

DIARY

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November 17, 1942
9:10 a.m.

FINANCING

Present: Mr. Bell
Mr. Tickton
Mr. Buffington
Mr. Haas

(Telegrams read by the Secretary, copies attached.)

H.M.JR: I have asked the different Federal Reserve banks when they want these maturities to fall. I want you (Tickton) to take these and do a quick job for me. I want you to make a chart, and I want it by eleven o'clock.

MR. TICKTON: All right.

H.M.JR: Rouse says, "sell at least \$2 billion additional registered bonds" to the public.

MR. BELL: To non-banking people, yes.

H.M.JR: How does that compare--

MR. BELL: We said a billion seven hundred and fifty. That is on my sheet.

BUFFINGTON: Did I understand that correctly - two billion?

H.M.JR: Yes. (Reading from Mr. Rouse's telegram) "They believe that there is a market at present for approximately \$2 billion 2-1/2 percent bonds which can be raised in any issue but that the closing of the 1962-67's with an additional amount of bonds at this time would permit a more accurate pricing of a new issue at a future date."

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MR. BELL: I think that is a good point, closing of that issue. If you open it again--

H.M.JR: How much is there out on that?

MR. BELL: Two billion one, because you see, there is always hanging over the market the fact that it will be reopened. The minute you mention a new two and a half that drops right back down, and that lets you get a real market on that registered security if you close it. If you reopen it this time I think it would be important to announce that that is a closed issue, now.

H.M.JR: The registered?

MR. BELL: Yes.

H.M.JR: And reopen just for the coupon?

MR. BELL: You could reopen it later if you had a coupon bond, and have that exchanged into a coupon bond.

H.M.JR: All this advice is to have the same dates as the present?

MR. BELL: That is right.

MR. BUFFINGTON: I do not agree with that at all.

MR. BELL: The same date as the registered security.

H.M.JR: The fellows from the field - New York, Chicago, and San Francisco--

MR. HAAS: That is what Marriner wants, but he wants a coupon with the same maturity.

H.M.JR: A coupon?

MR. BELL: No, they do not want a coupon; they want the registered.

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H.M.JR: These people want the registered.

MR. BELL: I mean, they are suggesting that you not change the present issue, and the fact that you do not reopen it will sell a lot more bonds because they know that the next issue is going to be longer.

H.M.JR: How can we sell the same and not reopen?

MR. BELL: I mean, reopen it after this. That is what they mean.

H.M.JR: (Reading from Mr. Rouse's telegram)
"While this group unanimously oppose a new issue in coupon form, the view was expressed by each one that the call date should be not shorter than 1965 and one went as long as 1970; that the optional period be as close to five years as possible and that if the outstanding issue of 1962-67's were made exchangeable for coupon bonds, it should be made exchangeable for coupon bonds of the new issue and not of the 1962-67's." This is different from what you fellows have been telling me.

MR. BELL: That is right. I think Bob Rouse has changed a little, if he agrees with that, because he has been talking about a coupon.

H.M.JR: (Reading from Mr. Rouse's telegram)
"This group, without prior consultation, but after having studied the problem individually, recommended unanimously that the outstanding issue of registered 2-1/2's of 1962-67 be reopened, coupled with an announcement that this reopening would close the issue. It was their best judgment, and again unanimously, that at this time the Treasury would sell more bonds net by the use of this instrument than it would by creating a new issue of either coupon or registered bonds. They estimate that the Treasury would sell at least \$2 billion additional registered bonds of 1962-67 if the books were left open for at least two weeks..."

MR. HAAS: That is a good figure.

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MR. BUFFINGTON: Every insurance man who has been in the last month has said it has to be a different maturity than '62-'67 because they have a peak there from buying these two issues of tap. Even one year variance would make a good deal of difference, but they suggest more than one year's difference.

H.M.JR: He (Tickton) is analyzing this for me now. I am not sure, but I think they all say - do any say other than '62-'67?

MR. TICKTON: Young has '63-'68; Davis, '64-'69 - those are the first two I looked at.

H.M.JR: While he is doing those maturities, what did you learn about the selling--

MR. BUFFINGTON: I have checked with five different people, all independent of what I told you yesterday, and with one exception - Francis Patton, in Chicago, who is a born pessimist, says a billion seven hundred and fifty million - all these other men say two and a half billion if it is a coupon bond, not a registered - '62-'67 is a safe figure. I would not tell you the figures that they are talking about as being possible.

H.M.JR: What maturity do they figure?

MR. BUFFINGTON: Twenty to twenty-five years; that is '62-'67, with a year or two years one way or the other.

MR. BELL: They want a coupon and a different maturity.

MR. BUFFINGTON: If you asked me my judgment on a registered '62-'67, I would say a billion and a half maximum. I think there is a billion-dollar difference between a coupon and registered bond.

H.M.JR: How much do some of these fellows say?

MR. BUFFINGTON: I would just like not to tell you.

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H.M.JR: Go ahead.

MR. BUFFINGTON: They are talking four billion. Now, Mr. Secretary, I am assuming that we can really go out and put on heat. For example, I am going to ask every security house in the country to close on the 7th of December, which is Pearl Harbor Day, and do nothing but sell Government securities, and a number of other things that we have in the making. I talked to Dan, and I feel that if it were possible to get the President of the United States, on the 7th of December, to make a speech--

H.M.JR: No, no - the answer is no. I would not ask him. That is my responsibility. His job is to run the war, and mine is to finance it.

MR. BUFFINGTON: Would you make a speech?

H.M.JR: I don't know. Some of the boys wanted me to make a speech on the night of the 28th.

MR. BUFFINGTON: Either--

MR. BELL: Before the opening?

