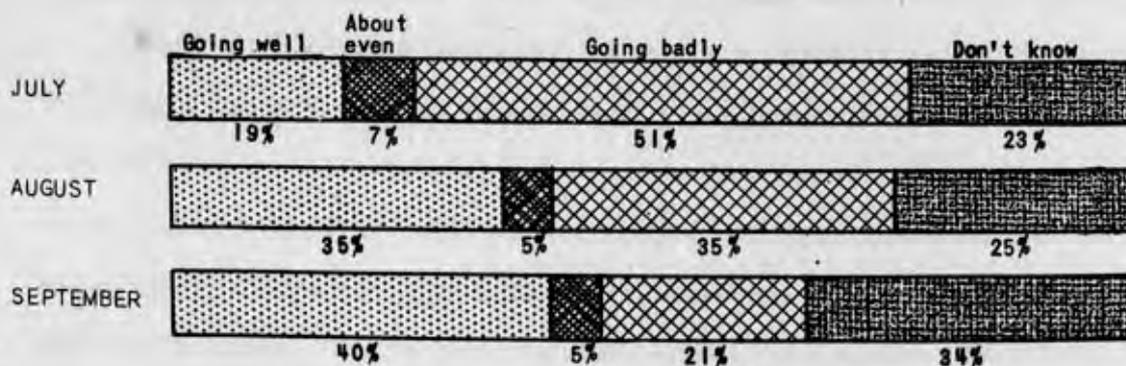
OPTIMISM AND REALISM

The recent official statements that the war is going badly for the United Nations were delivered against a

background of rising optimism in the United States. Despite German gains in Russia, despite the difficulties encountered by allied forces in the Pacific, the American public tended to view the war's development throughout the summer as decidedly encouraging.

The chart below shows the division of opinion in response to a general question — "How do you think the war is going now?" — posed to small national samples in the early part of July, in mid-August and at the beginning of September. There is an apparent increase in the number of those who think that the war is going well and a marked decrease in the number of those who believe that it is going badly.

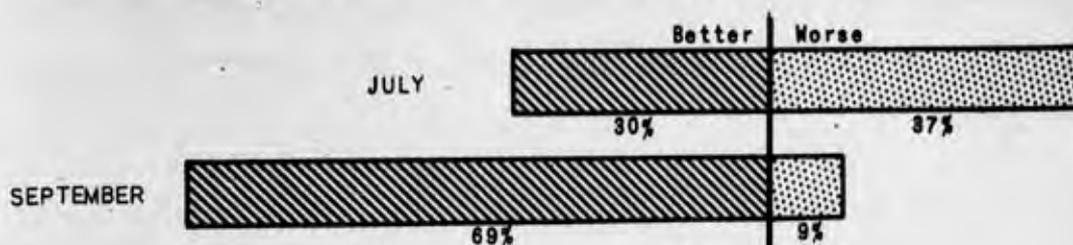
ESTIMATES OF THE WAR'S PROGRESS



The belief that the war is going well can be evaluated only in relation to earlier expectations. Those who anticipated far greater reverses than have been sustained naturally viewed actual events as encouraging. Popular optimism is reflected, however, not only in the general long-term view of the war, but in estimates of immediate progress. In July and in

September, the Bureau of Intelligence asked the question, "Is the war going better or worse than a few months ago?" The chart below shows that, between the two dates, the sense of optimism increased dramatically.

