

DIARY

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October 3, 1942
9:20 a.m.

Operator: Hello. Hello.

Herbert Gaston: Yes, hello.

Operator: Hello, Mr. Gaston?

G: Yes.

Operator: All right.

G: Right. Hello.

Operator: There you are.

G: Hello.

HMJr: Hello, Herbert?

G: Yes.

HMJr: Well, how'd you make out last night?

G: Well, I didn't have much of a - any opportunity to express any view at all.

HMJr: Is my light on?

G: Yes.

HMJr: Good.

G: The meeting was entirely occupied with a discussion of the terms of the bill, mostly with Barkley, Brown, and McCormack....

HMJr: I see.

G:at the end of which the President signed it. He did, however, ask people from - ask Jesse Jones and Oscar Cox and Bledsoe and Henderson about - their opinion about the effectiveness in the control of prices in their fields. He told them that it would not be up to them to make policy decisions, that they'd get their orders from Mr. X.

HMJr: Good.

G: He said, "That applies to all of you," and then he turned to me, but he said, "But not the Treasury."

HMJr: Oh, he did.

G: He said, "We changed the language from the original form, because the other was objectionable to the other departments and stuck out too much, but we eliminated that clause excepting the Treasury but we eliminated the language which would give the new authority power over Treasury functions." And I said, "Yes, I - Randolph Paul had told me something of that." And that's - that's the only way that we got in at all. We weren't - nobody was - the Executive Order wasn't shown during the meeting last night. The President announced that it would be issued today.

HMJr: It would be.

G: Yes, and the papers carry the story that Mr. X will be appointed today. After the - after the meeting I went to the President and told him that I hoped that he wouldn't say that this bill was going - the complete answer against increases in the cost of living, because we felt very strongly that we needed more taxes than had yet been provided and other fiscal means of preventing inflation.

HMJr: Yeah.

G: And he said that he agreed to that entirely, and he was going to have a paragraph in his speech to that effect in - in his announcement to that effect.

HMJr: I see.

G: As I was going out - or rather as we were standing at the end of the room after the meeting, Davis said to me, "You know the President wasn't entirely correct in saying that...."

HMJr: I didn't hear you. You'll have to repeat that.

G: I say Davis, as we were standing talking in the end of the room before going out - William H. Davis of the War Labor Board said to me, "You know, the President wasn't entirely correct in his statement that the Treasury is not affected." He said, "You

(cont.)

- 3 -

G: know, there's that paragraph in the bill," and I (cont.) said, "Yes, I - I knew about that paragraph."

HMJr: What paragraph?

G: Well, there's a paragraph in the - the paragraph in the bill gives the - the President power to regulate wages and salaries, and under that paragraph they're proposing to issue, as one of the first if not the first directives, a directive to all agencies to - in respect to salaries.

HMJr: Yeah, I know.

G: That's - that's the \$25,000 thing, and he has power to and intends apparently to make that directive to the Bureau of Internal Revenue - to the Treasury Department as well as to the contracting agencies.

HMJr: Well, I - later in the evening I had a talk with Paul while you were at the White House....

G: Yes.

HMJr:and I asked whether that set a precedent. Could the President write a tax bill on all income? He said, "No, he could not."

G: Well, probably not, although I'm not too happy about the - I don't think there's anything to be done. The President just told us, he didn't ask us, last night, but the - and I haven't seen the terms of the Executive Order. But there is substantial difference between an order that in terms says the director of this "super-duper" cannot issue directives to the Secretary of the Treasury and one which merely omits mention of Treasury functions except that it does include a paragraph in respect to salaries that gives the President power over all agencies of the government.

HMJr: Well, I also got Sam Rosenman later in the evening....

G: Yes.

HMJr:and he says that - he assures me that by we having no reference....

- 4 -

G: Yeah, uh huh.

HMJr: ...that it leaves us out.

G: Yes, yes.

HMJr: He also assured me that Mr. X had been told that he had nothing to do with the Treasury.

G: Yes, uh huh.

HMJr: You say the President said that in front of everybody else?

G: That's right. That's right, and he made it so emphatic that Davis - that Davis later told me that that wasn't quite correct because there's a paragraph in the bill that very plainly gave the President power over - over the salaries, see?

HMJr: Well, I don't see - I - unless I've been hoodwinked, I don't - I think that this....hello?

G: Yes. Well, I think it's all right because - because of that statement of the President before the group and - and, anyway, it's - it's the practical effect that counts and it - everything he said has indicated that we're not going to be pushed around without an opportunity for you to talk to him.

HMJr: I have a very bad connection.

G: Yeah. Well, I - I get breaks in your - in your transmission.

HMJr: So do I.

G: Yeah.

HMJr: Hello?

G: Yes.

HMJr: If and when they announce who Mr. X is, would you call me?

- 5 -

G: Yes, indeed, I will.

HMJr: I'd like to know.

G: Yes, as soon as that Executive Order comes out, I'll - I can let you know that it's out, and then if they get Mr. X, I'll let you know.

HMJr: Yeah. Well, when they call the Executive Order, if you're going to call me, I'd like to speak to you and Paul together.

G: Right.

HMJr: See?

G: Yes, yes.

HMJr: But I think - I wouldn't -- unless it's an emergency -- I wouldn't call between now and twelve-thirty, if you don't mind.

G: All right. All right. I got a note from Steve just now that - from Stephens that Paul is not in the office yet, but he'll undoubtedly be here soon.

HMJr: Well, unless it's an emergency - that they could wait until twelve-thirty.

G: All right. I - I think it - I think it no doubt can.

HMJr: Right.

G: Right.

HMJr: Okay.

G: Okay.

October 3, 1942
10:00 a.m.

Randolph
Paul:

What - what they did was this, apparently - they adopted the language that I had drawn up for Rosenman late in the afternoon....

HMJr:

Yes.

P:

....with one slight exception which I'll point out to you.

HMJr:

Yeah.

P:

They adopted a proviso clause which was a combination of suggestions made in the earlier meeting....

HMJr:

Yes.

P:

....in the afternoon. The principal thing that I suggested was the addition of War Bonds to the list so as to prevent discrimination in favor of debtors....

HMJr:

Yeah.

P:

....and also a general hardship clause at the end.

HMJr:

Yeah.

P:

I also suggested contributions be added to that proviso list.

HMJr:

Yes.

P:

You know we've had a lot of correspondence about that, and I think one - some of it from Mrs. Roosevelt.

HMJr:

Yeah.

P:

They did not - they adopted that suggestion, so far as those people present yesterday were concerned, but apparently the President overruled them, and Rosenman said that he was for it and Harry Hopkins argued very strongly for it, but the President wouldn't take it.

- 2 -

HMJr: Wouldn't take the War Bond business?

P: No, he wouldn't take the contributions.

HMJr: How about the War Bonds?

P: As far as I know, that's in.

HMJr: I see.

P: You see, why we put that in is simply to - if you're going to allow for debts, you can't - you've got to allow for another type of saving applicable to the man who isn't a debtor.

HMJr: Just hold the line. Hello?

P: Yeah.

HMJr: Will you hold on one minute?

P: All right.

HMJr: Hello?

P: Yes.

HMJr: Go ahead.

P: So that the result - the general result on this particular directive is that they've taken pretty much our language. But, of course, I've pointed out that our language was just an adaptation of their idea and we weren't - I was inclined to think - I certainly thought we should study it more.

HMJr: Yeah.

P: But if they had to get out something last night....

HMJr: Yes.

P:it was the best we could do.

HMJr: Well, I just want to compliment you, because I think you saved the day.

- 3 -

- P: Well, I don't think so. I'm not so sure. But here's one thing I want you to understand I did get out.
- HMJr: Yes.
- P: They had it fixed so that you took - you took not only the salary but you took a man's other net income.
- HMJr: I see.
- P: In other words, suppose a man had, say, a \$50,000 net income from other sources, not his salary.
- HMJr: Yes.
- P: He couldn't get anything. He couldn't be allowed any salary, because the other income combined with his salary would be too much.
- HMJr: I see.
- P: Now that would mean that every employee would have to tell his employer what his - what his outside income was.
- HMJr: Yes.
- P: It would mean also that at the beginning of the year nobody would be able to tell how to obey the order because he wouldn't know what other income the employee was going to get, even assuming the employee was willing to tell him.
- HMJr: Yes.
- P: And also, of course, there's this argument which I made to Rosenman, that this business of after the payment of taxes, we don't know what the taxes are going to be at the beginning of the year. But he thought, "Well, we can work that out in regulations." But I got that other income business completely out of it.
- HMJr: Good. Well, it's unfortunate - it's inexcusable to try to do these things on a split second.

- 4 -

P: Yeah. Now this thing about which Rosenman called me up last night was rather a refined point. I'm not sure if I'm right or not. But my....

HMJr: Wait a minute.

Operator: Long distance.

HMJr: Operator, I have nothing but trouble with this phone. It not only fades, but there's a constant - a short interruption.

Operator: I'll get Miss Carr for you.

HMJr: May I have....

Miss Carr: Yes.

HMJr: There's been nothing but trouble on this. Now it's faded out completely but as he - sounded as though somebody was putting a key in on me?

Miss Carr: Yes, just a moment now.

HMJr: Had nothing but trouble.

Miss Carr: Well, one - are you - you're not through talking on the line, Mr. Secretary?

HMJr: No, I'm not.

Operator: Are you through? Washington?

Miss Carr: Just a moment now.

2nd Operator: Hello.

Miss Carr: I was going to ask you, Mr. Morgenthau was talking with Mr. Gaston. Are we still connected?

- 5 -

2nd
Operator: Hello. Hello.

P: Hello.

2nd
Operator: Hello. Hello.

P: Hello.

2nd
Operator: Well, could you hear on here? Hello?

P: I can hear. I don't know whether Mr. Morgenthau
is on now.

2nd
Operator: Yes, just a minute. Yes, we're changing the
connection. He couldn't hear you. Just a minute.

P: All right.

2nd
Operator: Just a minute. We're changing the connection.
Mr. Paul?

P: Yeah.

2nd
Operator: Just a second.

HMJr: Hello.

Operator: There you are.

P: Hello.

HMJr: Randolph?

P: Yeah.

HMJr: Can you hear me now?

P: Yeah, I didn't have any trouble hearing you. I
can hear you very plainly now.

HMJr: There was a constant cutting in, as though some-
body was turning a key in on us.

- 6 -

P: Yeah, well, that's right. It wasn't very good.

HMJr: Now I can hear you.

P: Yeah. Well, now as I understand it, they're going to get this thing out this morning.

HMJr: Yeah.

P: Of course, it's - it's just a general statement. Some sort of detailed regulations have to be drawn up under it, and I suppose I ought to get in touch with Rosenman about that.

HMJr: Yeah.

P: Have you anything more?

HMJr: No, except Gaston said that he - he just listened and that the President told everybody in the room that they've got to take their orders from Mr. X except the Treasury.

P: Yeah, that's right. That's what he told me.

HMJr: Who?

P: Gaston.

HMJr: Oh, you talked to him.

P: I talked to him last night after he got back.

HMJr: Well, then you've got it.

P: Yeah.

HMJr: No, I have nothing. I told Gaston that if either of you want to call again, unless it's an emergency not to call until twelve-thirty.

P: All right. I don't think we'll bother you today. I've got several things, but I won't bother you until Monday. You coming back Monday?

HMJr: Yeah, bright and early.

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P: All right. I won't call you unless I have to.

HMJr: Right.

October 3, 1942
12:45 p.m.

Herbert
Gaston:

...."salaries, profits, rationing subsidies and all related matters all for the purpose of preventing avoidable increases in the cost of living" etc.

HMJr:

Yes.

G:

It does leave out the reference to fiscal and tax policy. Then - then the paragraph of the Order, No. 7, said that "In order to correct gross inequities and to provide for greater equality in contributing to the war effort, the Director is authorized to take the necessary action to issue the appropriate regulations so that in so far as practicable no salary shall be authorized under Title III, Section 4, to the extent that it exceeds \$25,000 after the payment of taxes allocable to the sum in excess of \$25,000." And then there's a proviso - that's the point that they discussed last night and they changed it to read - Randolph had it - the - exceeds \$25,000 after the payment of the taxes allocable thereto, and they - the President made it read, "after the payment of taxes allocable to the sum in excess of \$25,000" which can have the effect of reducing a man's net salary below \$25,000.

HMJr:

How the hell are you going to figure that?

G:

Well, there is a question, you know, of whether the - whether the tax is allocable to the sum in excess of \$25,000 or figured at the top bracket rates or whether they're separately figured, and I - I figure that we're going to have a lot of inquiries here that we're not going to be prepared to answer.

HMJr:

Well, you can refer them to the White House.

G:

Well, (laughs) I - I think so.

HMJr:

But do you think we're in the clear on that?

G:

Well, yes, otherwise the thing is just as we - just as Randolph drew it. Now there's a proviso that such regulations shall make due allowance

(cont.)

- 2 -

G: (cont.) for the payment of life insurance premiums on policies heretofore issued and required payments on fixed obligations heretofore incurred, and shall make provision to prevent undue hardship. Now....

HMJr: Does it leave out War Bonds?

G: They left out War Bonds.

HMJr: Damn!

G: They left out War Bonds, and - which - which Randolph suggested to them. But, of course, this - this particular exception will mean quite a lot of - of inequities, disparities as between the men who have debts to pay and the men who don't have debts to pay.

HMJr: Well, why didn't they include War Bonds?

G: I don't - we do not know. Randolph is right here, but as I understand it, he wasn't told that they were going to exclude War Bonds. No, he was not told. He shakes his head. Now then - then - then he thought it was going to be in. Now then, there's another - there's a third title to the order that relates to the administration of the wage and salary policy, and in the fourth paragraph of that title, it says that "in order to effectuate the purposes and provisions of this Order in the Act of October 2nd, any wage or salary payment made in contra... - contravention thereof shall be disregarded by the Executive Departments and other governmental agencies in determining the costs or expenses of any employer for the purpose of any law or regulation including the Emergency Price Control Act of 1942 or any maximum price regulation thereof or for the purpose of calculating deductions under the Revenue Laws of the United States or for the purpose of determining costs or expenses under any contract made by or on behalf of the government."

HMJr: I don't know what that all means.

- 3 -

G: Well, it means simply this - that we're directed by this Executive Order to take that - to follow that \$25,000 limit in - in tax deductions - corporation - corporation reports - corporation tax reports. They can't charge as expenses salaries in excess of the amount allowed there.

HMJr: Well, the \$25,000 thing doesn't bother me so much. I mean, you lose - for Paul and the Bureau....

G: Yes, yes.

HMJr:but we seem to be in - in the clear on the rest.

G: Yeah, yeah, we seem to be in the clear on the rest of it.

HMJr: Which is of more importance to me.

G: Yes. That - that one thing about the \$25,000 salaries seems to be the only thing where the directives will hit us....

HMJr: Well, I'm not going to worry about that. But - but Jimmy Byrnes can't tell me what to do, can he?

G: Well, - I think that only in regard to this salary regulation.

HMJr: Well, that the President told me. But outside of that?

G: Just a moment. Let me ask Randolph.

HMJr: Let me ask Paul that.

G: Yeah.

HMJr: Can Jimmy Byrnes tell me....

Randolph
Paul: I don't think he can. The only thing that he will do now is ask you to get up regulations, detailing some of this generality of this Order, and those regulations will cover the subject of the \$25,000 limitation and also this other thing that Herb read to you about wages under the War Labor Board. Now these really, as you just said, are directives from the President, and you will be asked by the - by Mr. Byrnes to get up
(cont.)

- 4 -

P: regulations to implement those two orders of the President.
(cont.)

HMJr: But outside of that, I'm still Secretary of the Treasury, only responsible to the President.

P: That's right, and this language at the beginning of the Order, which Herb read to you, pretty much follows what - what Sam showed to me and pretty much said - follows what the President said at his conference last night, according to Herb's report.

HMJr: Well, that's what really interests me, and....

P: Yeah.

HMJr:this other thing is a mess which is going to be difficult for you and the fellow over at Internal Revenue, but I want to know whether I can still - the only person that can give me orders is the President, is that right?

P: That's right.

HMJr: What?

P: I think that's true.

HMJr: Well, that's what interests me, and I've been fighting....

P: Yeah, you're - you've got your sovereignty still.

HMJr: What?

P: You still have your sovereignty.

HMJr: All right. That's all I wanted because....

P: Wait a minute. Hello?

HMJr: Yeah.

P: John wanted to know if you didn't think he'd better be here Monday rather than in New York.

HMJr: John?

- 5 -

P: Yeah.

HMJr: Where is he now?

P: He's here.

HMJr: Do I think he'd better be here?

P: Better be in Washington rather than in New York.

HMJr: Very definitely.

P: Very definitely?

HMJr: Yeah.

P: Okay. Anything else?

HMJr: John can - John can - he can explain this.

P: Explain it to whom?

HMJr: The world.

P: (Laughs) Okay, wait a minute. He wants to take the phone on that.

John L.
Sullivan: I'll betcha I can explain it as well as anybody else can at this particular moment.

HMJr: Well, that's saying a lot, John.

S: No, that's saying nothing, sir.

HMJr: (Laughs) Well, anyway....

S: I - I think I'd better be here, because there are going to be quite a lot of questions.

HMJr: Oh, I think so. We'll all have to grin and bear it.

S: Righto.

HMJr: What else?

S: That's all. Isn't that enough?

HMJr: What?

- 6 -

S: Isn't that enough?

HMJr: Enough for me.

S: (Laughs) All right, sir. Have a good week-end.

HMJr: Thank you. May I - hello?

S: Yes, sir.

HMJr: Could I just say something to Paul a minute?

S: Right.

Randolph
Paul: Hello.

HMJr: Did Gaston give you the - my suggestion for my alternate on that committee?

P: No, I haven't - he hasn't had a chance yet.

HMJr: Joe O'Connell.

P: Which committee is that?

HMJr: Well, to represent me. I'm not going to go sit on this committee with....

P: Oh, I see. Well, I'll think it over. I'll talk with you Monday on that.

HMJr: Yeah, but - my thought - I've been looking over the place - Joe did a beautiful job on T.N.E.C.

P: Yeah, he did. There's no question about his ability.

HMJr: Well, think it over.

P: All right.

HMJr: Talk it over.

P: Right.

HMJr: Well, cheerio.

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P: Right.

HMJr: May I have my operator, please?

P: Just a minute.

Operator: Hello.

P: The Secretary wants the operator.

Operator: Yes, sir. Hello.

19-A

October 3, 1942.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

Miss Roberta Barrows, at the White House, attempted to get me on the phone at 6:00 o'clock last night when I was on my way home. I called her back and she told me that there was to be a meeting with the President at the White House at 8:45, which I was asked to attend. She asked me if I knew what was to be the subject of the meeting. I told her I did not. She then told me the names of some of those who were to be present, including Jesse Jones, Francis Biddle, Leon Henderson, Harold Smith, Sam Bledsoe, of Agriculture, and Will Davis. A little later Randolph Paul got me on the phone and said that Sam Rosenman had called him over to the White House during the afternoon and that he was about to go back again. Sam had shown him a penciled draft of a so-called directive, presumably to be addressed to the director of the new Economic Stabilization Authority, instructing him that salaries were to be limited to \$25,000 a year, after taxes, and Randolph was told that this was to be enforced through the War Contracting Agencies and also through the Bureau of Internal Revenue, which was to disallow expenses for salaries above this amount. Rosenman had also told Randolph, casually and incidentally, that the Executive Order creating the Economic Stabilization Authority had been redrafted so as to leave out the paragraph specifically exempting the Secretary of the Treasury from obedience to directives by the head of the Authority, but that instead reference to Treasury powers had been eliminated from the paragraph outlining the functions of the new Authority. Sam explained that the reason for this was that there had been objection by the other departments and agencies to this specific exemption of the Treasury Department and that it stuck out like a sore thumb, but that the new language would accomplish the same effect. Randolph was permitted to glance at the paragraph outlining the Authority's functions and it

seemed to confirm what Rosenman had said. Not knowing definitely what was to be the subject of the evening's meeting and in view of these conversations between Rosenman and Paul, it seemed to me that it might be better for Randolph to represent the Treasury at the meeting. I put in a call for you over the Treasury switchboard and found that you were then talking to Stephens, who had called me a few minutes before to ask me for advice as to whether he should call you and tell you about the meeting and that I was planning to go. Randolph called me back after his second trip to the White House to report that Rosenman had accepted his redraft of their proposed directive. While I was talking with him the operator told me that you were on the line in response to my call and I asked Randolph to stay on. I outlined the situation to you and Randolph said he thought I should go, since I would be in a better position to ask for delay on both the matters he had discussed with Rosenman. You agreed with this and said you would rely on me to protect the Treasury's interests.

I reached the Treasury about 8:15 and reviewed the situation with Randolph before going to the White House. The President saw us in the study at about 9:00 p.m. Those present were: Senators Barkley and Prentiss Brown; Congressman McCormack, Jesse Jones, Francis Biddle, Leon Henderson, Harold Smith, Will Davis, of the War Labor Board, Sam Bledsoe, of Agriculture, Oscar Cox and Isadore Lubin. Sam Rosenman stuck his head in the door a couple of times, once to call Oscar Cox out for a conference, but was not present through the meeting. Harry Hopkins came in as the meeting was breaking up.

Almost the entire meeting was devoted to a discussion of the Stabilization Bill, which had gotten through conference and been passed late in the afternoon. The President had the official No. 1 copy of the engrossed bill before him and signed it near the end of the conference. I noticed that Leon Henderson, who sat at my right, also had a copy of the engrossed bill. Francis Biddle had only the latest Senate print,

There was reference to the so-called Norris Amendment to the bill, which would have given the President complete power over public utility rates. The substitute provision permits "timely intervention" by agencies of the Federal Government in any application for change of rates by any regulating authority and there is a 30-day waiting period before the hearing. Barkley said that Norris accepted this substitute provision and he believed it would accomplish the necessary results, with which the President seemed to agree, as he pointed out that it would give an opportunity for delay and for complete publicity.

The President questioned the various people around the room as to their opinion of the effectiveness of the bill. Everybody agreed that it gave very broad powers to the President, but doubt was expressed that it would completely prevent increases in the cost of living. Oscar Cox thought it might hold increases within a range of 10%, to which Sam Bledsoe agreed, and the President called them pessimistic. When the President said that the director of the Authority would have complete control over policy, Barkley interjected that he had discussed with Leon Henderson the policies to be applied and had given assurances to the Senate based on Leon's statements. He thought it was necessary to interpret the bill in the light of Congressional intent and that this statement of his ought to be taken into consideration.

The President said he would issue a statement on the signing of the bill, and Barkley said he hoped he would be able to include some praise of the manner in which Congress had acted. The President agreed he would do this and in that connection mimicked the almost tearful plea made to him by Sam Rayburn when the President's message asking for the bill was about to go up. Rayburn had asked the same thing as Barkley was now asking.

After the meeting broke up, I spoke to the President and said that I hoped his statement would not give the impression that this bill was the complete answer to controlling the cost of living. I said we

19E

- 5 -

thought that there must be a further tax increase and some fiscal legislation to control spending. The President replied that he intended to say in his statement that the authority granted under this bill must be supplemented by other legislation in the tax and fiscal field.

OCT - 3 1942

MR. SECRETARY:

There is transmitted herewith, with the recommendation that it be approved, a proposed Treasury decision which will regulate the inspection by the Office of Price Administration of certain financial data reported on corporation income and declared value excess-profits tax returns. To this end it is proposed to permit the inspection of such data contained on certain corporation statistical transcript cards. With this proposed Treasury decision there is a proposed Executive Order which authorizes such inspection.

Under Executive Order 9076, dated February 26, 1942, inspection of similar corporate financial data was permitted with respect to income and declared value excess-profits tax returns made for taxable years beginning after June 30, 1935, and ending before July 1, 1941. Treasury Decision 5120, approved February 26, 1942, permitted such inspection. In his letter to you

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of September 28, 1942, Honorable Leon Henderson, Administrator of the Office of Price Administration, requested permission to inspect returns for years ending after June 30, 1941, apparently without limitation. It is believed, however, that it is inappropriate to provide now for blanket authorization for inspection of data on all future returns. Accordingly, the proposed Executive Order and Treasury decision herewith submitted provide that such inspection may be made of transcript cards containing data on corporate income and declared value excess-profits tax returns for years ending after June 30, 1941 and before July 1, 1942.

The information obtained by the Office of Price Administration must, of course, be limited to official use and is subject to all existing statutory provisions permitting unlawful disclosure.

(Signed) Guy T. Helvering

Commissioner.

OCT 9 1942

Through the Bureau of the Budget
Through the Attorney General.
Through the Division of Federal
Register.

My dear Mr. President,

I am submitting herewith for your consideration, with the recommendation that they be approved, a proposed Executive Order authorizing the inspection by the Office of Price Administration of certain corporate financial data on income and declared value excess-profits tax returns made for taxable years ending after June 30, 1941 and before July 1, 1942, and also a proposed Treasury decision regulating such inspection. Under Executive Order 9076, dated February 26, 1942, the Office of Price Administration was permitted to inspect similar data on income and declared value excess-profits tax returns for taxable years beginning after June 30, 1935, and ending before July 1, 1941. The Office of Price Administration now desires to obtain

-2-

such data with respect to corporation returns filed for taxable years ending after June 30, 1941. Authority for such additional inspection must therefore come from a specific Executive Order.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,
The White House.

Sent to JC in Thompson's office
10/10 for mailing to Mr. Shey
in Budget Bureau.

Copy in Diary.

NARRATIVE ORDER

**INSPECTION BY THE OFFICE OF PRICE
ADMINISTRATION OF CORPORATION
STATISTICAL TRANSCRIPT CARDS PRE-
PARED FROM INCOME AND DECLARED
VALUE EXCESS-PROFITS TAX RETURNS**

By virtue of the authority vested in me by sections 55 (a) and 603 of the Internal Revenue Code (53 Stat. 29, 111), it is hereby ordered that corporation statistical transcript cards prepared by the Bureau of Internal Revenue from corporation income and declared value excess-profits tax returns made under the Internal Revenue Code, as amended, for any taxable year ending after June 30, 1941 and before July 1, 1943, shall be open to inspection by the Office of Price Administration; such inspection to be in accordance and upon compliance with the rules and regulations prescribed by the Secretary of the Treasury in the Treasury decision relating to the inspection of such cards by the Office of Price Administration, approved by me this date.

This order shall be published in the Federal Register.

THE WHITE HOUSE,

October , 1942.

(T. D.)

TITLE 26 - INTERNAL REVENUE

CHAPTER I

PART 458 - SUBPART E

Regulations concerning the inspection
of corporation statistical transcript
cards by the Office of Price Adminis-
tration.

**TREASURY DEPARTMENT,
Washington, D. C.**

**TO COLLECTORS OF INTERNAL REVENUE
AND OTHERS CONCERNED:**

Pursuant to the provisions of sections 55 (a) and 603 of the Internal Revenue Code, corporation statistical transcript cards prepared by the Bureau of Internal Revenue from corporation income and declared value excess-profits tax returns made under the Internal Revenue Code, as amended, for any taxable year ending after June 30, 1941, and before July 1, 1942, may be open to inspection by the Office of Price Administration. The inspection of such transcript cards herein authorized may be made

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by any officer or employee of the Office of Price Administration duly authorized by the Administrator to make such inspection. Upon written notice by such Administrator to the Secretary of the Treasury giving the classes of corporations whose transcript cards it is desired to inspect, the Secretary and any officer or employee of the Treasury Department, with the approval of the Secretary, may furnish such Office of Price Administration with any data on such cards or may make the cards, or any of them, available in the office of the Commissioner of Internal Revenue for inspection and copying by the Office of Price Administration or by such examiners or agents as the Administrator thereof may designate. The information so obtained may be published or disclosed in statistical form providing such publication does not disclose, directly or indirectly, the name or address of any corporate taxpayer. (E.O. , Oct. , 1942, and succ.

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55 (a) and 603, 53 Stat. 29, 111; 26 U.S.C.
1940 ed., 55 (a), 603.)

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

APPROVED: October , 1942.

THE WHITE HOUSE.

LAD 10-3-42

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

October 3, 1942

PERSONAL and CONFIDENTIAL

Dear Mr. Secretary,

Just a note to keep you in touch with general developments. After going over the whole situation and talking with various persons, I am leaving for Van Hornesville for a maximum of thirty days leave.

I have decided not to go into the Army at the present time as I honestly feel I can contribute more in a civilian capacity until such time as the situation changes.

For your own personal and confidential information, I attach herewith a copy of the letter I received from Ed Stettinius and a copy of my reply.

The last few days at Lend-Lease have definitely demonstrated the fact that by staying here during the internal renovation period of that organization I am only harming the operation rather than helping it. In the first place, I am no longer in a position to know what is going on until after it has happened, and, secondly, the new operating management is highly embarrassed just by my physical presence.

I think you know me well enough to realize that I would not take this step unless I sincerely thought it was the right thing to do.

I have to admit that I am looking forward to a little time off for I will do a better job when I come back, and

- 2 -

at that time I am looking forward to getting in touch with you in order that you may receive a full and complete report on the status of the weather, the apples and the raspberries of the central New York area.

Faithfully yours,



Philip Young

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

C
O
P
Y

September 23, 1942

PERSONAL & CONFIDENTIAL

Dear Phil,

As agreed in our conversation this morning, I am writing this letter, as I feel it might clarify the whole situation in your mind and in mine. At the outset I want you to know that you have my complete confidence and respect. I regard you as one of the able, competent men I have been associated with in business and your integrity and character are of the highest. May I also add that I have always been rather proud of our association, in view of the close and affectionate relationship between your father and my father, not only during the last war, but immediately thereafter in the reconstruction period.

I don't believe there is anything to be gained by my dwelling at length on the circumstances surrounding Oscar Cox's returning to Lend-Lease on a full time basis. I believe you thoroughly understand the situation and the importance to the Lend-Lease Administration and its future in having him do so. Both from the standpoint of effective operations within the organization as well as in deference to your personal desires, I felt that, with Oscar's prospective appointment as Senior Deputy, it was inevitable that your field of activity should be changed. Therefore, I confirm your appointment as Deputy Administrator of the Lend-Lease Administration. You will report direct to me and will be on the same level of dignity, prestige and responsibility with Major General Wesson, John L. Pratt and T. B. McCabe.

You inquired this morning as to what your specific duties might be in such a post. To that I can only reply that, as hard pressed as we all are in the War effort, I can assure you that you will have many important and varied functions to perform and, while it is impossible at the moment to make any commitment as to a definite field or territory, I will repeat among the items I mentioned to you this morning such relation-

- 2 -

ships as -- Treasury Department contacts on the broad financial aspects of our activity; Reciprocal Lend-Lease in its varied ramifications; Board of Economic Warfare liaison activity; special direction of appropriation studies; special direction of the Caribbean food problem as a whole. These are only a few of such assignments that I have in mind and with respect to which you are so eminently qualified to do an outstanding job.

Philip, I can only assure you, in closing, that I would personally deeply regret your leaving the Lend-Lease Administration with the resultant loss in the future of your extraordinary experience and ability. I can think of nowhere else in the War effort where you are in a position to make as important a contribution as you are in Lend-Lease at this time. If you transferred to another activity -- Army, Navy, or another civilian agency, it would take you months before you could be half as effective as you are and will be here.

Of course, a decision as to military service is one which a man must make primarily himself after weighing all the personal factors involved, but there is no doubt in my mind that, viewed solely from the angle of degree of contribution to the War effort, you could make your greatest contribution in Lend-Lease. I have written you frankly in order that you might have clearly before you my thoughts on the subject.

May I repeat, that you have my complete confidence and respect and add that I have an affectionate interest in your progress and success.

Faithfully yours,

/s/ Ed

E. R. Stettinius, Jr.

Mr. Philip Young
515 - 22nd Street, N.W.
Washington, D. C.

October 2, 1942

PERSONAL AND CONFIDENTIAL

Dear Ed,

I want to take this opportunity to thank you for your most cordial and sincere letter of September 23rd, and may I reciprocate those expressions of confidence and respect which you so ably stated.

On my side, I also have been proud of our association, and I am glad that we have been able to carry on the tradition of our fathers. It is my hope that this may be continued and augmented during the arduous months to come. In any event, this relationship will always carry on between us, regardless of the exigencies of war and of politics.

It gives me great pleasure to accept the appointment as Deputy Administrator of the Lend-Lease Administration. It is my understanding that I shall report directly to you and carry on those special functions and responsibilities which you may assign. The field is broad and there is much to be done. It is my sincere hope that you and your staff will have the unhampered opportunity to make their maximum contribution to the war effort.

During my eight years in Government service I have acquired an intimate knowledge of Washington and specifically of the Lend-Lease business. My point of view, as I have already outlined in our conversations, is merely that this knowledge and experience, plus whatever abilities I may have, must be used wherever it can contribute most effectively to winning the war. As you stated in your letter that a decision as to military service is one which a man must make primarily for himself, so in this situation I believe that in the last analysis, I must make the decision as to where my contribution could be most effective.

You predict that Lend-Lease offers a greater opportunity for the use of my knowledge and experience than any other

- 2 -

activity in the war effort. I hope that prediction will turn out to be true.

During the installation of the new operating management, there will probably not be a very clear definition of functions and responsibilities. It would seem that this offers an opportune time for me to take some of my accumulated leave. With your permission I should like to depart immediately, returning to assume my new post and duties about the first of November. Of course, I shall be delighted to return sooner if you wish it.

Again let me say how much I appreciate your letter and the sincerity of your feelings.

Faithfully yours,

/s/ Phil

Philip Young

Honorable E. R. Stettinius, Jr.,
Lend-Lease Administrator,
515 - 22nd Street, N.W.,
Washington, D. C.

COPY NO. 13BRITISH MOST SECRET
U.S. SECRET.OPTEL NO. 342.

Information received up to 7 a.m. 3rd Oct, 1942.

1. NAVAL.

TIRPITZ was sighted in her berth near Narvik on the 1st. Night 1/2nd three motor torpedo boats fired torpedoes into Rhodes Harbour. Five explosions were seen.

2. MILITARY

Egypt. The brigade which attacked on the 30th was able to consolidate and re-organize.

Madagascar. After capturing an enemy position at Sambaina the column moving south from Tananarive had by the 1st reached a point 18 miles North of Antsirabel. Progress has been slow on account of numerous obstructions.

Russia. Both the Russians and Germans are delivering local attacks on the Leningrad Front. The Germans have improved their positions slightly at Stalingrad and in their advance on Tuapse.

New Guinea. 30th. Light forward patrols reached Mauro without gaining contact with the main enemy force. More enemy equipment was captured.

Gilbert Islands. It is reported that the Japanese landed on Beru and Nonouti Islands on the 26th and that contact with Tamana Island was unobtainable on 27th. It therefore appears that all the Gilbert Islands are now in Japanese occupation.

3. AIR OPERATIONS.

Western Front. 1st/2nd. Wismar and Area. 73 tons of H.E., 79 tons incendiaries. Considerable cloud, poor visibility and heavy ground mist. Flensburg. 28 tons H.E. 2 tons incendiaries. Practically cloudless with good visibility over the objective but very dark. Most aircraft attacked from below 1,500 feet. Crews could distinguish ground features and fires were seen in the target area. All defences had been greatly increased since the last attack. Lubeck and area. 41 tons H.E., 3 tons incendiaries. Considerable cloud, identification difficult, a few fires started.

2nd. A total of 62 U.S. Fortresses and 12 Bostons escorted by 34 Squadrons of fighters, including 8 U.S. attacked the Potez Airframe Factory near Albert, the docks at Havre and an Aerodrome near St. Emer. Six enemy aircraft were destroyed and 27 probably destroyed. We lost 6 fighters 1 pilot safe. Five Mosquitos bombed an Armament Works near Liege.