H.M.JR: Yes, but not the President. Talk up, George. I told you to make up your mind this morning.

MR. HAAS: I have got mine, and I have got it on paper.

H.M.JR: Get it.

MR. HAAS: What I was about to say-- (Memorandum dated November 17, copy attached, handed to the Secretary.)

H.M.JR: Let me read this, please.

Well, this one and three-quarters certainly ought to be an easy one to price. I don't know what these--

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MR. HAAS: I do not think pricing is a problem.

H.M.JR: I want to do it on the generous side.

MR. HAAS: That is the generous side. Some people talk about - I think we could do either one.

H.M.JR: How does this strike you?

MR. BUFFINGTON: All right.

H.M.JR: Which would you like, the '60-'70 or the '65-'70?

MR. BUFFINGTON: It does not make any difference. Can we call this a Victory Fund drive? We have got to have something to hold onto here for advertising.

H.M.JR: Well, we will wait - no Victory Fund drive--

MR. BUFFINGTON: It is the Victory Fund Committee and this tap issue is a very bad thing to use. I wish we could call it a Victory Fund Bond by the Victory Fund Committee. I mean, it is important in these estimates that I am giving you. It is really important, according to these executive managers.

H.M.JR: That is what these advertising fellows are in here for, tomorrow.

MR. BUFFINGTON: I wanted to make my estimates contingent upon that.

H.M.JR: All I care about is - supposing I call it the Sloppy Joe Bond, can I sell a billion seven hundred and fifty? That is all I want to know. (Laughter)

MR. BUFFINGTON: Yes, sir. But I think you can sell a lot more if you don't call it a Sloppy Joe bond.

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MR. BELL: I think on this memorandum of George's we are going to get a lot of suggestions for a definite maturity on one and three-quarters percent bonds. We are also going to get some opposition to this ten-year call period. And I think if those two things develop that I would give in to the market; give a one and three-quarters definite maturity date, rather than the call date. I think George is right in the advantage to the Treasury, but we are out here to sell securities, and I would not let anything stand in the way.

H.M.JR: I did not know there was any opposition to the ten years on the one and three-quarters.

MR. BELL: I think you will find some.

MR. HAAS: That is just one way of getting a better rate of interest.

H.M.JR: Is there in New York--

MR. BELL: Like some of those fellows told you yesterday, this one and three-quarters is falling close to the note area. It has been suggested, I think, the six and a half--

MR. HAAS: About June '48.

MR. BUFFINGTON: No option, you mean?

MR. HAAS: Yes, fixed.

MR. BELL: We do not want to make it too rich and pull that thing out of line.

MR. BUFFINGTON: I do not understand why these men are going--

H.M.JR: I thought I would have Eccles come over at three-fifteen.

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MR. BELL: He will want to see you before that. He is very strong on this bank statement - the joint announcement of the three supervisory authorities on how they treat items in the examination of banks. We said we did not think it ought to be put out at this time, and they feel very strongly that it should be put out - not put out, but it should be sent out to the examining forces in a public announcement. They think that Delano, this morning at the convention of commissioners in Philadelphia, should discuss this with the committees with a view to getting them to adopt a somewhat similar program.

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

November 17, 1942
9:32 a.m.

Marriner
Eccles:

Yes, Henry.

HMJr:

How are you?

E:

Fine. How are you?

HMJr:

I'm fine. I was suggesting before I called you up, if it's convenient I'd like to see you at three-fifteen and anybody who's over there in your shop that you want to bring along. Is that a good or bad time?

E:

Well, that's okay with me. Sproul is back.

HMJr:

Yeah.

E:

He got back yesterday, and I was just thinking that possibly before you made the announcement, which I understand will be what - about Thursday or Friday?

HMJr:

Yeah, well, I've - I've got to - all these promotion men are in here tomorrow. I - I've - we've got to pretty well make up our mind today.

E:

I see.

HMJr:

You see?

E:

Well - well, I'll be - he couldn't get down and it just occurred to me you might want him to come down.

HMJr:

Well, we can talk to him on the phone.

E:

Yeah. Well, I'll be over there at three-fifteen.

HMJr:

Now, Eccles - Eccles, Bell just handed me something on a joint announcement of control of the currency.

E:

Yeah.

HMJr:

He said this is something you're interested in?

E:

Well, you recall that Williams....

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HMJr: Yeah.

E:made this point the other day and - and so did Ned Brown yesterday at - we had the Advisory Council in town, and several of these bankers said that it's absolutely necessary to clarify the attitude of the examiners with reference to Government bonds.

HMJr: Yeah.

E: And that statement was drawn up by Hap Young and Al Williams....

HMJr: Yeah.

E:and then it was checked with all of our people....

HMJr: Yeah.

E:and then we checked it with the Comptroller and with Crowley.

HMJr: Right.

E: See?

HMJr: Yeah.

E: And they all agreed that - that - that this statement would be all right to - to release. Now we - we looked at it this way, that these examiners, some of them take different attitudes. For instance, they criticize the bank because of a question of a capital ratio. Well, the bank sits there with cash and won't invest that cash because it figures that they can't criticize it if it has - if its deposits are in cash.

HMJr: Yeah.

E: You see?

HMJr: Yeah.

E: And we think that needs to be clarified. It ought to be able to....

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HMJr: Well - is it....

E: That's one point of it. Another - another point and an important point is that some of these examiners go around and say, "Well, you get too many governments," see?

HMJr: Yeah.

E: "Or you shouldn't have - you shouldn't buy governments for longer than five years." Now - now what - what we're trying to do in that statement is to say that it's perfectly all right for a bank to loan to people who want to borrow money to buy governments if it's for a short term on an installment basis.