PROGRESS OF THE WAR COMPARED WITH A FEW MONTHS AGO



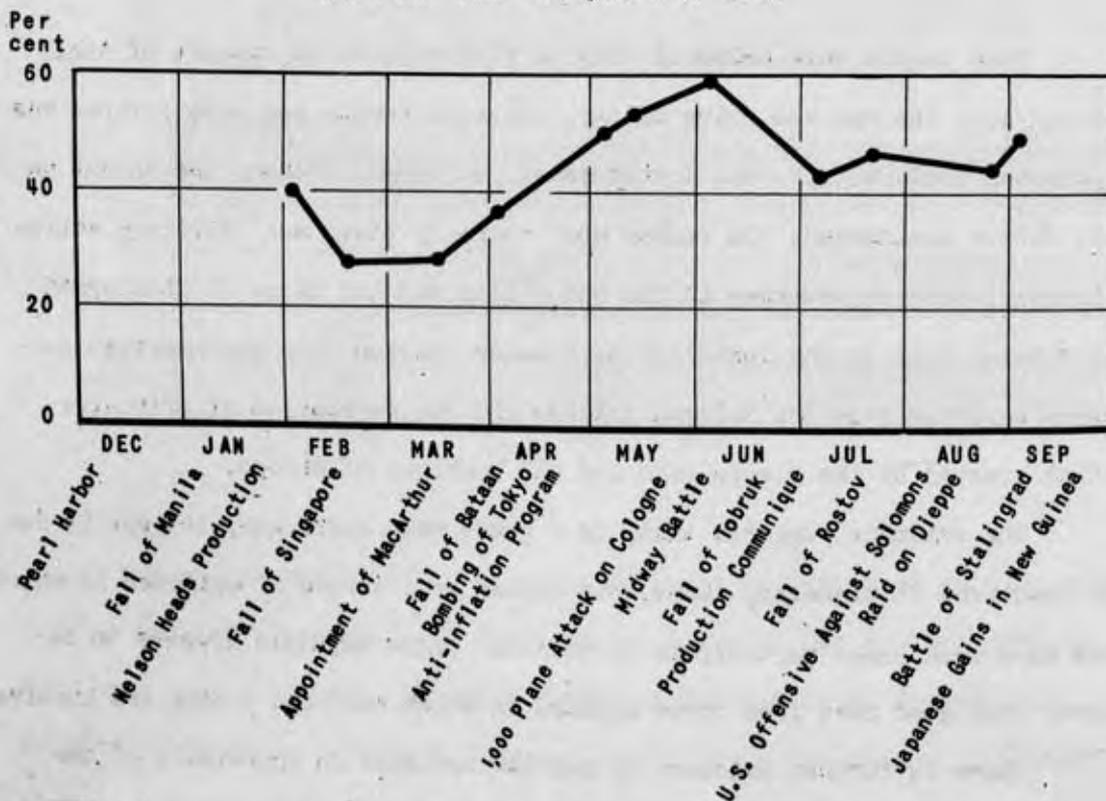
When people were asked in July to give reasons in support of their opinion that the war was going better, the most common response offered was "increased production." But in September, curiously enough, the accent on this factor diminished; the reason most commonly given was "military action." Evidently, Russian reverses in the Don Valley and the siege of Stalingrad contributed less to the formation of popular opinion than did American successes reported from the Solomon Islands and the impression of offensive action created by the Dieppe raid and RAF bombings of Europe.

The evidence suggests that, to a great many Americans, the war is not yet conceived in planetary terms, but rather as a series of episodes in which "the boys from home" participate in action. Undue emphasis appears to be placed upon good news from those sectors in which American troops are involved.

There is further evidence of popular optimism in appraisals of the war's duration. When America first became involved, there was a prevailing disposition to anticipate a rather long war — more than two years. In

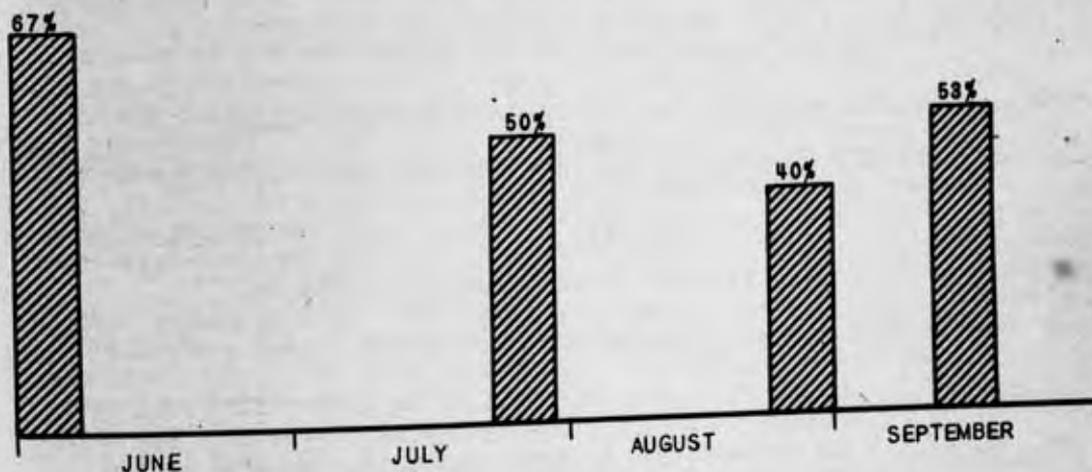
the spring and early summer, however, after the battle of Midway and the first mass air attacks on Germany, a majority of the public came to believe that the war would be over in two years or less. Later, when Tobruk fell and the German summer campaign got under way in the Caucasus, this tendency to expect a short war decreased. But in the latest interviewing on the subject, there is a rise in the percentage of people who think that the war will be ended within a two-year period. The following chart shows the trend on this topic:

ESTIMATES OF THE WAR'S LENGTH
War will last two years or less



Another index to optimism may be found in the growing belief that we are gaining in the battle of production. The grim statement on production figures issued by Elmer Davis in mid-August was followed by a temporary reduction of the optimism respecting our output of war materiel. But interviewing conducted in September indicates that a majority of the public once more believes that the battle of production is being won. The highest measure of confidence is found in the urban centers of the middle western states. The trend of opinion on this topic is illustrated below.