2nd/3rd. 188 aircraft were sent to Krefeld and three sea-mining. 7 are missing. Weather over Krefeld was cloudless but there was considerable ground haze.

Russia. 1st. German aircraft bombed railways in the Moscow and/in the Lower and Middle Volga Areas.

Libya and Egypt. Tobruk harbour was bombed on 30th/1st. One ship was hit and another possibly hit.

1st. Our fighters intercepted a heavily escorted dive bomber formation destroying 6 JU 87's and probably destroying 5 without loss to themselves.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 343

Information received up to 7 A.M., 4th October, 1942.

1. NAVAL

2nd/3rd. A motor gunboat was lost during an action between our light forces and enemy trawlers off the Dutch coast.

Attacks on shipping. During the 3 days 30th September to 2nd October 7 ships were reported to have been attacked by submarines between the 23rd and 29th September. One British ship was sunk in convoy in North Western approaches and one was torpedoed in Canadian waters but reached NEWFOUNDLAND. A U.S. ship was sunk in the TRINIDAD area. 3 British ships were torpedoed in the FREETOWN Area and a Panamanian ship was shelled and set on fire in the INDIAN OCEAN. A Panamanian ship was sunk by aircraft West of CAPE FINISTERRE and a Swedish ship was torpedoed by aircraft in the RED SEA but able to proceed. One U.S. tanker was reported overdue and an overdue British ship is now reported torpedoed between CAPETOWN and FREETOWN on 19th September.

2. MILITARY

EGYPT. In the Southern sector our patrols were active and found the enemy in occupation of some localities slightly north of and on the Southern edge of the EL MUNASSIB Depression.

MADAGASCAR. Our troops moving south from TANANARIVE reached ANTSIRABE on the evening of the 2nd.

NEW GUINEA. 1st. Light patrols pushing forward from NAURO. Contact with main enemy force not yet regained.

3. AIR OPERATIONS

WESTERN FRONT. 2nd/3rd. KREFELD - About 130 tons of H.E. including 4,000 lb. bombs and 180 tons of incendiaries were dropped in about 40 minutes. No cloud but darkness and ground haze made identification difficult. Most of the fires that could be seen were scattered over the target area, but many were reported in the town. 3rd. Sunderlands attacked an outward bound enemy blockade runner off CAPE FINISTERRE. Bombs were seen to straddle or hit the bow of the ship which was last reported returning eastwards.

LIBYA and EGYPT. 1st. Bostons bombed landing grounds southeast of MATRUH, starting fires. 2nd. During offensive patrols 5 enemy aircraft were shot down and a sixth probably destroyed. Enemy activity was on an increased scale.

Regraded Unclassified

- 2 -

One dive bombing attack and 8 attacks by fighter bombers were made. An enemy reconnaissance aircraft was destroyed by fighters off ALEXANDRIA.

MEDITERRANEAN. 1st/2nd. U.S. Liberators reported 2 hits on a ship in NAVARINO HARBOUR. R.A.F. Liberators and Wellingtons attacked an escorted southbound convoy between CRETE and TOBRUK. A torpedo hit is claimed on a 6,000 ton tanker and an enemy aircraft was shot down, 2 more being probably destroyed.

MALTA. During September R.A.F. MALTA destroyed 14 enemy aircraft, probably destroyed 8 and damaged 14 for the loss of 4 pilots.

BURMA. 2nd. 12 Blenheims bombed MEIKTILA Barracks and SCHWEDO cantonment.

October 5, 1942
10:10 a.m.

GROUP

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

H.M.JR: Ted, or Harold, I wish you would tell Vince Callahan that I listened to that Mutual program Saturday night and liked it very much. It is a new program. I would like a little note from Vince on who gets the credit for that program. I mean, I thought it was very novel, very good. If Vince would write me direct - not go through what they call a channel and I get it in about a week.

MR. KUHN: Do you want to write to Al Smith on that one, Mr. Secretary?

H.M.JR: Now look, don't do that, Ferdie. I mean, I wrote you a memorandum - now, there is somebody, as long as you brought it up - I wasn't going to say anything - somebody like Senator Wagner does a job for me and nobody writes a letter. Now, there are letters that should be written instead of all these other things. I mean, a man like Wagner takes the time, and so forth, and so on, and I thought that was all arranged. I am sick and tired

- 2 -

of writing to all these other people, and then when somebody on the Hill goes to bat for me - doesn't the stuff go to you, Ferdie?

MR. KUHN: This didn't.

MR. PAUL: He didn't go to bat for you, did he?

H.M.JR: Sure he did, I read the whole thing.

MR. PAUL: He didn't the day he said he would.

H.M.JR: Well, he took a lot of time and trouble and everything else. What is the arrangement when somebody on the Hill - somebody on the Hill takes the time to defend the Treasury, and he does a good job? I mean, does it come out of your shop or Kuhn's shop?

MR. PAUL: So far as the Congressional Record is concerned, it comes out of my shop, and everything in the Congressional Record is called to your attention.

H.M.JR: Yes, but what I would like from now on--

MR. PAUL: I haven't seen anything in the Record yet.

H.M.JR: Well, I read the Record. The point is that things are happening on the Hill which are a great deal more important than writing to all these chorus girls. I wrote to about thirty of them, and I am sick and tired of it.

MR. PAUL: I agree with you about that.

H.M.JR: My desk is just full of these things every day; I am just fed up on it.

MR. KUHN: We talked about this on Saturday - about Wagner.

H.M.JR: No, but look, Ferdie, will you get the Record from the Hill - do you get a copy of what goes on?

- 3 -

MR. KUHN: I get this - I also get a digest of any attack that is made on the Treasury - any criticism.

H.M.JR: But how about when somebody takes some trouble for us?

MR. PAUL: The same thing.

H.M.JR: Do you get that?

MR. KUHN: I haven't been, but I can.

H.M.JR: Will you take the responsibility - assistant to me - that if somebody for the Treasury, or in regard to me personally, does something on the Hill, goes out of his way - there won't be many, because instances are long and far between, and when they do, they are so rare, that I would like to - and if anybody thinks that somebody on the Hill does something for the Treasury, will you let Kuhn know?

MR. KUHN: I think it is a good idea.

H.M.JR: Will you take that? Did you get a telegram from me?

MR. KUHN: I did. (Sign exhibited, "For Immediate Attention, From the Secretary.") It is a new poster we have gotten out.

H.M.JR: What is that? That is new. Who did that?

MR. THOMPSON: Something came in one day and didn't reach a person in time, so I fixed this up.

H.M.JR: I didn't mean to get off on the war path, but as long as I am, I might as well get it all off my chest.

Harold, maybe a month ago I asked - there was something - it was a very good saying - advertising. Did anything ever happen to that?

- 4 -

MR. GRAVES: Yes, that is in work. That is that bond thing. Would you like me to get a report on that?

H.M.JR: I would. The other thing was some advertisement in the paper - some soldier - which I liked very much - some commercial advertisement. It was in "Life" or something.

MR. KUHN: Yes, it was in an aviation magazine.

H.M.JR: I just crossed the top off and suggested we put that out. Did anything ever happen on that?

MR. KUHN: I believe so.

H.M.JR: For everybody, particularly, if and when I ask something and there isn't a stenographer around, could I have some kind of report on whether the thing dies, or something or other? I think it is about a month--

MR. GRAVES: That is right, it is a month.

H.M.JR: I ought to be informed, Harold. I mean, I don't ask - make suggestions very often. Ferdie got me off torpedoing, with Al Smith, who was very good--

MR. KUHN: That is why I asked.

H.M.JR: And should get a letter-- (Laughter)

MR. PAUL: When did Senator Wagner do this, Saturday?

H.M.JR: I read this whole Record. Maybe I am wrong, but--

MR. PAUL: What I read - I went up to see him to get him to do it, and I read - he didn't do it, but said he would do it in the course of the tax bill. I was rather disappointed that he didn't keep his word. If he did it Saturday, the Record isn't out.

- 5 -

H.M.JR: I may be wrong. I have been wrong before, and I hope I will be wrong again.

MR. PAUL: I hope you are not wrong on this, because I hope he did it.

H.M.JR: I may be wrong. Anyway, it is the idea. I may be wrong on this one. When somebody on the Hill does something for the Treasury that is favorable, which won't happen more than once in six months, let's write him something.

MR. PAUL: Six months is very optimistic. (Laughter)

H.M.JR: And one other thing, the last thing I have on my chest, the "New York Times" today had a perfectly swell editorial on inflation - I don't know whether anybody here has read it, but you wouldn't think the Treasury existed. They go on about the gap, and so forth, and "something has to be done about the gap." There is nothing snooty in it. I mean, they just forget we ever existed and don't mention us. What I was thinking of doing was calling Sulzberger, which I do very rarely, and say, "This is a fine editorial. If you really mean it and want to do something about it, can't we get Randolph Paul together with you and the man who wrote the editorial? I would like to tell you what we think can be done and what we have said could be done." You see? I mean, in a perfectly friendly manner, because the editorial of a day or two ago was, "We need more taxes on this thing; it has to be a sales tax." Today they don't say anything about the sales tax.

Incidentally, I prophesied that just as soon as this price bill passed they would go after this inflation gap - all the press. You remember when I said that and said I was glad to make the record. When the "Times" says something they cannot say the Treasury hasn't suggested anything because we have made the record. But I knew that that would be the next thing that the press took up.

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Are you free any day this week?

MR. PAUL: Tomorrow I will be out on the Senate floor. I suppose I have to be up there most of the time. I am making a speech in New York Wednesday.

H.M.JR: In New York? What time?

MR. PAUL: In the evening, and I have a dentist appointment in the morning. So I could see Sulzberger fine that day if I can get away.

H.M.JR: Supposing they asked you to their editorial luncheon?

MR. PAUL: Swell.

H.M.JR: Wednesday, subject to your--

MR. PAUL: Subject to my being obliged to stay here. I called up La Follette this morning and tried to see when he was going to put his works on.

H.M.JR: All right. I mean, I am going on the assumption that we are sincere, et cetera, et cetera.

Is that editorial written by Bell?

MR. KUHN: The good ones are written by Bell, and the bad ones by Hazlitt.

H.M.JR: This was a good one.

Norman?

MR. THOMPSON: I have nothing this morning.

H.M.JR: Daniel Bell?

MR. BELL: I went over the redemption procedure in the Federal Reserve Bank in New York on Saturday. They have a nice set-up. I went over some of the

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records, and I found that a great many savings bonds are being redeemed after the first sixty days from the Treasury and the Navy Yards and the Federal Shipbuilding Corporation.

H.M. JR: Being redeemed?

MR. BELL: Yes. I thought I might write each of the banks and have them give us a record of about twelve of the largest corporations for the month of, say, October. Possibly we could write letters to each of those people - those corporations - in November, to see what they can do about delaying redemptions.

Do you think that might be a good thing, Harold?

MR. GRAVES: Were these September redemptions you have been looking at?

MR. BELL: These were the last few days of September and the first two days of October.

MR. GRAVES: Is that tax thing likely to be important?

MR. BELL: I don't think so. It was after--

MR. GRAVES: I think it would be a good thing.

MR. BELL: There are a number of twenty-five-dollar pieces coming in right after the sixty days.

MR. GRAVES: Mr. Tickton is right now making a statistical study of the redemptions.

H.M. JR: What else?

MR. BELL: There are quite a few kicks on the matter of statistics. They claim that - the banks claim that the issuing agents objected strenuously to our requests at the end of September to rushing the bonds. They also did not like the fact that they got

- 8 -

those requests from the theater people rather than from the Treasury. In the Atlanta District some of them went so far as to say that if this was going to be kept up they were going to ask to be relieved of being issuing agents. Corporations doing the work are snowed under.

H.M.JR: Who is going to ask to be relieved?

MR. BELL: The issuing agents - that is, the corporations that now have the pay-roll plan and are issuing the bonds at the same time. They said it was just too much work at the end of the month.

H.M.JR: Harold has no worries. He can add that one.

MR. BELL: You sent a memorandum to Paul, Gaston, Kuhn, and myself on the Gerhardt Colm article. We are ready to talk to you about it now.

H.M.JR: Let's clear it right now. Shall we do anything with the Director of the Budget or OWI?

MR. BELL: No. We feel that there is nothing in the article to which you can object. The only thing wrong was the title, and he had nothing to do with that.

MR. GASTON: And the introduction written by Fortune.

MR. PAUL: I sent you a copy of the title he submitted. I talked to him about it.

H.M.JR: What was his title?

MR. PAUL: I have forgotten. I wrote it on my copy.

MR. BELL: I will send it in for your file.

MR. PAUL: It was a perfectly innocuous title.

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H.M.JR: You fellows' recommendation that it be dropped is accepted.

Harold, what did you do about your quota for this month?

MR. GRAVES: We have not announced the quota. We had intended to do it at the time we issued the press release about September sales; but following your instructions we struck that out. Our own people were notified ten days or more ago that the quota for October would be the same as the quota for September.

H.M.JR: What are you going to do publicly?

MR. GRAVES: I don't think it is very important what we do publicly since our own people know. We can either announce it or skip it.

MR. SCHWARZ: Should the Secretary mention it this afternoon at the press conference? He was asked about it the other day.

H.M.JR: If I am not asked - if I am asked, it is seven hundred and seventy-five?

MR. GRAVES: Seven hundred and seventy-five.

H.M.JR: O.K. What else?

MR. GRAVES: Incidentally, you will be interested to know that our percentage of sales in relation to quota is about ninety-three from May through September.

H.M.JR: You mean taking them altogether?

MR. GRAVES: Taking them altogether, we have averaged ninety-two point eight percent.

H.M.JR: Yes, sir.

What else?

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MR. GRAVES: Nothing.

H.M.JR: Mr. White?

MR. WHITE: Nothing

H.M.JR: Wonderful. (Laughter)

Schwarz?

MR. SCHWARZ: Nothing

MR. HAAS: I have nothing.

H.M.JR: Have you got there a chart for me?

MR. HAAS: Yes, sir.

H.M.JR: Where is it?

MR. HAAS: I will get it. I was waiting for a finance meeting.

H.M.JR: Blough?

MR. BLOUGH: Nothing.

H.M.JR: Kuhn?

MR. KUHN: I have a couple of suggestions about the press conference today. Senator George or somebody on the Hill has given the impression to the whole press that this is an eight billion dollar tax bill. Now, Roy and Randolph and I think that, without necessarily accusing anyone, you might point out to your press conference that this is not an eight billion dollar tax bill, and give them a factual analysis of what we estimate that the tax bill will produce.

H.M.JR: Well now, do you think I should go back and get him again? We pretty nearly called him a liar because he said we didn't figure it right.

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MR. SCHWARZ: He said the difference is on the income that we use as a base.

H.M.JR: Mr. Sullivan thinks we shouldn't. What does Mr. Paul think?

MR. SULLIVAN: This isn't any of my business. That was just my reaction.

H.M.JR: This is a nine-thirty group.

MR. SULLIVAN: I think Senator George is one of the best friends we have up there. There are many things we have not agreed with him on, but I think he is as reliable as anybody up there, including Prentiss Brown, and I don't think it does us any good to kick him in the - papers. (Laughter)

H.M.JR: Will you draw me a diagram after this?

MR. SULLIVAN: A miss is as good as a mile, isn't it? (Laughter)

H.M.JR: Well, Ferdie, there is one nine-thirty opinion which is worth considering.

MR. KUHN: The reason I made the suggestion was that the emphasis in the papers was all on the colossal side of the tax bill, whereas the emphasis we want is on the inadequacy of it.

H.M.JR: Why not let the hundred million dollar OWI get out a dollar's worth on that? (Laughter) My own hunch, Ferdie, is that I am hoping that I may get the President to say something when it goes to conference. But, I think I have said enough, now. That is the way I feel.

MR. KUHN: The second subject that you will probably be asked about is the Byrnes appointment, and so forth, and it seems to me that only one sentence is needed - would be much better than no comment - one sentence: "I know

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Jimmy Byrnes has been a good friend of ours for a long time."

H.M.JR: Strictly judicial - always gives the Treasury the breaks.

MR. KUHN: "We are going to cooperate."

MR. GASTON: On that twenty-five thousand dollar thing--

H.M.JR: Oh, listen--

MR. GASTON: He has to issue regulations - the director has to issue regulations, so it would hardly be proper for us to try to discuss that until the director has issued his regulations.

H.M.JR: Is that the answer?

MR. SULLIVAN: Oh, yes, I think it is. Incidentally, Commissioner Helvering and Mr. Cann are in my office now, and Randolph has sent for Phil Wenchel and some other people. We are going to start right in.

H.M.JR: Do you want to say the director is going to issue the regulations to us on how to do this?

MR. SULLIVAN: No, I think he will probably ask you to work with them in getting out the regulations, but I think he is the head of the show under the order.

MR. GASTON: It affects half a dozen departments - his general regulations.

H.M.JR: Well, look, you two guys (Paul and Sullivan) get together on this between now and four o'clock, because the chances are that both of you will be at my press conference and have to answer the questions.

MR. SULLIVAN: I am perfectly willing to be here if you want us, but I think this is a pretty good time to keep quiet until you are asked by the director to do something about--

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MR. PAUL: What is contemplated is Byrnes will ask us to draw some regulations under our part of the order, which will be our part.

H.M.JR: I don't like that approach.

MR. SULLIVAN: I think that is the approach.

H.M.JR: Think it over. I don't like it.

MR. SULLIVAN: I don't know that we like it, but that is what it is.

H.M.JR: I had a great time kidding the President last night about Mr. Hassett's explanation about how the President was going to handle his income tax. He was very much amused. He says, "Does it make sense?" I says, "No." I says, "Between now and four o'clock we are going to try to master it. If we can't we will refer it right back to Steve Early." He laughed. That is what I told him last night.

Hassett went into great explanation, with Steve Early's assistance, as to how it would affect the President's income, his seventy-five thousand dollars.

MR. SULLIVAN: He wasn't far from right - Hassett.

H.M.JR: Wasn't he?

MR. SULLIVAN: No, the comment I read in the paper was to the effect that the seventy-five thousand dollar salary would have to be adjusted downward because he wouldn't be allowed to retain more than twenty-five thousand after he paid taxes, and that anybody over fifty thousand would be in the same--

MR. GASTON: No, the United States is not a war contractor nor is it an employer who pays taxes, and I don't see how any question would come up as to the pay rolls of the United States at all.

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MR. PAUL: Sammy Rosenman said that explicitly to me.

MR. SULLIVAN: It doesn't say that in the order.

MR. BLOUGH: There would be nothing, as far as I can see, to affect the President's salary except his own feeling that as a matter of leadership for the Nation, he will have to do something about it.

MR. SULLIVAN: You don't have the same curb over the employer as you have over a corporation in refusing to allow his deduction.

MR. PAUL: I don't think it has anything to do with Government employees.

H.M.JR: You call all your experts in and get together, boys.

MR. SULLIVAN: Right.

H.M.JR: How is that? But I - certainly, if the President of the United States, within twenty-four hours or eighteen hours, can get out this complicated regulation, I think it makes the Treasury look pretty silly if, after forty-eight hours, we don't know what the answer is. "We are waiting until Mr. Byrnes asks me."

MR. SULLIVAN: That is what we are not doing; that is why we are having this meeting called for ten o'clock this morning.

H.M.JR: I will let you out in a minute. See how it goes; perhaps you will have an answer after lunch.

MR. PAUL: Of course, our job is a lot more difficult than what they did.

H.M.JR: The public does not appreciate that, Mr. Paul. How far did we get?

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MR. KUHN: I have nothing more.

H.M.JR: Kuhn, you raised this hornet's nest. It is all right.

Mr. Gamble?

MR. GAMBLE: I have nothing.

H.M.JR: You will get a kick out of this. At Cabinet I said something about, "We have done well on our" - the President first said he was pleased on the income tax returns, and I said, "Yes." I said, "We could be pleased for twenty-four hours because we sold more bonds than we had figured on, and a great many more tax notes."

Frank Walker spoke up and he said, "Yes, that was the moving picture people." I said, "No, Frank, it wasn't the moving picture people; it was the theater owners." I wish you could have seen him expand when I said that it was the theater owners. He just loved that.

He said, "That is right, that is right." And it was the theater owners. He is a nice guy.

Mr. Buffington?

MR. BUFFINGTON: I have nothing.

H.M.JR: Listen, young fellow, we sent a man up to New York to make a study about publicity for you and then we were going to do something about this advertising council. Now there is another - I never got a report - nobody tells me "nothing" - I am the forgotten man in the Treasury. (Laughter)

MR. BUFFINGTON: The Doremus man who is doing the publicity on the C notes has been down; we have had a meeting with him.

H.M.JR: I didn't know you hired Doremus. The last I heard was the advertising council--

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MR. BUFFINGTON: He was the man designated by the advertising council.

H.M.JR: I didn't know it.

MR. BUFFINGTON: The more important thing is that we still have not anyone assigned to us, specifically, to do the job for publicity on the A notes, which is much more important than the publicity on the C notes.

H.M.JR: I don't like the sound of dynamite.

MR. KUHN: We had a long meeting on the F and G notes with the Albert Frank firm, which was assigned by the advertising council to do that job; the Doremus thing - we had a meeting with them on the C notes.

Now, early this week we are going to have a meeting with somebody else from the advertising council who they will designate to do the A notes.

H.M.JR: Supposing you write me a little memo bringing me up to date, will you?

MR. KUHN: Yes, sir.

H.M.JR: Are you in on this?

MR. KUHN: Yes, sir.

H.M.JR: Do you think these Victory Fund Committees - are we going to call them to do anything Thursday or Friday?

MR. BELL: I wouldn't keep them out. I don't know as we want to direct them to bend all their efforts to do this job.

H.M.JR: I would like to meet with them on Thursday - these managers. Could they come here, or will they?

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MR. BUFFINGTON: Who?

H.M.JR: Your managers - the paid managers.

MR. BELL: I should think they ought to be at their desks.

H.M.JR: All right. Do you agree?

MR. BUFFINGTON: Yes, I think they would like to meet with you, but if they are going to be asked to do much of a job on this financing, they should be on the financing.

H.M.JR: I would like a joint memo on this publicity from you and Kuhn - or are you doing the over-all?

MR. KUHN: We will give you a joint memo.

H.M.JR: Just keep it current, will you? I want some action, too.

MR. BUFFINGTON: We need it.

H.M.JR: Paul?

MR. PAUL: I have nothing.

H.M.JR: Sullivan?

MR. SULLIVAN: Paraguay has asked us to negotiate a tax treaty with them down there. I have prepared a letter for your signature, to the Secretary of State, saying we would be very happy to start the preliminary negotiations, but we prefer to have them here. (Letter to Secretary Hull signed by the Secretary.)

H.M.JR: What else?

MR. SULLIVAN: Commissioner Helvering is very much disturbed about getting forms out on time. He raises some very pertinent questions in a memorandum

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to you which Randolph and I have gone over. The point specifically raised is that if the debate on this tax bill is very extended, or if the conference is protracted, then he may not be able to get his forms out in time, and therefore he may have to grant a general extension beyond March 15 for the filing of income tax returns.

We have gone over it and think that it won't be necessary to do that, but I think the Commissioner just wanted to warn you of what he is up against.

That is all I have now, sir.

MR. GASTON: I notice that in the enumeration of the powers of the director of economic stabilization authority, the first power enumerated is to restrict consumer purchasing power, which is rather interesting and which might be logically expected to get into questions of taxation, forced lending, and so on.

H.M.JR: Tell the gang what the President said with Justice Byrnes present. He was present?

MR. GASTON: No, he was not present; that was the odd part of it. They should have told us that he was the man, but I didn't get it. He was not there, but he was listed as being present.

He said that the director - something was said to him by Jesse Jones about the policy to be evolved by the different agencies. "Well, now, get this straight," he said, "You won't decide the policy; none of you will decide the policy. The director will decide the policy and he will tell you." Then he turned to me and he said, "But that doesn't affect the Treasury."

He said, "We found it necessary to rewrite the order, and we eliminated that paragraph about specifically exempting the Treasury, and instead of that we

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left out any mention of matters that would affect the Treasury in the draft of the powers."

He said, "We did that because it was" - I think they said it "stuck out like a sore thumb," or something of that sort.

MR. PAUL: That is what they told me.

MR. GASTON: Just about as it had been explained to Randolph. They thought the Treasury would not be affected and then later Davis pointed out to me, after the meeting had broken up, the paragraph in the law on which the Treasury would be affected on the limit on salaries. I said, "Yes, I know about that."

MR. PAUL: Do you want an item of gossip on that?

H.M.JR: I love gossip. (Laughter)

MR. PAUL: Beardsley Ruml stopped in my house last night.

H.M.JR: He did? Did you shake him by the hand or by the foot? (Laughter)

MR. PAUL: He is an old fellow director. He stopped in because it was Sunday and he wanted a drink and there was no other place to go. (Laughter) But he did bring up this same question. He had been looking at the economic - at the order before. He had been given a draft of it and noticed that there was the divesting of powers at the top and then the BEW formula. He said he didn't see it in the order as issued, and he wondered about it, and then he tried to argue that - not having been present at the conference, he tried to argue that under this language definitely a comprehensive, national, economic policy must cover taxes; that the general language there covers taxes. I pointed out that none of the words after it did. I told him I was sure--

H.M.JR: Was he sore that the President didn't write the Ruml plan into that order?

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MR. SULLIVAN: It may be there.

MR. BLOUGH: Practically made the Ruml plan a necessity.

H.M.JR: How does Ruml act when he comes into your house?

MR. PAUL: The same boisterous self. He is not a particularly sensitive flower. (Laughter)

H.M.JR: Did you say anything about "Why not put your energy into a really good plan instead of concentrating on taking care of a couple of executives of Macy's?"

MR. PAUL: On the whole, I try to avoid the subject of the Ruml plan when he comes around, because I don't want to sit up all night. (Laughter)

H.M.JR: O.K. Thank you all.

Treasury Department

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Copy

TELEGRAPH OFFICE

VIA WESTERN UNION

WE14 18 GOVT COLLECT XC

BEACON NY OCT 4 1942, 1040A 1942 OCT 5 AM 7 55

FERDINAND KUHN

DLR 9 AM MONDAY OFFICE SECY OF TREASURY

PLEASE SPEAK TO ME ABOUT WRITING TO SENATOR WAGNER AND
OTHER SIMILAR CASES. COPY TO MRS KLOTZ

HENRY MORGENTHAU JR

751 AM OCT 5 1942.

October 5, 1942

I was with the President last night, and I told him that a week ago Saturday I had brought to the attention of Mr. Patterson the abuse of the diplomatic pouches by so-called neutral nations; that either Monday or Tuesday Mr. Stimson had gone to see Hull and told him of four vitally important cases, and that nothing had happened. I said, "In view of the information which the Army has given me, I think it is inexcusable to risk the lives of thousands of our men because there is a very strong possibility of military information leaving this country through diplomatic pouches."

The President said, "Where is the Navy on this?" and I said, "The Navy is opposed to it because they are supposed to be getting jewelled bearings through our diplomatic pouch in Switzerland," I said, "But how can you compare a few jewelled bearings with the possibility of our enemies getting all of our military information?" I said, "I understand that a complete set of specifications either went out through the Switzerland or the Spanish pouch, giving the disposition of all of our troops all over the world, and after photostating them, G-2 put these papers back into the pouch and let them go." I said, "Now this is second hand, but it is first hand from Stimson because he told me himself what he had told Hull."

The President agreed that it was silly to compare the value of a few jewelled bearings as against the possible information which was leaving the country. He said, "Is this FBI?" I said, "No," and then I said, "The Treasury comes into it because if you said to me tonight, 'Henry, I would like to hold up all the pouches pending my making a decision,' we would just go ahead and do it through Customs." So he said, "I will tell you what we will do. I will write a letter to you, the Secretary of War, and the Secretary of the Navy telling you to appoint a committee to inspect these pouches for 30 days." He then told me what he wanted in the letter and I wrote it down. (See attached note in HM Jr's handwriting; also copy of letter as dictated by HM Jr and sent to President for transmission to Secretaries of Treasury, War and Navy.)

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I told the President that the man from the Treasury would be Herbert Gaston and asked him if that was all right. He said, "Herbert Gaston - yes, he would be fine."

The part of the letter referring to the examining of pouches in and out of the State Department is really the President's own idea. I said, "You don't mean that?" and he said, "I certainly do. I want to know what is going in those pouches." He wants any diplomatic pouch examined that goes to those particular countries, both out of the country and into the country. Then he wants State Department pouches examined going to those countries and returning pouches to the State Department, plus any pouches addressed to Biddle in London which might contain mail sent to Poland, Czechoslovakia, Greece, and Norway. Those are the countries he mentioned - the ones to which Ambassador Biddle is accredited.

I then said to the President, "I think you ought to get out an order saying that any young man under 30 years of age, physically fit, who is an officer in the Army or Navy, and who is holding down a desk job should be ordered into combat service." I also said, "I suggest that you do this before we have a lot of casualties and the criticism of the country will descend upon you as Commander-in-Chief because of this situation." I said, "I know that Stimson says repeatedly that he passes on all of these commissions personally and that more recently General Craig and a Board does it for him, but the fact remains that there are lots of young men who are holding down desk jobs who are under 30 and who are physically fit." The President said that he would go at it a little bit differently. He told me very confidentially that he is having Jonathan Daniels go over the lists, particularly to see whether rich men's sons are holding down these desk jobs. I said, "Well, that will take care of only part of it, and I wish you would consider my suggestion." He said he would.

I told the President that there had been delays in purchases for the Russians going back to last August, 1941, particularly for gasoline refineries and rubber-making machinery, and I thought it was inexcusable that when he issued an order that it wasn't carried out. He told me to give him some examples.

I told the President that I thought General Groninger, Commander of the New York Port of Embarkation, was doing an excellent job, and that I was surprised to learn that nobody from the Secretary of War's office had ever inspected this Port. This surprised the President, but he was very pleased to learn that the loading of the troops was proceeding so well. He asked me a number of questions, particularly where the ships were located.

He then told me in strictest confidence that the Queen Mary either yesterday or the day before ran into a small coastwise vessel somewhere off England and damaged her bow considerably, and had to slow down to 15 knots, but they hoped she would land either today or tomorrow. The President said that the English are guarding this with great secrecy, which he seemed to think was sort of ridiculous once a vessel is landed. However, he said that it is most unfortunate that they will lose the use of the Queen Mary for some time.

I then told the President that I was planning to leave for England in about a week, and I asked him whether it was all right. He said that it was.

The President is very sensitive on this criticism about his clamping down censorship on his trip, and he went into a long discussion about how his efficiency would have been cut down if he had been accompanied by 75 newspapermen and photographers, and how he couldn't have discussed freely with the various managers of the plants their problems if he was constantly surrounded by newspapermen. I said, "Mr. President, entirely aside from that, it would have been almost impossible to protect you if each day it had been announced that you would be in a certain city." He agreed with me and said, "Even if it were announced after I left the city, it would be easy enough for anybody to figure out what my next route was to be." He said, "Supposing it was announced that I was going to Seattle. Everybody would know that I would go to see Anna and the streets would have been lined. This way there was nobody on the streets to Anna's house." So I said, "Well, if you would have had no censorship, the papers would have criticized you for making a political campaign trip." These remarks of mine seemed to please him.

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I was with the President for about 55 minutes. He was very quiet and was putting stamps in his books. I broke up the meeting myself because I thought it was time for me to leave since I had told him when I made the appointment that I had nothing really urgent. When I got up to go, to my surprise, he said that Admiral King was waiting to see him, but he certainly gave no indication before that that any one was waiting for him.

Please appoint 1. from Treas
 ask of 2 + 0 mi to
 each appoint a representative
 this committee for 30 days
 to inspect for F. R. R
 as C & C to inspect for
 30 days all outgoing
 and in carrying diplomatic
 pouches of Spanish Swedish
 Swiss Portuguese - Vichy French
 Embassies and Legations and
 during next 30 days and
 all outgoing pouches from

Staff report to these
Nations and ^{to our} Embassies in
located in London.

No inspections shall

~~be made by~~

There shall be no subordinates
of this committee of 3
and no other person shall
be informed of any suspicious
contents of said pouches

Reports will be made to me
and to me only

WASHINGTON

THE WHITE HOUSE

Secret

THE WHITE HOUSE
WASHINGTON

October 5, 1942.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY
THE SECRETARY OF WAR
THE SECRETARY OF THE NAVY

Please appoint one man to represent the Treasury, one man from G-2 to represent the Army, and one man from ONI to represent the Navy, to serve as a committee for the next 30 days to inspect for the President, as Commander-in-Chief, all outgoing and incoming diplomatic pouches of the Governments of Spain, Sweden, Switzerland, Finland, Portugal, and France.

Also to inspect during the next 30 days all outgoing pouches from our State Department to our Embassies and Legations in the above mentioned countries; also all outgoing pouches from our State Department to Ambassador Biddle in London. The object is, of course, to see whether our own pouches are being used from this end to convey information to other governments without our knowledge, even though these governments may be a part of the United Nations.

There shall be no subordinate to represent any member of this committee of three, and no person shall be informed of any suspicious contents of said pouches except the President of the United States. All reports will be made to the Commander-in-Chief and only to the Commander-in-Chief.

I am having made only this one directive, which I am sending to the Secretary of the Treasury with the request that he communicate it verbally to the Secretary of War and the Secretary of the Navy. No copies shall be made, nor shall any reference thereto be reduced to writing. This is in the interest of complete secrecy.

F.D.R.

FDR

FROM: MR. GASTON'S OFFICE

TO:

October 5, 1942

Mr. Gaston:

Miss Kidd, Bureau of Customs, telephoned stating that the following message was received by teletype from the Collector of Customs at New Orleans:

"Senor Don Ernesto Barnach-Calbo, Second Secretary, Spanish Embassy, Washington, and Senor Don Jose Maria de Garay, Spanish Consul in New Orleans, have presented this office with letters from Spanish Embassy, Washington, authorizing them to act as diplomatic couriers for delivery to Captain of the Spanish SS MAGALLANES five diplomatic pouches containing diplomatic correspondence from Spanish Embassy, Washington, addressed to Minister of Foreign Affairs of Spain. Said individuals advise that the Embassy has applied to the State Department for authority to have pouches passed without examination, as required by Section 3(c), Trading with the Enemy Act. Please advise whether pouches may be passed without examination. Reply today by teletype requested inasmuch as above-mentioned individuals wish to return to Washington tonight.

PRATT"

(State Department also telephoned this request to Bureau of Customs)

E.A.

pm

October 5, 1942
11:20 a.m.

AID TO RUSSIA

Present: Mr. Mack

H.M.JR: Read this, please. (Memorandum from the President handed to Mr. Mack.)

MR. MACK: All right, sir.

H.M.JR: What do we do?

MR. MACK: Well, these specific points, that is, (a) has to do with shipping; (b) priorities or, rather, the determination of priority cargoes; and (d) is also on transportation. We can get in touch right away with the Central Transportation Committee that determines what ships can be made available and check that against our--

H.M.JR: How can I answer this letter? He says "the progress of the Treasury Department in meeting these objectives" - oh, I see, it is directed to me.

MR. MACK: The same letters are being sent to all others, as a matter of fact.

H.M.JR: Do you suppose Oscar Cox wrote this?

MR. MACK: It might be. These points concern primarily - that is, on the shipping, the War Shipping Administration, and a copy of the same letter went to him; and on the airplanes - of course, we have nothing to do with that - that is for the War Department.

H.M.JR: I will get Oscar.

MR. MACK: Our part in this would be to make sure that we are not being held up on any cargo that the

- 2 -

Russians say they must have and that, of course, we would have to go to War Shipping Administration and tell them we don't have enough boats and we must have more boats.

H.M.JR: I see. Now, I saw the President last night. I told him things were being held up from last August through until now for Russia - a great delay. He said, "Give me examples." Now, you know I asked you to get out that time table. How are you coming on that?