HMJr: Yeah.

E: We say, further, that - that it's all right if a bank should have to borrow from the Fed. temporarily. We say that any Government bonds held by banks are satis.. - they're all right so long - so long as they're in line with - with the - with the - the governments that we have designed for banks to buy. Now we - we - we feel that - that if - and the Federal Reserve Banks feel if they are going to get out and do a good job of selling on this thing that they can't be out trying to sell on the one hand and have - and have examiners, state....

HMJr: Yeah.

E:and as well as national and Federal Reserve examiners. You see that we've got three or four different groups of 'em taking a different attitude.

HMJr: Well, look, Marriner, during the forenoon I'll work on this, and I'll be in touch with you.

E: Well, now the - there was this thing, you know the state bank commissioners are in session in Philadelphia.

HMJr: Yeah, well - yeah, but Bell just gave me this three minutes ago.

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E: Oh my gosh! You see, Delano is making that speech, and it was our suggestion the other day that Delano....

HMJr: Yeah.

E:and he's a - he could be called up if it was agreeable - that - that Delano was going to present this to the state bank commissioners who won't meet for another year, and there's forty-eight of them up there and if somebody could say to these commissioners....

HMJr: Yes.

E:that here's a....

HMJr: All right. Well, now let me - I got to go over to the White House in ten minutes, and see if I can understand this, and if I can I'll give it a green light.

E: Well, okay, fine.

HMJr: See?

E: All right. Well, it's - everybody has approved it but you now. Crowley and everybody else.

HMJr: Well, include Bell and me.

E: Well, I don't know about Dan. I don't know what Dan thinks about it.

HMJr: Yeah, well, I've only had it three minutes.

E: Yeah.

HMJr: All right.

E: Okay, fine. Goodbye.

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(Joint Announcement, copy attached, handed to the Secretary by Mr. Bell.)

H.M.JR: Let me read this thing.

MR. BELL: He has the borrowing in there from the Federal; I suppose it is all right. That is number four.

H.M.JR: What does that mean?

MR. BELL: That is supposed to cover the capital ratio, this ten to one bogey.

What they are trying to say there is that any bank that buys Governments or makes other loans out of these increased deposits shall take those increased earnings and set them up to write off premiums, as a depreciation in their bond portfolio, or to strengthen their capital structure.

I discussed this - maybe I shouldn't, but I had to have advice about it, so I discussed it with the sub-committee, and they said that this statement ought to be issued sometime - not publicly, but it ought to be given to the examiners. It is important, and probably it ought to, some way, be gotten to the State banking examiners. But they think most of the small country banks will take number four to mean a control over their dividend policy, which will do more harm in trying to set straight this capital ratio business.

They think that is a good statement for Delano to use as a basis for discussion at the convention - let him go ahead and do it, and let them act as they see fit after the discussion. It won't be public; it will be behind closed doors, and then we will rewrite number four, here, to make it clear to the little country banker what we are trying to do. We are trying to help him; we are not trying to control his dividend policies.

H.M.JR: What were Stewart's and Viner's objections?

MR. BELL: Stewart's objection was on two things,

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I think, that Eccles is dragging in here: the loans by banks - from the Federal Reserve banks to banks, and I do not think he understood that most of the people discussing this had in mind that just a few day's loans would be involved - not a long term, just in and out.

H.M.JR: I would be influenced by these three fellows.

MR. BELL: Eccles said that he thought number four needed a lot more study. That was their view, too.

H.M.JR: I will tell you what I will do. You talk this over with those three men that are here.

MR. BELL: That was their advice last night.

H.M.JR: I would like to get - after all, this meeting is all day long, isn't it?

MR. BELL: Yes, and I told Delano to stand by so that I could call him.

MR. HAAS: He has a lot of it in his speech. It is stated better than that.

H.M.JR: It is in his speech already?

MR. HAAS: Some of it.

MR. BELL: Capital ratio is in his speech.

H.M.JR: But the thing is, this is combined, which is good. Can you get Crowley and the others to agree if we change it any?

MR. BELL: I think they can agree on number four.

H.M.JR: Why don't you do this - when they come in, concentrate on this thing first, when these men come in at quarter of ten in your office; do this thing first.

What do these boys say? What is the gist?

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MR. TICKTON: New York says reopen the registered issue; San Francisco says the same thing; the other two have a variety of opinions. Chicago says '65-'70 and also '63-'68; St. Louis says '64-'69--

MR. BUFFINGTON: Coupon or registered?

MR. TICKTON: When registered, '62-'67; when coupon, the longer issue.

H.M.JR: How do you get the difference? This is the heads of these banks as against your fellows?

MR. TICKTON: These fellows called up various men in their neighborhood and reported what they said.

MR. BELL: Largely banks.

MR. TICKTON: They didn't marry these and come out to their own conclusion as far as Chicago is concerned. They gave us all the opinions.

MR. BUFFINGTON: The only possibility I can think of - I don't understand it - is that the banks may fear a coupon will take more out of their deposits than a registered bond, but I would like to understand what that opinion is. I don't understand that at all.

H.M.JR: In the next hour or so you had better get some of these fellows and - is there any way you can get them?

MR. BELL: They can wire.

H.M.JR: How are they going to wire - through the Federal Reserve? Tell them to file their wire with the Fed.

MR. BUFFINGTON: The executive managers and also that Government group in New York?

H.M.JR: What is that group?

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MR. BUFFINGTON: Security Dealers Discount, Salomon Brothers and Hutzler--

MR. BELL: They are the Government dealers.

MR. BUFFINGTON: I would like to understand that, and I would like to talk to some of those people directly, and find out why they make those recommendations, if you had no objections.