ESTIMATES OF PRODUCTION PROGRESS
Production is going very well



The national sample interviewed in September was asked, "From what you have read or heard, would you say we have enough steel on hand to build the ships and other war materials we need?" Half of the sample answered this question affirmatively; 34 per cent answered negatively, while 16 per cent said they didn't know. In view of the urgency behind the current

campaign for the collection of scrap metal, a rather startling ignorance or apathy seems to be indicated by these results.

Public resiliency in regard to the war's progress and the tendency to ignore adverse developments while selecting favorable ones in appraising the situation suggest a need for persistent emphasis on the war's gravity in the presentation of news. The line between optimism and complacency is tenuous and difficult to discern. If optimism is to remain a healthy component of morale, it must be continually sobered by realism.



DEVELOPING SITUATIONS

FARM LEADERS AND INFLATION

The immediate reaction of a majority of local farm leaders to the President's Labor Day message was one of resentment.

Interviews conducted with farm leaders by field representatives of the Bureau of Public Inquiry indicate that most of them found in the speech an implication that rising farm prices are the chief threat to inflation control. "Why pick on us first?" was their predominant response.

Farm leaders profess a willingness to cooperate in the control of living costs. But they insist that all parts of the anti-inflation program be put into effect simultaneously. To their minds, wage control is the most important element. They are suspicious of the President's motives in reserving wage control for executive action, while asking for specific farm price legislation. They now fear that such control will come, if at all, only after ceilings are placed on farm prices. There is a strong feeling among them that the Administration is pro-labor.

The extent to which these farm leaders represent sentiment among the

farmers themselves has not been determined. It is a fact that, among the three principle agricultural organizations — the Grange, the Farm Bureau Federation and the Farmers Union, only the last of the three has a membership mainly composed of farm families of small and middle economic status. The Farmers Union has supported the President's anti-inflation policy and opposed the farm bloc demands. The Farm Bureau, the most potent of the agricultural associations, has its greatest strength in the corn and cotton belts and its leadership is drawn largely from the industrial, corporate, absentee-owner, farm-management group. That its views are genuinely representative of small farmers may be open to question. Its insistence upon the inclusion of farm labor costs in the determination of parity is a reflection of its attention to large farming interests. The policies of the Grange are, in considerable measure, reflective of the same interests.

Many of the local farm leaders are Grange or Farm Bureau members. Their views may, therefore, be tinged by the official attitudes of their national organizations. They do not necessarily reflect the prevailing grass roots opinion in their districts. But they are undoubtedly influential in the formulation of that opinion.

The brightest spot in the President's message, from the farmer's point of view, was the reference to a floor under farm prices. All agricultural groups seem particularly pleased with the prospect of post-war support of minimum farm prices.

Minority farm leaders, found chiefly among the Farmers' Union and the Ohio Farm Bureau, were generally sympathetic to the President's speech. But these groups already shared his views. It is doubtful if the President won

new converts among farmers or changed their prevailing attitude.

The problem of farm labor threatens to replace farm price ceilings as agriculture's chief concern. Considerable comment is heard that Selective Service should grant more deferments for farm workers, but even more noticeable is criticism of high industrial wages which draw men from the farms. It is now a prevailing belief among local agricultural spokesmen that a serious shortage of farm labor endangers agricultural production. This belief is founded upon fact in only a very few areas. For the most part, the fear of a farm labor shortage seems to be a fear that the prevailing low wage scales may be threatened by a depletion of the farm labor surplus.

BUSINESS LEADER REACTION TO THE PRESIDENT'S ANTI-INFLATION POLICY

Among businessmen, especially small businessmen, interviewed by the Bureau of Public Inquiry, reaction to the President's speech was generally favorable. But disappointment was expressed over the failure either to impose wage stabilization immediately or to ask for specific legislative action toward this end.

Businessmen, while considering farm price control as essential, are inclined to regard wage control as even more urgent. This is a point of view stressed by big business elements in particular. In states where both industry and agriculture are strong, there is an insistence upon simultaneous regulation of wages and farm prices.