MR. MACK: Tickton was over there Saturday morning, and we are now getting together the information that he indicated he would want to make up these charts. There are three types of charts that he wants. We will have some for Wednesday, some Thursday, and some Friday. Now, if that isn't quick enough, I will ask them to--

H.M.JR: No, but how about some specific cases. How about the automobile--

MR. MACK: We will get you specific cases.

H.M.JR: Can you get some?

MR. MACK: Yes, sir.

H.M.JR: While we are still waiting?

MR. MACK: I think so.

H.M.JR: I mean, you know where the Russians want some stuff?

MR. MACK: We will get that. We will go through our records to look, particularly, for those items that have been outstanding.

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

October 5, 1942
11:25 a.m.

HMJr: Hello.

Operator: Mr. Cox.

HMJr: Hello.

Oscar
Cox: Hello, Mr. Secretary.

HMJr: How are you?

C: Fine.

HMJr: Oscar, do I see your fine Italian hand in this letter from the President to all of us on Soviet Government Second Protocol?

C: Only very, very remotely.

HMJr: I see. Because it doesn't affect us much. It's addressed to Army, Navy, and the rest of them.

C: Yeah.

HMJr: But I didn't know - because I'm - I'm sort of stumped how to answer it, because it's addressed to all these people and myself....

C: Yeah.

HMJr:and we really have very little to do with it. I didn't know whether you could interpret it. Evidently you can't.

C: No.

HMJr: Well, that's all right.

C: Okay.

HMJr: It was a good letter so I was giving you credit for it.

C: Well, I'm - I only deserve about one per cent on that one. Have you - what did you think of the Jimmy Byrnes thing?

- 2 -

HMJr: Okay.

C: Yeah, I think it's a good job.

HMJr: Okay. If you want to get a really good belly-laugh....

C: Yeah.

HMJr:send for PM today, and Iokes' letter to I. F. Stone.

C: Oh. Yeah. (Laughs)

HMJr: It's somethin'.

C: Well, I'll have to read it.

HMJr: Oh, it's somethin'.

C: Yeah.

HMJr: He compares him to Bertie McCormack.

C: Compares Stone to?

HMJr: Yeah.

C: Oh! Well, that's a strange comparison.

HMJr: Yes. And Stone says he's glad to hear from him, and then he says, "The Petroleum Coordinator's Office looks like an anti-trust law rogues' gallery."

C: (Laughs) That's wonderful.

HMJr: "There's some fine men in it from the big companies, but their influence needs to be leavened by New Dealers...."

C: Yeah.

HMJr:who are representing the oil workers and diplomats. As for Secretary Iokes' attack on me, I'm sure Colonel McCormack will resent it."

- 3 -

G: (Laughs) That's wonderful.
HMJr: Read it. It's good.
G: I certainly will.
HMJr: All right.
G: Goodbye.

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H.M.JR: (To stenotypist) Take this letter to the President: "My dear Mr. President: I beg to acknowledge receipt of your memorandum of October 2. We will be very glad to carry out your instructions, as outlined in this memorandum, as far as they affect the Treasury." Right?

MR. MACK: Right.

H.M.JR: "We will be very glad to carry out your instructions."

MR. MACK: I think that first was very good, because this is all transportation.

H.M.JR: "Carry out your instructions as they affect the Treasury."

MR. MACK: Very good. Every one of these points is transportation - transportation of planes - transportation of anything they want.

H.M.JR: I think that is all that is necessary.

MR. MACK: I think so, and then we will get busy on this, to prepare the type of report that is wanted.

H.M.JR: The important thing that I want - the important thing that I want is examples for the President now--

MR. MACK: All right.

H.M.JR: ... where you are waiting. You see what I mean. You know, isn't rubber tires one - a good one?

MR. MACK: Yes. That rubber tire plant is rather an involved situation.

H.M.JR: Well, give me one that you can nail down.

MR. MACK: All right.

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H.M.JR: What did you tell Stone when you saw him?

MR. MACK: Stone came in Saturday, and the kind of information that he wanted was information that we did not have: that is, what are they going to use as plant information, and what is WPB going to do, and all of that. He wanted specific information as to what ties into the rubber plant.

Well now, I told him that, "Of course, our requisition comes through for generators, magnetos, this and that, and not tied into that particular plant. So far as the second-hand equipment is concerned, that is now being considered by WPB, but hasn't actually cleared through to us." As a matter of fact, since Stone was over there this morning I got in touch with the WPB man that is located with us, and asked him to give me the story of the rubber plant. Briefly, it is this: We have requisitions for about six million five hundred thousand dollars; contracts were placed for about six million one hundred thousand dollars; and of those contracts which have been placed, there have been completed and shipped a hundred thousand dollars at the outside; small parts in production, about two million seven; and there were suspended in August, three million three. Now, that is what the difficulty is all about--

H.M.JR: I see.

MR. MACK: ... whether or not they shall substitute used equipment for this three million three and so on. I had a letter just this morning from Jeffers. I had written him to find out what he is going to do about this matter that was referred to him, and he says in substance that he will let me know in a few days.

This information I am giving you, I did not have Saturday morning when I spoke to Stone, but I thought I had better get it.

H.M.JR: Thank you.

October 5, 1942

My dear Mr. President:

I beg to acknowledge receipt of your memorandum of October 2.

We will be glad to carry out your instructions, as outlined in this memorandum, as far as they affect the Treasury.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House,
Washington, D. C.

ENVELOPE MARKED "CONF"
attn: Miss Tully
By Messenger 10/5/42 at 1:39 PM
(Harmon)

File in Diary

CONFIDENTIAL

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THE WHITE HOUSE
WASHINGTON

October 2, 1942

MEMORANDUM FOR THE SECRETARY OF THE TREASURY.

Last May, with the concurrence of the British Prime Minister, I offered the Soviet Government a second protocol covering the flow of supplies from this country to the U.S.S.R. during the period July 1, 1942 to June 30, 1943.

Because of enemy action on convoys to North Russia, it has not been and it may not be feasible in the future to send the full tonnage of supplies contemplated in this protocol. It is therefore of particular importance that every effort be made to utilize to the maximum the supply routes that may be available to us.

To this end I desire that the following steps be taken:

- a. That ships be made available to fill our quota of such convoys as may be sent to North Russia and also to lift all the cargo that can be cleared to Russia through the Persian Corridor.
- b. That necessary arrangements be made, including the utilization of whatever production priorities or directives may be necessary, to insure sufficient priority cargoes in accordance with protocol commitments to load such ships as may be dispatched to Russia by all routes.
- c. That airplanes be delivered in accordance with protocol schedules by the most expeditious means, whether by ship or flight.
- d. That the project for the operation and enlargement of the transportation facilities of the Persian Corridor be given sufficient priority and support in the form of men, equipment and ships to insure its early and effective accomplishment.

CONFIDENTIAL

Regraded Unclassified

CONFIDENTIAL

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It is further desired that a report be submitted to me by the 10th of each month showing the progress of the Treasury Department in meeting these objectives and including any recommendations you may have for expediting aid to Russia.



Similar letters are being sent to -

Secretary of War
Secretary of the Navy
Secretary of the Interior
Chairman, War Production Board
Chairman, War Shipping Administration
Lend-Lease Administrator

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CONFIDENTIAL

October 5, 1942
12:12 p.m.

HMJr: Hello.

Operator: Callahan.

HMJr: Callahan?

Vincent Callahan: Yes, sir.

HMJr: Who is Morton Milman? M-i-l-m-a-n.

C: He works for our radio section, and he's our contact with the American Federation of Musicians, principally.

HMJr: I see. Is he all right?

C: Yes, sir.

HMJr: Guarantee him?

C: Well, I'll guarantee him as far as the union is concerned. He's a very headstrong man, and he's a little bit of - I wouldn't call him a racketeer, but he's - he's a tough guy.

HMJr: Well, the point is that Huntington Cairns took him along, and he wants me to write a letter to Milman thanking him....

C: No, no.

HMJr: What?

C: I say "no."

HMJr: You say "no"?

C: Yes, sir.

HMJr: Well, that's what I called up for.

C: That's right. I mean, he's all right. We use him for tough jobs, Mr. Secretary.

HMJr: I see.

- 2 -

C: But we have to hold him close to us.

HMJr: But you - no letter over my signature?

C: No, sir. I mean, it would be very bad for the morale on - as far as he's concerned.

HMJr: Well, that's what I'm calling you....

C: We got to - we got to keep the boy in line. (Laughs)

HMJr: Okay.

C: Thank you, sir.

October 5, 1942
12:14 p.m.

HMJr: Hello.

Vincent
Callahan: Yes, sir.

HMJr: Would you do this -- Cairns wants to know -- would you tell Milman I'm very much pleased.

C: I'd be very happy to do that.

HMJr: Tell him I'm very much pleased at the assistance that Mr. Cairns gave, and that Mr. Cairns said he was most helpful.

C: Well, that's grand.

HMJr: How's that?

C: I'd love to do that.

HMJr: You - suppose you do that.

C: Well, I - you see, the reason I object to the letter, I don't know what he'll do with the letter.

HMJr: Well, that's why I called you.

C: Yeah. (Laughs) Okay, sir.

HMJr: I'm....

C: Yeah.

HMJr:I'm known as a suspicious cuss.

C: Yeah.

HMJr: Yeah, all right.

C: All right, sir.

October 5, 1942
12:15 p.m.

HMJr: Hello.

Arthur Sulzberger: Hello, Henry.

HMJr: How are you?

S: I'm fine, thank you. How's yourself?

HMJr: Very well.

S: Good.

HMJr: Arthur, I read with great interest your editorial on the fiscal problem in the Times today....

S: Yes.

HMJr:and I thought you people stated the case very well, and it happened to agree with an analysis that we presented to Congress.

S: Yes.

HMJr: And, of course, where we seem to part ways is on the remedy.

S: Yes.

HMJr: And I wondered whether you - Randolph Paul is going to be in New York Wednesday making a speech...

S: Yes.

HMJr:and whether you would care to see him, plus whoever wrote the editorial.

S: Yes, delighted to.

HMJr: Would you like to have him for lunch?

S: The trouble is I can't be here, Henry. I'm tied up with - your Department of Justice is suing the Associated Press....

HMJr: Oh.

- 2 -

S:and I'm a vice president of the Associated Press....

HMJr: I see.

S:and we're tied up all this - all this week starting tomorrow.

HMJr: Well, you mean you won't be able to see him yourself?

S: I won't be there at lunch. I could see him later in the afternoon....

HMJr: Well....

S:or I could have him come in and have lunch with Charlie Merz and some of the others.

HMJr: No, I'd like to - I'd like to try to crack you.

S: Uh huh.

HMJr: See?

S: Right.

HMJr: (Laughs) There's not much use in seeing the other people unless you're around.

S: Well....

HMJr: Supposing you set a time.

S: Or I could - let's see. The only time that would be safe would be - and even that mightn't be....

HMJr: Yes.

S: Just a second. Wednesday is the only day he's going to be here?

HMJr: He's got to be there Wednesday to make a speech, and he isn't sure that he won't have to be on the Hill before the Committee either.

S: I see.

HMJr: So I mean it - it isn't definite on his part.

- 3 -

S: Well, why doesn't he do this - why doesn't he come for lunch on Wednesday....

HMJr: Yeah.

S:and I will make every effort to come over at least for a time....

HMJr: Yeah.

S:and he will be then with Charlie Merz,^(?) and Henry Hazlitt and Bell who are doing most of those economic editorials, and I'll have them there.

HMJr: Good.

S: And I will make every effort to come back for a few minutes at least so as just to say hello and get it - see that it's all going properly.

HMJr: Well, we'd like to storm the sales tax in its fort.

S: Uh huh.

HMJr: See?

S: Yeah.

HMJr: No, I mean - you're - the thing today was excellently written, and the premises - just the premise that we've presented to Congress.

S: Yes.

HMJr: And so we start off the same. Now the next thing is the remedy.

S: Right.

HMJr: And I'd like to have Paul have a chance to state our case and have you fellows question him and see whether there's any chance that - of convincing each other.

S: Right. Well, I - I think that's the best way.

HMJr: All right.

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SI And, as I say, I'm going to be down in Washington next Monday, but unfortunately you're going to be away.

HMJr: I'm going to be away.

S: Right.

HMJr: Now - he - does - should he go to your office?

S: Let him come to Charlie Merz' office.

HMJr: Charlie Merz' office.

S: Yeah, that's on the tenth floor.

HMJr: Tenth floor.

S: And he will be expecting him, and I'll try to be there.

HMJr: At what time will that be?

S: At one o'clock.

HMJr: One o'clock.

S: On Wednesday, October 7.

HMJr: Right. Thank you so much.

S: That's all right, Henry.

HMJr: Goodbye.

S: Goodbye.

October 5, 1942
2:13 p.m.

Col. Edwin
A. Halsey:

Hello.

HMJr:

Colonel Halsey?

H:

Yeah. Before you tell me your mission, I want to tell you just how much we enjoyed that little box of apples you sent up here.

HMJr:

Good.

H:

I never heard as many people rave about apples in my life, and I come from a great apple state.

HMJr:

What state's that?

H:

Virginia. We have some pretty good apples there. You ought to bite our apples.

HMJr:

You think you raise good apples in Virginia?

H:

I know we raise good apples. I don't think.

HMJr:

And they liked those, eh?

H:

Yeah, but they liked yours. I'll give you credit. It was delicious. Everybody remarked on it, and they even, after they had their dessert, they said, "Well, now this is better than the dessert we had."

HMJr:

Well, I had the - I had the nerve to send a box of apples to Harry Byrd.

H:

(Laughs) Well, I think he'd appreciate them. (Laughs) That's taking the coals to Newcastle, but nevertheless I think he'll - the flavor of your apple, he'll appreciate it.

HMJr:

Well, he sent me some Virginia Delicious and I thought I'd send him a New York State apple so that....

H:

Well, it was really - now, no kidding, the boys came in here and they're still doing it. We have some few left and they still enjoy them.

- 2 -

HMJr: Well, I'll send you some more.

H: Yes, sir, I'll appreciate it, and it really is one of the outstanding things. They've enjoyed them as much as anything we've ever had in our little parties here, and in these little group meetings. We've got one here today. Mayor Kelly's here now.

HMJr: Now I - I want - what I'm calling up was this....

H: Yeah.

HMJr:you got a pencil?

H: Yes.

HMJr: I'd like to get Senator Barkley and Senator George....

H: They're both right in the room.

HMJr:and Bob Doughton....

H: Uh huh.

HMJr:and Jere Cooper.

H: Well, now wait a minute, let me get these - let me get....

HMJr: Robert Doughton.

H: I got - yeah, I got Jere Cooper....

HMJr: And Bob Doughton....

H: Yeah. That's four.

HMJr:and Jere Cooper, those four.

H: Yeah, that's four.

HMJr: I - I wanted to try to get them together tomorrow. Now I'd be glad to have them down here for lunch if they could spare the time.

- 3 -

H: Well, now they've agreed, Mr. Secretary, they've agreed to meet here at the Senate, and meet at eleven o'clock tomorrow and take up the bill....

HMJr: Yeah.

H: Senator George reported it today formally and asked that it be made the unfinished business, and asked that the - that the formal reading be dispensed with and it will only be read for Committee members.

HMJr: Well....

H: They're going to work right on at eleven o'clock tomorrow morning.

HMJr: Well, there's a little matter that I want to take up on the bill, and I wanted to see the four of them.

H: Yeah.

HMJr: It isn't - if they can't - I didn't know whether they could have lunch up there or down here, or I could come up just as early in the morning - or I'll meet any place that the four of them can get together, anytime tomorrow.

H: Well, now let me - let me talk to them. Barkley and George are in the room - in my other room there.

HMJr: Yeah - I mean, anytime the four of them could see Randolph Paul and me.

H: Yes, well....

HMJr: We'd meet them any place and time that they say.

H: Well, how about this afternoon?

HMJr: This afternoon?

H: Yeah.

HMJr: I could do it at five o'clock.

H: Well, let me see what they say. If they can't, I'll find out about tomorrow. Of course, I can't speak for Doughton and Cooper now.

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HMJr: No.

H: I don't know what they've got on hand.

HMJr: Well, what - if we knew....

H: Yes.

HMJr: Walter George is very nice. He might call up Doughton for me.

H: Well. All right, now they - they're right - they're in the other room there, and I'll be glad to.....for you.

HMJr: Yeah, we - we could do it at five o'clock today....

H: Uh huh.

HMJr:time and place to be named by them.

H: All right. If we can't, we'll try to arrange on something tomorrow.

HMJr: Yeah, please.

H: All right, now - you're at your office?

HMJr: I am.

H: All right, I'll - don't let me have any trouble getting to you. Sometimes, you know, you're a little inaccessible.

HMJr: Oh, no.

H: (Laughs)

HMJr: I'll leave word when you call to put you right through.

H: All right, all right, that's fine. I'll check on this as soon as they break up there - just as - they're having a little meeting with Mayor Kelly - a little luncheon there....

- 5 -

HMJr: Right.

H:the Vice President, and so forth.

HMJr: Right.

H: All right.

HMJr: Thank you.

October 5, 1942
3:25 p.m.

APPOINTMENT OF COMMITTEES

Present: Mr. Bell
Mr. Gaston
Mr. Kuhn
Mr. White
Mrs. Klotz

H.M.JR: I have got to decide on the two committees and I want a little advice. I have got to put somebody on this committee for Frank Bane.

Frank Bane wants me to appoint somebody to represent the Federal Government on the joint federal-state-local committee on fiscal policies and practices, and to work with the committee established by the Council of State Governments dealing with this problem.

(Reading letter from Frank Bane) "A number of the members of our Tax Committee, especially those from the West, will be in Cincinnati at the time of the meeting of the National Tax Association, on October 19-21."

MR. BELL: That is a meeting?

MR. KUHN: Blough is going to that meeting.

H.M.JR: The 17th at Washington.

MR. GASTON: Somebody in Randolph Paul's office, I should think.

MR. KUHN: Blough is going to address the National Tax Association.

MR. BELL: He attended last year, too, I think.

- 2 -

H.M.JR: John Sullivan? I am just questioning it; I don't know.

MR. WHITE: Apparently it is mostly taxes, isn't it?

H.M.JR: (Reading letter from Frank Bane) "We have a letter today from the President to the effect that he has appointed the Secretary of the Treasury and the Director of the Budget to represent the Federal Government on the joint federal-state-local committee on fiscal policies and practices, and to work with the committee established by the Council of State Governments dealing with this problem."

We had this tremendous committee; it cost us - I don't know - seventy-five thousand or a hundred thousand to make this study - this professor from Wisconsin - what was his name?

MR. GASTON: Harold Groves.

H.M.JR: ...Groves, and all those. The trouble is, it is getting so - it takes up so much time.

MR. BELL: Isn't that just a three-day conference?

H.M.JR: Well, no, it is more. It will go on along with the committee. He wants me to call him. He wants me, anyway, to meet him on October 17. Well, I am not going to meet with them - to hell with them. I am not going to sit around - meet with a lot of stuffed shirts and what not.

MR. WHITE: The Treasury ought to be represented on it if it is already in being; there is no question about that.

MR. BELL: John had charge of the Gulick thing, didn't he? That is all right to put him on this.

MR. GASTON: He can very well represent us.

- 3 -

H.M.JR: I hate to load up Paul with a lot of stuff.

MRS. KLOTZ: Is that an important meeting?

MR. BELL: It might be if properly handled. The chances are it won't be, but it could be.

H.M.JR: How about it?

MR. WHITE: I think John Sullivan would be all right.

H.M.JR: All right. Take a little memorandum to John Sullivan, and copy of this to Paul: "Dear John: I am sending herewith my correspondence from Frank Bane, plus a telephone call slip. I would appreciate it very much if you would represent me on this committee, and keep other members of the Treasury who are interested in federal-state-local fiscal and tax problems advised."
(Dictated to stenotypist)

That is that.

Another committee?

MRS. KLOTZ: No. (Letter from Mr. Jesse Jones dated October 5, 1942, handed to the Secretary.)

H.M.JR: That can wait. This is only four hundred million dollars - eye wash.

We have got to appoint another committee.

On the Jimmy Byrnes' committee - I mean, I will go to the opening ceremonies and break a bottle of champagne on somebody's head, (Laughter) but after that, who is going to represent the Treasury?

MR. WHITE: I think you would be in a better position to attend. After you attend a couple of meetings and see the sort of thing they do - judging from the Executive order, they can do a great deal, and I think you would be in a better position to know who is attending and what they plan to do.

- 4 -

MR. BELL: Do you think these will be continuous meetings, every day or so?

H.M.JR: I don't know how Byrnes acts. He is a member of the legislature; he is not an administrator - never has been. He has been on the Court, supposedly, and knows the treatment of public life. I don't know how he will act. The President says he has set him up with a couple of assistants.

MR. WHITE: You may find, at least in the earlier meetings, they will be Cabinet members or Under Secretaries, but later on those meetings have a way of petering out.

MR. BELL: Subcommittees.

H.M.JR: I went to one or two meetings of Wallace's.

MR. WHITE: They have not met for a couple of months; that is what happened there.

H.M.JR: I went to the first one.

MR. WHITE: The first half dozen meetings the Secretary and Under Secretary usually attended.

MR. KUHN: Hasn't this got much broader powers than Wallace's Board had?

MR. WHITE: They have much more work to do.

MR. GASTON: I think you had better make up your mind who is going to be your alternative, and take him to the first meeting or two so he can keep the thing in line. I don't know how Paul reacts towards the suggestion of Joe O'Connell, but I think he would be very good. This thing is going to simmer down into a meeting of economists, and they are going to deal with these questions of how to restrict consumer purchasing power. They are going to get down to this question of restricting consumer purchasing power, and they are going to talk about expenditure rationing, spendings tax, and forced lending.

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MR. WHITE: And a lot of labor policies.

H.M.JR: Labor or legal?

MR. WHITE: Wages. The problems - the determination of modifications in wages and the criteria which shall be applied, I think, will occupy that committee, and will be kind of a battleground for some time.

MR. KUHN: Should it be Joe O'Connell, if that is true?

MR. BELL: I question whether it should be Joe.

MR. GASTON: Then it should be someone out of the three research organizations.

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

MR. BELL: I think it probably should be a line officer. How about Herbert?

H.M.JR: Well, Herbert would be fine, but if something happens to some of us - you are fully occupied, Herbert?

MR. GASTON: Yes.

H.M.JR: You are all very helpful. (Laughter)

MR. WHITE: I think it ought to be either the Secretary or the Under Secretary, or an economist. I mean, it either ought to be a high official - who certainly ought to attend the first time - but I don't think it is the sort of thing that you can send anybody to but a Secretary or an Under Secretary - or possibly an Assistant Secretary - to the first dozen meetings, and then later we can see--

H.M.JR: Let's leave it this way. If, by any chance, there should be a meeting called and I was out of town, then will you go, Bell, just the way you would the Cabinet meetings?

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MR. BELL: Yes.

H.M.JR: And the second man after you will be Gaston.

MR. BELL: I should think they ought to have an agenda for those meetings, and you ought to take with you the person who is interested in the subjects; if you had a tax matter, certainly Paul ought to go; if you had some other kind of a subject, somebody else might go; White might go, or Haas might go on the financing.

H.M.JR: All right.

Let me see what this is that Mrs. Klotz has given me. (Indicating letter from Mr. Jesse Jones)

You (White) prepare an answer. Mrs. Klotz, would that go to White?

MRS. KLOTZ: I just got it.

H.M.JR: It is just for information. They don't want the thirty-five, apparently.

MR. KUHN: You wanted me to speak about your so-called speech at Tammany Hall. It is the first you have heard of it, isn't it?

H.M.JR: I am not speaking.

MR. KUHN: I think that rather than deny it to the press conference, I would call up Walker in New York.

H.M.JR: Would you?

MR. KUHN: Sure.

H.M.JR: Will you do that?

MR. KUHN: Sure.

- 7 -

H.M.JR: Tell him I haven't been asked. Nobody asked me to. All right?

MR. KUHN: Yes.

H.M.JR: Dan, would it be agreeable to you - have you got anything on tonight, socially or otherwise?

MR. BELL: No.

H.M.JR: Could you and George - who else? - come tonight to talk about this financing? I have been going to try to do it all day, but I can't get myself into the mood for it.

MR. BELL: Murphy and Baker.

H.M.JR: Do you think he would contribute something?

MR. BELL: Well, he is leaning a little toward the New York viewpoint.

H.M.JR: All right. What about Buffington?

MR. BELL: I don't think he has studied it very much.

H.M.JR: Organize it and have it at the house at eight-thirty. I will be good for maybe thirty minutes to an hour. That is all I need.

Mr. Sullivan
The Secretary

October 5, 1948

I am sending herewith my correspondence from Frank Bane, plus a telephone call slip.

I would appreciate it very much if you would represent me on this committee, and keep other members of the Treasury advised who are interested in Federal, State and local fiscal and tax problems.

Copy to: Mr. Paul
HMJR:mcd

COPY

(Original to 89)
Mr. Sullivan

The Council of State
Governments
1313 East Sixth St.,
Chicago, Ill.

October 2, 1942.

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

My dear Mr. Secretary:

We have a letter today from the President to the effect that he has appointed the Secretary of the Treasury and the Director of the Budget to represent the Federal Government on the joint federal-state-local committee on fiscal policies and practices, and to work with the committee established by the Council of State Governments dealing with this problem.

A number of the members of our Tax Committee, especially those from the West, will be in Cincinnati at the time of the meeting of the National Tax Association, on October 19-21.

I am wondering, therefore, if it would be convenient for you to meet with this Committee in Washington on Saturday, October 17th. If so, we will try and arrange time and place for your convenience.

I expect to be in Washington on Monday. May I call your office with respect to this matter?

With kindest personal regards, I am,

Very sincerely,

(Signed)

Frank Bane
Executive Director

FB:mlh
Copied 10-6-42/hs

October 5, 1942
5:00 p.m.

Randolph
Paul:

It hasn't come to me yet that I know of.

HMJr:

It hasn't come to you?

P:

It may be outside, but I - I told them to let me know.

HMJr:

I'll send you in the Dow-Jones. Just a minute.

P:

Send me what?

HMJr:

I'll send you a copy of it.

P:

Well, it - it might be out on the desk, but I don't think so.

HMJr:

Well, I want you to read it, and then call me after you've read it.

P:

All right. I'll do that.

MEMORANDUM FOR THE FILES

Interdepartmental Subcommittee Meeting
in Mr. White's Office
October 5, 1942, 3:30 P.M.

Present: Messrs. Berle, Lavesey, Pasvolsky from
State Department
Mr. Coe and Dr. Bean from Board of
Economic Warfare
Mr. Currie, White House
Mr. Cohen from the Interior Department
Mr. Clayton from the Department of Commerce
Mr. Gilbert from the Office of Price
Administration
Mr. Gardiner from the Federal Reserve Board
Messrs. White, B. Bernstein, E. H. Bernstein
and Taylor from the Treasury Department

1. The meeting was convened specifically to discuss questions that had been raised concerning the "Proposals for an International Clearing Union", drafted by Lord Keynes and submitted to the Treasury by Sir F. Phillips on behalf of the British Government.
2. Sets of questions drawn up by representatives of the State and Treasury Departments were submitted to the meeting for consideration. After examination and modification, a revised list was drawn up. Through the facilities of the State Department this list will be handed to Sir F. Phillips, who is leaving for London soon where he will take these questions up with Keynes and his Government.
3. On Mr. Pasvolsky's recommendation, it was decided to meet again on October 8th to discuss Mr. White's program for the establishment of an United Nations Stabilization Fund.

The meeting adjourned at 5:30 P.M.

W. H. Taylor

Questions on Lord Keynes' Proposals
For an International Clearing Union

1. Is it assumed that exchange rates between members of the Union would fluctuate within gold points or their equivalent and that foreign exchange obtained through bancor facilities would be sold only at such gold points?
2. If transfer is to be at a fixed rate may not two rates of exchange develop between member countries unless the governments are prepared to take active steps through a stabilization fund or other agency to control the rates?
3. Is it contemplated that transfers of bancor could take place other than by direct transfer between central banks or treasuries?
 - (a) Specifically, will the new "instrument of international currency" be utilized by means of negotiable drafts in bancor on the Clearing Union or by entries on the books of the Union?
 - (b) If the first, by whom would it be sold and bought in individual countries? Specifically, would transactions in bancor be a monopoly of the central bank and/or the Treasury, or would it be generally negotiable like an ordinary bill of exchange? (c) Would the bancor be an instrument of payment between member and non-member countries? If so, how would this operate?
4. In what currency and under what exchange rate regulations would non-members keep "credit clearing accounts" with the Union and what would be the advantage to them to do so, since they cannot borrow from the Union?
5. How under the plan could the quantum of international currency be contracted to reduce "effective world demand", mentioned in paragraph 1(c) of the Proposals?
6. What provision is there for preventing the use of bancor quotas to meet foreign obligations where there is no adverse balance of payments on current account? What could prevent countries with weak currencies from quickly exhausting their quotas should they wish to acquire strong currencies?
7. What is the contemplated order of magnitude of total bancor quotas? Are we correct in understanding that within such amounts a country could do nothing to limit the call of the Clearing Union for its currency? What is the maximum amount of U.S. dollars which the United States might be obligated to provide in return for bancors during the first five years of operation?
8. What disposable assets would the Union hold to assure liquidation of bancor credits in the event of dissolution of the Union

- 2 -

or in the event of war? In the event that any country wishes to withdraw, what specific steps could it take to liquidate without loss the balance that it might have accumulated?

9. Does the proposal envisage that the British Commonwealth as a whole is to have one representative on the Board and one quota, or would each of the dominions also have a separate representative and a separate quota? If the Commonwealth is to be treated as a unit, is it thought that intra-commonwealth trade is to be treated as foreign trade for the purpose of determining the quota?

10. Is it not likely that those countries likely to develop large creditor accounts with the Clearing Union will be in a minority so far as voting strength and control over policies are concerned?

11. Does the drawing of a distinction between a few founder states and other members run counter to the general objective of securing international collaboration?

WHT:ds1 10/6/42
Copy: #1 10/7/42
Copy: r1 10/8/42

TREASURY DEPARTMENT

94

INTER OFFICE COMMUNICATION

DATE October 5, 1942

TO Secretary Morgenthau
FROM Mr. Haas

On further thought, I should like to advise against releasing to the press the "Chart of Treasury Financing, 1942". While the information contained therein has all been made public previously and therefore no question is raised about releasing the particular figures, it seems to me that the chart itself might raise certain questions if given to the press. What I have in mind is that some persons might attempt to draw conclusions regarding the establishment of a particular pattern for future financing in a way which might be embarrassing to you. For example, the large amount of bills and certificates offered since the first of the year - which stands out strikingly in the chart - may be taken as an indication of a pattern of financing largely through the banks.

CHART OF TREASURY FINANCING, 1942

New Money
 Refunding

	Bills	Certificates	Notes	Bonds
Jan.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$150 millions weekly; for month: \$100 millions new money, \$501 millions refunding.			<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,018 millions, 2's due 6/15/49-51 refunding of Treasury note, TFC note and two FPMC bonds.
Feb.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$150 millions weekly; for month: no new money, \$601 millions refunding. ^a			<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,512 millions, 2 1/2's due 6/15/52-55 new money.
Mar.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$150 millions weekly; for month: no new money, \$601 millions refunding. ^a			
Apr.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$150 millions weekly; for month: \$300 millions new money, \$451 millions refunding.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,507 millions, 1/2's due 11/1/42 new money.		
May	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$150-\$250 millions weekly; for month: \$303 millions new money, \$601 millions refunding.			<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,292 millions, 2's due 9/15/49-51 new money. \$682 millions, 2 1/2's due 6/15/52-57 new money.
June	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$250-\$300 millions weekly; for month: \$252 millions new money, \$502 millions refunding.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,562 millions, 1/2's due 2/1/43 new money.	<div style="background-color: gray; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,119 millions, 1 1/2's due 12/15/46 refunding of WCLC bond and TFC note.	
July	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$300-\$350 millions weekly; for month: \$1,155 millions new money, \$450 millions refunding.			<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$2,097 millions, 2's due 12/15/49-51 new money.
Aug.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$350 millions weekly; for month: \$505 millions new money, \$504 millions refunding.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,609 millions, 1/2's due 6/1/43 new money.		<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> 1,234 millions, 2 1/2's due 6/15/52-57 (reopening) new money.
Sept.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$350-\$400 millions weekly; for month: \$449 millions new money, \$ 1,456 millions refunding. ^b	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,506 millions, .65's due 5/1/43 new money. ^c	<div style="background-color: gray; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,606 millions, 1 1/2's due 3/15/45 new money. ^d	
Oct.				
Nov.				
Dec.				

^aIn addition to refunding shown, \$100 millions of bills were paid off during February and \$350 millions during March. The amount of \$382 millions of the new money borrowed in September was in effect used to pay off the September 15 Treasury note maturity.

CHART OF TREASURY FINANCING, 1942

New Money
 Refunding

	Bills	Certificates	Notes	Bonds
Jan.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$150 millions weekly; for month: \$100 millions new money, \$501 millions refunding.			<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,014 millions, 2's due 6/15/49-51 refunding of Treasury note, RFC note and two FPMG bonds.
Feb.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$150 millions weekly; for month: no new money, \$601 millions refunding.*			<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,512 millions, 2½'s due 6/15/52-55 new money.
Mar.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$150 millions weekly; for month: no new money, \$601 millions refunding.*			
Apr.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$150 millions weekly; for month: \$300 millions new money, \$451 millions refunding.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,507 millions, 4's due 11/1/42 new money.		
May	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$150-250 millions weekly; for month: \$303 millions new money, \$601 millions refunding.			<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,292 millions, 2's due 9/15/49-51 new money. \$682 millions, 2½'s due 6/15/62-67 new money.
June	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$250-300 millions weekly; for month: \$252 millions new money, \$902 millions refunding.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,588 millions, 3's due 2/1/43 new money.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,119 millions, 1½'s due 12/15/46 refunding of HOLC bond and RFC note.	
July	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$300-350 millions weekly; for month: \$1,155 millions new money, \$450 millions refunding.			<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$2,097 millions, 2's due 12/15/49-51 new money.
Aug.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$350 millions weekly; for month: \$505 millions new money, \$904 millions refunding.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,609 millions, 4's due 8/1/43 new money.		<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> 1,236 millions, 2½'s due 6/15/62-67 (reopening) new money.
Sept.	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$350-400 millions weekly; for month: \$449 millions new money, \$ 1,456 millions refunding.†	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,506 millions, .65's due 5/1/43 new money.‡	<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 5px;"></div> \$1,606 millions, 1½'s due 3/15/45 new money.‡	
Oct.				
Nov.				
Dec.				

*In addition to refunding shown, \$100 millions of bills were paid off during February and \$350 millions during March.
 †An amount of \$342 millions of the new money borrowed in September was in effect used to pay off the September 15 Treasury note maturity.

TREASURY DEPARTMENT

97

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

October 5, 1942

FROM Davis L. Baker, Jr.