MR. HAAS: Do you want to talk to insurance men? Woodward is here today.

H.M.JR: I don't mind who you (Buffington) talk to. I think the sooner those telegrams are copied, so they can be around, the better, because I want Bell to show them to this group he is going to see now.

MR. BUFFINGTON: Do you still want to get telegrams in here from executive managers?

MR. BELL: A few of the best ones.

H.M.JR: Yes.

MR. BUFFINGTON: Registered or coupon, and maturity?

H.M.JR: Yes. Why not get it from all twelve?

MR. BUFFINGTON: All right.

H.M.JR: Maybe the quickest way would be to send them a telegram through the Fed. Do you know how they do this? Get out a telegram and ask them to telegraph you back. I have got to make up my mind, today.

MR. BELL: Before twelve o'clock.

H.M.JR: The telegram should leave wherever they are before twelve and get here at twelve o'clock Western

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time. Let them file it by twelve; if I see it by two, that will be time enough. I would tell them that they should file their telegram not later than twelve-thirty. They should file their telegram by twelve-thirty with the Fed for me, and make it "rush." I will see Woodward during the day. Who else have you got?

MR. HAAS: Shields is here today.

H.M.JR: All right, I will see him.

That is all.

COPY

1942 NOV 16 PM 7 11

STL

HON HENRY A MORGENTHAU TREASURY DEPT

RE DECEMBER TREASURY FINANCING:

MATURITY OF ISSUES

CONSENSUS OF OPINION OF BANKERS OF DISTRICT AND OFFICERS OF THIS BANK IS THAT MATURITY ON 1-3/4 PERCENT BONDS SHOULD BE JUNE 15 1948 OR ABOUT FIVE AND ONE-HALF YEARS AND THAT TERM OF 2-1/2 PERCENT COUPON BOND SHOULD NOT BE EXTENDED BEYOND DECEMBER, 1964-69.

ANNOUNCEMENT OF OFFERING -

IN REGARD TO ANNOUNCEMENT, WE RECOMMEND THAT TREASURY ANNOUNCE ON THURSDAY THE TOTAL AMOUNT THAT WILL HAVE TO BE RAISED FROM ALL SOURCES BETWEEN NOW AND FEB. 1. THE PURPOSE OF THIS IS TO GIVE THE MARKET A PICTURE OF THE OVER-ALL PROGRAM. THE TREASURY MIGHT THEN INDICATE THE AMOUNT OF NEW MONEY THAT WILL BE OBTAINED FROM TREASURY BILLS, WAR BONDS AND TAX NOTES. IT COULD BE ANNOUNCED THAT THE REMAINDER WILL BE RAISED THROUGH THREE OFFERINGS - THE 7/8 PERCENT CERTIFICATES, THE 1-3/4 PERCENT BONDS AND THE 2-1/2 PERCENT BONDS AVAILABLE TO OTHERS THAN COMMERCIAL BANKS RECEIVING DEMAND DEPOSITS. BEGINNING NOV 30 THE VICTORY FUND COMMITTEES TO BE ASKED TO CARRY ON AN INTENSIVE CAMPAIGN TO SELL THE ISSUES TO BE OFFERED TO NONBANK INVESTORS. AFTER THIS CAMPAIGN HAS BEEN UNDER WAY FOR TWO WEEKS THE 1-3/4

PERCENT BONDS TO BE OFFERED FOR BANK SUBSCRIPTION FOR A PERIOD OF FOUR DAYS. THE FIRST OF JANUARY THE 7/8 PERCENT CERTIFICATES TO BE OPEN FOR BANK SUBSCRIPTION. DEFINITE ANNOUNCEMENT OF THE AMOUNT TO BE ALLOTTED TO BANKS TO BE RESERVED FOR LATER DETERMINATION AND WOULD DEPEND IN PART UPON THE TOTAL VOLUME OF SALES TO NONBANK INVESTORS. THIS PROGRAM WE BELIEVE WOULD HAVE THE ADVANTAGE OF AVOIDING THE POSSIBILITY OF HAVING AN UNDER-SUBSCRIPTION AND THE NECESSITY OF GOING BACK TO THE BANKS IN JANUARY. MOREOVER, SPLITTING THE BANK OFFERING WOULD GREATLY FACILITATE ABSORPTION BY BANKS. SINCE THE JOB OF FINANCING WILL BE A CONTINUOUS ONE WE SEE NO PARTICULAR REASON FOR KEYING THE OFFERING TO BANKS TO THE PEARL HARBOR ANNIVERSARY.

CHESTER C DAVIS.

Joint Announcement of the Comptroller of the Currency
the Federal Deposit Insurance Corporation and
the Board of Governors of the Federal Reserve System.

The Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System make the following statement of their examination and supervisory policies with special reference to investments in and loans upon Government securities.

1. Banks will be encouraged to purchase and hold Government securities of the types that are designed for bank investment. Holdings of any such securities will not be criticized. There will be no deterrents in examination or supervisory policy to such investments.

2. Loans by banks repayable on a suitable short term or amortization basis for the purpose of enabling customers to purchase or carry Government securities are desirable and will not be criticized.

3. Banks which utilize their reserves as far as possible in making such investments and loans should avail themselves of the privilege of borrowing from the Federal Reserve Banks when necessary to restore their reserve positions. They will not be criticized for such action.

4. The increased earnings from such investments in and loans on Government securities should be conserved for the amortization of premiums if any on such investments, to provide for possible losses in other assets, and generally to strengthen capital structures.