There are indications that leaders representing the business interests of farmers, and businessmen under the leadership of the U. S. Chamber of Commerce have joined hands in the inflation controversy. Their community of

interest in low wage scales makes a coalition between them natural. But they appear to be united now in addition by a common fear that the Government may grant subsidies for increased wage costs in order to overcome the threatened farm labor shortage and keep up food production in the event that parity ceilings are imposed. To the minds of conservative farm leaders and conservative business leaders alike, such subsidies would mean an unwelcome extension of Government control over agriculture. The coalition seems to be fighting, fundamentally, not so much for higher prices, as for freedom from governmental regulation.

ADJUSTMENTS TO DECREASED PURCHASING POWER

A recent survey made by the Young and Rubicam advertising agency throws some light on the effect that reduced purchasing power might have on the spending habits of the American people. Such a reduction might occur, of course, as a result of higher prices, as well as from lower dollar income.

About a third of the women interviewed felt that they were now living at a lower standard than a year ago — because of rising prices, lower income or bond buying. It is interesting to note the adjustments these women have actually made in budgeting family expenditures.

59 per cent say they have reduced their expenditures for food.
44 per cent say they have cut the amount they spend for amusements, luxuries and extras — especially the use of cars.
43 per cent say they have cut clothing expenditures.
21 per cent say they have reduced home operation expenses — rent, utilities, servants.

To get more details on the type of adjustment which might be made in

the future, in the event of a general reduction in consumer purchasing power, the entire sample was asked: "If the amount of money your family gets should be cut by one-third any time in the near future, what changes would you make to meet the cut?" A few women felt that they could not economize any further. The reactions of the rest contrast interestingly with the actual adjustments claimed above.

56 per cent said that they would cut down on rent and the operator of the home.

47 per cent said that they would cut down on food

32 per cent said that they would cut down on clothing.

Women of the upper middle class were particularly prone to think in terms of reducing household overhead. The type of adjustment mentioned included moving to smaller or cheaper quarters, making less use of such utilities as the telephone, forgetting about property improvement for the duration, and dismissing servants.

Women in all economic groups thought of cutting expenditures for food as a way of adjusting to reduced purchasing power, although, as is natural, farm women saw fewer possibilities in this direction than did residents of cities. All women in the sample were asked what items of food they would cut down on if they had to reduce their food budget by a third. Two women in three said that they would give their families less meat, less expensive meat, or both. Desserts were the item next most frequently mentioned, with beverages third. The number of women who said they would reduce their purchases of dairy products, fruits and vegetables was more than balanced by the number who said they would buy more of these products as substitutes for meat and desserts.

All women in the sample were also asked what changes they would make if they had to cut their own clothing budget by a third. Thirteen per cent regarded this as an insuperable task. Of those who answered the question, two-thirds said that they would buy fewer, rather than cheaper, clothes.

If any general reduction in purchasing power is actually experienced in the years immediately ahead, it is much more likely to occur as a result of a gradual increase in price than as a result of a precipitate drop in income. The broad pattern of adjustment to such a reduction is not likely to correspond to people's answers to the hypothetical question about having their dollar income cut one-third. The answers to the more specific questions, however, may be suggestive of the type of changes in spending habits which will take place if and when family income diminishes.

TREATMENT OF THE ARREST OF NEGRO CULTISTS

The treatment by certain newspapers of the recent arrest of 84 Negro cultists in Chicago illustrates the way in which Government agencies may unwittingly contribute to the distortion of news. In this case a rather trivial affair was presented in such a fashion as to aggravate group cleavages.

The people arrested are said to be simple-minded, neurotic, not to say psychotic individuals, many of whom thought that they could evade the draft by the naive expedient of claiming to be citizens of Arabia and giving themselves fantastic names. A recent study by two University of Chicago anthropologists of the very group of people involved indicates that they are predominantly under-privileged and frustrated individuals, many of them unemployed and unemployable, and, in general, highly unstable.

They were members of three "lunatic-fringe" cults: the Peace Movement of Ethiopia, the Temple of Islam, and the Brotherhood of Liberty for the Black People of America. Although these cults ambitiously claim a membership of 4,000,000 to 6,000,000 competent students of American Negro life doubt that they actually have 20,000 members.

These cults were linked in official statement on the arrests with the Black Dragon Society of Japan, organized by Major Satakata Takahashi of the Japanese Imperial Intelligence in 1930. It was this charge which was given headline attention in some newspapers. Emphasis was put on the fact that the defendants were Negroes, rather than on the fact that they were crackpots. Thus the efforts of a few erratic individuals to evade the draft was presented as part of a Japanese-inspired plot to alienate the Negroes from their fellow Americans. And Negroes, it was implied, were particularly susceptible to the racial propaganda of the Japanese because of their gullibility and superstitiousness.