Possible New Issues, dated approximately October 15, 1942

Treasury Notes

Coupon	Approx. Term	Due Date	Yield	Market Price	Premium
1 $\frac{3}{8}$ %	1 yr. 5 mos.	Mar. 15, 1944	0.95%	100 2/32	2/32
1 3/8%	3 yrs. 2 mos.	Dec. 15, 1945	1.30%	100 8/32	8/32
			1.35	100 3/32	3/32
1 1/2%	3 yrs. 11 mos.	Sept. 15, 1946	1.44%	100 7/32	7/32
			1.48%	100 2/32	2/32
	4 yrs. 2 mos.	Dec. 15, 1946*	1.50%	100	-0-
*(reopening of 1 1/2% T.N. due 12/15/46, Series 'B')					
1 5/8%	4 yrs. 8 mos.	June 15, 1947	1.57%	100 8/32	8/32
			1.61%	100 2/32	2/32
	4 yrs. 11 mos.	Sept. 15, 1947	1.59%	100 6/32	6/32
			1.62%	100 1/32	1/32

Treasury Bonds - Fixed Maturity

1 3/4%	5 yrs. 2 mos.	Dec. 15, 1947	1.65%	100 16/32	16/32
			1.70	100 8/32	8/32
	5 yrs. 5 mos.	Mar. 15, 1948	1.68%	100 11/32	11/32
			1.73%	100 3/32	3/32
2 %	8 yrs. 2 mos.	Dec. 15, 1950	1.95%	100 13/32	13/32
			1.97%	100 7/32	7/32
	8 yrs. 5 mos.	Mar. 15, 1951	1.97%	100 8/32	8/32
			1.99%	100 3/32	3/32

-2-

Treasury Bonds - Callable Issues

<u>Coupon</u>	<u>Approx. Term</u>	<u>Due Date</u>	<u>Yield</u>	<u>Market Price</u>	<u>Premium</u>
2 $\frac{3}{8}$	7 yrs. 5 mos.- 9 yrs. 5 mos.	Mar. 15, 1950-52	2.00%	100	-0-
2 $\frac{1}{4}$	11 yrs. 11 mos.-	Sept. 15, 1954-57	2.21%	100 $\frac{13}{32}$	$\frac{13}{32}$
	14 yrs. 11 mos.		2.23%	100 $\frac{6}{32}$	$\frac{6}{32}$
	12 yrs. 11 mos.-	Sept. 15, 1955-58	2.23%	100 $\frac{7}{32}$	$\frac{7}{32}$
	15 yrs. 11 mos.		2.25%	100	-0-

INCOME AND EXCESS PROFITS TAXESFOR SEPTEMBER 1942AS COMPARED WITH JUNE 1942BYFEDERAL RESERVE DISTRICTS

	<u>Sept. 1942</u>	<u>June 1942</u>
BOSTON	\$ 170,413,067.31	\$ 151,764,845.41
NEW YORK	572,245,303.10	606,016,011.30
PHILADELPHIA	182,139,376.38	183,977,761.99
CLEVELAND	257,432,432.52	251,489,276.96
RICHMOND	112,353,295.68	114,814,117.18
ATLANTA	75,205,299.91	74,372,220.00
CHICAGO	420,829,085.06	396,858,161.26
ST. LOUIS	51,247,709.71	45,290,592.09
MINNEAPOLIS	22,477,204.68	23,494,237.16
KANSAS CITY	53,724,481.69	50,731,652.45
DALLAS	44,986,742.45	45,056,575.30
SAN FRANCISCO	<u>152,659,554.50</u>	<u>141,833,074.08</u>
REGIONAL, FEDERAL RESERVE BANKS . . .	\$ 2,115,713,552.99	\$ 2,085,698,525.18
TERRITORY OF HAWAII	<u>**1,234,883.16</u>	<u>*296,086.17</u>
GRAND TOTAL	<u>\$ 2,116,948,436.15</u>	<u>\$ 2,085,994,611.35</u>

Reports June 15, 16, 17, etc. not yet received.

Reports Sept. 15, 16, 17, etc. not yet received.

10-5-

OCT - 5 1942

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

Dear Henry:

I have received your letter of September 25, 1942, in which you invite my attention to the delay on the part of the War Department in the delivery of war bonds to soldiers. While I have not been unmindful of this situation I appreciate your calling it to my attention. In view of your concern, which I also share, it is my thought that you may be interested in a statement of the War Department procedure leading up to the present situation, and the action which is now under consideration to improve it.

In connection with the establishment of the War Department Pay Reservation Plan for the purchase of war bonds by all Army personnel and civilian employees in or under the War Department, the initial major decision to be made was whether the sale of these bonds should be conducted through a centralized or a decentralized system. It was decided, and so planned upon the information and experience then available, that centralization in Washington of the accounting procedures in connection with such sales would most efficiently and promptly accomplish its purpose; first, because of the desire to remove all administrative work from field organizations, so far as possible, thus releasing the energies of personnel of such organizations for strictly combat training and duty; second, because the continued movement of individuals and organizations seemingly made impracticable a decentralization of operations; and third, because of the availability in Washington of accounting machines whereby it was thought that economy and speed of operation could best be accomplished.

The plan became effective last April. From that month to September inclusive, reservations from pay have been authorized by 2,065,366 subscribers, a volume which, unquestionably, far exceeds that of any other Government Department. There have been inherent difficulties in procedure, and in the procurement and

training of personnel, in a newly established organization confronted with such a burden of business. Also the time required for the transmittal of vouchers to Washington has been found to be greater than anticipated. Nevertheless it is confidently expected that, with the present organization and procedure, it will be possible by December 15th to mail bonds to military subscribers in the United States within forty-five days following the month in which complete payment of the bond has been made. Procedures will soon be put into effect which will result in a reduction of the time required for the transmittal of actual pay deduction information from organizations stationed both in the United States and overseas. It is believed that such action will reduce the time to considerably less than forty-five days for the dispatch of bonds to subscribers in the United States.

Moreover, it is planned to decentralize, at an early date, the sale of bonds to civilians by the employment of bonded Issuing Agents designated by the Treasury both in the field and in the District of Columbia. It is believed that such action will eliminate any delay in the delivery of bonds to such employees. This plan may be put into effect, to a limited extent, for military personnel.

It will be appreciated, I am sure, that it is impracticable to deliver bonds to the millions of men in the Army, a great number of whom are constantly in transit from one place to another, and who are stationed throughout the world, with the same expedition as in their delivery to civilian personnel.

The Chief of Finance, who is the War Bond Officer for the War Department, is of the opinion that the foregoing measures will prove effective. I assure you that this matter is receiving his earnest attention and that it is one in which I am personally interested.

Sincerely yours,

HENRY L. STIMSON

Secretary of War.

Copy to accompany original.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

102
DATE
October 5, 1942.

TO Secretary Morgenthau

FROM Ferdinand Kuhn, Jr. ^{F/K.}
George Buffington ^{G/B.}

You will remember that the War Bond people recently worked out what promises to be a satisfactory arrangement with the Advertising Council for the writing and preparation of War Bond advertising and promotion material. The Council agreed to appoint an account executive with two assistants to handle all our requests for War Bond copy and to farm it out among several of the biggest agencies.

We are now applying this procedure in the case of other Treasury promotion. The Advertising Council appointed the Albert Frank Gunther Law Agency to handle copy for Series F and G Bonds, and we had a long and productive meeting with the executives of this agency about ten days ago. Thomas Lane, of Vincent Callahan's shop, will be the channel through which all our requests concerning F and G Bonds will be handled at this end.

In line with the same procedure, the Advertising Council has appointed Doremus and Company to handle the promotion of the Series C Tax Savings Notes, and we had a useful meeting with two executives of this agency last week. They intend to make a special effort to reach small corporations through local publicity in the smaller cities so as to broaden the sale of these notes. They seem to realize that if this operation is to be successful it must get away from the financial pages of the big metropolitan dailies and must be brought to the attention of businessmen throughout the country. Mr. Hobbs, of George Buffington's shop, will be the channel for dealing with Doremus at this end until such time as a man is appointed to supervise all publicity matters for the Victory Fund Committee.

The next step, in the cases of the F and G Bonds and the C Notes, will be for the agencies to submit to us their proposals for reaching the respective markets most effectively.

Regarding the Series A notes, which require mass merchandising tactics, the Advertising Council has promised to appoint an agency early this week and to send representatives of this agency to Washington for a similar meeting. The Advertising Council seems to feel that little can be done with the mass of taxpayers until they know exactly what their taxes will be. We are urging that the campaign be laid out in advance as far as possible, so that the moment the tax bill is passed we shall be able to start in the newspapers and magazines of the country.

The Disney film project, which might have been used for Tax Savings notes, was, as you know, turned down by the Bureau of the Budget, and we were told to get our money from Lowell Mellett. John Sullivan sent a formal request to Lowell Mellett a week ago, but so far has not even received an acknowledgment.

J.K.

TREASURY DEPARTMENT

104

INTER OFFICE COMMUNICATION

DATE October 5, 1942

TO Secretary Morgenthau
FROM Vincent F. Callahan

The new program which we inaugurated Saturday night, October 3rd over the Mutual Network is entitled THE SATURDAY NIGHT BOND WAGON. It is planned to have it broadcast each week from 10:15 to 10:45 PM.

Mr. William Rainey has arranged with the Radio Directors' Guild to supply one of their outstanding directors each week and the scripts are to be supplied by the War Writers' Board. We plan to use outstanding stars of the entertainment field and hope to avoid using a set format.

Last Saturday's program included Bob Hawk, Jack Pearl and Cliff Hall, Ethel Merman, and Ex-Governor Alfred E. Smith.

We are trying to achieve the atmosphere of a bond rally in terms of radio with heavy emphasis on the direct sale of bonds on each broadcast. Each station on the network cuts in for 45 seconds to handle a local appeal according to the system that each one has set up for itself. Those stations that have qualified as issuing agents accept direct telephone calls.

Vincent F. Callahan

October 5, 1942.

Dear Mr. Fleming:

I appreciate your letter of September 25th regarding the clearance of Mr. Bard's speech.

Naturally we would have liked a look at this speech before delivery, but the reference to War Bonds was not very important, and it has not been noticed in the general stir that Mr. Bard seems to have created.

Your office has been most efficient and helpful on speech clearances in the past, both with Treasury speeches which have gone to you for approval and with those of other agencies which you have given us an opportunity to clear. I know from your friendly letter that you will keep up the good work.

Sincerely,

(Signed) H. Morgenthau, Jr

Mr. John R. Fleming,
Chief, Bureau of Publications
and Graphics,
Office of War Information,
Washington, D. C.

FK:eg

OCT 2 1942

106

OFFICE OF WAR INFORMATION
WASHINGTON

September 25, 1942

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

My dear Mr. Secretary:

We owe you an apology.

The Assistant Secretary of the Navy, Mr. Ralph Bard, submitted a speech to this office for clearance Wednesday afternoon. The speech had a passing reference to war bonds and to taxes. Through an oversight, in some part because of the necessity for speed in obtaining clearance, we neglected to refer it to the Treasury Department. It may well be that you would have preferred some modification of the references to bonds and taxes.

This sin of omission is wholly ours. We have had very few slips of this sort in speech clearance, and I can assure you I regret most keenly this particular one.

Sincerely,



John R. Fleming
Chief
Bureau of Publications
and Graphics



TREASURY DEPARTMENT

107

INTER OFFICE COMMUNICATION

DATE October 5, 1942

TO Secretary Morgenthau
FROM Huntington Cairns

The consent of Petrillo, The American Federation of Musicians, and the R.C.A. Victor Company for the production of the record "Ev'rybody Ev'ry Payday" has now been obtained. I believe there is nothing further for me to do in the matter.

HC

TO:

The Secretary

10/11/42

108

Cairns phoned from New York that Petrillo has agreed to permitting union musicians to make for Victor recording and distributing the record (platter) with the "Everybody every payday" song on one side and the infantry song on the other. Some slight details are to be ironed out with the union attorney, now in Toronto, and the matter has to be cleared with Victor, but these details should give no trouble.

WJ

TREASURY DEPARTMENT

109

INTER OFFICE COMMUNICATION

DATE October 5, 1942.

TO The Secretary

FROM Harold Graves

Herewith a report from Mr. Coyne regarding the complaint of Horace S. Meldahl, as represented by the attached telegrams.



MEMORANDUM

TO: Mr. Graves
FROM: R. W. Coyne

10/3/42

With reference to the wire of September 27 addressed to President Roosevelt by one Horace S. Meldahl of Charleston, West Virginia, and the wire of September 28 addressed to the National Labor Relations Board by the same person, I have the following report to make:

Both of these wires stated that compulsion was being used in West Virginia in connection with the War Savings Program, and employees were being discharged from plants in West Virginia for failure to buy War Bonds. Administrator Yoke has advised that Meldahl is known to him as something of a "screwball" attorney, who has been active in West Virginia in the defense of various members of the Jehovah's Witnesses Sect, and is generally regarded as their state counsel. Meldahl has been communicated with by Yoke and has particularized concerning his complaints, as follows:

At Parkersburg, West Virginia an employee of the American Viscose Company quit her job because of pressure from employees following her refusal to participate in the War Savings Program. This employee was a member of the Jehovah's Witnesses. She has not been discharged but the resentment on the part of the employees makes her return to work unwise.

Five members of the Ford Bacon Company, which is a plant being constructed for the manufacture of synthetic rubber, were discharged for the reason assigned by the employers as "failure to participate in the defense effort." These employees, also members of the Jehovah's Witnesses, were reinstated.

Mr. Meldahl, in this position, further stated that three or four additional members of the Jehovah's Witnesses had left their employment at an unnamed plant at Clarksburg, West Virginia and were "afraid" to return to work following their refusal to salute the American flag.

Mr. Meldahl has agreed to write Mr. Yoke and, if it should appear that any action is indicated on the part of the War Savings Staff, Mr. Yoke will take that action.

The foregoing was obtained in two telephone calls from Parkersburg, West Virginia this morning. In view of the facts contained in the second telephone call, it is thought that this report may suffice your needs. Any additional report that is made will be promptly forwarded to you.

Rwb

CLASS OF SERVICE

This is a full-rate telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.

WESTERN UNION ¹¹¹

A. N. WILLIAMS
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. G. WILLEVER
FIRST VICE-PRESIDENT

SYMBOLS

DL	Day Letter
NT	Overnight Telegram
DC	Deferred Cable
NLT	Cable Night Letter
Ship Radiogram	

The filing time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination.

JB118 69 DL=CHARLESTON WVIR 28 1205P

1942 SEP 28 PM 2 03

NATIONAL LABOR RELATIONS BOARD

WASHDC

Treasury

TO MAKE HUNDRED PERCENT PLANTS, THOUSAND THROUGHOUT NATION
 PRODUCING FOR DEFENSE ARE BEING DISCHARGED FOR FAILURE TO
 BUY WAR BONDS REGARDLESS OF REASONS YET EMPLOYERS AND
 INDEPENDENT PEOPLE ARE NOT COERCED THIS WAY. IF COMPULSORY
 WHY NOT TAXATION OR ENFORCED SAVINGS REACHING ALL? WORD FROM
 YOU WILL STOP SUCH COERCION BY OVER ZEALOUS BOND SALESMEN
 TRYING TO MAKE RECORDS FOR THEMSELVES. LETS KEEP AMERICA
 FREE. PLEASE ADVISE YOUR ATTITUDE.

HORACE S. [REDACTED]

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

112

The White House
Washington

SEP 28 8 19 AM 1942

Tranny

WB16 58 NT

CHARLESTON WVIR SEP 27 1942

HON FRANKLIN D ROOSEVELT

WHITE HOUSE

TO MAKE HUNDRED PERCENT PLANTS THOUSANDS THROUGH OUT NATION
ARE BEING DISCHARGED FOR FAILURE TO BUY WAR BONDS REGARDLESS
OF REASONS, YET EMPLOYERS AND THE RICH ARE NOT COERCED THIS
WAY. IF COMPULSORY WHY NOT TAXATION REACHING ALL ACCORDING
TO MEANS? YOU BELIEVE IN A FREE COUNTRY. WORD FROM YOU WILL
CORRECT THIS UNFAIRNESS. WHAT IS YOUR ATTITUDE?

HORACE S MELDAHL.

October 8, 1942.

Dear General Croninger:

It was very good of you to send me a framed copy of the picture taken when I visited the New York Port of Embarkation. I am very glad to have the photograph in this permanent form as a memento of an interesting trip.

Sincerely,

(Signed) H. Morgenthau, Jr.

Major General Homer N. Croninger,
United States Army,
New York Port of Embarkation,
Brooklyn, New York.

GEF/dbs

File in Diary

118
WAR DEPARTMENT
NEW YORK PORT OF EMBARKATION
OFFICE OF THE COMMANDING GENERAL
BROOKLYN, N. Y.

114
HMG/hfz

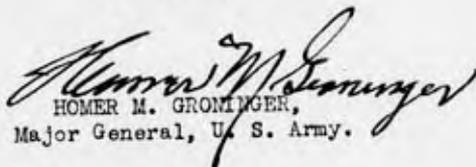
October 2, 1942

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

My dear Mr. Secretary,

Please accept this photograph as a
memento of your visit to the New York Port of Embarkation.
It was a genuine pleasure as well as an honor to have had
you with us.

Sincerely,


HOMER M. GRONINGER,
Major General, U. S. Army.

October 5, 1942

Dear Lauch:

Thanks for your very amusing letter. Permit me to give you a chuckle. Here is a story told me by an officer in the Infantry. On a recent trip to Miami he found, on entering a bar attended mostly by the Air Corps, the following sign, "Lieutenant Colonels of the Air Corps under 21 years old unless attended by their mothers will not be served drinks at this bar."

Here's for more humor and greater successes!

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Honorable Lauchlin Currie,
Administrative Assistant to the
President,
The White House.

Del. by Harmon 4:40 10/5/42
File in Diary.

THE WHITE HOUSE
WASHINGTON

October 2, 1942.

Dear Mr. Secretary:

Judging from the papers, you have been having rather a grim time recently, so I thought perhaps you might appreciate a chuckle. Hence the enclosed, which I picked up at New Delhi.

Yours sincerely,



Lauchlin Currie

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

A TRUE COPY

Chinese Liaison Mission,
Margherita, 8-7-42.

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To Lt. General Sun
Commanding 38 Div., C.E.F.

I have the honour to forward herewith copies of correspondence between the proprietor of the Lede Tea Estate and the Officer Commanding 112 Regiment.

I am sure that you will agree that the matter and the tone of the latter's letter is most ill judged and requires an apology, and that you will take the necessary steps to obtain this and will forward to me for transmission to Mr. Hughes.

Such a letter as Colonel Chen's can have only the worst possible effect upon the good relations between our respective countries which we are all so anxious to maintain.

Brigadier
CLP to CEF

Copy to H.Q., C.E.F.
Dibrugarh

ssg

A TRUE COPY

Manager,
Leda Tea Estate.

Subject: Adieu Words.

Your letter dated 3rd July and Bill No. 12/ML/1942 were received yesterday. The letter is fine reading and the bill is clear enough without error. We ought to reimburse you the sum You've showed but I'm sorry I can't. As I assess the coal which was used "to fill up the holes" "Making roads, etc." was not so much as amounting 67.18 tons I think at most 10 tons and as your price it cost you Rupees 140. Yet I can't pay you for that number. I've another suggestion to make you for to deal with the problem---. You may hire 1000 coolies and let them take the coal bak in one days work. At most 50 p per day, it will cost only you Rs. 50 and say that there must be 1/2 ton left on the ground in the holes and on the road, which will cost you Rs. 7 your final and total cost.

Furthermore Ill tell you that you may use another method to get back those 57 Rupees through getting Rs. 743 after selling the bamboos which we've gathered for your estate. Rs. 127 by selling boards and Rs. 26 by selling string totally you can get Rs. 896 through which you can get Rs. 839 extra.

Besides the labour which we expend to repair your iron floor cost us Rs. 1200, to repair the ground cost us Rs. 790 to repair the road cost us Rs. 450 altogether Rs. 2850. Then your net profit will be Rs. 3689 which we don't want to take back.

And last I have a few words to say to you

- (1) China and Britain are friends now. Britishers had better not treat their friends as we Chinese like that. I saw the Britishers in China, they are not treated so.
- (2) You ought to know that an Army after hot flight and long withdrawal must be very careless and often do something which always causes others troubles. We who had fought three months and once saved so called First Burma Division (British) and had a long retiring are content for our behaviours. And we can say that no army in the world can do better than us, therefore
- (3) Your absolutely wrong during our garrison here to cause countless trouble meaningly. I know you've always been meaningly as
- (4) Once you took a paper bearing some bloody words, which said that two of our officers had gone into one of your house and "forced" your men to take away two water tins and they took out their pistols which was absolute nonsense. You did defame us by making such a bloody paper.
- (5) You've no feeling of "Allies Spirit" Therefore I say you've no nationalism in your mind, not to say unpatriotic. One can't live in this warlike world without some natural feeling. Therefore I do say
- (6) You are a money finder penny minded ghost. A Jew, a Shylock (if you've ever read The Merchant of Venice by your Ancient Master Shakespeare) and at last and to conclude - - - you've lost your countries face.

I am sorry I may offend you by saying so, yet I must say so by my conscience. Adieu.

I am, and always remain,

your faithfully friend

Sd.J.Chen, Col. commanding 112 Regt.

Treasury Department
Division of Monetary Research

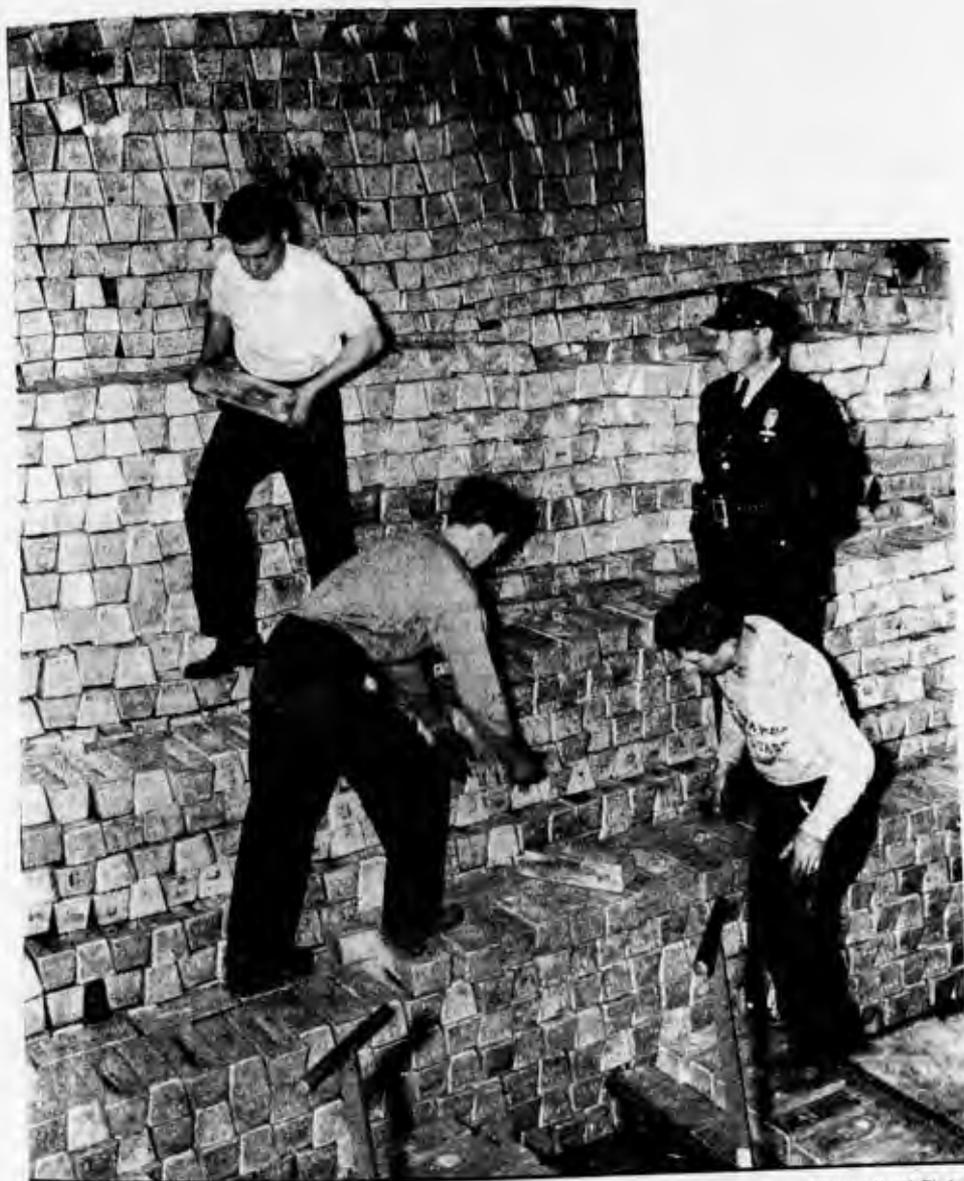
Date.....10/5/42.....19

To: Secretary Morgenthau

You may be interested in
glancing at this.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½



(International Photo)

A scene in one of the many vaults at West Point Silver Depository as men load trucks with silver bars weighing 72 pounds and up, and worth from \$500 to \$1,000 a bar. WPB has ordered release of precious metal to industries needing silver for war effort.

K... P...

TREASURY DEPARTMENT

121

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 5, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending October 3, 1942.

Summary

(1) National income payments in August rose to a new record peak at an annual rate of \$116.4 billions, as compared with \$114.1 billions in July. In the early part of 1940, before the defense program got under way, the annual rate of income payments was running at approximately \$74 billions. Since that time the estimated purchasing power of national income payments has risen about 33 percent, despite the intervening rise in the cost of living.

(2) Basic commodity prices in the aggregate showed a further moderate rise last week. Due largely to new highs recorded for prices of hogs, butter and rosin, the BLS price index of 28 basic commodities advanced fractionally to a new high approximately 70 percent above its pre-war level. The BLS all-commodity index in the week ended September 26 again advanced fractionally, with higher prices for farm products and foods.

(3) Average farm prices as of September 15 were unchanged from a month earlier, and again averaged 107 percent of parity.

(4) Action initiated by the President under the new anti-inflation legislation brings 90 percent of foods under OPA control from the previous 60 percent. In fixing ceilings on farm products, deductions from parity prices are to be made for benefit payments and subsidies, as against the inclusion of farm labor costs.

(5) Total retail trade rose more than seasonally in August as the aggregate dollar volume of sales increased 6 percent over the previous month, according to Department of Commerce data. However, sales were still 1 percent under August 1941, when a heavy wave of advance buying was under way. Department store sales in the week ended September 26 moved up to the highest levels since the week before Easter.

- - - -

- 2 -

National income payments rise to new high

National income payments continued to expand during August and rose to a new record peak at an annual rate of \$116.4 billions. This figure compares with \$114.1 billions in the previous month and \$94.8 billions in August 1941. In the early part of 1940, before the defense program got under way, national income payments were running at an annual rate of about \$74 billions. (See Chart 1.)

Although living costs also moved higher in August, national income payments rose at a faster pace. The estimated purchasing power of income payments consequently made a further advance to a new high. Since the early part of 1940, the estimated purchasing power of national income payments has risen about 33 percent. (Refer to Chart 1.)

Salaries and wages, the dominant factor in national income payments, continued to rise in August and showed gains on both a seasonally-adjusted and unadjusted basis. Actual dollar payments for salaries and wages in August were 2.7 percent higher than in July, and 27.7 percent higher than in August 1941. They were 70 percent above the level of early 1940.

Retail trade improved

After lagging behind the rising tide of national income payments since last January, seasonally-adjusted retail sales turned upward in July and then showed further gains in August. With the sole exception of filling stations, all store groups showed gains from July to August after allowance for seasonal factors, and the aggregate dollar volume increased 6 percent.

Nevertheless, total sales in August were still 1 percent below the unusually high level attained in August 1941. If sales of automotive stores are excluded, however, sales were 7 percent above the corresponding month in 1941. The widest gains over 1941 levels were shown by jewelry stores, drug stores, food stores, and eating and drinking places, with increases ranging from 21 to 23 percent.

An August retail sales survey by the Census Bureau, exclusive of chain stores and mail order houses, revealed that liquor stores led the gains over year-earlier levels for the fifth consecutive month, with an increase of 29 percent. On the other hand, motor vehicle and household appliance dealers showed declines of 60 and 50 percent respectively, reflecting the curtailments in production of these items.

- 3 -

Department store sales at high levels

Rising consumer incomes are doubtless being reflected in the retail sales upturn noted in recent weeks. Department store sales in the week ended September 26 rose to the highest levels since the week before Easter. Moreover, sales again ran 5 percent above 1941 levels, despite the advance buying that was in progress at that time last year in anticipation of new excise tax levies that went into effect October 1, 1941. (See Chart 2.) All districts except New York showed gains over the corresponding week in 1941.

In contrast with the showing in August, when department store sales lagged 5 percent behind year-earlier levels, sales in the 4 weeks ended September 26 ran 8 percent above the corresponding period in 1941. Moreover, the improved retail sales trend appears to have continued during the past week, as Dun and Bradstreet's report for the period states that "sales of fall merchandise have expanded faster than usual in all sections of the country." It was further indicated, on the basis of preliminary reports, that the aggregate sales volume held close to the peak reached just before the new excise taxes went into effect a year ago. However, it was reported elsewhere that sales in New York last week were sharply below year-earlier levels, due to the heavy volume of pre-tax buying in the 1941 week.

Commodity prices continue advance

Basic commodity prices advanced again last week, continuing the rise begun in August when the prospect of new anti-inflation legislation became apparent. (See Chart 3.) The index of 9 uncontrolled commodities rose sharply, reflecting new war-time highs in hogs, butter, and rosin. Grains and cotton moved uncertainly as last minute compromises on the pending bill were in the making. Among the 19 controlled commodities, wool top prices increased moderately on announcements of new Government contracts. The BLS index of 28 commodities now stands practically 70 percent above its pre-war level.

Continued sharp advances in wholesale prices of farm products and foods during the week ended September 26 again slightly lifted the BLS all-commodity index. At a level of 99.4, the index stands 9.0 percent higher than a year ago, and 32.5 percent higher than in August 1939. The index has recently been gradually rising. In the four-week period ended August 22 the index increased 0.5 percent, and in the

four-week period ended September 26, it increased another 0.5 percent. There is doubt, however, whether the index now reflects the magnitude of the actual price rise.

Hog prices rising again

Hog prices again rose last week as marketings continued too light for demand. With the recent rise in hog prices, and the price of pork remaining stable under ceilings, packers' margins have again declined, as indicated by the Department of Agriculture calculations shown in Chart 4.

Last week the Department announced its heaviest purchases of pork since the two-week period ended August 15, although purchases were still confined largely to the canned product. Unusual demand for lard is considered responsible for much of the strength in the hog market. At times heavy lard-type hogs are selling at practically the same level as the lighter-type hogs, although normally the lard-type is quoted at a substantial discount.

Wholesale beef rationed and placed under ceiling

Two measures were taken last week to alleviate the beef price and supply situations. A ceiling of 23 cents a pound wholesale, at delivery points, was placed on choice beef, with lower ceilings on poorer grades. This will supersede "unduly high individual ceilings" which, according to the OPA, have permitted some packers to bid livestock prices above those which other packers could afford to pay.

A reduction amounting to about 20 percent in meat deliveries for civilian use during the last quarter of the year has been ordered by the OPA. Civilian deliveries will be limited to the following percentages of deliveries during the last quarter of 1941: Beef, 80 percent; pork, 75 percent; lamb and mutton, 95 percent; veal, 100 percent. Consumers are asked to observe "voluntary rationing" of 2½ pounds of meat per person a week.

Farm product prices unchanged at 107 percent of parity

Prices received by farmers as of September 15 were unchanged from a month earlier, as declines in prices for meat animals, truck crops, and other products offset higher prices received for grains, cotton, tobacco, fruits, dairy, and poultry products. The index of farm prices in September was 17 percent higher than a year earlier, and 85 percent higher than in the pre-war month of August 1939. (See Chart 5.)

Prices paid by farmers, including interest and taxes, were unchanged for the fifth consecutive month. As a result, the index of prices received by farmers in mid-September remained at 107 percent of parity, the high reached in August. It is of interest that the inclusion of interest and tax costs lowered the parity level in September, for the first time since 1919.

Consumers' food costs continue to rise

Retail food costs continue to reflect the rise in wholesale farm and food prices. Between mid-August and mid-September the BLS index of the retail cost of foods in 51 large cities increased 0.4 percent, whereas the wholesale food index rose 1.0 percent. (See Chart 6.)

Prices of food not under direct control by the OPA were 0.3 percent higher in September than in August. This monthly advance was much less than in previous months, owing to the substantial seasonal decline in prices of fresh fruits and vegetables. Prices of foods subject to OPA control increased 0.5 percent as of mid-September, which, it will be noted, was more than the increase in those not subject to control. The rise was due mainly to upward seasonal adjustments allowed for meats, which were less, however, than the usual seasonal increases.

New anti-inflation action

The OPA has acted immediately under the new anti-inflation act by placing 60-day emergency price ceilings, effective today, on a large group of foods at retail and wholesale levels. This group, representing about 30 percent of the items entering into the average family's food budget brings the total under control to about 90 percent. Products added are: flour, poultry products, most dairy products, potatoes, citrus fruits, corn meal, dry onions, dry edible beans, and mutton. The only important foodstuffs exempt for the time being are most fresh fruits and vegetables, fresh fish, and peanuts.

Although most foods are now covered by ceilings, the Price Administrator announced that prices of about 15 percent of these will be increased shortly to relieve the price "squeeze" on wholesalers and retailers who have been unable to transact business under their March ceilings.

The act directs the President to stabilize wages, salaries, and prices on the basis of September 15 levels. Adjustments may be made thereafter to aid in the prosecution of the war or to correct gross inequities. Wages and salaries may not be reduced below the highest paid between January 1 and September 15, 1942.

- 6 -

Farm product ceilings, under the act, may not be set below parity or below the highest market level between January 1 and September 15, 1942, whichever is higher. The act provides that adequate weighting shall be given to farm labor in fixing ceilings for agricultural commodities, and modifications shall be made where necessary to increase production for war purposes, or where the ceilings do not reflect increased labor or other costs incurred since January 1, 1941. The executive order, however, directs that appropriate deductions from parity prices shall be made for conservation payments, parity payments, and Government subsidies.

On cotton, corn, wheat, rice, tobacco, and peanuts harvested after December 31, 1941, the CCC is directed to make loans at 90 percent of parity. The loan rate of 85 percent may be retained for any commodity if necessary to prevent an increase in the cost of feed for livestock and poultry.

Crops frost-damaged at season's close

Abnormally low temperatures in the last week of September, according to the Weather Bureau, have caused considerable damage to late crops which had not matured. The degree of damage will be indicated in the crop reports to be released by the Department of Agriculture late this week. Killing frost between the Appalachian and Rocky Mountains affected chiefly such crops as tomatoes, lima beans, late potatoes, and more extensively, soy beans. Unusually heavy snowfall in many places between the Lake region and the Rocky Mountains caused deterioration to unthreshed grains. Most of the corn crop had developed beyond susceptibility to frost, but late fields were affected.

Concern indicated for next year's vegetable production

No hope for an increase in the aggregate vegetable crop next year is held out by the Department of Agriculture. On the contrary, the Department has released a prediction of a somewhat smaller crop in 1943, carrying implications of prices at least as high as those this year. Shortages of labor, materials, and transportation are cited as likely to cause a fall in output. Moreover, it is pointed out that the next year's crop is not likely to be favored by the unusually high yields of 1942.

In an effort to increase production, according to the press, a formal request will be made of Congress by the

- 7 -

Administration for an appropriation of several hundred million dollars to provide low-income farmers with funds enough to expand next year's output. It is proposed either to move low-income farmers to more productive land or to enable them to improve the productive methods on their own farms. It was estimated that loans would average approximately \$350 per farm. Officials emphasized that extension of credit to low-income farmers at this stage of the war would effectively stimulate production for several years.

London stock prices at new high

Following up recent gains, industrial stock prices in the London market last week advanced to another new high for the entire war period. By the end of the week the industrial stock price average stood 14 percent above the levels prevailing just before the outbreak of war in Europe. United States industrial stocks, on the other hand, despite recent improvement, were still 17 percent below the pre-war level. (See Chart 7.)