November 17,
1942

Secretary Morgenthau

Mr. Haas

**Subject: Suggested Maturities and Call Dates for Proposed
New 1-3/4 Percent and 2-1/2 Percent Bonds**

The following are suggested as the most desirable maturities and optional call dates for the proposed new securities:

1-3/4 percent bond

September 15, 1947-49

2-1/2 percent bond

First choice December 15, 1960-70
Second choice December 15, 1965-70

In our opinion the fixing of the exact maturities and call dates of the proposed issues -- as long as the dates chosen are in reasonable conformity with the "pattern of rates" -- will have little effect on the success or failure of the issues. Success or failure will depend upon the sales effort put forth.

In suggesting the maturities and call dates listed above we have had in mind two primary criteria: (1) that they should present the maximum of real advantage to the Treasury, and (2) that the issues should be priced generously by market standards. These criteria may be more fully explained as follows:

(1) Value of optional call periods. All of the issues suggested above contain optional call periods. In the case of the 2-1/2 percent bond the optional call period suggested as a first choice is 10 years.

Optional call periods are of great value to the Treasury, a value which remains long after the other circumstances attending the financing are forgotten. Compare a 5-7 year 1-3/4 percent bond with a 6-year fixed maturity bond, for example. Unless the interest rate on short-term money is exactly 1-3/4 percent 5 to 7 years hence, the Treasury is bound to gain by the optional call period, since if rates

are lower than $1\frac{3}{4}$ percent it can call the bond at the end of 5 years, whereas if they are higher than $1\frac{3}{4}$ percent it can let the bond run to maturity. Even if rates are exactly $1\frac{3}{4}$ percent the Treasury does not lose.

Long call periods are of particular value to the Treasury. A pertinent case at the present time is that of the $4\frac{1}{8}$'s of 1947-52. Those bonds, now outstanding in the amount of \$759 million, were issued in October 1952 with a 5-year inserted -- and in fact was in the two succeeding issues of long-term Treasury bonds. If a 10-year call period had been used in the $4\frac{1}{8}$'s the bonds could have been refunded last month into taxable 2's of approximately the same final maturity and the Treasury would save \$85 million in interest during the next 5 years as well as converting the bonds from partially tax-exempt to taxable status.

(2) Liberality of pricing. Our choice for the $1\frac{3}{4}$ percent bond and both choices for the $2\frac{1}{2}$ percent bond are out slightly on the generous side compared with the so-called "pattern of rates".

In the October financing the Treasury was accused of pricing its issues in such a manner as "to skin a horse for its hide and taller". Such pricing is necessary, under present conditions, when securities are offered for which the interest rate and description are already fixed in the "pattern of rates". It is necessary, for example, in pricing a $1\frac{1}{2}$ percent note or a 2 percent bond. In establishing the description of a new security like a $1\frac{3}{4}$ percent bond or a coupon $2\frac{1}{2}$ percent bond the Treasury has a small amount of latitude, however, and we feel that this latitude should be exercised in the direction of generosity.

There is some pressure for a fixed maturity $1\frac{3}{4}$ percent bond or even for a 5-year $1\frac{3}{4}$ percent note. One and three-quarters percent is a lower rate than has ever been placed on a Treasury bond before. There is also some grumbling about a 10-year call period for the $2\frac{1}{2}$ percent bond -- although it is also contended that 1960-70 would be "too rich". These two circumstances, however, would seem to strengthen the case for a liberal pricing.

It has been contended that a 1960-70 bond would affect outstanding issues adversely. We would give this argument little weight. The long end of the market has a reserve of

Secretary Morgenthau - 3

potential strength now that the banks must rely entirely on the purchase of outstanding issues in order to secure yields in excess of 2 percent. If any selling of outstanding issues should develop, however, it would result not in a decline in prices but in an increase in the Federal Reserve portfolio.

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HONORABLE HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY

IN ACCORDANCE WITH YOUR REQUEST, WE INTERVIEWED THE FOLLOWING REPRESENTATIVE DEALERS THIS AFTERNOON WITH RESPECT TO PRICING A LONG TERM 2-1/2 PER CENT BOND:

C. J. DEVINE, C J DEVINE & COMPANY

B. J. LEVY, SALOMON BROS & HUTZLER

ALLAN M POPE, FIRST BOSTON CORPORATION

HERBERT N REPP, DISCOUNT CORPORATION

" THIS GROUP, WITHOUT PRIOR CONSULTATION, BUT AFTER HAVING STUDIED THE PROBLEM INDIVIDUALLY, RECOMMENDED UNANIMOUSLY THAT THE OUTSTANDING ISSUE OF REGISTERED 2-1/2'S OF 1962-67 BE REOPENED, COUPLED WITH AN ANNOUNCEMENT THAT THIS REOPENING WOULD CLOSE THE ISSUE. IT WAS THEIR BEST JUDGMENT, AND AGAIN UNANIMOUSLY, THAT AT THIS TIME THE TREASURY WOULD SELL MORE BONDS NET BY THE USE OF THIS INSTRUMENT THAN IT WOULD BY CREATING A NEW ISSUE OF EITHER COUPON OR REGISTERED BONDS. THEY ESTIMATE THAT THE TREASURY WOULD SELL AT LEAST \$2 BILLION ADDITIONAL REGISTERED BONDS OF 1962-67 IF THE BOOKS WERE LEFT OPEN FOR AT LEAST TWO WEEKS, AND, IN ONE CASE, A FULL MONTH WAS SUGGESTED.