This treatment of the affair provided ammunition for prejudiced whites who were already inclined to disparage the patriotism of Negroes, and aroused irritation and resentment among Negroes; in short, it aggravated a cleavage which is already sufficiently serious to handicap the war effort. The incident underscores the need for OWI supervision of the releases of security agencies, so that adequate attention can be given to the interpretation likely to be put upon news and the impact it may have upon various groups in the population.

FUEL OIL

Public confusion on the fuel oil situation as a whole has been aggravated

by apparently conflicting official figures on the probable size of the shortage this winter. On August 25, Deputy Petroleum Coordinator Ralph K. Davies advised consumers to expect a 25% cut in normal "unrestricted" requirements. The same figure was a basis for later statements on the subject by President Roosevelt (September 1), Secretary Ickes (September 10) and Donald Nelson (September 15). On September 25, OPA deputy Paul M. O'Leary announced that rationing of fuel oil would be geared to a 33 1/3 per cent reduction of normal consumption, "which will be equivalent to a 25 per cent reduction in last year's consumption. This results from the fact that last winter was unusually warm." Meanwhile, there has been at least one statement by a state official (Governor Saltonstall of Massachusetts) that Washington figures are too optimistic, and that the shortage may be as much as 50 per cent (week of September 14, reported in the Boston press).



ENEMY PROPAGANDA

THE AXIS SPEAKS

Hitler's speech of September 30 endorses previous indications that German declarations of strategy have become primarily defensive. New drives according to German spokesmen will be local and limited relative to the great defensive fronts, and the major energies of the Reich will be directed toward the exploitation and organization of her conquests. This military line ties in neatly with the intensification of internal propaganda to the effect that "Germany is fighting to defend its life." "For this year we have prepared a very simple program," says Hitler. "In the first place under all circumstances we must hold whatever must be held.

That is to say, we must let the others attack as much as they wish wherever we have no intention to advance. We must hold everything and must wait to see who tires soonest. In the second place we must attack under all circumstances where attack is necessary... We will never and in no circumstances capitulate." There are no statements in the speech which can be interpreted as peace feelers. The Nazis have already tried peace feelers some weeks ago and apparently concluded that they were inopportune. They possibly hope now to make their conquests impregnable and gradually force upon England and the United States a realization of the futility of continuing the war.

The second anniversary of the Tripartite Pact furnished an occasion for a political offensive intended in large measure to minimize America's role in the war. Von Ribbentrop admitted explicitly that the primary object of the pact had been "to prevent this European war...from developing into a world conflict and the consequent prolongation of hostilities by the entry of the United States of America." A primary underlying theme of the speech was that American strength cannot affect the outcome of the war. Just as the original pact was intended to frighten the United States out of war, this anniversary furnished an occasion to minimize the significance of our activity now that we are in the war.

Ribbentrop's concluding remarks were directed specifically at the United States. "Secure in every respect, Europe and the Far East are holding a strong position and are awaiting Mr. Roosevelt, who from thousands of miles across two oceans intends to conquer these two worlds without ships, without seasoned troops, without strategic bases, without experience, and without many other things. We often feel as if these ideas were born not of reason, but of incipient madness."

Contrasting with the "realistic" and expedient tone of Ribbentrop's speech Count Ciano concentrated upon the moral character of Tripartite war aims. The Tripartite is fighting to assure "a new order of things, intended to promote the well-being, the stability, and the security of peoples" against the "monopolies" of the "plutocrat" powers and the "barbarism of Bolshevism." Japan through Prime Minister Togo and Foreign Minister Tani celebrated the anniversary with generalities about Tripartite and Japanese strength and virtue. The leaders of the various puppet regimes also joined in the output of anniversary speeches.

WENDELL WILLKIE ON THE SECOND FRONT

Axis propagandists attempt to use Willkie's statement on the second front to implement their wedge-driving. They report that Willkie revealed he would bring from Russia "a story of the growing disappointment and dissatisfaction over the failure of the U. S. and Britain to establish a second front." His "acknowledgment... of Soviet Russia's discontent over the question of a second front in Europe has resulted in heated discussions in Anglo-American political circles." London newspapers have received new impetus in their criticism of the government, alleges the Axis, while Anglo-American officials are indignant over Willkie's lack of diplomatic tact.

Axis domestic news analysts found "substantial agreement between the Willkie and Ribbentrop opinions" on conditions in Russia (a finding which was broadcast to the world). They interpreted Attlee's speech in Canada as a forced reply to Willkie from a man who needed "public prodding". Radio Paris gives emphasis to an Axis rumor that Stalin may recall Litvinov. Stalin is supposed to be angry over delay of the second front.