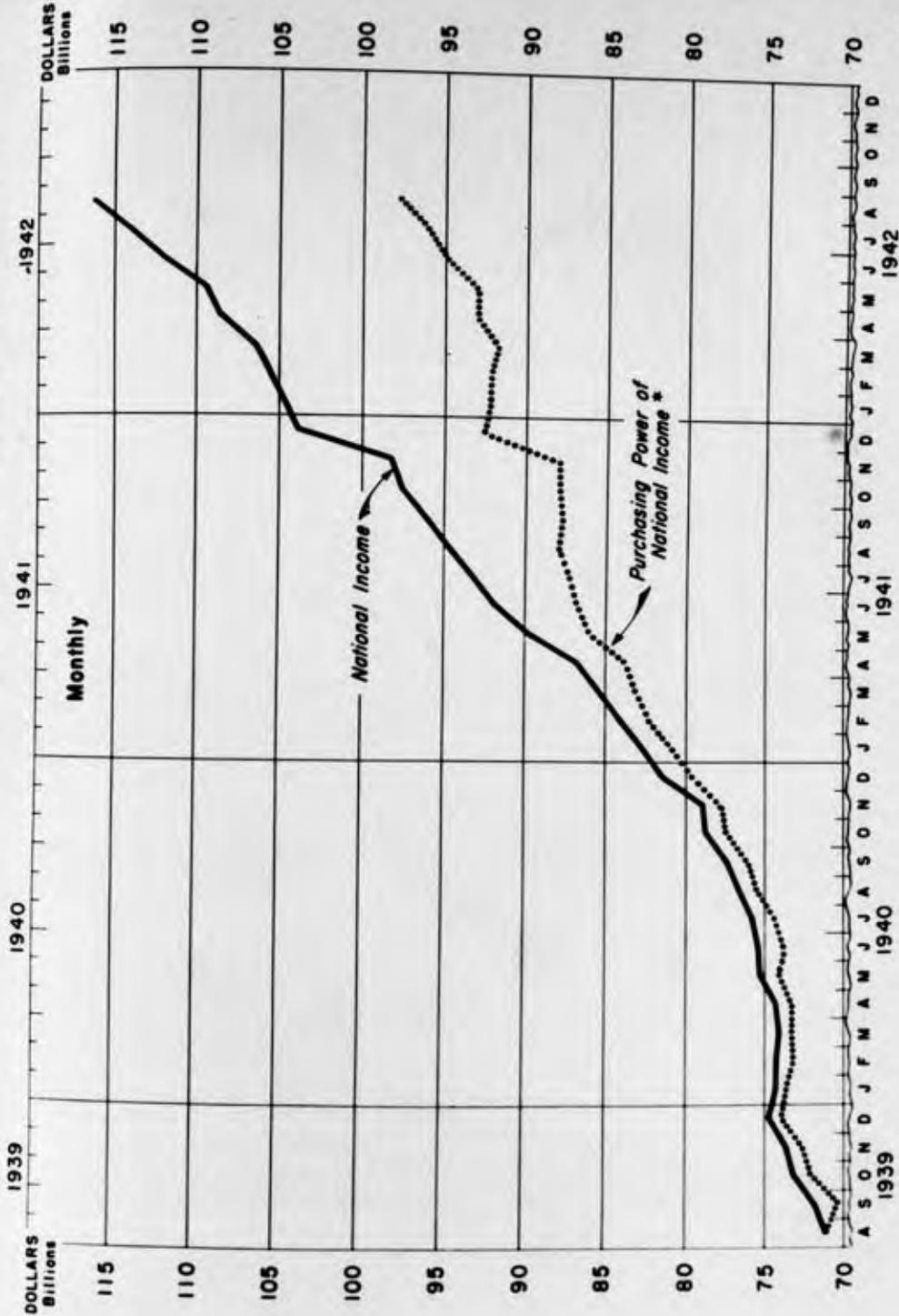
Railroad stock prices in London also have been improving recently, thus paralleling action in the New York market where strength and activity in railroad stocks and bonds have featured trading. Thus the Dow-Jones average of U. S. railroad stock prices last week advanced to within a fraction of the high for the year. Moreover, trading in speculative railroad bonds on the New York Stock Exchange last month was so heavy that total bond dealings on the Exchange reached the highest levels in 3 years.

One London commentator, according to the Wall Street Journal, states that some brokers attribute the recent rise in common stocks in that market to investors' fear of inflation induced by recent increased wage demands. Moreover, it is pointed out that controlled capital markets, and the severe limitation on the floating supply of securities, makes any reaction due to war reverses short-lived. Increased buying of real estate is also noted.

NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER

Chart 1

C-413-A

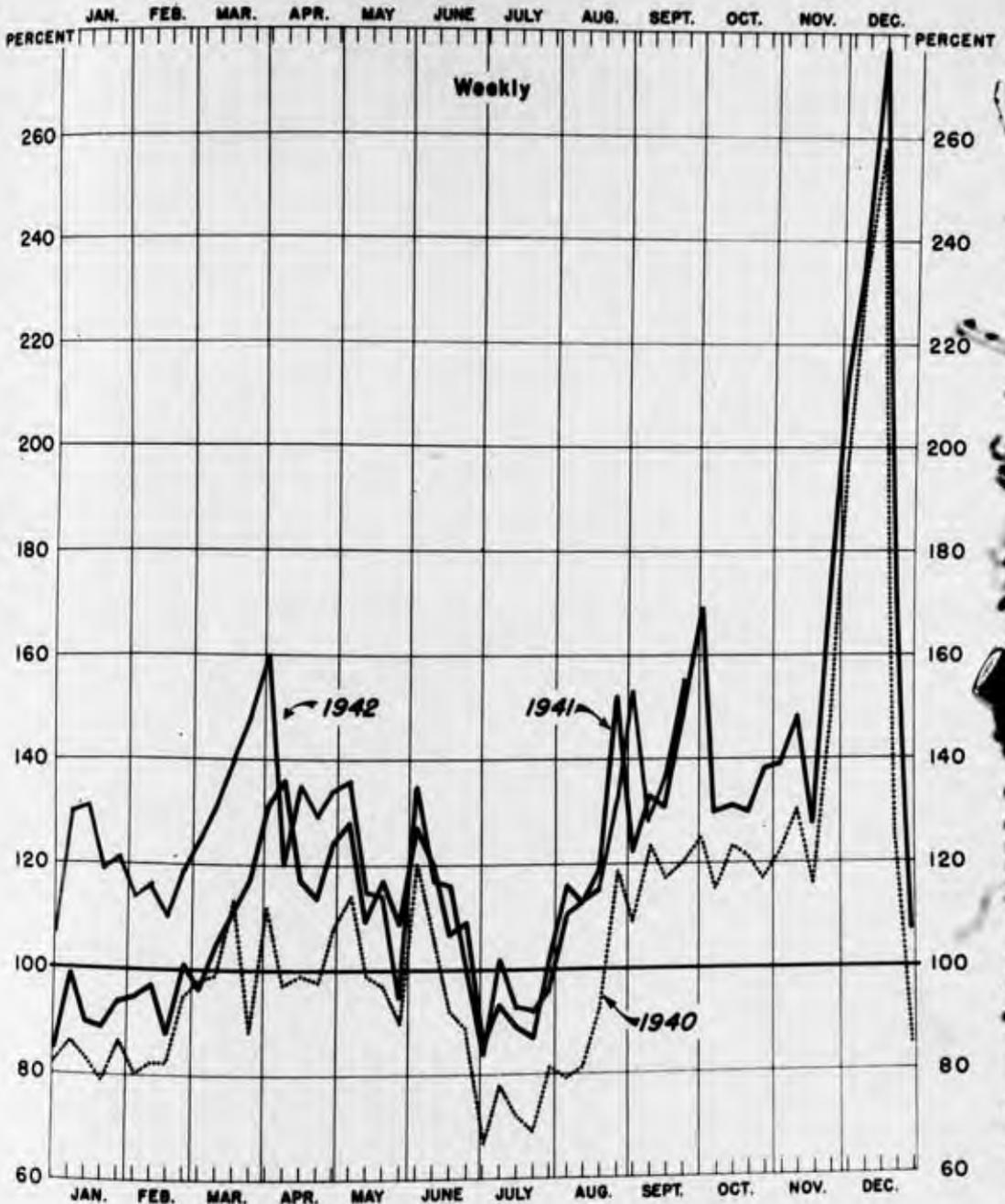


*Based on cost of living index of B.L.S. Aug. 1939=100

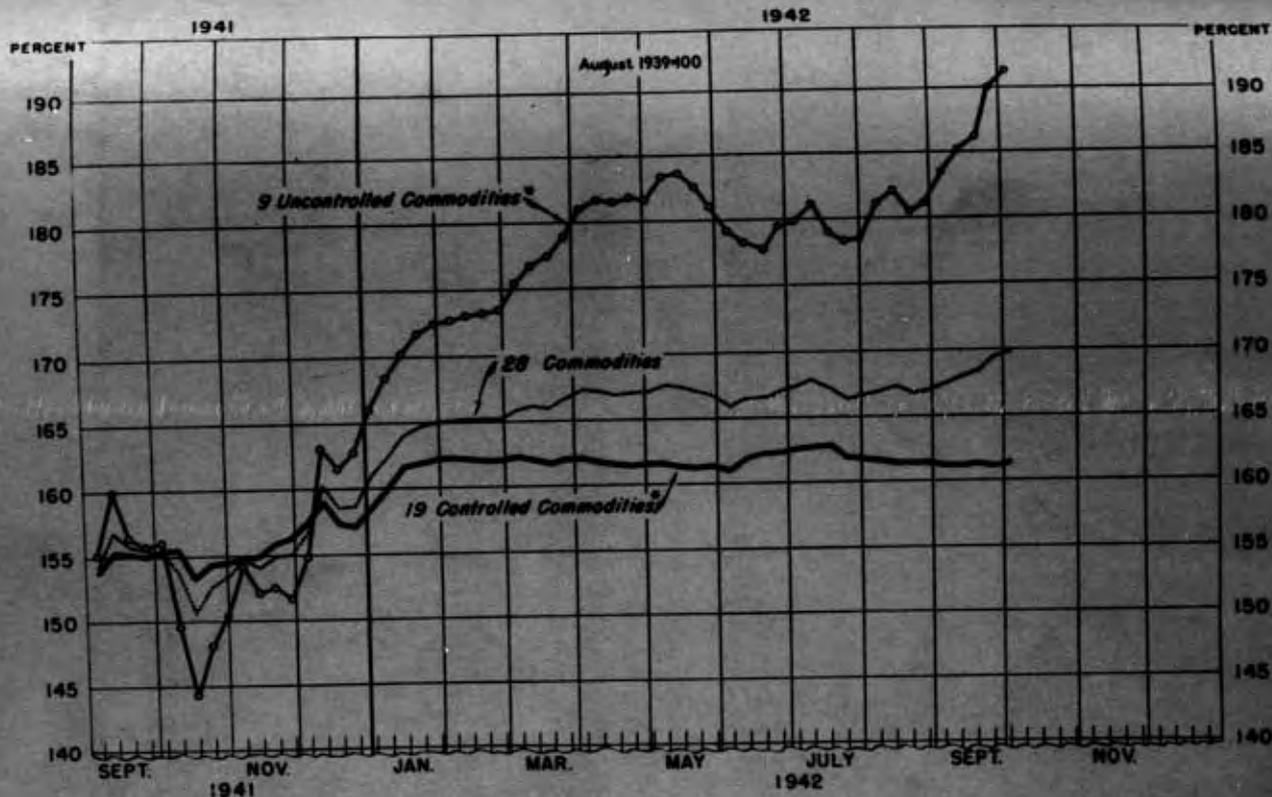
Office of the Secretary of the Treasury
Division of Research and Statistics

DEPARTMENT STORE SALES

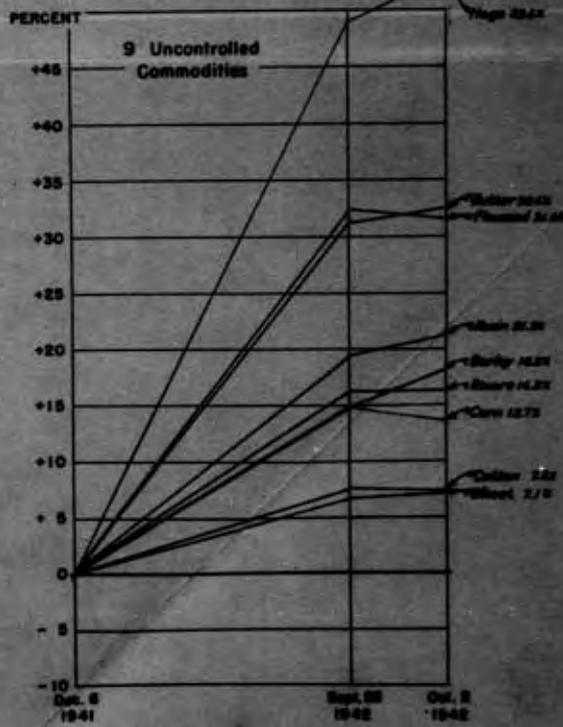
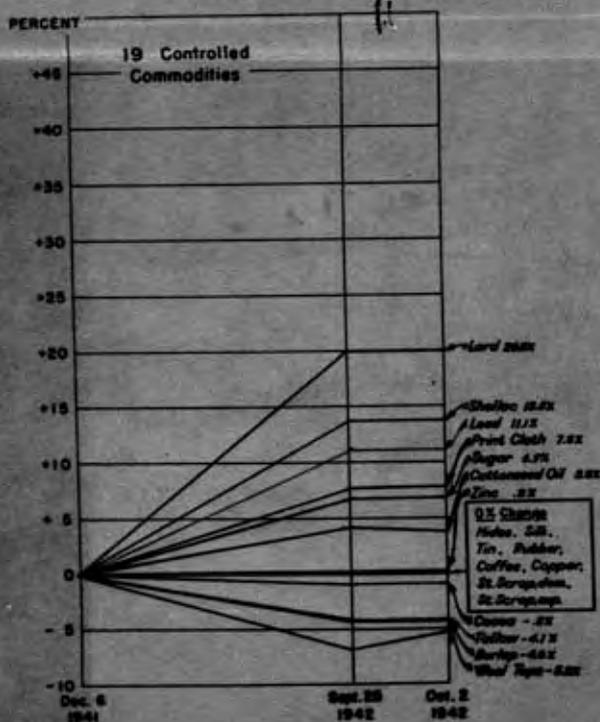
1935 - '39 = 100, Unadjusted



MOVEMENT OF BASIC COMMODITY PRICES



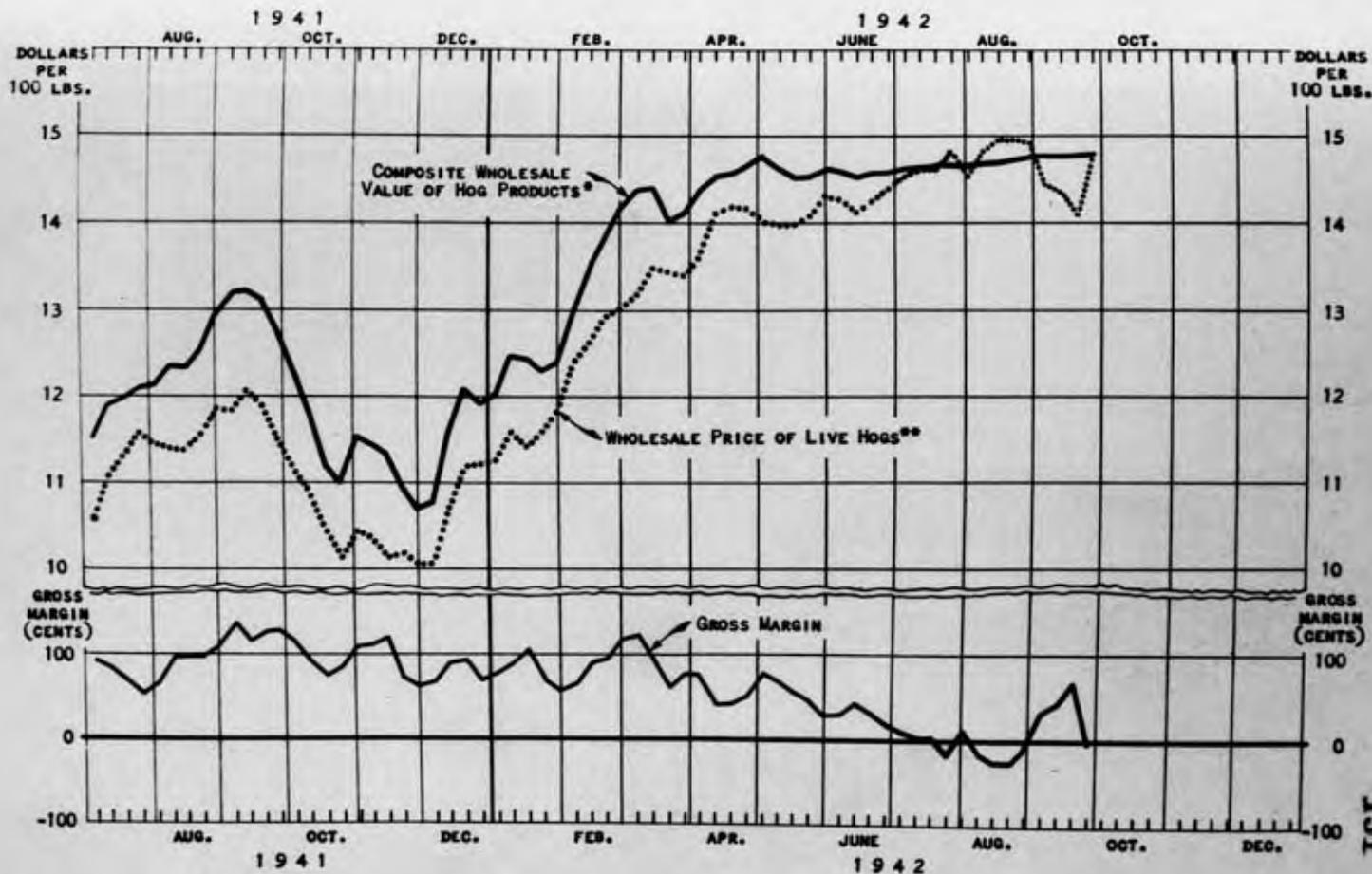
PERCENTAGE CHANGE DEC. 6, 1941 TO SEPT. 25 AND OCT. 2, 1942



* 20 Controlled and 9 Uncontrolled previous to June 29

HOG PRICES, VALUE OF PORK PRODUCTS, AND GROSS MARGINS

Weekly, July 1941 to date

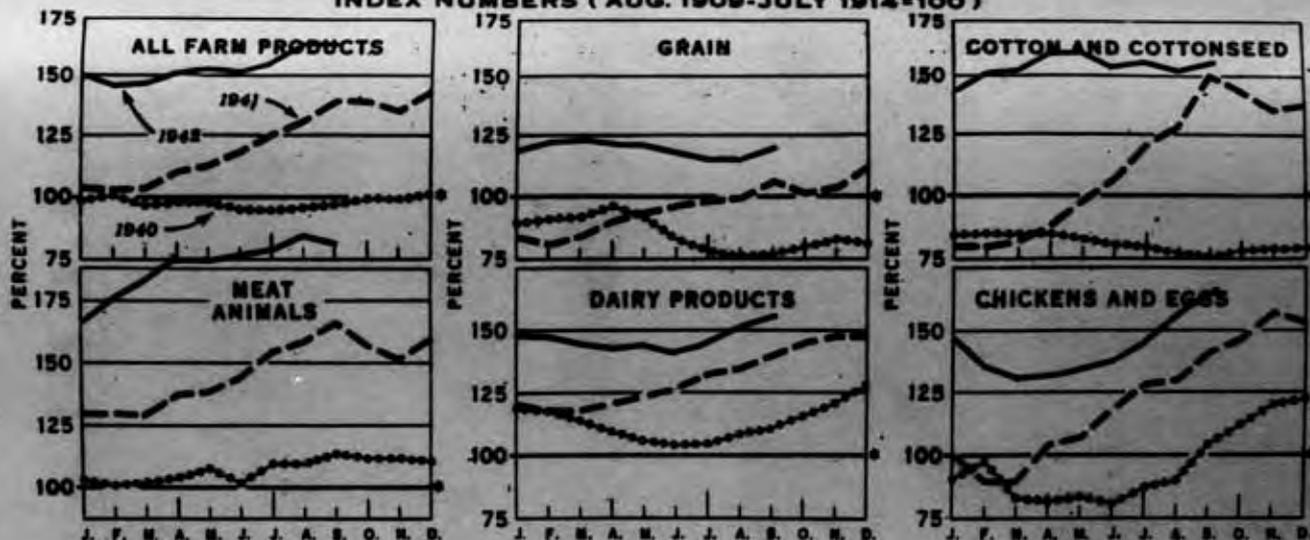


* WHOLESALE VALUE OF ALL EDIBLE PRODUCTS IN 100 LB. OF LIVE HOGS.
 ** GOOD CHOICE, 180-200 LBS.

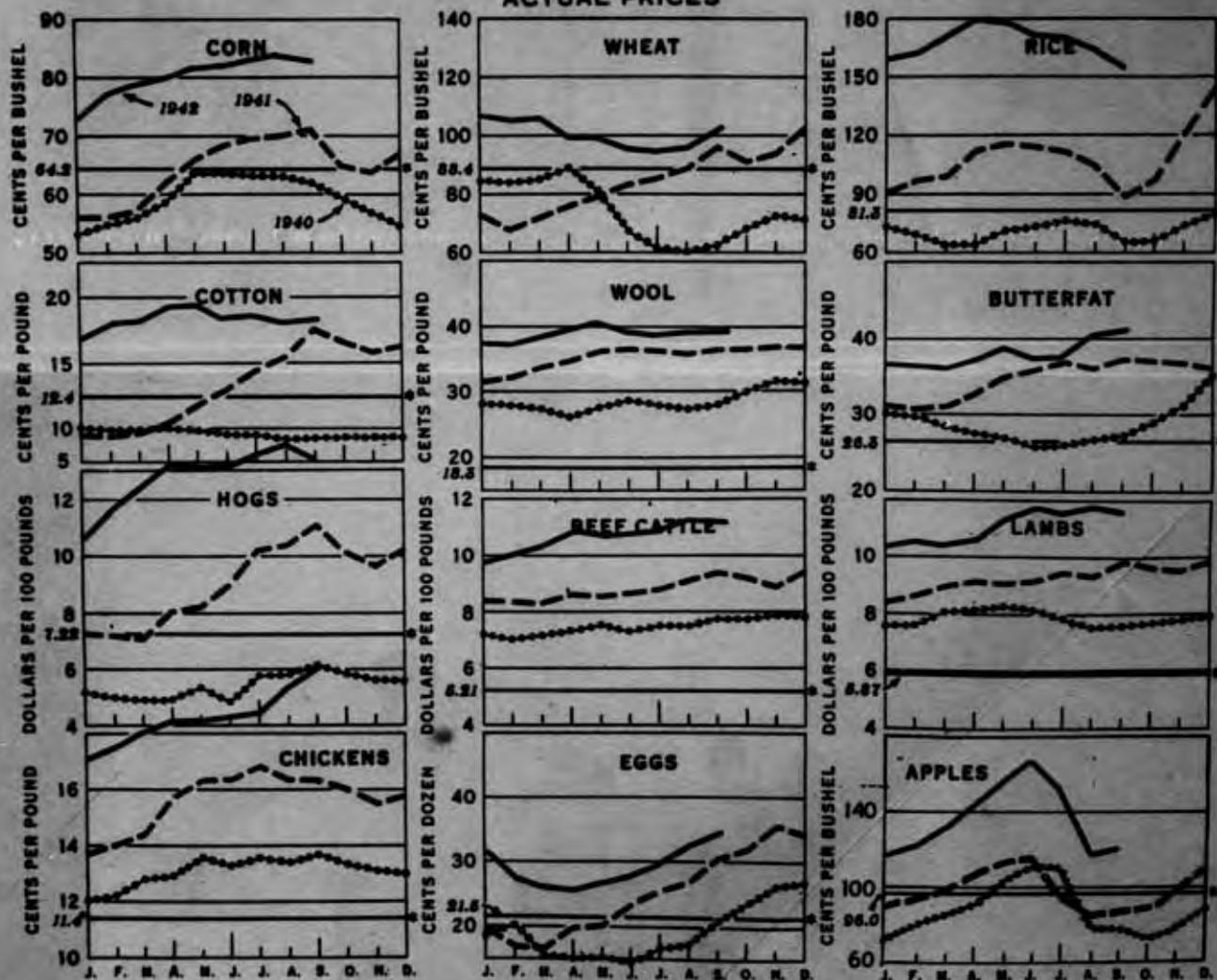
SOURCE: U.S.D.A.

AVERAGE PRICES RECEIVED BY FARMERS: GRAPHIC SUMMARY FOR THE UNITED STATES

INDEX NUMBERS (AUG. 1909-JULY 1914=100)



ACTUAL PRICES



© 5-YEAR AVERAGE, AUGUST 1909-JULY 1914

FOOD PRICES

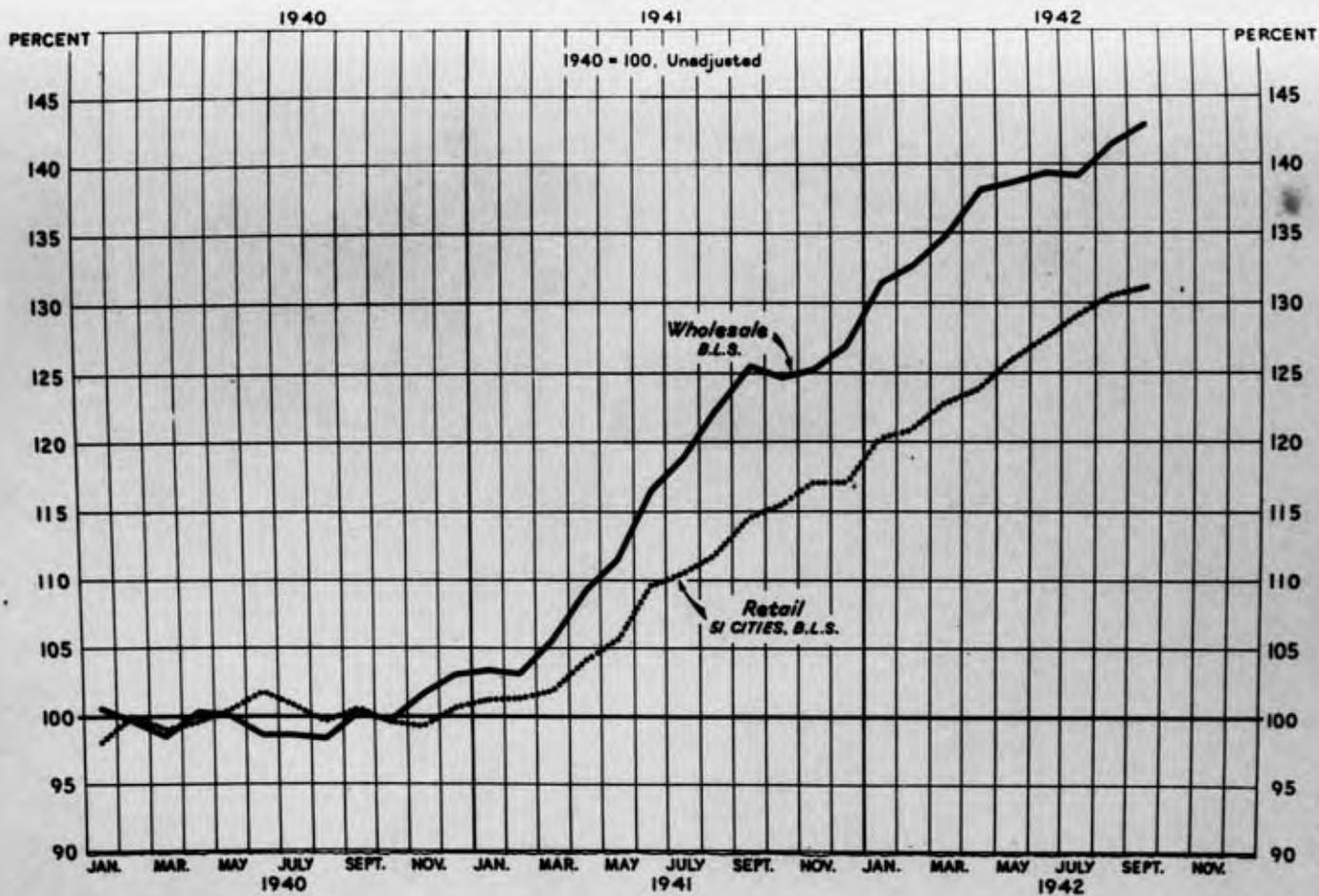
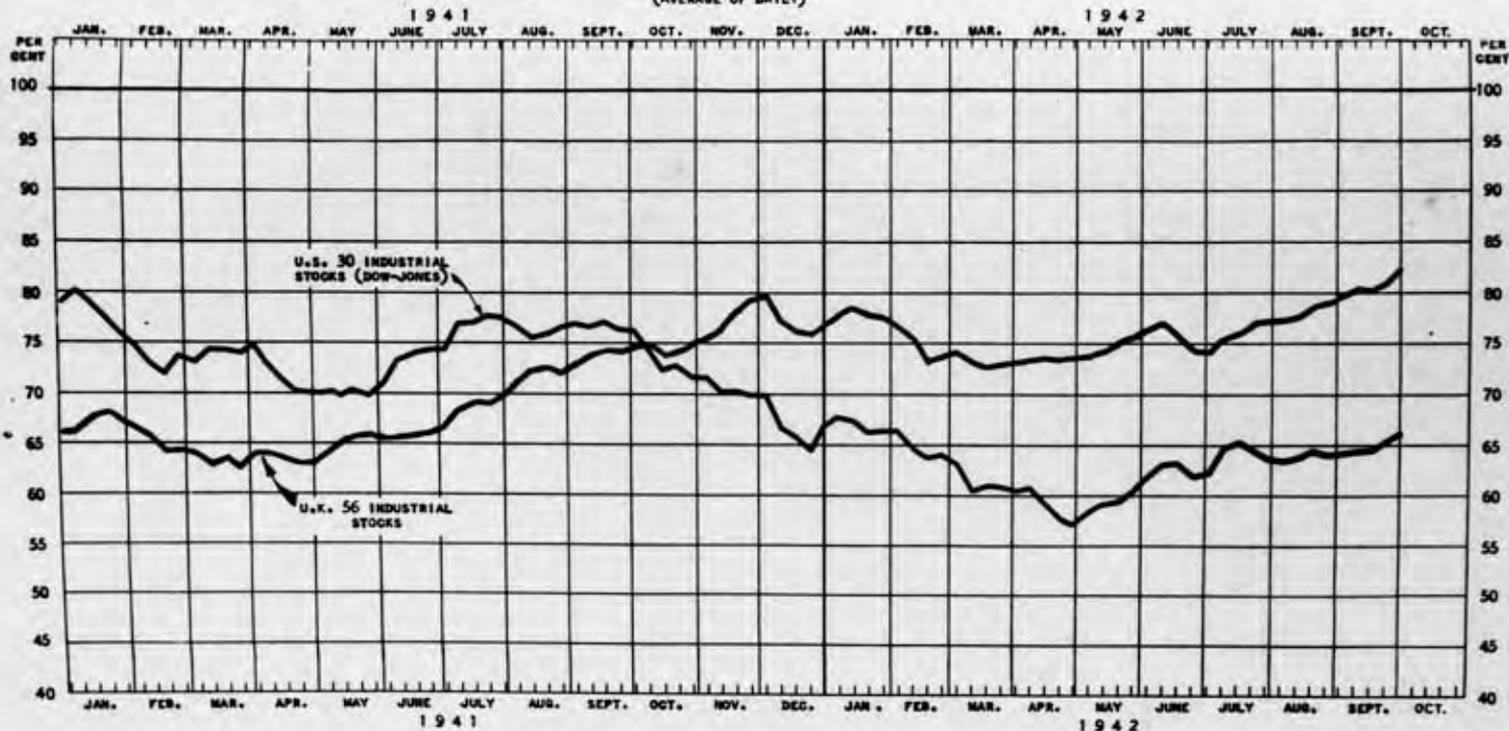


Chart 6
133

INDUSTRIAL STOCK PRICES IN U.S. AND U.K.

AUGUST 1936 = 100

Weekly
(AVERAGE OF DAILY)



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

Chart 7
13A

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

E. R. Stettinius, Jr.
Administrator

October 5, 1942

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

Dear Henry:

Thank you for your letter of October 2
relative to the valuation of reciprocal Lend-
Lease.

The suggestions in your letter seem very
sound to us and we are going to attempt to have
the substance of them incorporated in the instruc-
tions which the Army and Navy will send out to
the field on this matter.

I appreciate your cooperation in advising
with us on this subject.

With best wishes,

Sincerely yours,



E. R. Stettinius, Jr.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: October 5, 1942, 5 p.m.

NO. 3997

Reference is made to telegram no. 3984, from the Embassy at Rio, sent at 9 p.m. on October 3, 1942.

The Banks are expected to resume operations on October 8. At the same time that this announcement is made, the public will be informed by the Minister of Finance of several important new financial and economic decree-laws related to:

1. The issuance of 3,000,000 centos of ^{WAR} bonds.*
2. The compulsory purchase of war bonds by the taxpayers. The quota of each taxpayer will be equal to the income tax on 1942 profits which is payable in 1943.
3. The allotment by employers and employees of part of four per cent retirement payments for the purchase of war bonds.
4. A decree-law providing for control or expropriation of property of the Axis in Brazil (reference Embassy's telegram 3985, 3rd of October).*
6. Cruzeiro banknotes and coins replacing milreis (reference Embassy's telegram 3986, 3rd of October).
7. Short-term treasury obligations to finance the Government of Brazil to the end of 1942.
8. A decree law relating to readjustment of Brazil's current financial situation. (The Government of Brazil in this connection will increase its gold buying in the United States with dollar assets there).

In support of the new economic measures, nation-wide broadcasts are to be made this week by Boucas and the Ministers of Finance and Foreign Affairs.

CAFFERY.

* This section is being serviced.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 344

Information received up to 7 A.M., 5th October, 1942.

1. NAVAL

3rd/4th. Our light craft were in action with enemy patrols off the Dutch coast. Some damage was done to the enemy.

2. MILITARY

MADAGASCAR. With the occupation of ANTISRABE our troops from MAJUNGA have covered 460 miles in 25 days. The TAMATAVE forces have now joined this column moving by road and rail in spite of numerous road blocks and felled trees. We have now captured more than 450 miles of railway constituting the main system on the island together with much rolling stock.

3. AIR OPERATIONS

GREECE. 3rd. U.S. Liberators bombed shipping in NAVARINO HARBOUR, 4 ME 109's were destroyed in the air, 1 Liberator is missing.

MEDITERRANEAN. 3rd. A Wellington torpedoed amidships a 7,000 ton escorted southbound ship in the STRAIT OF OTRANTO. This vessel and its destroyer escort later went to CORFU.

Treasury Department 108
Division of Monetary Research

Date Oct. 5, 1942 19

To: **Secretary Morgenthau**

From: **Mr. Hoflich**

Attached is the "Voice of the
Chief" broadcast of October 1, as
reported by Federal Communications
Commission.

'VOICE OF THE CHIEF'

S.S. HAS UNDERGROUND ROUTE IN FRANCE

According to the clandestine transmitter, "Voice of the Chief", with "Gustav Siegfried Eine" broadcasting in German to the Reich (Oct. 1), the S.S. in France has established a regular "underground" route into North Africa by means of which members desert in order to shun service in Russia.