THE FOLLOWING ADDITIONAL POINTS WERE MADE:

HOLDERS OF THE 1962-67'S RECOGNIZE THAT IF A NEW ISSUE IS CREATED IT MUST NECESSARILY BE LONGER THAN THE PRESENT ISSUE AND, THEREFORE, WOULD HASTEN TO SUBSCRIBE TO AN ADDITIONAL BLOCK OF 1962-67'S; ALSO, THAT THE AMOUNT OF COUPON BONDS THAT COULD BE SOLD IN EXCESS OF REGISTERED BONDS WOULD NOT OFFSET THE RISK OF DAMAGE TO MARKET PRICES. THEY BELIEVE THAT THERE IS A MARKET AT PRESENT FOR APPROXIMATELY \$2 BILLION 2-1/2 PER CENT BONDS WHICH CAN BE RAISED IN ANY ISSUE BUT THAT THE CLOSING OF THE 1962-67'S WITH AN ADDITIONAL AMOUNT OF BONDS AT THIS TIME WOULD PERMIT A MORE ACCURATE PRICING OF A NEW ISSUE AT A FUTURE DATE.

WHILE THIS GROUP UNANIMOUSLY OPPOSE A NEW ISSUE IN COUPON FORM, THE VIEW WAS EXPRESSED BY EACH ONE THAT THE CALL DATE SHOULD BE NOT SHORTER THAN 1965 AND ONE WENT AS LONG AS 1970; THAT THE OPTIONAL PERIOD BE AS CLOSE TO FIVE YEARS AS POSSIBLE AND THAT IF THE OUTSTANDING ISSUE OF 1962-67'S WERE MADE EXCHANGEABLE FOR COUPON BONDS, IT SHOULD BE MADE EXCHANGEABLE FOR COUPON BONDS OF THE NEW ISSUE AND NOT OF THE 1962-67'S, ALTHOUGH PARAGRAPH THREE OF TREASURY DEPARTMENT CIRCULAR NO. 685 MIGHT PRECLUDE SUCH AN EXCHANGE.

THESE EXPRESSIONS OF OPINION REFLECTED THE MARKET JUDGMENT OF THESE MEN AND THEY BELIEVE THAT IF A NEW COUPON ISSUE OF EVEN 1965-70 WERE MADE, THAT IT WOULD BRING DOWN THE 1967-72'S NOW OUTSTANDING TO 100 1/8 TO 100 1/2 AND WOULD ALSO HAVE A LOWERING EFFECT ON THE 1956-58'S AND POSSIBLY AS FAR BACK ON THE LIST AS THE BONDS CALLABLE IN FIVE YEARS.

ROUSE.

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BELL, TREAS

BEST OPINION SEEMS TO BE MATURITY DECEMBER 1, 1962-67 FOR
2 1/2 PERCENT COUPON TAP AND MATURITY DECEMBER 1, 1948 FOR
1 3/4 PERCENT BOND. IN VIEW OF PRESENT RATES OPTIONAL CALL
DATE OF DIMINISHED IMPORTANCE PARTICULARLY IN CASE OF SHORT
TERM ISSUE. THEREFORE SUGGEST OPTIONAL MATURITIES BE
DISPENSED WITH WHENEVER POSSIBLE.

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CGO RUSH
HONORABLE HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY

REFERENCE YOUR TELEPHONE REQUEST THIS MORNING CONCERNING PROPOSED TWO ISSUES WHICH WILL BE OFFERED TO PUBLIC NOVEMBER 30. I HAVE CONTACTED BANKERS IN CHICAGO, MILWAUKEE, DETROIT, INDIANAPOLIS AND DES MOINES. TWO ARE OF OPINION THAT THE TAP ISSUE IF A COUPON ISSUE SHOULD BEAR A MATURITY OF 65-70; THREE OF THE LARGE INSTITUTIONAL BUYERS BELIEVE IT SHOULD BE A 63-68; TWO OF THE BANKERS FAVOR A 62-67 ASSUMING THAT THE NEW BOND OTHER THAN BEING A COUPON ISSUE WILL HAVE THE SAME RESTRICTIONS AS THE OUTSTANDING 2-1/2 OF 62-67. IN REGARD TO THE 1-3/4 ISSUE ALL ARE OF OPINION THAT A FIVE YEAR NOTE 1-3/4 WOULD INSURE SUCCESS OF THE OFFERING AND WOULD BE EXTREMELY ATTRACTIVE NOT ONLY TO BANKS BUT TO CORPORATIONS AND WOULD UNDOUBTEDLY BE HEAVILY OVERSUBSCRIBED. HOWEVER MAJORITY OF BANKERS INTERVIEWED ARE OF OPINION THAT A FIVE AND ONEHALF OR SIX YEAR BOND WOULD ALSO BE ATTRACTIVE. IN ARRIVING AT THEIR CONCLUSIONS AS TO THE MATURITY EACH BANKER HAS TAKEN INTO CONSIDERATION THE EFFECT THE NEW ISSUES MAY HAVE ON OUTSTANDING ISSUES

C. S. YOUNG, PRESIDENT

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HONORABLE HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY

FURTHER REFERENCE MY WIRE THIS MORNING CONCERNING SUGGESTIONS FROM BANKERS AND INVESTORS IN DISTRICT. HAVE JUST RECEIVED ADDITIONAL SUGGESTIONS FROM THREE LARGE INVESTORS. IT IS THEIR VIEW THAT 2-1/2 TAP ISSUE SHOULD HAVE A MATURITY OF 65-70 AND THAT THE 1-3/4'S SHOULD BE 6-1/2 YEARS OPTIONAL IN FIVE

C. S. YOUNG, PRESIDENT

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HONORABLE HENRY MORGENTHAU JR
SECY OF THE TREAS

FURTHER REFERENCE IS MADE TO YOUR TELEPHONE INQUIRY THIS MORNING CONCERNING NOVEMBER 30 FINANCING. I AM CONFIDENT THAT FOUR BILLION CAN BE RAISED FROM THE 1-3/4 NOTE OR BOND AND THE 7/8 CERTIFICATE. IF ADEQUATE NOTICE IS GIVEN THE BANKS AS TO THE OFFERINGS FORTYEIGHT HOURS IS SUFFICIENT FOR THE TWO ISSUES TO REMAIN OPEN. OTHERWISE I AM OF OPINION THAT FOUR DAYS WOULD BE MORE DESIRABLE. IN MY OPINION MANY OF THE LARGE INVESTORS HOLDING THE 2-1/2 REGISTERED TAP ISSUE WOULD LIKE TO HAVE A DIFFERENT MATURITY AND I BELIEVE IT WOULD BE ADVISABLE TO EXTEND THE MATURITY AT LEAST A YEAR. AS INDICATED IN MY FIRST WIRE, BANKS ARE ANXIOUS TO HAVE A FIVE YEAR NOTE BUT I BELIEVE A 5-1/2 YEAR BOND WOULD APPEAL TO THEM JUST AS MUCH

C S YOUNG, PRESIDENT.

November 17, 1942
9:53 a.m.

HMJr: Hello.

Operator: Sproul and Rouse.

HMJr: Right. Hello.

Allan
Sproul: Good morning, Mr. Secretary.

Robert
Rouse: Good morning, sir.

HMJr: How are you?

S: Fine.

R: Fine.

HMJr: Gentlemen, I got your telegram and the thing that surprised me the most was that these fellows want a registered bond.

S: Well, they were unanimous on that without any discussion among themselves or with us.

HMJr: Yeah. Well, of course....

S: I think their feeling about it was that they thought practically as much money could be gotten in with a registered bond as with - as with the coupon bond and that it would stand less chance of unsettling the rest of the long market.

HMJr: Of course that's contrary to everything that I've been told up to now.

S: Well, I think the....

HMJr: Including Bob Rouse up - as I understood it, he wanted a - a coupon bond.

S: Well, he can speak for himself on that. I think our preference originally was for a registered bond, but when it came to - when it was decided to have the big drive and the people who would have the selling to do said

(cont.)

- 2 -

S: (cont.) they would rather have a coupon bond, then we thought -- and this is my understanding -- we thought it would be better to go along and have the coupon bond. And that's still our view that the factors on both sides are so evenly balanced that if the selling organization thinks it can do a better job with the coupon bond, then we'd give it to them, but it then....

HMJr: Well....

S:becomes a question of where you place the maturities on the coupon bond. That we think is important.

HMJr: Well, Allan, I wish you'd reconvass the thing because Buffington is just up in arms this morning after seeing these various telegrams.

S: He is?

HMJr: Yeah.

S: I'm not surprised.

HMJr: Because he says that they've just got to have a coupon bond.

S: Yeah.

HMJr: Hello?

R: I understand that, Mr. Secretary, and I think we've got to take the advice of these fellows whom we're looking to to sell - sell the job.

HMJr: Well, now can't....

R: Well, now....

HMJr: Excuse me.

R:I'd like to give you one step in their reasoning....

HMJr: Well, who....

R:in connection with this....

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HMJr: Well, now....

R:registered bond.

HMJr: Now - yeah, well, of course, that's the regular Government bond dealers.

R: Yeah, but after all, Allan Pope, for example, is the head of the - one of the biggest distrib.. - bond distributing organizations in the country.

HMJr: Yes.

R: The First Boston Corporation, not only governments - governments are, while a major part of their business, they're still a side-line to their normal business.

HMJr: Yeah.

R: And he told me that he went over the thing with his sales manager and they came to this conclusion. Now part of their reasoning, and I wanted to point this out, was that at this time without complete preparations they thought that the registered bond would do as good a job as the coupon bond, and that by the closing of the issue of sixty-two seven's you would be able to come ahead on your next drive with a coupon bond and price it accurately, whereas, they thought it was next to impossible to do it now....

HMJr: Well, now....

R:except by making it pretty long or wrapping it around the outstanding sixty-seven seventy-two.

HMJr: Well, of course, with all due respect to Pope, I have never yet - think his advice has been worth a damn.

R: (Laughs)

HMJr: I mean - I mean he's always - I mean, I've never - his record as far as advice is concerned has not been good.

R: Well, each of these men -- and I have a great deal of respect especially for Levy, Devine, and Repp....

HMJr: Yeah, so have I.

R: They felt exactly the same way about it.

HMJr: Yeah, well, now look....

R: This wire was just as much of a shock to us as it was to you.

HMJr: Now what I'm going to ask you to do - because - I mean I can't each day turn a somersault. You fellows get me fixed one way, then you come along with this which is contrary to everything I've been told.

R: Well, I told you I'd give you a factual report.

HMJr: Yeah. Well now, Sproul, you're president of this Victory Fund for this at your district, aren't you?

S: Right.

HMJr: Can't you get the fellows that are going to do the selling together? Can't you call them in this morning and talk to them? Hello?

S: Well, I can talk to the ones I need to talk to to - to get their reaction on it.

HMJr: So that you could let me know say, between two and three, give me a report on it.

S: I'm going to - I'm going to have my fifteen regional chairmen in here this morning at eleven.

HMJr: On Victory Fund?

S: Yeah.

HMJr: Well, that's perfect.

S: So that we could check with them.

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HMJr: The six.. - the fifteen?

S: Yeah, that's the chairmen of all the regional areas within the district.

HMJr: Well, then between two and three couldn't - I could get a report.

S: Yes, you could.

HMJr: Now what I'd like to know from them, is it to be a registered or is it to be a coupon, and also the maturity.

S: Yeah.

HMJr: Also, on the one and three quarters, is it to be a - to a fixed date or is it to be one that - with a two-year spread.

S: Yeah.