Painful S.S. Losses--"The Waffen S.S. has suffered painful losses in France", the radio says. "These losses were not incurred honorably, on the field of battle. Nevertheless, they have considerably thinned the ranks of two S.S. divisions, the Division Reich and that of the Life Standard Adolf Hitler. Both together have lost 774 men. As a result, the dispatch of 774 new S.S. warriors to France was necessary.

Understanding Boss--"Thus, within a couple of weeks, those S.S. parasites have simply deserted. How do I tell my Fuehrer? Of course, in the opinion of Obergruppenfuehrer (Chief Group Leader) Sepp Dietrich, General of the Waffen Deserters, it is not at all a case of desertion. He simply speaks of 'missing'. Yes, 'missing' are those poor 5.9 to 6-foot tall S.S. sausages.

Mysterious Whereabouts--"Now where could they be, those S.S. heroes? Were they ambushed on Paris streets and thrown into the Seine, a millstone around their necks? Or did they fall in one of the many dangerous landing attempts which the British are alleged to have made after their so-called 'Dieppe victory'.

Reunion in Africa--"Actually, how can anyone prove to Herr General Dietrich that his 774 deserters have landed in North Africa where they are going to wait calmly and happily for the end of the war? Nobody can prove such a thing, of course. And certainly not the Safety Service Police or the Secret Military Police because there is utter confusion among those two bodies, and already they had pronounced those 774 missing S.S. warriors as victims of the Communists.

French Conspirators--"As to the scum of French police, they are as bad as the S.S. themselves. Actually, they help the latter to desert. The worst are the French gendarmes. I don't mean the Police Nationale in their Garde Mobile uniform with the Petain emblem. They do their duty and escort back everybody who sneaks across the border into unoccupied territory. No, I mean the rabble of those gendarmes, in their light-grey pants and their black visor hats. They fraternize with every deserter, soldier or not.

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Underground Setup--"In fact, these gendarmes are members of a traitorous organization which smuggles all deserters into Africa, free of charge. There, they are received in camps, and get good food and care. Two of such camps have been reported to me as situated near Casablanca. Their names are (Putja Sergej Cetasse) and (Abibi Allal Asaja). Of course, if any of the gentlemen of the Armistice Commission should ever inspect in that district, he certainly would be unable to find any trace of deserters because the latter would be hidden by the French traitors until the danger had blown over.

Only Remedy--"The only remedy for such French trickery would be to march into Unoccupied France and teach these gentlemen in light-grey pants with black stripes how a vanquished people ought to behave. But what can you expect from the French if the Reich is represented in Vichy by such a Nigger Slaver as Herr Krug zur Nidda. And how are we able to make the French respect our armed forces if the S.S. deserts en masse, merely because they may have to fight in the East?

Chocolate Soldiers--"But don't worry. While the best sons of our people are thrown into the Russian inferno, Herr General Sepp Dietrich takes care that his chocolate soldiers don't get scratched and are comfortably bedded and fed. If they desert, they are pronounced missing, and, in their stead, new shirkers are dispatched onto the white beds of France. This is Gustav Siegfried Eins. The 'Chief' has spoken."

(Federal Communications Commission, October 2, 1942)

TREASURY DEPARTMENT

141

INTER OFFICE COMMUNICATION

DATE Oct. 5, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Summary of Intelligence Reports

Russian Disappointment over the Failure to open a Second Front

It is reported that, while Molotov assured Willkie that the Russians would hold the Caucasus and did not plan to surrender Stalingrad, Stalin was less optimistic. Other Soviet officials have recently prophesied the loss of Stalingrad and the Caucasus, and the reduction of Moscow to a state of siege. According to these officials, this prospect was causing a slump in Soviet morale, extending even to the army.

One Russian official considers that Molotov's trip to England and the United States was a great mistake, in that it aroused in Russia false hopes of a second front. This official declares that the withdrawal of at least 100 Nazi divisions from the Eastern front would be necessary now to give adequate relief to the Soviet Union, whereas last December the removal of 20 Nazi divisions and in June the withdrawal of 50 divisions, would have been adequate. One high-ranking army officer has expressed the opinion that large elements in England and the United States would like to see Russia and Germany continue to fight until both are exhausted, at which time the British would be able to seize control in Germany. This officer reportedly mentioned British official reluctance to talk of the current status of Rudolf Hess as evidence of such a plan.

(Office of Strategic Services, "The War This Week",
September 24 - October 1, 1942)

Finland's Strategy

Reports from Helsinki indicate that for several weeks a debate has been going on within the Finnish Government with respect to the advisability of Finnish participation in a Nazi offensive against Leningrad. Apparently the Finnish

- 2 -

General Staff favors such participation, while President Ryti and Marshal Mannerheim oppose it. The latter evidently fear political consequences, especially in the United States. The same source reports that the siege guns from Sevastopol were moved to the Leningrad area about August 17.

(Office of Strategic Services, "The War This Week",
September 24 - October 1, 1942)

October 6, 1942
8:55 a.m.

FINANCING

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

H.M.JR: Well, Dan, where does our own crowd stand?

MR. BELL: I think there is a little division. George, as I understand it, is recommending a two percent '50-'52 bond, and a reopening of the one and a half percent December 1946 note.

Baker feels we ought to put out a two and a quarter percent, I think, and a one and three-quarters percent bond. Is that it?

MR. BAKER: Yes, sir.

MR. BELL: While I was in New York Saturday I talked to a couple of dealers that came into the Federal. One was Dudley Mills and the other the second man in Ben Levy's shop. Dudley Mills is strong for the same program Baker mentions, the two and a quarter percent bond and a one and three-quarters percent bond, maintaining that the note market will be heavy if we put out too many two's.

Levy's man said that he would put out a two; he would not pay the banks any more than that, and also put out a note some place - three or four or five years.

(Mr. Rouse entered the conference.)

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MR. BELL: (To Rouse) I was just telling him what Mills and Spencer said.

H.M.JR: What did Levy say?

MR. BELL: That was Levy's man. He said that he would not put out any more than a two percent bond for the banks. He thought it was enough for the Treasury to pay. He thought it was enough for the banks to expect. Then he would put out a note. He mentioned the one and a half, I believe, of September '46, specifically.

Eccles still feels strongly that we ought to put out the two percent bond and the one and a half percent note. He said he thought George's suggestion of reopening the December '46 was good.

H.M.JR: I haven't got that - I haven't got a sheet.

MR. BELL: A billion one hundred and eighteen million.

H.M.JR: What have you got, George? (Mr. Haas handed chart to the Secretary.)

MR. HAAS: It is this one here (indicating) - December '46.

H.M.JR: You want to reopen it?

MR. HAAS: Because that is about all you can do unless you want to move way back. You either reopen that or you move to September, and if you move to September I am afraid that this will go below par. Of course, the Fed can keep it up with the strong-arm method.

H.M.JR: You want to put two billion on top of that - make it a three billion dollar note?

MR. HAAS: Yes. You would just--

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MR. MURPHY: Piser prices it at par and favors the March. He says he thinks it can be done, but it is obviously strong-arming it.

MR. BELL: That makes your December a little above par, if you hold that at par.

H.M.JR: One of these things is going to have to taste good if it is going to be a two percent.

MR. HAAS: The taste is all determined by the open-market operations, these days, Mr. Secretary.

MR. ROUSE: Not entirely.

H.M.JR: No. I will never believe that as long as I am here. Right?

MR. ROUSE: Right.

MR. HAAS: I still think I am right.

H.M.JR: Still, you know, the people who own the money have an opinion about their own money.

MR. HAAS: I know, but you develop the opinion by the market.

H.M.JR: Why does it have to be a one and a half percent?

MR. HAAS: Our original one was a one percent, but we are willing to go back that way because we don't feel strongly, one way or the other. If you go to one percent, you get rid of some of these difficulties.

H.M.JR: Where would the one percent fall?

MR. HAAS: December '43.

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MR. BELL: We have a March - one percent, March 15, '44, two thirty-seconds premium.

H.M.JR: You have got a December one and one-eighth, too, '43.

Well, let's hear what these fellows have to say, shall we? If Rouse and Haas and Bell will stay, we will see this group.

MR. BELL: Mr. Rouse says that one and a quarter which we put out last month is still pretty heavy on the market. They took sixty million of them yesterday and didn't take them all.

MR. ROUSE: Just under sixty-four million. In the last eight days we have taken, since delivery--

H.M.JR: What have you taken?

MR. ROUSE: The new one and a quarter percent note of March '45. We have had to take sixty-four million of them, and we have not taken all that are offered. We bought them liberally.

SCHEDULE OF APPOINTMENTS IN THE
SECRETARY'S OFFICE WITH VARIOUS
BANKERS, OCTOBER 6, 1942

9:00 Mr. Garner, Guaranty Trust Company, New York
9:20 Mr. Repp and Mr. Mills, Discount Corporation, N. Y.
9:40 Mr. Devine, C. J. Devine and Co., New York
10:00 Mr. Murray, National Bank of Detroit
10:20 Mr. Gill, Bank of Manhattan, New York
10:40 Mr. Ihlefeld, Savings Banks Trust Company, N. Y.

October 6, 1942

Mr. Garner Guaranty Trust Co.
148

5 yrs $13\frac{1}{4}\%$

2% Bond
2 $\frac{1}{4}$ Bond

October 6, 1942

149

Reft + Mills

October { $2\frac{1}{4}$ %
 $1\frac{3}{4}$ %

Nov. { $2\frac{1}{2}$
2

Dec. { certificate
note

October 6, 1942

Christlevine 150

$2\frac{1}{4}$ 54-57

$1\frac{3}{4}$ $4\frac{1}{2}$ - $6\frac{1}{2}$ Bnd

October 6, 1942

Murray 151
Nat Bank ^{Detroit}

1 $\frac{3}{4}$ Dec 15 - 1947

March 15 - 1950

2% fixed maturity

Mr Gill. NBA ^{Manhattan}

2 $\frac{1}{4}$ % Bond 54-56

1 $\frac{3}{4}$ % March 1948
a 47-49

October 6, 1942

Ishfeld 152
Savings Bank

2 ¹/₂ billion

2 ¹/₄ % 54-56

March 15 - 1950 fixed maturity

2 billion 2%

Estimated Yields and Prices on
Possible New Treasury Issues

	Estimated Yield Basis*	Probable Price
	(Percent)	
1 percent note due December 15, 1943 (1 year - 2 months)	.95	100-2/32
1-1/2 percent note due December 15, 1946 (4 years - 2 months)	1.50	100
1-3/4 percent bond due September 15, 1947-49 (4 years - 11 months 6 years - 11 months)	1.72	100-4/32
1-3/4 percent bond due March 15, 1948 (5 years - 5 months)	1.73	100-3/32
2 percent bond due March 15, 1950-52 (7 years - 5 months 9 years - 5 months)	2.00	100
2-1/4 percent bond due September 15, 1954-57 (11 years - 11 months 14 years - 11 months)	2.23	100-7/32

* Based on closing bid prices, October 6, 1942.

October 6, 1942
12:10 p.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Shields
Mrs. Klotz

H.M.JR: I just feel this way, in view of what all of these people say - I mean, we have got to keep having successes. Until we do it a different way - I just don't want to please Marriner Eccles or anybody else. The way I feel I don't want to kind of bull through a two-percent bond.

Now, certainly within a month or two we will have a plan. I think we can hang on for another month or two doing it the orthodox way. That is the way I feel.

MR. HAAS: The situation is this: I think to do the two's - you know, the way Eccles contemplates - you have to have a lot more reserves and they have got to put them in. Now they haven't got them, so you are kind of in a spot on the thing.

H.M.JR: What are the reserves?

MR. HAAS: The reserves are about two billion all told.

H.M.JR: What I am saying, Henry, is this: Everybody that came in here this morning wants a two and a quarter percent bond. Eccles wants a two. You know we have certain plans in mind. Whenever the plans go through, we may be doing something quite different, you see. But I just don't feel, after listening to

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all these fellows, that I want to stand up here and say, "Damn it, take a two-percent and like it. The Federal Reserve will provide the funds." Well now, it would be one thing if you had your ammunition all stored up in the way of reserve funds, but they haven't got them. What are your reserves today?

MR. HAAS: Two billion two.

H.M.JR: How much is there in New York?

MR. BELL: I think there is about two hundred and fifty million in New York.

MR. HAAS: The situation is tight.

MR. MURPHY: Is that a new figure since Saturday?

MR. BELL: I think that was last night's.

MR. HAAS: If they keep that flooded up you could do your two, and that is the only--

H.M.JR: If they did what?

MR. HAAS: If they kept their reserve situation more plentiful than it is. But this way is just forcing into higher rates, that is all it is doing. I agree with Eccles, not go over two, but, on the other hand, if you are not going over two you have to put a lot more reserves in.

H.M.JR: We can go back to a two; after all, in February we had a two and a quarter for a billion and a half.

MR. BELL: But you had a little different situation in February, of course, than you do now. There was some demand back in February for bonds. People had not awakened to this month-after-month financing at that time.

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MR. HAAS: Ihlefeld was very fair. He said, "Don't go out to a two and a quarter, because pretty soon they will be talking two and a half to you."

MR. BELL: He is the one man who should be talking two and a quarter.

H.M.JR: But the rest of the stuff he talked about didn't make sense.

MR. BELL: The thing that worries me is that, as Repp said, our objective ought to be to get the first of this money outside of the banking system; and second, it ought to be to get it outside of New York in the country banks. Apparently the country banks want two and a quarter, and probably the Victory Fund Committees can sell some two and a quarters outside the banking system. I don't think they could sell much of the two.

The other thing that worries me is going against the market again. We did that in September; we didn't give them what they wanted. Now if we do it again, I am afraid we are going to create a feeling that there is no use of their coming down.

MR. HAAS: Here is what I think, Mr. Secretary: Mainly what is being done here is creating bank deposits. It should be easy. The reason it isn't easy is because the people who should be creating funds are not creating them, and, therefore, they make a very difficult situation. They talk about what the market wants, and so on. The market is created - it is just the creation of bank deposits and should be easy. But it isn't easy, because it is not coordinated. The Federal Reserve is not supplying the funds. Wouldn't you say that?

MR. MURPHY: I would. I perhaps have a different slant on it, which I hope doesn't sound too bureaucratic. I was talking to Piser. He thinks the two-percent market is as solid as a rock. All of the Federal Reserve Board people feel that way. I don't think it is, because they

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have made a very bad reserve situation there. Take Moody in his letter - how he thinks these rates will harden a little because reserves are low. But, after all, they are enthusiastic for a two; a two is a good policy from the long-term point of view. It is all the rate that we ought to pay; and if we issue the two, they are going to have to validate. They are right on the spot. They have been getting what they have asked for, and they have asked for what they are getting, and they will have to make it good.

H.M.JR: Now listen--

MR. BELL: That is the Board's--

MR. HAAS: I say you have to look out.

H.M.JR: Listen, would you like to see me, about Friday afternoon or Saturday afternoon, be in the position that I have got to go around and say to the Board, "Pretty please, you have got to take half of this issue"?

MR. MURPHY: It seems to me - maybe I am naive - that the Board in strongly advising the two, is stating that the issue is good, that the market there is solid, and it has made a moral commitment to see that it is good.

H.M.JR: But how are they going to do it beginning Thursday morning?

MR. MURPHY: By, if necessary, purchasing as much of it as necessary. I don't think they will have to take any. I think it will be over-subscribed. I feel that a two and a quarter is easier now, but it is harder in the long run.

H.M.JR: What is that?

MR. MURPHY: I feel that the two and a quarter may be somewhat easier now, but harder in the long run. It will make your next financing harder.

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H.M.JR: Well, the way I am looking at this thing, I am not looking beyond December 31, because I can't keep up this kind of financing beyond December 31. I have got to go to something entirely different. Henry, the thing is that - I was thinking if I have got to go on this way for another one or two years, it is something different. But do I today want to join hands with the Federal Reserve and say, "O.K. The hell with what the banking community thinks, you take a two percent and like it, and the Fed will see me through"?

Now, what they mean when they say they will see me through is that they have got to buy a block of this, don't they?

MR. MURPHY: It would seem to me that having said that a two is a good idea, that it is all the Treasury is justified in paying, that it is a good deal, that the obligation extends - and I would ask them to make a commitment to you - extends beyond buying a block of it, namely, to see to it that there is a demand to make that bond worth par in the market, aside from their--

H.M.JR: You don't answer me. What are they going to do Thursday and Friday?

MR. MURPHY: They ought to buy the list, if necessary.

H.M.JR: That is what I don't want.

MR. MURPHY: I meant buy the list of all outstanding issues.

MR. BELL: You don't mean subscribe to this one necessarily?

MR. MURPHY: Go right down, try to buy ten million down the list as they go. Now, they have - I talked to Lee this morning about--

H.M.JR: Lee?

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MR. MURPHY: Piser. I talked to him about the two's being off a thirty-second, and he says there are no bonds offered - that is, they are very firm. I don't know - he is an optimist. But they say that the market is cleaned now. I don't know, but it is weak during this period. I would say that the Fed ought to, if necessary, agree in advance to go right down and buy the list - put in bids above the market all the way down the list.

H.M.JR: Have you ever seen them do it?

MR. BELL: Thirty-nine. (Laughter)

MR. HAAS: That is a prerequisite to this type of financing. They have to do that.

H.M.JR: Has anybody else in your shop got any independent thoughts like Murphy's?

MR. HAAS: Shields.

H.M.JR: I know, but besides that - anybody I should talk to?

MR. HAAS: Wes - you might ask him, too.

H.M.JR: Wes who?

MR. HAAS: Wes Lindow. Tickton is in on it.

H.M.JR: Can't you interpret for them?

MR. HAAS: Yes, sir, they feel just as Murphy and I feel.

H.M.JR: How do you feel?

MR. HAAS: I feel this way - I feel that the Federal Reserve should have been in this market and dressed the thing up before now. They put us in

- 7 -

somewhat of a tight situation. Before this financing if these people came down the two percent market would have looked good - if they handled it, they could make it look good.

Now, I wouldn't give up doing the two, but I would get a very definite commitment from Eccles that you are going to do the two; you don't want to go out for it, but "get right busy and straighten this market out." I don't think it would look so bad if they had to take some of this new issue under these conditions.

MR. BELL: You mean subscribe?

MR. HAAS: No, no. That won't happen. It will go over; that won't happen.

MR. BELL: I would hate to have them take the new issue; I swear I would.

MR. HAAS: That won't happen. I think the two will go over. If they dress the market up now, I think it will go over.

MR. BELL: If we had the books closed, I wouldn't mind, but I hate to see them subscribe.

MR. HAAS: They won't have to subscribe, Dan; I didn't mean that.

I think you have a cross-roads here, Mr. Secretary. It is a very difficult decision right now.

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

October 6, 1942
12:25 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Allan?

Allan
Sproul: Hello, Mr. Secretary.

HMJr: Hello. How are you?

S: All right.

HMJr: Allan, take a couple of minutes and tell me how you feel about this bond issue, will you?

S: Yeah.

HMJr: Go ahead.

S: I feel just as I did - did the other day, on further thinking it over - question whether you want to go for another four billion aimed right at the banks on top of the three billion in September, or whether you want to go out for some non-bank - non-commercial bank buying with a two and a quarter, which would be, in my opinion, the fully marketable equivalent of the registered two and a half. And second, I think it's - it's desirable - important to go all out for funds from banks outside the money centers where there are excess reserves and to get those funds into use promptly, and to that extent I think you can consider that a two and a quarter would be the offset to substantial time deposits in those banks. Then from a market standpoint it seems to me that a one and three-quarter and a two and a quarter makes the best combination for a very successful financing, that it'd have more - would have more appeal generally and - and would get a better distribution as between different classes of buyers.

HMJr: If you'd do a....

S: The big city banks, the short-term-minded banks, would go for the one and three-quarter -- they've been asking for it -- and the smaller banks and the non-bankers would go for the - the two and a

(cont.)

S: (cont.) quarter, whereas I think anything like a one and a half and a two would be second-best marketwise and would be slower and wouldn't - and they'd appeal generally to the - to the same buyers rather than to different groups of buyers.

HMJr: You'd do a two and a quarter and what?

S: And a one and three quarter.

HMJr: Yeah. Well, now supposing - now let's - that - that's your advice.

S: Yeah.

HMJr: Now supposing I accepted the advice of the Federal Reserve Board. Let's just figure for a minute, see?

S: Yeah.

HMJr: You would - well, are you chairman of this Open Market Committee?

S: No, I'm vice chairman. Murriner is chairman.

HMJr: All right. Well, you're a member of it, huh?

S: Yeah.

HMJr: Just translate yourself for a minute to that.

S: (Laughs)

HMJr: And - all right, I'll tell Murriner, "I'll accept the advice of the Board, and I'm going to do the two per cent."

S: Yeah.

HMJr: Then what would be necessary to make a success of the issue?

S: Well, the issue would be a success -- it would sell -- but it wouldn't have the zip, I don't think, of the - of the two and a quarter and the one and three quarter. You make it at two per cent, then you'd have to put with it something, say, carrying a one and a half coupon or something, because I don't think you could do the whole thing, the whole four billion, with the two.

HMJr: No.

S: You put with it something that carries one and a half and I think you have two issues, neither one of which would have a great deal of - of zip to it, but it would go.

HMJr: It would go?

S: Yes.

HMJr: Well - I mean, how much would you men have to do to make it go?

S: Well, we'd have - whichever issue you put out, I think we'd have to do some work in the market, because it would be selling of outstanding issues, whichever issue you put out, in order to buy the new issue at par.

HMJr: Yeah.

S: How much it would be -- there's no way of telling -- I think it would be about the same either issue, the amount of work we'd have to do.

HMJr: Well, the - the....

S: Because it would be selling of outstanding issues to buy the new ones at par, and we'd have to provide the market for those outstanding issues....

HMJr: But the two....

S:in large part.

HMJr:the two per cent would go?

S: I think it would go, yes.

HMJr: If I did a two and a quarter this month, would that preclude my doing a two next month?

S: No, I don't think it would. I think you're - you'd have a - a range of possibilities then in the - in the longer area from, say, one and three quarter right out to the two and a quarter, which you could still use any one of the issues in there, one and three quarter, two, two and a quarter, and you'd do the rest in short stuff.

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HMJr: Devine made the suggestion on the one and three quarter we make it a four to six year.

S: You mean instead of a straight maturity?

HMJr: Yeah.

S: Well, I think that would go too. I - I've been thinking in terms of a straight maturity, and I think straight maturity would do a little better, but I think the - the call date plus the maturity would go and go well.

HMJr: Well, he thought it would make it more attractive, but it - that's unimportant once we get through it.

S: That's right.

HMJr: The thing to settle is whether it's going to be a two or a two and a quarter.

S: Well, I don't think it precludes you at all from doing a two. The banks - many banks now are holding back to see if they're going to get a two and a quarter. Other banks don't want to go out that far, and would continue to buy two's, and I - I don't think one shuts out the other at all.

HMJr: What's - what part of the market is the weakest right now?

S: Well, the weakest right now is the one and a quarter per cent note, the new note, which is being sold steadily and we're buying it partly because there was some speculation in it, I think, and partly in anticipation of a new issue which will be a little longer and carry a higher coupon.

HMJr: How much do you have to buy this week?

S: Just a minute, I'll... Well, we've - for the week - statement week ending tomorrow we've bought forty-four million of notes and those are mostly the new notes....

HMJr: Well....

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S:and we're buying some more today.

HMJr: Well, that's not very much, is it?

S: No, it isn't. The rest - the rest of the market - there's some selling of - of two's for the same reason that they're selling the notes, in anticipation of either a new two or a new two and a quarter which they can put on their books at par.

HMJr: I see. Okay, I'll be talking to your this afternoon.

S: All right.

HMJr: Thank you very much.

S: Goodbye.

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H.M.JR: Just so I get this thing straight, you fellows are in the two-percent corner, is that right?

MR. HAAS: Provided the Fed will back you up.

H.M.JR: Sure, that goes without saying.

And you, Dan?

MR. BELL: I like the two's, too, but I am a little like you, I feel we are going against the advice of people who are buying our securities. We did that the last time, and they didn't like it. I would hate to do that every time.

MR. HAAS: Sometimes you have to do that. Sometimes you have to - maybe you can make a deal on this thing.

H.M.JR: What kind of a deal?

MR. BELL: For more reserves, you mean?

(Mr. Shields entered the conference.)

MR. HAAS: Give the Secretary that story you gave Dan Bell and I.

MR. SHIELDS: You mean on the October financing?

MR. HAAS: That is what you were interested in, wasn't it?

H.M.JR: Yes, sure.

MR. BELL: Your feel of the market, the reserve situation, and what we should do in October in raising the four billion.

MR. SHIELDS: Well, I pointed out, Mr. Secretary, that the selection of issues seems to me to be less important than the preparation of the market for whatever issues the Treasury had in mind. The market

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has been sagging rather sharply recently - excuse me - rather persistently recently. Many of the long-term and intermediate-term issues have been drifting lower in that period.

H.M.JR: Where have they been dropping? Let me just check it - which section?

MR. SHIELDS: Look in the '49-'52 area and then in some of the longer-term issues. I don't know that book.

H.M.JR: This is '46-'49 - where do you say?

MR. SHIELDS: In the '49-'52 area.

H.M.JR: Haven't you got a price on here?

MR. HAAS: Here is '46-'47. (Indicating on chart.)

MR. SHIELDS: Here it is sagging rather persistently during the past three months. These issues are only about a point under what they were three months ago, but they have lost three-eighths of a point in a month. There has been no significant snap-back in that market now for almost three months.

H.M.JR: This shows it here. (Indicating)

MR. SHIELDS: That is for a longer period. This is for the entire year of '41. In the last few years there has been persistent sag in the market, but not a good market, I think, in which to offer large amounts of new securities.

H.M.JR: All right. That is point number one.

MR. SHIELDS: That raises a question in the minds of the investors as to the ability of the Federal Reserve and the Treasury to hold the present pattern of rates. I think that is in no small part accounted for by the lack of aggressiveness - support of the market by the Federal. At a time when the Treasury is

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faced with the necessity of borrowing more per month than it has in many recent years, considerably more aggressive dressing up of the market seemed to me to be called for; and, of course, the present is no time to experiment to see how low excess reserves can be carried. Neither is it a time when the Federal Reserve purchases of U. S. securities should be merely for the purpose of preventing declines in the market. Manipulation may be reprehensible in peace-time, but it is a legitimate tool for Treasury use when it has to finance a war. My recommendations made a few weeks ago were that reserve requirements be reduced immediately to twenty percent, and that Federal Reserve policy should be to raise excess reserves, through successive reductions in reserve requirements, to whatever is required in order for the market to show signs of strength.

The market needs assurance not that additional reserves will be supplied after excess reserves in the big cities decline to one hundred or two hundred millions, but that excess reserves will not be permitted to decline below three hundred millions, or even five hundred, I think, would be a better figure.

Then I pointed out that the Federal Reserve need not hesitate to add to excess reserves, because they can be, for deposits rising as rapidly as is inevitable in the months ahead - excess reserves can be permitted to decline quickly in the event that such action is called for.

Second, I recommended that the Federal Reserve buy enough U. S. securities to move the market up moderately, using its purchases not simply to prevent declines in weak issues, but to force advances in some of the stronger maturities. This market should be dressed up so that an offering of two's would show something like three-eighths to a half of a point premium instead of a much smaller premium, which would be the situation today.

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I will summarize the other recommendations. I suggested that the offering include investment type securities. The bills, certificates and short notes offered for bank purchases in the past few months have been tailor-made for money market institutions, and have not been of any particular interest to banks faced with the necessity of paying one percent or more on the substantial volume of time deposits. An investment type issue might result in a sufficiently large increase in country and reserve city bank subscriptions relative to central reserve city bank subscriptions, to arrest the flow of reserves out of New York City and Chicago.

Then I thought that the offering should be priced to show a moderately attractive premium - and the premium should be maintained during and subsequent to the offering period through Federal Reserve support of the market. A little old-fashioned enthusiasm for new issues should rid the market of fears which give expression to statements such as the following which one hears now and then:

"Look at the trend - you may be able to buy a ten-year two and a half percent bond before long."

"Why subscribe to new issues, except for patriotism, when you can buy the issue later at close to par and maybe below par?"

"Why purchase a new security in the market when the drift of the market is downward?"

In other words, it seemed to me that if the offering was to involve two issues, and it is large enough so that probably it is desirable, there ought to be a one-percent differential in interest between them so the longer maturity provides some apparent compensation rate for the extension of maturity. A twelve-months' note or a twelve-months' security and a two-percent bond would certainly be successful if the market were dressed up as I had in mind.

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I am not sure, sir, that it has been properly handled in the past few days. I was sorry to see that the market was allowed to go off one thirty-second yesterday in the '49-'52 area. Personally, I believe that five or ten million dollars' worth of buying in that area would have caused a rise of two, three, or even four thirty-seconds. That was the statement I read to Danny Bell and Mr. Haas the other day, sir.

H.M.JR: It is a good statement.

MR. BELL: We had that when we went to the Board last week. We raised some of those points. Eccles will contend that the fact that there isn't much of a market here doesn't seem strong; it is a sort of a gasping thing, a last gasp. People have come to realize that this is really not a market. It is just a question of what the Treasury wants to do, and the Federal Reserve Bank.

I also talked to Bob Rouse about being a little aggressive in the market, and on Friday they undertook to buy some bonds in that '50-'55 area. They did it rather secretly; they just had one dealer operating, and he was only able to pick up a half a million dollars in bonds in that whole area.

MR. SHIELDS: Then does it make sense for them to let the market drop a thirty-second early this week?

MR. BELL: They will contend that that just drifted over, that there wasn't any activity there at all. That is the contention.

MR. SHIELDS: Well, there is a difference between cleaning the market of offerings and going out and buying the market up, which is quite frequently called for if one has a large piece of financing to handle.

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Mr. Secretary, the offerings sometimes dry up if the market begins to rise gently.

H.M.JR: When I was over in Farm Credit, Mr. Roosevelt was worried about the Government bond market. Mr. Woodin wasn't handling it the way he liked it. We had money over there; so through our fiscal agent - the Farm Credit was separate - I placed orders all around for a million dollars to the tune of about - I don't know--

MR. HAAS: Forty, I think was all, but they thought it was a much bigger figure.

H.M.JR: It was forty or fifty million - all one morning - we never got a bond; we turned the market.

I did the same thing in wheat for Mr. Roosevelt. I almost fainted, but I did it. I had a market for that. In those days Harry Hopkins would take all he could get and feed it to the poor, unfortunate unemployed. In those days I used to have nerve. I went through that.

But I know just what you are talking about, and up to very recently we here used to control the buying. I mean, we used to say how much buying, and so forth and so on. It has to be proportionate; we don't have the funds any more to rely on the Fed. But they will do pretty near anything within reason if we ask them.

I think possibly we have to share the blame, if there is blame. We have not asked them. Have you?

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MR. BELL: No, I don't know as we have come right out and asked them. We have suggested to them to have more reserves, and also be more aggressive in the market, but we have not asked them to do it. I think when we have asked them to be more aggressive they have gone out and have undertaken to buy some, but it hasn't been general or large amounts.

H.M.JR: These are the two horns of the dilemma that I am facing. The market all says to me, "Two and a quarter percent bond. Why not give the out-of-town banks a chance to buy some?" They all want it. New York and Chicago are loaded up; they haven't got any money. Guaranty has borrowed fifty million dollars. That is no secret, is it?

MR. BELL: I guess not.

MRS. KLOTZ: You have said it. (Laughter)

H.M.JR: Well, he (Shields) is all right. After all, you are in the Treasury now. And so should I, here on the eve of a financing - it is no secret that the Federal Reserve Board wants a two percent bond. The Federal Reserve of New York and all the people I have talked to want a two and a quarter.

Now, should I say to follow the advice of what the buyers want, or do what Eccles says, who says he furnishes the funds, and make them take a two percent and like it?

MR. SHIELDS: Well, here - for what it is worth - is my feeling about this. In adhering to a ten-year limit on either issue, you are on very strong ground - in market issues for sale to the banks, you are on very strong ground.

I think that policy is clearly justified, and I would not want to be in the position to recommend that you begin to sell longer securities than that to the banks in view of the larger amounts of securities that the banks will have to take in the years ahead.

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The bank earnings don't seem to me to require higher coupons than that, and at a time when bank assets and bank deposits are going to expand rapidly as compared with capital funds, it seems to me that the risk of possible loss through market fluctuations ought to be minimized by the Treasury offering mainly short terms instead of long, to the banks.

Then another thing, it seems to me that the Federal Reserve has accepted the responsibility for preventing major declines from occurring in the Government bond market, and their job in that respect is going to be easier if you have offered to the banks and they have subscribed mainly to short and intermediate securities, and not to the longer.

But that is not to deny, sir, that the two percent bond offers some difficulty in the present market under present conditions.

First, as you know probably only too well, many of the dealers in the big banks, rightly or wrongly, take the position that a two percent issue is not likely to go very well.

In talking up other sections of the market they have talked down the two percent area, which may make the market's reception far from enthusiastic to a two.

Secondly, the premium on a two percent bond cannot, under present conditions, be large enough to induce subscriptions on that account. Had the market been dressed up properly, a two might have been a great success - a market success - with a nice premium on it.

Thirdly, the '49-'51 maturity area is already heavy, relative to other nearby sections. In '49 there is six billion seven hundred million of maturities and issues callable for the first time in that year. In '48 it is three billion four; in '47 it is one billion four; in '50 it is one billion two; and then there are smaller figures on either side of that issue.

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The bank portfolios already have a little bulk in that area, which makes them a little reluctant to add to that particular maturity.

Now, all of that suggests that a two will not be an automatic success. But the banks would, if they were requested to do so, buy that security or any other security you offer. Their responsibility with respect to purchasing a new issue ought to be known to them.

George, did you explain that relationship between excess reserves and the amounts that the banks would be expected to take?

MR. HAAS: No, I didn't develop that. You might do that.

H.M.JR: Now, wait a minute; before you leave the subject, I want to nail you down. I mean, I either want you to say one or the other, or say that you don't want one.

MR. SHIELDS: I am not leaving the subject; I have one more point, and then I will come back to you.

H.M.JR: I thought maybe you were running away--

MR. SHIELDS: No, I want you to understand all the facts as I know them, then depend on your judgment as to what to do afterward. There is just one more fact about the market that occurs to me. This October financing marks a very real change in the relationship between bank subscriptions and bank excess reserves.

Not for years have the banks been called on to purchase U. S. securities in amounts which exceed their holdings of excess reserves at the time of subscription. In most cases, as a matter of fact, they have been asked to subscribe only in amounts which represent a fraction of their total excess reserves.

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Here are the recent figures on percentage of excess reserves as of date of offering, to the amount the banks were finally allotted; on the half percent certificates of indebtedness in April, the banks had excess reserves equal to four hundred twenty-five percent of the securities they were allotted.

On the two percent bonds offered in May the figure was three hundred and fifty-five percent - that is, excess reserves to allotments. On the certificates offered in June, two hundred and sixty-five percent; on the two percent bonds offered in July, a hundred and ninety-five percent; on the August certificate issue, two hundred and five percent; last month, the two offers totaling three billion dollars in combination, a hundred and nineteen percent.

Now, the banks have got about two billions of excess reserves; they will probably have to take two billion six of this issue, so that they have seventy-seven percent. In other words, they are going to be asked to subscribe to somewhere between a hundred and thirty and a hundred and - the amount which will represent a hundred and thirty to a hundred and fifty percent of the excess reserves they have at the date of subscription. This is a new condition for the banks, and I doubt if many banks understand that that is expected of them.

Therefore, the offering is a difficult one, sir.

H.M.JR: I appreciate that.

MR. SHIELDS: I would like - I would prefer the two percent to the two and a quarter and the two percent in combination with the one percent note.

MR. BELL: But that will take a great deal of support.

MR. SHIELDS: That will take a great deal of support. I wish, Mr. Secretary, you could let the banks know how much buying you expect of them in this issue. They will come through if they know what is

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expected of them, but I dread the development of a situation where they are not - they don't know how much they are expected to buy.

H.M.JR: One percent - where does that fall?

MR. HAAS: Fifteen months.

H.M.JR: Why one percent?

MR. HAAS: Well, we suggested that, originally, but Murray had this reason for suggesting that: He wanted a differential - a one percent spread between the two issues.

H.M.JR: I see.

MR. SHIELDS: The two is a sort of weak issue, anyhow, and therefore it ought not to have the competition of a five year shorter issue at a half percent differential in rate. At least that is my opinion, sir.

H.M.JR: Well, this bad reserve situation, which I was conscious of but I had never seen it put up just like that - two and a quarter wouldn't help it any, would it?

MR. SHIELDS: I would rather see you hold to the ten-year limit. The people who suggested that you disregard a ten-year limit don't appreciate how large your fiscal problem is in the years ahead.

H.M.JR: They are willing to have the country banks disregard it?

MR. SHIELDS: Well, I think that for most country banks, if the thing were put to them properly, a two percent issue would be all that they required.

H.M.JR: Do you want the one percent just because you want the one percent differential? That is a bad period, too, isn't it? I mean that falls in a heavy period, doesn't it?

MR. HAAS: I don't think you have to worry. It is near the one and a quarter, which you know was just recently out.

MR. BELL: There is only a half a billion in there, Mr. Secretary.

H.M.JR: Well, then, let me see if I can sum up this technical information. What you are telling me is this. I have a bad situation, and I might as well cross the Rubicon now as any time. I mean, I have got--

MR. SHIELDS: I prefer that you do it now rather than later, yes.

MR. BELL: The two percent would go all to the banks, wouldn't it?

MR. SHIELDS: George, I am sorry to bring this up, but if it were possible for you to notify the banks - write a letter to the banks asking for their cooperation in the issue, and asking them to subscribe to at least one and a half times their present excess reserves because the Government needs their assistance, they would do it and the issue would be a great success.

H.M.JR: One and a half times?

MR. SHIELDS: That is what is required, sir.

MR HAAS: On an average.

MR. SHIELDS: On an average - one and a half times. But in the absence of that it may be difficult. It might, conceivably, be difficult for the Federal Reserve to step in.

H.M.JR: I will tell you what I would like you to do. Are you here today and tomorrow?

MR. SHIELDS: Yes, sir.

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H.M.JR: In the time that you have got, with George's people, try to write me out a formula. I would like to have it not later than three o'clock; if I go on the two percent, what is the bill that I should render to the Fed - not a bill, I mean, what kind of a program - should I say, "Well now, I am willing" - they want me to do this - so "All right, I will do it provided you will do this." And they will do anything that I ask, but I haven't got a program; that is my trouble. You haven't got one for me; you should have one.

MR. HAAS: I have one, but I haven't got it written out.

H.M.JR: Well, here I have five minutes before the Fed Board comes for lunch. You ought to have a program.

MR. HAAS: I haven't got it written out.

H.M.JR: It should be, George; it should have been written out. Can you write one out and have it ready?

MR. SHIELDS: I will do the best I can, sir. I would like to discuss it with your other men.

H.M.JR: George will be available. Bell is going downstairs with me. I say three - sometime between three and four. I want to know - I want to say, "All right, I will do it provided you will do this."

MR. SHIELDS: Very well, sir.

H.M.JR: See what you can do.

MR. HAAS: That isn't a difficult assignment.

H.M.JR: I know, but we are talking around, and I ought to have a program.

All right. I mean, just the same as when we did this bill thing, we finally - they wanted me to go at a half and I wouldn't; they agreed that they would support the bill market at three-eighths indefinitely - indefinite in amounts. And they have, haven't they?

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MR. SHIELDS: Yes.

H.M.JR: And made a good bill market.

MR. SHIELDS: It is a posted rate situation.

H.M.JR: All right, why can't we make them do the same thing with a two percent bond as long as that is what they want to do?

In other words, I want to put everything down that is necessary for them to do in order to protect the Treasury so that this issue will be a good success.

MR. SHIELDS: If you could write the banks a letter - the banks of the country a letter - you probably haven't time to do it - your success would be automatic.

H.M.JR: I won't. That isn't necessary, but I can get the presidents of the twelve Federal Reserve banks to do it.

MR. SHIELDS: That is a good idea.

MR. HAAS: That is a good idea.

MR. SHIELDS: I was talking to George about the possibility of your writing them a letter.

H.M.JR: No, no, that would be a mistake, but the presidents of the twelve Federal Reserve banks--

MR. SHIELDS: Sir, I think you have something; we will talk about it.

October 6, 1942
11:15 a.m.

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HMJr: Hello.

Operator: Greenbaum.

HMJr: Hello.

Col. Edward
Greenbaum: Henry?

HMJr: Yes, Eddie.

G: I told you the other day this - that - the
person who suggested the name of that man to us.

HMJr: Yes.

G: Have you - you haven't mentioned it to him, have
you?

HMJr: No.

G: Well, don't because of your - I'll tell you why.
But Mr. McGloy was eager that nothing be said to
him about it.

HMJr: Oh. No, I....

G: He'd be disturbed.

HMJr: Who would be?

G: Your - the fellow who suggested him.

HMJr: He would be disturbed?

G: If there was any clouds on him - if there was any
doubt as to why the fellow shouldn't have been
appointed.

HMJr: Well, I don't know - well, if there are clouds,
why shouldn't he know it? Hello?

G: Well, maybe he should but it oughtn't to be from
us. I'll tell you when I see you, but Mr. McGloy
thought you oughtn't to talk to him about it,
unless you already have.

HMJr: Well, I - I - I can't - I can't take that hobble.

G: (Laughs)

HMJr: What? I mean, if McCloy wants to see me, I'm available. You can tell him that.

G: Okay.

HMJr: You can tell him that I - I'd like to know why - I can't accept that, Eddie old man.

G: Well, I'll speak to him about it.

HMJr: What?

G: I'll speak to him about it.

HMJr: Has it got you into trouble?

G: Oh, no, not a bit.

HMJr: Well, you better tell him that - if it's some awful good reason he'll have to tell me himself.

G: Okay.

HMJr: If you don't mind.

G: No, not a bit, I'll tell him about it.

HMJr: Thank you.

G: Okay.

October 6, 1942
4:35 p.m.

HMJr: Hello, Sproul.

Allan
Sproul:

I was talking with Marriner a little earlier this afternoon, and he told me something about your meeting at luncheon. There are plans for a meeting tomorrow morning at ten, I think he said.

HMJr: Yes.

S: And a question in my mind was whether I should come down or not.

HMJr: I'd be delighted to have you here.

S: He told me about the possibility of issuing a joint statement and also discussing what the Federal Reserve had in mind in the future as far as making the Treasury's post-financing program feasible.

HMJr: Successful.

S: Successful, yeah.

HMJr: Right. No, I'd be delighted to have you here. I think....

S: Well, I am....

HMJr:I think you can do more good here tomorrow than you could in New York.

S: Yeah, well, I'm trying to find some way to get down now. I'm having difficulty, so I wanted to check with you and see how you felt about it before I went further.

HMJr: It's all right. If you want any help at this end, I refer you to Commander Stephens.

S: Commander Stephens.

HMJr: In my office.

S: All right. Thanks, Mr. Secretary.

HMJr: All right.
S: I may get in touch with him.
HMJr: Okay.
S: Thank you.

October 6, 1942
4:55 p.m.

FINANCING

Present: Mr. Bell
Mr. Murphy
Mr. Shields
Mr. Haas

MR. HAAS: We got it all on one sheet, Mr. Secretary. (Memorandum entitled "Suggested Means of Preparing the Market for the October and Subsequent Financings" handed to the Secretary, copy attached.)

H.M.JR: Wonderful.

I made good use of those twenty minutes I had with you before lunch. I learned my lesson, didn't I?

MR. BELL: Yes, sir.

(The Secretary read the memorandum.)

H.M.JR: What are the reserves now?

MR. MURPHY: Two point one or two point two.

H.M.JR: Well, I am not going to argue about it. It is a good place to start.

Are you in agreement on this?

MR. BELL: There are two things I don't like about it. One is the last sentence in No. 2. That is not so important. The other is No. 4. I suppose it is all right; because if it were a failure, you would have to call them up.

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H.M.JR: I never would let this leave. What I would do if I were you, if we agree on it, would be to call up Marriner and say, "This is the idea," and sort of paraphrase this or read it to him over the telephone.

MR. BELL: That is really what the boys intended when they wrote it. It was for conversation, maybe between you and Eccles or somebody like that.

H.M.JR: Between you and Eccles, and tonight - that is what I would do. I would do it this way: I would make it a little stronger than what you expect to get. The way it is written, "I take it, Marriner, if the thing didn't go well you would have the presidents of the twelve Banks get in touch with so and so," and that is the way it would have to be done.

MR. BELL: Of course, if we found out late Friday afternoon that this thing wasn't going good, and if we were going to close it that night, we would just have to call up the Federal Reserve Bank presidents or say to the Federal, "You will have to put up a subscription."

H.M.JR: Yes, but the point I would like to say is that they are going to give me a memorandum. I don't want to send them one like this - along these lines. I would like to see it in the memorandum.

MR. BELL: You would like to see something like this?

H.M.JR: Yes, because here is the point: Supposing Friday comes and there are no subscriptions, then I don't want to sit here Friday trying to decide how we are going to do this. I want it all decided. In other words, before they make a landing on some place in Europe, these fellows practice this thing on the coast of Maryland. I want to have a practice for every possible emergency and not sit here with the perspiration rolling down my brow - how am I

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going to get the Fed - I want them to agree in case the worst happens, and you can tell them. Then let's pray that it doesn't happen. See, Dan?

MR. BELL: Yes, I see.

H.M.JR: I don't want to suddenly figure out a landing barge and then find out it does not work.

MR. BELL: Yes, I will talk to him.

H.M.JR: But I mean - in other words, I might be smart enough to foresee every possibility and have it agreed to in advance of a breakdown, and I would put it to him on that basis. We don't want to wait until the breakdown occurs and then have the scurrying around and so forth and so on. Are you fellows in agreement with this?

MR. HAAS: Yes, sir.

MR. SHIELDS: Yes, sir.

MR. MURPHY: Yes, sir.

MR. BELL: They probably will have to raise the reserves to two and a half in order to raise that market. Do you think so?

MR. MURPHY: I don't think they have to buy that many, but that is just a judgment. You can never tell. I would a lot rather set the bogey this week in terms of increasing prices by a given amount - which gives the market its tone - than set the bogey in terms of buying so many bonds. They let down both the two's and the two and a quarter's--

H.M.JR: What?

MR. MURPHY: They have let down both the two's and the two and a quarter's another thirty-second today. It is a very small change, but it gives the market a tone.

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MR. BELL: They bought some in the '48-'50 today, but I don't know how many - not very many. They bought about twenty-one million today all told.

H.M.JR: You did a good job. Well, you (Bell) do this.

Let me have a talk with just Mr. Shields.

Suggested Means of Preparing the
Market for the October and Subsequent Financings

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1. The Federal Reserve System should agree that it will, by means of aggressive open-market purchases, raise the average price level of all Treasury bonds with more than five years to maturity or earliest call date, by at least 6/32 between yesterday's and next Friday's close. The prices of bonds with less than five years to maturity or earliest call date and of notes should similarly be raised by an average of 2/32 to 3/32 between yesterday's and next Friday's close.
2. The Federal Reserve System should agree that for the next six months, excess reserves in the country as a whole should not fall below \$2.5 billions, and excess reserves in New York City should not fall below \$250 millions -- the Federal Reserve System to hold these limits by whatever instrumentalities it considers suitable. News of this agreement or intention on the part of the Federal Reserve System should be "leaked" to the market promptly, so that the market will have the benefit of this assurance while the books are open on the present issues.
3. The Federal Reserve System should agree to maintain a good market tone in the future by aggressive open-market purchases. A "good market tone" may be defined roughly for this purpose as a situation in which the general level of yields show little fluctuation from month to month, and the average level of prices never declines for two successive weeks.
4. The presidents of the twelve Federal Reserve Banks should be prepared to see that adequate bank subscriptions are obtained in their districts to insure a success of the issues. If subscriptions to the issues should lag on Friday, the presidents should be asked to contact individual banks by telephone and ask them to enter subscriptions in adequate amounts. In making such contacts, the presidents of the Federal Reserve Banks can point out the individual bankers not only that the banks have an important role to play in the fiscal program but that if these particular issues are to be a success, it is necessary that the total of bank subscriptions be close to twice their excess reserves. The banks so contacted may be assured that they will not be making a mistake from a business point of view in subscribing to the issues and, if necessary, point number 2 above may be quietly mentioned to them.

TREASURY DEPARTMENT

WASHINGTON

October 6, 1942.

MEMORANDUM FOR THE SECRETARY:

Answering your inquiry about our using insurance agents, you probably recollect that a large number of underwriters have been working for us for a considerable period in many States in the installation and promotion of payroll allotment plans.

We have also been planning to use insurance agents in the sale of F and G bonds, following a suggestion made to you by George L. Harrison. On September 10, Mr. Harrison, as Chairman of a Committee representing the insurance industry, wrote a letter to all life insurance company presidents describing a program agreed upon between the Committee and the Treasury for the sale of F and G bonds, and suggesting among other things that names of qualified agents be made available to our State Administrators by the insurance companies upon request.

Copies of Mr. Harrison's letter were sent by us to State Administrators, also on September 10, by Field Memorandum No. 390. I attach for your information a copy of this field memorandum, and likewise a copy of Mr. Harrison's letter.

We are now compiling prospect lists for use in a systematic canvass for the sale of F and G bonds. When ready, it is intended that these lists will be distributed to our State and County organizations. The intention has been to make full use of insurance agents, along with other groups, in making this canvass. We intended to develop this project at our meeting of State Administrators to be held the middle of this month, but as you know plans for this meeting are in abeyance pending further discussion with you. We would of course like to have this further discussion as soon as meets your convenience.



GRAVES.



TREASURY DEPARTMENT

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WASHINGTON

DEFENSE SAVINGS STAFF

FIELD MEMORANDUM #390

Subject: Cooperation of Life
Insurance Men in the
sale of F and G Bonds.

September 10, 1942

TO ALL STATE ADMINISTRATORS:

The Life Insurance companies and field men through the Life Insurance Coordinating Committee have very generously offered the full cooperation of their companies and their agents in any way in which they can help promote the sale of War Bonds. This offer of cooperation is expressed in the enclosed copy of a letter sent today to life insurance presidents by George L. Harrison, Chairman of their coordinating committee.

We believe you as Administrator will want to avail yourself of their services in the sale of F and G Bonds quite apart from the existing organization for the sale of E Bonds through Payroll Savings Plans.

In each community there are a number of top-flight insurance agents, managers and general agents whose services could be used in the sale of F and G Bonds. We suggest that you contact the Chairman for the Life Underwriters Committee in your State and advise with him concerning the number of such men that might be used to advantage in each community.

The agents undertaking this work would, of course, do so subject to your general supervision and direction and may be used in addition to, or as a part of, or in cooperation with, any existing committees. You in turn will indicate to them the prospects on whom you expect them to call.

It is suggested that cards or letters of authority be issued designating these volunteers as Treasury representatives.

The Life Insurance men have been most helpful to us in the War Savings Program in the past and now offer this additional support to assist in an all-out effort. We feel that whenever possible, we should avail ourselves of their services.

R. W. COYNE
Field Director
War Savings Staff

FOR DEFENSE

Attachment



9/11/42

Letter to Life Insurance Company Presidents
from George L. Harrison, Chairman of the
Life Insurance Coordinating Committee

September 10, 1942

You will remember that in my letter of August 14, 1942, I referred to the appointment of a sub-committee of the Life Insurance Coordinating Committee to study ways and means by which a carefully selected group of Life Insurance Agents might be made available to assist the Treasury Department in the sale of F and G Bonds. That committee since then has had several conferences with the Treasury authorities in Washington. They have expressed the desire in cooperation with the committee to formulate a plan by which this assistance might be most effectively provided.

Accordingly the Treasury and the committee have formulated the following program which, it is believed, will serve as a satisfactory basis of cooperation, although it is realized that as our efforts proceed modifications may become necessary in the light of experience. It is hoped that your cooperation and that of your agents will aid in making the program an effective and credible one.

Briefly the program may be outlined as follows:

1. In each state the Administrator of the War Savings Staff will be directed by the Treasury to determine the number of men needed to assist in the sale of F and G Bonds.

2. Each State Administrator will acquaint the chairman of the Life Underwriters Committee in his state of his requirements for manpower for the sale of F and G Bonds. The chairman of the Life Underwriters Committee in turn will attempt to furnish such agents, managers, or general agents as may be best qualified for such work in the various communities of the state. All life insurance agents will be eligible for consideration regardless of company or association affiliation. It will, however, greatly facilitate the contemplated work if you as a company may see fit to indicate your approval and support of the effort by advising your field force to that effect in whatever fashion you deem most appropriate in the circumstances. While the chairman of the Life Underwriters Committee will be the contact man with the Treasury officials in each State and will undertake to recruit whatever force may be required for part time work in the sale of Bonds in that state, nevertheless it is hoped that ultimately as the program develops, no one will be used for this work who has not had the approval of his own agency or company officers.

3. All men so selected will be expected to serve directly under the supervision of the local War Savings Committee and as members of the special F and G sub-committees.

-2-

4. In order to expedite the necessary recruiting of a carefully selected list of men from the Life Insurance business and in order to supplement this recruiting by the chairman of the Life Underwriters Committee, it would be appreciated both by the Treasury and by the subcommittee which has been working with it if you would prepare and send a list, by states, of such men in your company as you believe would be well qualified as salesmen for the F and G Bonds. These lists may be sent directly to the local state chairman of the Life Underwriters Committee or to me in the event that the name of the local state chairman of the Life Underwriters Committee is not yet available to you.

You are, of course, familiar with the fine work which the life insurance agents of the country have already undertaken in the sale of E Bonds through the Payroll Savings Plan. Indeed, many agents individually or in cooperation have aided materially in the sale of other Government securities. It is believed, however, that an organized cooperative effort on the part of life underwriter agents, with the backing and support of our respective companies, will prove to be of invaluable help in the sale of F and G Bonds. It is believed that this program will give an opportunity to many agents to perform a substantial patriotic service. Furthermore, the program presents a real challenge to the Life Insurance business to aid even more effectively in the war effort.

If you have any suggestions to make or questions to ask, the committee will, I am sure, welcome hearing from you.

For your information, I am enclosing a copy of a memorandum which the Treasury Department is sending to the State Administrator of the War Savings Staff in each state. I hope you will notice that it is contemplated that a card or letter of authority, designating each solicitor insurance agent who is enrolled as a part of this program.

Sincerely yours,

George L. Harrison
Chairman

OFFICE OF
PETROLEUM COORDINATOR FOR WAR
WASHINGTON

October 6, 1942.

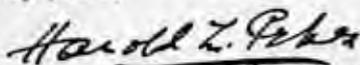
Dear Henry:

I could not but admire your footwork when, one day last week, you called a special press conference to give an opportunity to delighted correspondents to learn with what celerity Procurement had moved in the matter of helping the Russians to get their gasoline refinery material after the heavy-footed Secretary of the Interior had caused to be delivered a letter answering certain questions that had been propounded in a letter from yourself. This play was enacted on September 28, with you in an eagerly alert pose saying that "eighteen minutes after I received Secretary Ickes' letter, I performed the miracle of pulling from a hat the refineries that the Russians have been asking for."

It was a carefully arranged alibi, cleverly suggestive. You knew that some members of my staff felt that Procurement had been dilatory in concluding this deal. You knew this because I had told you so. So you wrote to me a letter asking for information that you didn't need in order to do this job. It had already been agreed at two or three conferences with you that Procurement should go ahead, but if you had done so without having it appear that you could not do it without certain technical information from me, it would constitute an admission that your people had been nodding at the switch. So you wrote the letter and then put on your act.

Doubtless you are fully aware of the President's prohibition against public controversies between government officials. You could say something which, by implication at least, held me up as the obstructionist, so far as a program is concerned in which I have had a vivid personal interest, but no official responsibility, from the beginning. And I would be foreclosed from giving you the horse's laugh that you had coming to you because then I would be violating, not only the spirit, but the letter of the President's prohibition. The only satisfaction that I can get out of it is writing you this letter telling you that I am perfectly conscious that you put a fast one over on me and that I don't think it was quite cricket. You may be interested in the enclosed copy of a memorandum which contains some interesting and highly illuminating chronological data.

Sincerely yours,



Petroleum Coordinator for War.

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

P.S. — I "ain't mad at you;" only greatly admiring.

Enc.

10/1/42.

BACKGROUND

As a result of negotiations between the technologists of the Soviet Government Purchasing Commission and the Foreign Division of the Office of Petroleum Coordinator for War, which started April 29, 1942, a program acceptable to the Commission was worked out and the plants as agreed upon were offered to the USSR in a letter of Major General J. H. Burns, dated July 6, 1942.

This program was officially accepted by the Commission in a letter dated July 22, 1942, which contained the following closing paragraph:

"We deeply appreciate that our oil refining program has been solved to our mutual satisfaction and sincerely trust that the program will be fulfilled successfully."

Concurrently with the technological discussions with the technologists of the SOGPC, numerous other discussions and correspondence were carried out between OPC and the various engineering and technical firms to develop approximate cost information, the quantity of strategic materials required, and the best method of handling the program.

On July 9, 1942, a meeting was held in the offices of Lend-Lease between Lend-Lease, Treasury Procurement and OPC, where a verbal summary of these negotiations was presented by OPC, and a recommendation made that an over-all engineer-architect and coordinator be employed to handle the whole project and that the project be considered as if it were a DPC plant.

On July 25, 1942, at a meeting held in the office of OPC between Lend-Lease, Treasury Procurement and OPC, a written summary of these negotiations and photostatic copies of pertinent correspondence from engineering firms willing and able to handle the project were presented to Lend-Lease and Treasury Procurement. It was again confirmed at this meeting that an over-all engineer-architect be appointed and that the program be handled on the general basis of DPC plants.

A draft of a contract form based on DPC form 184436 was submitted for consideration to Lend-Lease and Treasury Procurement. This material was forwarded to Lend-Lease and Treasury Procurement with a letter dated July 27, again recommending that an engineer-

architect be selected and also that authority be given to inspect and appraise the two second-hand plants.

In transmitting this information and holding these conferences, it was the intent of OGC to supply to Lend-Lease and Treasury Procurement sufficient background and information to permit Treasury Procurement to formulate a policy for handling the project so that when the SCPC had selected most of the important processes the engineering work could be started.

The SCPC advised by letter, dated August 29, 1942, that they had selected the Houdry Catalytic Cracking Process, Sulfuric Acid Alkylation, Diesel Extraction and L&K Dewaxing for aviation lubricating oils. Treasury Procurement was advised of this choice by phone on August 31, 1942 when the above letter was received in this office. No policy had yet been formulated by Treasury Procurement to that date.

A meeting was held on September 4 between Treasury Procurement, Lend-Lease, OGC, Universal Oil Products Company and E. B. Badger Sons Company to again discuss the method of handling the program.

A meeting was held between Treasury Procurement and OGC at Treasury Procurement, where the question of the over-all engineer architect was again discussed and where OGC suggested Badger as the most likely firm to handle the job because of the selection by SCPC of the Houdry unit. It was agreed at this meeting that the technical work of the engineer-architect and of the specialized firms should proceed immediately without waiting for the preparation of formal contract covering the units, the complete plants or royalty arrangements.

On September 4, 1942 another meeting was held at Treasury Procurement between Lend-Lease, Treasury Procurement, OGC, Universal Oil Products and E. B. Badger Sons, at which the handling of the program was again discussed both as to royalties and overall supervision. The handling of royalties, also on the basis of OGC plants was discussed with OGC and Houdry who agreed to submit a letter to Treasury Procurement on this matter. At this meeting Treasury Procurement verbally asked for a definite recommendation on the engineer-architect from OGC.

In a letter of September 9, 1942, the Deputy Coordinator recommended to the Director of Procurement that E. B. Badger Sons Company be appointed the engineer-architect who should have the over-all supervision of processing and engineering of all plants,

but who should utilize with the advice of CIC, other firms best qualified to handle the different phases of the program which are outside of their normal scope of work.

In September 28, 1942 or 15 days after this recommendation was issued, Treasury Procurement forwarded a letter of intent to E. B. Badger Sons which covered only engineering without procurement of materials. On October 1, 1942 Badger was advised by Treasury Procurement that a letter of intent covering procurement of material was being issued to them.

On the same day, Treasury Procurement approved orders for approximately 1,000,000 worth of equipment.

A representative from Treasury Procurement will be sent to Boston to approve the ordering of any other materials and equipment for which requisitions and specifications are available. Most of these requisitions will deal with the Houdry catalytic cracking units.

We understand that the New York Office of Badger which is being enlarged by them to handle the Russian program, will be organized during the week ending October 10, 1942. They lost the first option for enlarged quarters while awaiting the decision of Treasury Procurement and had to renegotiate the deal.

In the meantime two Russian technologists will go to the main office of E. B. Badger Sons in Boston to familiarize themselves with the engineering of some of the processes involved in the Russian program.



L. A. Lekler.

LA:mg



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT

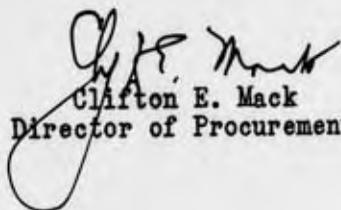
PROCUREMENT DIVISION

WASHINGTON

October 6, 1942

MEMORANDUM TO THE SECRETARY:

The report, due by October 10th, relative to the Russian Lend-Lease program, requested in the President's letter of October 2nd, will be in your office by the close of business tomorrow, October 7th.


Clifton E. Mack
Director of Procurement





OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

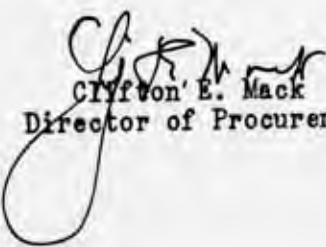
WASHINGTON

October 6, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended October 3, 1942.

Army warehouses at inland points for the storage of Lend-Lease goods are in the process of construction and, through an arrangement made with Lieutenant General Somervell's office, our Lend-Lease warehousing program is being coordinated with the War Department requirements whereby space is allocated for our needs at six points in New York, New Jersey, Ohio and Indiana. When this program is completed, which is expected will be in about six weeks, the assembling of cargo for ship loading will be greatly facilitated as much of that work can be done at the storage depots.


Clifford E. Mack
Director of Procurement



LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF OCTOBER 3, 1942
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>RUSSIA</u>	<u>CHINA</u>	<u>Administrative Expenses</u>	<u>Undistributed and Miscellaneous</u>
Allocations	\$2100.3 (2100.3)	\$1129.9 (1120.9)	\$621.5 (598.3)	\$56.7 (56.7)	\$3.7 (3.7)	\$288.5 (320.7)
Purchase Authoriza- tions (Requisitions)	\$1644.5 (1605.2)	\$ 982.5 (970.0)	\$605.6 (579.4)	\$40.5 (40.5)	- -	\$ 15.9 (15.3)
Requisitions Cleared for Purchase	\$1577.4 (1546.9)	\$ 968.6 (958.8)	\$552.9 (532.9)	\$40.4 (40.4)	- -	\$ 15.5 (14.8)
Obligations (Pur- chases)	\$1472.6 (1446.7)	\$ 936.8 (926.9)	\$481.8 (466.8)	\$40.4 (40.4)	\$2.4 (2.3)	\$ 11.2 (10.3)
*Deliveries to For- eign Governments at U. S. Ports	\$ 612.7 (602.1)	\$ 487.1 (479.0)	\$102.1 (99.9)	\$20.1 (20.1)	- -	\$ 3.4 (3.1)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of September 26, 1942.



TREASURY DEPARTMENT

WASHINGTON

OCT 6 - 1942

TREASURY DEPARTMENT ORDER NO. 48

By virtue of the authority conferred on me by Executive Order No. 9127, dated April 10, 1942, I hereby designate the Director of Procurement, or in his discretion and by his direction, any official or officials, employee or employees, or committee or board of the Procurement Division, to exercise as to contracts entered into by the Procurement Division the powers and authority conferred on me by Executive Order No. 9127, except as hereinafter provided.

With respect to the powers conferred on me by section 4 of Executive Order No. 9127, I hereby authorize, empower, and direct the Director of Procurement, or any member of the Contract Review Board of the Procurement Division, to exercise, perform, and carry out, as to contracts entered into by the Procurement Division, the powers so conferred.

Wm. M. C. ...
Secretary of the Treasury





TREASURY DEPARTMENT
WASHINGTON

PROCUREMENT DIVISION
LEGAL SECTION
IN REPLY PLEASE QUOTE

SEP 24 1942

Mr. Paul:

The Procurement Division has recently established a Contract Review Board whose function is to determine whether contractors' prices to the Division are reasonable. The power to ascertain what is a reasonable price is inadequate without the right to inspect a contractor's books and records and to obtain the testimony of witnesses while under oath. Hence, there is attached the proposed Order of the Secretary of the Treasury which would delegate to the Director of Procurement the same powers to inspect the books and records and to require the attendance and testimony of witnesses as were heretofore conferred on the Secretary by Executive Order. The power to require the attendance and testimony of witnesses is also delegated to any member of the Contract Review Board.

Thurman Hill

Chief Counsel

Attachment



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

SEP 24 1942

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MEMORANDUM TO THE SECRETARY:

Attached to this memorandum is a proposed Treasury Department Order designating the Director of Procurement, or in his discretion and by his direction, any official or officials, employee or employees, or committee or board of the Procurement Division, to exercise as to contracts entered into by the Procurement Division the powers and authority conferred on the Secretary of the Treasury by Executive Order No. 9127, dated April 10, 1942, except that the power to administer oaths, issue subpoenas, and invoke the aid of the courts is delegated not only to the Director of Procurement but also to any member of the Contract Review Board of the Procurement Division.

By Director's Order No. 145, dated August 11, 1942, there was established within the Procurement Division a Contract Review Board whose functions are to examine all negotiated contracts and all nonnegotiated contracts where the amount involved exceeds \$10,000 to determine whether the amount paid or to be paid under such contracts is in accordance with prevailing market prices, whether the price includes commissions, retainers, fees, royalties, or other special fees which may be in violation of existing laws, rules, or regulations, and, in general, to ascertain whether the price to the Procurement Division is reasonable.

In order to perform properly the duties prescribed for the Contract Review Board, it is felt that the right to inspect the books and records of "defense" contractors and to require the attendance and testimony of witnesses, would be of material assistance even though such a right would not necessarily extend to all contracts made by the Procurement Division.

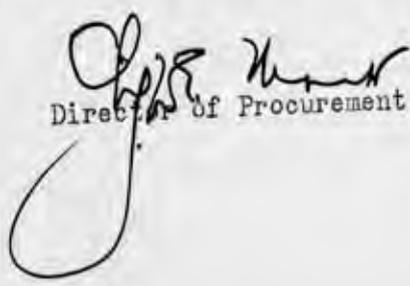


- 2 -

Title XIII of the "Second War Powers Act, 1942" (Public Law 507, 77th Congress), provides that the right to inspect the plant and audit the books and records of any contractor with whom a defense contract has been placed at any time after the Declaration of Emergency on September 8, 1939, and to determine whether a given contract is a "defense contract," shall be made by a Governmental agency or officer designated by the President or by the Chairman of the War Production Board.

Executive Order No. 9127, issued April 10, 1942, designates the Treasury Department as one of several Governmental agencies authorized to inspect the plant and audit the books and records, as provided in title XIII of the Second War Powers Act, 1942. This Executive Order further provides, in part, that with respect to the making of any inspection or audit the authority therein conferred may be exercised by the Secretary of the Treasury, or in his discretion and by his direction, may be exercised also by and through any officials of his Department designated by him for this purpose. The Secretary of the Treasury may also authorize such officials to make further delegations of such powers and authority conferred on him. The power to administer oaths, issue subpoenas, and invoke the aid of the courts may be exercised by the Secretary of the Treasury or by such other officials of his Department as he may authorize, but no authority to make further delegations of such powers is granted.

In view of the foregoing, I am submitting for your consideration the attached Order which would grant these powers to the Director of Procurement, and also, in the case of the administration of oaths, the issuance of subpoenas, and the invocation of the aid of the courts, to any member of the Contract Review Board.


Director of Procurement

Attachment

2 copies

OCT 6 - 1942

My dear Mr. President:

There are submitted herewith for transmittal to the President of the Senate and the Speaker of the House of Representatives copies of the report on the appraisal of the assets and liabilities of the Commodity Credit Corporation as of March 31, 1942, pursuant to the provisions of the Act approved March 8, 1938, (52 Stat. 107), as amended.

Faithfully,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Enclosures
GEJ:ams
9/25/42

Del. by SS Agent 6:00 10/6/42
Copies to Thompson
CG in Diary

My dear Mr. Speaker:

I have the honor to transmit herewith for the information of the Congress a letter dated September 4, 1942, from the Secretary of the Treasury transmitting, pursuant to the provisions of the Act approved March 8, 1938 (52 Stat. 107), as amended, an Act to maintain unimpaired the capital of the Commodity Credit Corporation at \$100,000,000 and for other purposes, an appraisal of all the assets and liabilities of the said Corporation as of March 31, 1942. On the basis of such appraisal the Commodity Credit Corporation has deposited in the Treasury the sum of \$27,815,513.68.

During the fiscal year 1938, it was necessary for the Congress to appropriate \$94,285,404.73 to maintain unimpaired the capital of the Commodity Credit Corporation, and it was necessary for the Congress to appropriate for the fiscal years 1939 and 1941 further amounts of \$119,599,918.05 and \$1,637,445.51, respectively. The payment, made by the Corporation in the fiscal year 1940, amounting to \$43,756,731.01, together with the payment for the fiscal year 1942 of \$27,815,513.68 results in net expenditures by the Congress for the last five years amounting to \$143,950,523.60.

The policy adopted by the Congress and incorporated in the Act approved March 8, 1938, as amended, providing for an annual appraisal of the assets of the Commodity Credit Corporation, makes it possible to include in each annual budget the expenditures necessary to support the program which the Corporation is engaged upon or the receipts which the Government receives from that activity.

Very sincerely yours,

The Speaker

The House of Representatives

Washington, D. C.

GEJ:ams
9/21/42
Attachment

My dear Mr. Wallace:

I have the honor to transmit herewith for the information of the Congress a letter dated September 4, 1942, from the Secretary of the Treasury transmitting, pursuant to the provisions of the Act approved March 8, 1938 (52 Stat. 107), as amended, an Act to maintain unimpaired the capital of the Commodity Credit Corporation at \$100,000,000 and for other purposes, an appraisal of all the assets and liabilities of the said Corporation as of March 31, 1942. On the basis of such appraisal the Commodity Credit Corporation has deposited in the Treasury the sum of \$27,815,513.68.

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Very sincerely yours,

Honorable Henry A. Wallace
President of the Senate
Washington, D. C.

GEJ:ams
9/21/42
Attachment

OCT 6 - 1942

Dear Mr. Macleish:

Receipt is acknowledged of your letter of September 19, 1942, concerning certain income which has accrued from the endowment of \$75,000 established by the Carnegie Corporation of New York for the Chair of Fine Arts which is in excess of the amount needed to comply with the endowment, and in which you suggest that steps be taken to obtain authority to apply this income for objects related to the purpose of the gift.

I note that the Assistant Solicitor General has advised that for the protection of the Library of Congress Trust Fund Board no application of the accrued income should be attempted until such application has been approved by the courts. Also, that before court approval is sought, negotiations should be opened with the Carnegie Corporation to see whether agreement can be reached.

With due deference to the Assistant Solicitor's advice, it occurs to me that in the event the Carnegie Corporation approves the proposed application of the accrued balance to subjects other than the income of the incumbent of the Chair of Fine Arts, it may not be necessary to take this matter to the courts. It will be recalled that in a somewhat similar situation involving the application of income from a donation made by Miss Annie-May Huggins to the Library of Congress Trust Fund Board, the Attorney General advised the President on May 29, 1941, that income from the gift could be applied in circumstances not specifically provided for under the terms of the gift if the approval of the donor were obtained. In his opinion in that case the Attorney General did not suggest the necessity of court approval. It is, of course, appreciated that there may be important differences between the two situations of which I am not aware which would compel the Trust Fund Board to seek court approval in this case. However, before steps toward court action are taken, I suggest that the Assistant Solicitor's attention be called to the Huggins matter if he has not already considered it.

Should it develop that there is no alternative to court action, I shall be glad to approve the authorization contained in your letter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Archibald Macleish
The Librarian of Congress and
Secretary of the Library of
Congress Trust Fund Board
The Library of Congress
Washington, D. C.
WTH:NOT:t
9-24-42;9-29-42

File to Thompson

Photo file in Diary



THE LIBRARIAN OF CONGRESS

WASHINGTON

September 19, 1942

My dear Mr. Chairman:

There is an accrued balance in excess of \$10,000 in the hands of the Library of Congress Trust Fund Board as a result of the fact that the income from an endowment of \$75,000, established by the Carnegie Corporation of New York for the Chair of Fine Arts, has for a number of years exceeded the honorarium paid from the income of the fund to the incumbent of the Chair thus established.

Since the original endowment has now been converted into the Permanent Loan Account and the income of the Chair is consequently assured, there is no necessity to continue to hold the accrued balance to pay the honorarium, should income from the endowment fail.

I have requested the advice of the Attorney General as to whether the accrued balance can be applied to other subjects than the income of the incumbent of the Chair. I am advised in a letter from the Assistant Solicitor General, dated July 16, 1942, that, for the protection of the Library of Congress Trust Fund Board, no application of the accrued balance should be attempted until such application has been approved by the courts. The Assistant Solicitor General offers me the assistance of the Department of Justice in securing the necessary adjudication. He suggests, however, that it might be desirable first to enter into conversations with the Carnegie Corporation of New York to see whether an agreement cannot be reached by that means.

I therefore propose the following authorization for adoption or rejection by the Board:

The Librarian of Congress, as the Secretary of the Library of Congress Trust Fund Board, is authorized to enter into negotiations with the Carnegie Corporation of New York to secure the Corporation's agreement to the use of the accrued balance of income from its gift for a Chair in the Fine Arts in the Library of Congress (and of future balances which may accrue), for objects related to the purpose of the gift; and

The Librarian of Congress, as the Secretary of the Library of Congress Trust Fund Board, is also authorized, with the advice of the Attorney General or of appropriate members of his staff, to enter a petition, in the name of the Library of Congress Trust Fund Board, submitting this question to the review of the Courts of the United States.

I recommend adoption of the above authorization.

Respectfully,



Archibald MacLeish
The Librarian of Congress
and Secretary of the Library
of Congress Trust Fund Board

I vote for (adoption) of the authorization.
(rejection)

Signed _____

The Honorable
Henry Morgenthau
The Secretary of the Treasury
Chairman, Library of Congress
Trust Fund Board
Washington, D. C.

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Mr. Bell ✓
Dr. White ✓
Mr. Thompson

Copies given
Mr. Dewey
Mr. White
Mr. C. S. Bell
10-2-42

To make a recommendation to the Secretary
not later than Monday.

OCT 11 - 1942

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Dear Mr. Secretary:

I have your letter of September 26, 1942, enclosing a copy of a "Synopsis of War Department Program for Military Government," under which it is planned to create groups of technical and advisory personnel for eventual duties in military government. I note that you hope to recruit these groups principally from those agencies of the government having an interest in certain special fields that may be involved in future military occupations. You suggest that, in order to cooperate with the War Department in this activity, I designate some person in this Department to establish and maintain liaison with Major General Allen W. Gullion, Provost Marshal General, who is directly in charge of the military government program.

I am vitally interested in this subject and will, of course, be glad to cooperate with your Department in this matter. We want to be of service in whatever way you think we can be. As a liaison officer between the Treasury and Major General Gullion, I am designating Mr. Harry White, my Assistant in charge of the Division of Monetary Research.

Sincerely yours,

(Signed) H. H. Hopkins

The Honorable,

The Secretary of War.

October 6, 1942

DWB:NLE

Sent by Secret Service 5:30 p.m.

WAR DEPARTMENT
WASHINGTON

September 26, 1942.

The Honorable,

The Secretary of the Treasury.

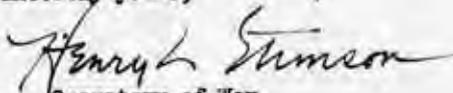
Dear Mr. Secretary:

From the enclosed copy of a "Synopsis of War Department Program for Military Government" you will observe that, among other objectives, it is planned to create groups of technical and advisory personnel for eventual duties in military government. It is hoped to recruit these groups principally from those agencies of the government having an interest in certain special fields that may be involved in future military occupations.

Since your Department may have now or may later develop a peculiar interest in certain aspects of military occupations, it is believed that you will desire to cooperate with the War Department in the indicated activity.

Accordingly, if you have not already done so, will you be good enough to designate some person in your Department to establish and maintain liaison for that purpose with Major General Allen W. Gullion, The Provost Marshal General, who is directly in charge of the military government program.

Sincerely yours,


Secretary of War.

1 Incl.
"Synopsis".

213

WAR DEPARTMENT
SERVICES OF SUPPLY
OFFICE OF THE PROVOST MARSHAL GENERAL
WASHINGTON

Synopsis of War Department Program for Military Government

Any occupation of hostile or Axis-held territory may be divided into two phases: (a) a period of military necessity and (b) an ensuing period when military necessity will no longer exist. During the first phase, it is the obligation of the armed forces to establish and maintain military government; during the second phase, civilian authority of some type will probably assume the mission then to be surrendered by the Army. Until the second phase has begun, however, it devolves upon the Army to administer the government of any occupied area.

In recognition of these basic principles, the War Department is now pursuing a program designed to accomplish two objectives: (1) the procurement and training of an adequate personnel to fulfill its mission of military government and (2) the development of a technique which will effect the transition from military to civilian control with a minimum impairment of efficiency.

The procurement and training program is designed to produce, with the necessary rapidity, the following categories of personnel for military government: (a) top administrative commissioned personnel, (b) junior commissioned personnel, (c) occupational (or military government) military police, and (d) technical and advisory personnel. Category (a) is now being produced at the School of Military Government at Charlottesville, Virginia, which graduated its first class on August 29, 1942, and which began its second four-month's course on September 9. Categories (b) and (c) will be produced at two new schools to be opened at the Provost Marshal General's School Center at Fort Oglethorpe, Georgia, about November 1, 1942. Category (d) will be developed in the manner presently to be indicated.

This last-mentioned group of technical and advisory personnel is to be selected from highly trained civilians. Since there will be no immediate need for their services, it would be inadvisable to withdraw them from their present non-military pursuits at this time. However, it is necessary to compile a roster of these specialists, select those best-qualified, and make arrangements to have them available for call. Only a minimum amount of training in the special field of military government will be necessary for them as they will be already highly trained in their respective fields for the specialized functions which they will later perform. On them will fall the burden of performing the important duties hereafter referred to.

Many complicated technical problems will inevitably arise in any occupation. Among these will undoubtedly be fiscal matters of far-reaching economic importance. Control of local banking establishments must be undertaken. Disentanglement of monetary systems from Axis-imposed regulations must be accomplished and American occupational currency and rates of exchange established.



The economic problems that will arise will be of doubly difficult solution because of the prior Axis occupation and total disarrangement incident thereto. Industries must be surveyed to determine those to be continued in operation or re-established. Raw materials, operating personnel, and funds must be allocated to obtain maximum efficiency of production.

Administrative problems arising from the care and feeding of liberated peoples will require special techniques, tact, and skilled administration. Public health and sanitation will present other problems requiring specialized knowledge. The broad field of public utilities will demand trained technical administrators.

These problems, but a few of those that may be anticipated, prove the immediate need, at the beginning of an occupation, for skilled technicians and advisors in all fields of public endeavor.

The Army's mission of military government is primarily an administrative one. Many underlying policies will be determined by agencies other than the War Department or the Army. Thus, the political policy of an occupation will be determined by the State Department; the economic policy by the State Department or the Board of Economic Warfare, or both; the fiscal policy by the Treasury Department and the Federal Reserve Board, and so forth. These general policies will be administered in great part by the technicians referred to above who will, however, during the period of military government, be under military control and direction. But since the functions to be performed by them will be largely the administration of those policies formulated by agencies other than the War Department, it is planned to recruit them from nominations supplied by the various agencies concerned, since such agencies are in a position to discover the best-qualified individuals for the tasks in which they have a peculiar interest.

In the light of the foregoing, the following immediate cooperative activities between the War Department and other agencies of the government are indicated:

a. The furnishing to the War Department of lists of persons qualified for missions in military government in the special field with which any agency is concerned. From such lists, the technical and advisory group referred to above will be principally recruited. The War Department has already requested such lists from certain agencies; a general request will be made shortly.

b. The study, by certain agencies, at the request of the War Department, of various special and technical problems arising in military government. The War Department has heretofore suggested to the State Department and the Board of Economic Warfare certain studies in the fields of international law and economics. A need for research in other fields exists, and studies concerning them are to be requested.

c. For the past five months, several departments and agencies have been cooperating with the School of Military Government in furnishing it with materials and lecturers in connection with its instructional work. These activities are continuing.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission
who enclose Statement No. 53 - Aircraft Despatched
- for week ended September 29, 1942.

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

October 6, 1942.

STATEMENT NO. 53

AIRCRAFT DESPATCHED FROM THE UNITED STATES

WEEK ENDED SEPTEMBER 29th. 1942

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DEL'D FOR USE IN CAN.</u>
<u>CONSOLIDATED</u>					
Catalina IB	U.K.	U.K.		1	
" "	"	Canada en route		1	
Liberator III	U.K.	" " "		1	
<u>BREWSTER</u>					
Bermuda	U.K.	U.K.		4	
<u>DOUGLAS</u>					
Boston IIIA	U.K.	Canada en route		4	
<u>FAIRCHILD</u>					
Cornell PT 26	Canada	Canada			12
<u>GLENN MARTIN</u>					
Baltimore IIIA	Canada	Canada			5
Marauder I	Middle East	Middle East		3	
<u>LOCKHEED</u>					
Hudson VI	Canada	Canada			5
" "	U.K.	Canada en route		1	1
" "	Middle East	Middle East		3	3
<u>GRUMMAN</u>					
Martlet IV	U.K.	U.K.		9	
<u>NORTH AMERICA</u>					
Harvard II	South Africa	Capetown		54	
"	"	East London		40	
<u>NORTHROP</u>					
Vengeance	India	Bombay		5	
TOTALS				112	10
					26

British Air Commission
October 3rd, 1942.

112
10
26
148

TREASURY DEPARTMENT

217

INTER OFFICE COMMUNICATION

DATE Oct. 6, 1942

TO Mr. White

FROM Mr. Wood

Subject: Remarks of Mr. Samuel Courtauld, Chairman of Courtaulds, Ltd., at Annual Meeting of Courtaulds, September 25. (U.S. Embassy, London, No. 5620, Sept. 24, 1942.)

1. The profit standard of American Viscose, which figures in the Courtauld group for excess profits purposes, was a favorable one, and it will no longer form part of the standard of the group. At the same time, the proportionate profits of American Viscose will no longer come in for assessment.

2. It appears that the gilt-edge investments (made with the proceeds of the settlement made with the British Government) may, since they are not subject to excess profits or national defense contribution, yield as much as the shares of American Viscose would have during the period of high taxation in the United States.

3. Although the company will not suffer materially from Government acquisition of the American Viscose shares, "your Board regret as keenly as ever the loss of an undertaking of enormous potential value situated in the richest market of the world, as well as all that that means in the way of international prestige and the spreading of interests."

4. Mr. Courtauld viewed the future of the company with optimism: "Courtaulds may well have the chance of regaining their outstanding position in the world industry of which they have been temporarily deprived." After the war "there are likely to be many fresh and important openings in the rapidly evolving field of Textiles generally, synthetic fibres and allied industries for those who have the foresight and energy to seize them and the wherewithal in hand."

OCT 6 - 1942

Dear Mr. Knowlson:

I have received your letter of September 24 and the enclosed report of the Airplane Subcommittee to the Joint War Production Committee of Canada and the United States on the Navy's proposed contracts for aircraft production in Canada. I appreciate your sending this report to me.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. James S. Knowlson,
Chairman, U. S. Section,
Joint War Production Committee,
Social Security Building,
Washington, D. C.

File to Thompson

Photo file in Diary

JH:ds1
10-2-42

JOINT WAR PRODUCTION COMMITTEE
CANADA AND UNITED STATES
UNITED STATES SECTION
COMMERCE BUILDING
WASHINGTON, D. C.
Social Security Building

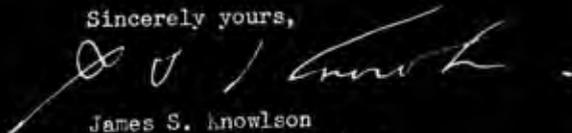
September 24, 1942

Dear Mr. Secretary:

At the suggestion of Dr. Lauchlin Currie, Administrative Assistant to the President, I have requested the Airplane Subcommittee of the Joint War Production Committee for a full report on the proposed Navy contracts with Boeing Aircraft of Canada Limited and Fairchild Aircraft Limited.

I am transmitting their report herewith for your consideration.

Sincerely yours,



James S. Knowlson
Chairman, U. S. Section

The Honorable
The Secretary of the Treasury

JOINT WAR PRODUCTION COMMITTEE
CANADA AND UNITED STATES

UNITED STATES SECTION
COMMERCE BUILDING
WASHINGTON, D. C.

September 23, 1942

Mr. James S. Knowlson
Chairman, United States Section
Joint War Production Committee
United States and Canada
Room 5075, Social Security Building
Washington, D. C.

My dear Mr. Knowlson:

The United States Section of the Airplane Subcommittee wishes to make this special report to you of the considerations influential in its approval of the orders proposed by the United States Navy for certain airplane production in Canada. The production in question consists of:

- (1) A proposed contract with the Boeing Aircraft Corporation of Canada for 200 PB2B-1 (PNY type) for Lend-Lease;
- (2) A proposed contract with the Fairchild Airplane Company of Montreal, Canada, for 300 SBP-1 (SB2C-1) for which a request for letter of intent was dated July 24, 1942.

The Under Secretary of the Navy on December 31, 1941, issued a directive entitled "War Production Policy for Canada and the United States," which directed as follows: "Victory will require the maximum war production in both countries in the shortest possible time; speed and volume of war output, rather than monetary cost, are the primary objectives. . . . Manufacturing facilities available in the United States and Canada will hereafter be placed upon an equal basis so far as awards of production orders are concerned, having in mind that time is of the essence and that, other things being equal, production of essential war materials at the earliest practicable date is the immediate aim of the Department." This directive was issued at the request of the President as an implementation of the declaration of policy by the Joint War Production Committee of Canada and the United States, which had been approved by the President and the Canadian War Cabinet.

Operating under the above directive this particular production was placed in Canada for the following reasons:

- (a) Canada had production capacity with management, engineering and aeronautical experience as well as trained labor, which had been devoted to the manufacture of certain British designed airplanes that were becoming obsolete. It was desirable that this production capacity, together with labor and material supplies, be utilized directly in the war effort in the shortest possible time and without any lapse.

- (b) Available Canadian capacity for the production of raw materials and the primary processing of materials was and continues to be needed, a typical example being the Aluminum Company of Canada, whose facilities for the production of aluminum alloys and particularly their forging and extrusion capacity had become substantial and an important part of continental capacity.
- (c) Skilled labor in the Canadian aircraft industry had not been diluted nearly as much as was the case in our own industry. It was, therefore, reasonable to expect that labor and facilities could be utilized at least as quickly and this capacity would become available to the United States.
- (d) It was necessary to provide airplanes to our allies and this need could be taken care of in the Canadian plants without restricting the delivery of similar airplanes from factories within the United States.
- (e) In the case of the PBV-5 airplane currently in production at Consolidated, San Diego, California, an additional reason existed for its production in Canada. This airplane is an older type and the current orders at Consolidated satisfy the immediate needs of the United States. British needs, however, have not been completely satisfied. It has been the desire of the Navy to expand the production of more advanced types in the Consolidated factory and to make available production capacity for the possibility of an additional type of airplane. It was accordingly highly desirable to move the production of this older design out of the Consolidated factory. It is also desirable to keep this PBV-5 design available for possible future needs of the United States forces as well as immediate British needs. The small facilities of Boeing at Vancouver, which have a capacity of 15 to 20 airplanes a month, will be ample to take care of this need.

These airplanes are treated exactly as if they were being built within the United States, with the Navy furnishing government equipment, including engines, propellers and instruments, drawings and technical information in coordination with the United States production program. Special arrangements have been made to expedite these movements across the border and also to allow the technical people concerned to move very freely within the two countries with the necessary papers and other data concerned. In other words, this Canadian productive capacity is definitely regarded by the Bureau of Aeronautics as being merely an extension of United States manufacturing capacity.

In order that the work of the prime contractors building the SB2C-1 model may be efficiently conducted from the standpoint of sub-contracting and interchange of work in the several factories involved, including the prime contractor, the Navy Department has formed a Liaison Committee for which a directive has been prepared and which is composed of engineers and executives representing the companies, the Navy Department, and the War Production Board. The scheme is patterned after that used with great success in the

case of groups of companies within the United States which are building the same model.

Any reduction of these proposed orders would probably result in an equivalent reduction in the production of military airplanes for the reason that no such productive capacity, not otherwise obligated to the present program, is now available within the United States.

The Committee strongly recommends that this plan be allowed to proceed exactly as it is now set up.

Airplane Subcommittee

William S. ...
Chairman

Alfonso ...
Navy Member

W. F. ...
Army Member

OCT 6 - 1942

My dear Mr. Ambassador:

I wish to refer to the agreement dated January 3, 1942, relative to the purchase of 602,000 fine troy ounces of gold by the Secretary of the Treasury from the Government of the Union of Soviet Socialist Republics, against which an advance of \$20,000,000 was made on January 5, 1942.

I take pleasure in enclosing for your information two copies of the assay report of the United States Assay Office at New York giving an analysis of the gold which was received by the Federal Reserve Bank of New York and was deposited by order of your Government on September 17, 1942 for the account of the Secretary of the Treasury.

You will observe from the enclosed report that the shipment, after melting and upon assay, was determined to contain 53,497.728 fine troy ounces of gold and to have a value of \$1,872,420.48. After the deduction of the amount of \$4,734.65, representing the melting charge of \$53.60 plus the 1/4% handling charge of \$4,681.05, the net value of the gold was \$1,867,685.83. This amount of gold has been applied by the Treasury against the amount of gold agreed to be purchased by the Secretary of the Treasury under the agreement of January 3, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

His Excellency
Maxim Litvineff,
Ambassador of the Union of Soviet
Socialist Republics.

Enclosures.

JWG/jm
10/2/42

R E C E I P T

This will serve to certify that there was received on the 1st of August, 1942, in the Port of Archangel from the U.S.S.R. BANK OF THE UNION OF SOVIET SOCIALIST REPUBLICS and shipped on board the Destroyer G 44 (Forty-four) MARTIN G O L D in accordance with specification No. 9-0, handed over, weighing 1,664,473.1 ligature grams (One million, six hundred sixty-four thousand, four hundred seventy-three and one tenth grams), NET WEIGHT 1,664,302.9 grams (One million, six hundred sixty-four thousand, three hundred and two and nine tenths grams), in a total number of 28 (twenty-eight) cases numbered 32 (thirty-two) to 59 (fifty-nine) inclusive and each case being supplied with two leaden seals of the following impressions:

1. "Гохран" - "Гохран Отделение 3"
2. "Гохран Контроль" - "Гохран Отделение 3".

for transshipment and transference to the Government Treasury in one of the United States ports.

RECEIVED by the Captain of Destroyer G Forty-four MARTIN.

THE COMMANDING OFFICER

1 AUG 1942

U.S.S. "MARTIN"

C.R.P. Thomson (SIGNATURE)
C.R.P. Thomson

The signature of C.R.P. THOMSON, the Captain of the Destroyer Forty-four MARTIN, is certified hereunder by the Senior British Naval Officer at Archangel.



Maawd (SIGNATURE)

Captain AN

(S E A L)

1st of August, 1942.
Archangel, U.S.S.R.

September 16, 1942

My dear Mr. Secretary:

I have been informed that a shipment of 28 cases of gold shipped by the Government of the Union of Soviet Socialist Republics has arrived at Norfolk, Virginia. Please arrange with the Federal Reserve Bank of New York to have the gold transported uninsured and at our risk from Norfolk, Virginia, to the United States Assay Office in New York where it is to be deposited for the account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics. The gold contained in this shipment is to be applied against the amount sold under the agreement of January 3, 1942. Please request the Federal Reserve Bank of New York to communicate with the State Bank of the U.S.S.R., Moscow, relative to any expenses which it may incur in connection with the transportation of this gold.

Sincerely yours,

THE HONORABLE
 THE SECRETARY OF THE TREASURY
 WASHINGTON, D.C.

Washington, D.C.

Draft of letter to be written by the Russian Ambassador.

My dear Mr. Secretary:

I have been informed that a shipment of 25 cases of gold shipped by the Government of the Union of Soviet Socialist Republics has arrived at Norfolk, Virginia. Please arrange with the Federal Reserve Bank of New York to have the gold transported uninsured and at our risk from Norfolk, Virginia, to the United States Assay Office in New York where it is to be deposited for the account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics. The gold contained in this shipment is to be applied against the amount sold under the agreement of January 3, 1942. Please request the Federal Reserve Bank of New York to communicate with the State Bank of the U.S.S.R., Moscow, relative to any expenses which it may incur in connection with the transportation of this gold.

Sincerely yours,

The Honorable

The Secretary of the Treasury,

Washington, D. C.

FD:le:9/15/42

DLA

PLAIN

Rio de Janeiro

Dated October 6, 1942

Rec'd 5:25 p.m.

Secretary of State,
Washington.

4019, sixth

My 3997, October 5, 5 p.m.

Department of Press and Propaganda last night released following statement.

"In a meeting held today in the Ministry of Finance, the Minister of Finance made an exposition of the financial plan to provide for the situation created by the war, the measures embodied in the following decree-laws having been approved:

One. Authorizing the issuance of war bonds in the value of 3,000,000 contos;

Two. Authorizing the Minister of Finance to issue treasury bonds in the value of 1,000,000 contos;

Three. Restricting the issuing power of the Treasury and extending the attributes of the Rediscount Department;

Four. Establishing the Cruzeiro as the Brazilian monetary unit;

Five.

-2- #4019, October 6, 5 p.m. from Rio de Janeiro

Five. Creating the Economic Defense Commission (replaces proposed Repression Commission);

Six. Superseding the provisions of Article two, of decree-law number 4166 of March 11, 1942.

"It was decided to review the entire public works plan, the Minister of Finance being required to submit to the President of the Republic, within the shortest possible time, the plan of the works in execution, so as to determine the suspension of those which may be postponed. No appropriation will be included in the next budget for any new public works. Those which are considered essential for safety purposes will be executed with the special funds destined to war financing. The Government is not contemplating any other special measures to increase its resources."

Details will be reported later.

CAFFERY

CSB

EJ

PLAIN

Rio de Janeiro

Dated October 6, 1942

Rec'd 2:49 a.m., 7th

Secretary of State,
Washington.

4027, Sixth.

My telegram 3997, October 5, 5 p.m.

The Brazilian Government today published the following important financial decree laws:

CURRENCY.

The President of the Republic, using the powers conferred on him by Article 180 of the constitution, decrees:

Article 1. The unite of the Brazilian monetary system will henceforth will be the cruzeiro.

One. The one hundredth part of the cruzeiro will be called the centavo.

Two. Amounts in cash, of whatsoever value, will be written preceded by the symbol CR.₡.

Three. The cruzeiro will correspond to the milras.

Article 2. The Brazilian circulating medium will be constituted by metallic coins and banknotes.

Article 3. Metallic coins will correspond to 1,2
and 5 cruzeiros,

-2- #4027, October 6, from Rio de Janeiro

and 5 cruzeiros, and 10, 20 and 50 centavos, having the following unchangeable characteristics: (A) the cruzeiro and its multiples: value and diameter 1 cruzeiro 23 millimeters 2 cruzeiro 25 millimeters 5 cruzeiro 27 millimeters.

Face of coin: in the center, the map of Brazil. Near the border, at the left, the word "Brazil" superposing--two horizontal and parallel lines.

Reverse of coin: in the center, the value encompassed by two laurel wreaths and the southern cross constellation. On the space between inner and outer circle the engravers monogram and the alfa star of the southern cross constellation. In the field to the left, the date.

Contour: threaded rim.

(B) For the centavos: value and diameter 10 centavos 17 millimeters 20 centavos 19 millimeters 50 centavos 21 millimeters.

Face of coin: The effigy of President Getulio Vargas. On the rim the inscription "Getulio Vargas" followed by a semicircle, S star, and the word "Brazil".

Reverse side: the center the value in two superposed lines overheaded by a star.

Contour

-3- #4027, October 6, from Rio de Janeiro

Contour: smooth.

Sole paragraph the weight, composition of alloy and equivalent tolerance will follow the characteristics of the enclosed table, and are the only elements which can be allowed.

Article 4. The mintage of commemorative coins for whatsoever purposes is prohibited.

Article 5. Except in the case of mutual agreement between interested parties, the liberating power of the coins being minted according to the provisions of this decree law is the following: 5 cruzeiro up to 100 cruzeiros 2 cruzeiros up to 50 cruzeiros 1 cruzeiro up to 25 cruzeiros 50 centaves up to 10 cruzeiros 20 centaves up to 4 cruzeiros 10 centaves up to 2 cruzeiros.

Article 6. Banknotes will be in the value of 10, 20, 50, 100, 200, 500, and 1000 cruzeiros.

One. All banknotes will have the same size of 70 millimeters x 140 millimeters, and the same designs on the main body of the note.

Two. The characteristics of the banknotes, according to their value, will be as follows: (first) value cruzeiro (second) effigy face (third) inscription reverse (fourth) color reverse.

10, Getulio

-4- #4027, October 6, from Rio de Janeiro

10, Getulio Vargas, Unidado Nacional, green; 20, Marshall Deodoro da Fonseca, Proclamacao da Republica, pink; 50, Princesa Izabel, Lei Aurea, purple; 100, D Pedro II, A Cultura Nacional, nut brown; 200, D Pedro I Grito do Ipiranga, olive; 500, D Joao VI, Abertura dos Portos, blue; 1000, Pedro Alvaros Cabral, Primeira Missa, orange.

Note--the color of the banknotes on the right side is uniform for all values: blue.

Article 7. The Ministry of Finance will provide for the coinage or acquisition of the metallic coins, and the acquisition or printing of the banknotes in the value and proportion required by the circulating medium.

Article 8. The Minister of Finance will establish the conditions whereunder and the periods wherein the present coins and banknotes may be exchanged for their nominal value, without discount, as well as the terms and gradual discounts which will prevail in subsequent periods up to the definite loss of value.

Article 9. The coins of the former mintage will gradually be depreciated.

Article 10. Starting from the date of this decree law, no coin or banknote will be made or acquired by the
the government

-5- #4027, October 6, from Rio de Janeiro

the government which does not conform with the models now established, excepting only the parts of orders already being executed.

Article 11. From November 1, 1942, all acts and facts relative to money shall have reference to the new currency.

Sole paragraph starting from the date established in this article up to the dates which shall have been stipulated in accordance with the provisions of Article 8, the cruzeiro and the milres and their respective multiples and submultiples will be used indistinctly.

Article 12. Provisions to the contrary are revoked.

REDISCOUNTS.

Restricting the currency issuing rights of the Government, the President of the Republic signed the following decree law:

The President of the republic, using the powers conferred upon him by Article 180 of the constitution, decrees:

Article 1. The rediscount department of the Bank of Brazil, in addition to rediscount operations, is hereby authorized to grant loans to banks, when guaranteed by "treasury bonds", payable within a period not exceeding
180 (one hundred

-5- #4027, October 6, from Rio de Janeiro

the government which does not conform with the models now established, excepting only the parts of orders already being executed.

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The President of the republic, using the powers conferred upon him by Article 180 of the constitution, decrees:

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180 (one hundred

-6- #4027, October 6, from Rio de Janeiro

180 (one hundred and eighty) days.

Article 2. Upon enforcement of this law, issues resulting from rediscount operations as well as those resulting from loans to banks, in accordance with the requirements covered by article 2 of law No. 449 of June 14, 1937, and article 4 of decree No. 21499 of June 9, 1932, will be guaranteed by government funds, in gold and drafts, at the rate of 25 percent.

Article 3. Any procedure of issues other than the one indicated in this decree law is hereby forbidden.

Article 4. Paper currency in circulation, not issued in accordance with Article 2, will be gradually collected, following government instructions.

Article 5. Provisions to the contrary are hereby revoked.

TREASURY BONDS.

The President of the Republic, in accordance with the powers conferred upon him by Article 180 of the constitution, decrees:

Article 1. The Minister of Finance is authorized to issue up to a limit of 1,000,000:000 \$ 000 (one million centos) of Treasury bonds, which shall reach maturity on 180 (one hundred and eighty) days.

Article 2.

-7- #4027, October 6, from Rio de Janeiro

Article 2. The bonds shall have a nominal value of 1:000\$000, 5:000\$000, 10:000\$000 or 50:000\$000 to the bearer and shall pay interest at the rate of 3 0/0 per annum.

Article 3. The present decree law becomes effective upon the date of its publication, all disposition to the contrary being revoked.

CAMPERY

RR

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 345

Information received up to 7 A.M., 6th October,
1942.

1. NAVAL

One of H.M. Submarines sank a southbound ship
off TOBRUK on the 18th.

2. AIR OPERATIONS

WESTERN FRONT. 5th/6th. 256 aircraft were sent
to AACHEN. 10 are missing and 6* crashed in the U.K., mainly owing
to a severe storm at take-off time. Preliminary reports very dark,
some ground haze, medium cloud, identification very difficult.
One good fire concentration and many scattered fires reported.

3. HOME SECURITY

Yesterday evening about 60 shells were fired into
DOVER, FOLKESTONE and DEAL. Some damage was caused to Dover College,
6 persons were killed.

TREASURY DEPARTMENT

231

INTER OFFICE COMMUNICATION

DATE Oct. 6, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Bombing Raids over Western Europe during September, 1942

1. During September the U.S. Army Air Force conducted three bombing raids over occupied Europe, attacking military objectives in seven cities. In the largest raid, 41 Flying Fortresses bombed an airframe factory at Meault, dropping 64 tons of high explosives. Two Fortresses were lost.

2. The Royal Air Force made 28 bombing raids over Europe during the month, with a loss of 158 bombers. The two largest night raids were on Dusseldorf and Bremen. In the Dusseldorf raid 475 bombers, including 192 heavy bombers, participated, and 700 tons of heavy explosive and incendiary bombs were dropped, including 86 of the two-ton "block busters". Thirty-five planes -- over 7 percent -- were lost. In the attack on Bremen, 446 bombers, including 230 heavy bombers were sent out, but only 346 attacked the objective. Twenty were lost. Of the 741 tons of bombs dropped, four weighed four tons each, 107 were two-ton heavy explosive bombs, and two were two-ton incendiaries.

3. In the large-scale R.A.F. attacks, losses which were revealed in secret British reports ranged from 1-1/2 percent to 10-1/2 percent, and averaged a little over 6 percent, of the planes participating.

(British Operations Reports, British communications, and press despatches).

Bombing Raids Over Western Europe
During September

238

	<u>R.A.F.</u>	<u>U.S.A.</u>	<u>Total</u>
I. Raids over Western Europe reported during September.	28	3	31
II. Bomber losses in raids over Western Europe.	158	2	160
III. Cities reported attacked.			
A. <u>Germany</u>			
Bielefeld: Various industrial objectives	1		1
Bremen: Aircraft, submarine, ship and oil production; port and rail center	2		2
Bremerhaven: Docks and waterways	1		1
Cologne: Industrial objectives - iron, steel, tanks, engines, rubber, explosives	2		2
Duisburg: Port, rail center, submarine parts	1		1
Dusseldorf: Munitions, engines, iron and steel	1		1
Emden: Port, submarine production	2		2
Essen: Munitions, synthetic oil	3		3
Flensburg: Submarine and shipbuilding	1		1
Frankfort: Rolling stock, rubber, oil refineries	1		1
Karlsruhe: Rail center, industrial	1		1
Munich: Aircraft manufacture	1		1
Munster: Rail and industrial center	2		2
Osnabruck: Rail center, metallurgy	2		2
Saarbrucken: Rail center, iron and steel	2		2
Vege sack: Submarine and shipbuilding	1		1
Wiesbaden: Chemical manufacture	1		1
Wilhelmshaven: Submarine and shipbuilding, naval base	1		1
Wismar: Aircraft works	1		1
Total reported attacks on German cities during September.	27	0	27
B. <u>Occupied Areas</u>			
Abbeville: Port, airfield, rail sheds		1	1
Bordeaux: Aircraft production	1		1
Boulogne: Docks, railway yards	1		1
Cherbourg: Port, airfield, shipbuilding	3		3
Comines: Power plant	1		1
Ghent: Iron, copper, oil and machine works	1		1
IJmuiden: Iron and steel works	1		1
Le Havre: Port, shipyards	2	1	3
Lille-Lens area: Power station	1		1

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	<u>R.A.F.</u>	<u>U.S.A.</u>	<u>Total</u>
III. Cities reported attacked (cont'd.)			
B. <u>Occupied Areas</u> (cont'd.)			
Meaulte: Airframe production		1	1
Oslo: Political center	1		1
Rotterdam: Port, shipyards		1	1
Rouen: Rail center, shipyards, fuel tanks		1	1
St. Omer: Railways, airfield		1	1
Utrecht: Railyards		1	1
	<hr/>	<hr/>	<hr/>
Total reported attacks on cities in occupied areas during September	12	7	19
Total reported attacks on Western European cities in September	39	7	46

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE Oct. 6, 1942

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

German Military Strength

The following estimate of the number of men in the German armed forces comes from the Office of Strategic Services:

Army	6,990,000
Paratroops	50,000
Air Force	1,500,000
Navy	<u>200,000</u>
Total	8,740,000

French Shipping

Thirty-six foreign ships, totalling about 127,000 tons, are being turned over to the Axis by the French Government, according to a Vichy report which the Office of Strategic Services describes as reliable. It is said that former Norwegian, Dutch, Danish, and Greek vessels are included.

India

Disturbing reports have come out of India on the development of a revolutionary movement in rural areas. With the imprisonment of the Congress leaders, it is said that this movement is being organized by left-wing peasant leaders, many of whom believe that only violence can drive out the British. It is reported that rural blacksmiths are manufacturing crude weapons. A peasant leader has stated in confidence that this movement may not break out until December, but that then it will be irresistible.

(Office of Strategic Services, "The War This Week",
September 24 - October 1, 1942)