HMJr: What?

S: All right.

HMJr: Well, that - if - well, that's - your having them in there is perfect.

S: Yeah. It will fit right in.

HMJr: Because this - this thing - well, it comes as a complete shock to me because I thought everybody was just begging with their tongues hanging out for a coupon bond.

S: Well, I think that was the general attitude of the Victory Fund people and of the banking group....

HMJr: Yeah.

S:but....

HMJr: Well, have another shot at it this morning.

S: Right.

HMJr: And then when you're ready, have your operator let mine know after lunch.

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S: All right.

HMJr: How will that be?

S: We'll do that.

HMJr: And then I'll hold every.. - because I'm - I'm -
I'm trying awful hard to make a decision today.

S: Yes.

HMJr: You see, I got all these promotion men coming down
tomorrow, and they'll say, "Well, what have you got
to sell?"

S: Right.

HMJr: And I can't be hemming and hawing.

S: Right.

HMJr: And in pricing it this time I want to be a little
on the generous side.

S: Well, we'll give you a report right after two
o'clock.

HMJr: I thank you.

S: All right.

November 17, 1942
10:02 a.m.

HMJr: Hello.

Operator: Mr. Young.

HMJr: Hello.

C.S.
Young: Good morning, Mr. Secretary. This is Young speaking.

HMJr: How are you?

Y: All right.

HMJr: Now look, New York sent me in a telegram that was quite contrary to what they've been saying before - hello?

Y: Yes.

HMJr: They want, they say, a registered tap issue.

Y: A registered?

HMJr: Yeah.

Y: Oh, oh.

HMJr: Now what I'd like you to do is - is to get as many of your Victory Fund people together or on the telephone, you see?

Y: Yes.

HMJr: And check with them once more, what do they want, you see?

Y: All right.

HMJr: I'm not talk.. - I mean the fellows - your - your - your regional managers and so forth and so on, see?

Y: All right.

HMJr: The fellows who are going to do the selling, what do these Victory Fund fellows want.

Y: All right.

HMJr: See? (Talks aside) Come in, come in.

Y: I'll get them together this morning in the next hour.

HMJr: Yeah, and then - then the other thing is - it's do they - the big thing is do they want a registered or do they want a coupon, see?

Y: Yes, that's right.

HMJr: Now then if it's - whatever it is - what - what - again ask these fellows what maturity date - hello?

Y: Yes.

HMJr: And then the other argument seems to be on one and three quarters, some want it to a fixed date and some want it with a two-year spread.

Y: Yes.

HMJr: Now put that up to your fellows....

Y: All right.

HMJr:and then when you're ready to talk, let me know sometime after two o'clock, Washington time, will you?

Y: All right.

HMJr: Say....

Y: I'll do that, and I'll - I'll get them together this morning.

HMJr: Get them together because there's - because these fellows that - people like Devine and those kind of regular Government people are all recommending a registered bond.

Y: Well, I'm surprised at that.

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HMJr: I was. I just told - I told Sproul and Rouse that they have me - trying to make me turn a somersault once a day. I can't do it. I get dizzy.

Y: Well, I would think so. The - well, that - that's news to me.

HMJr: Yeah.

Y: I'm very much surprised.

HMJr: Well, Sproul's having fifteen regional men in of the Victory Fund at eleven o'clock, and he's putting the same thing up to them.

Y: All right.

HMJr: And he's going to let me know.

Y: Well, I'll - I'll have the - our men in the next hour.

HMJr: But I'm dizzy.

Y: And I'll - then I'll call you after two o'clock....

HMJr: You - yes....

Y:Washington time.

HMJr: Yes. After two - about after two - better say after two-thirty.

Y: All right, after two-thirty.

HMJr: Washington time.

Y: Well, I'll have them together before noon today.

HMJr: Thank you.

Y: And then I'll call you. All right.

November 17, 1942
10:05 a.m.

FINANCING

Present: Mr. Bell
 Mr. Brown
 Mr. Burgess
 Mr. Fleming

H.M.JR: I wanted you fellows to do a little phoning. Maybe it is right, but the New York crowd says now that they want a registered bond. Maybe that is right, but then he quoted Allen Pope. I told him Allen Pope is a swell guy, but he hasn't been right once on the advice that he has given me. He said, "You haven't got time to price a coupon bond." Well, that is the darnedest nonsense I ever heard, that we haven't got time. We have all the time necessary.

Maybe that is what they want, but these other fellows have been telling me that you have to have a coupon bond. Now, George Buffington is ready to go up through the ceiling on the idea.

MR. BELL: And they have been preaching to us for the last - ever since the last reopening in August - that if you had a coupon bond you would have sold a lot more, and when you put out the next one to put out a coupon bond.

MR. BROWN: I don't believe that you can sell a registered bond outside of the insurance companies. I don't know how many coupon bonds you can sell. I think that the Victory Fund Committees are apt to be somewhat over-optimistic on the amount of long-term

- 2 -

two and a half's they can sell to individuals. But the only kind of a long term bond they can sell to individuals is a coupon-bearing bond. If you want to give them a chance to show what they have got, you have got to give them a chance to sell coupon-bearing bonds.

H.M.JR: That is what Dan says they have been preaching - for the coupon - and suddenly come back along on a Tuesday morning and say, "No."

MR. BURGESS: I think it is partly a question of maturity. I think they are afraid if they lengthen this maturity they may drive out some buyers - if they put out a coupon bond of longer length maturity.

H.M.JR: Well, some time today I have got to make up my mind - between now and midnight. So if you fellows have any doubts, the Treasury phones are at your disposal. If you want to call up anybody, I wish you would do it. But Allen, as I say, is having his fifteen regional fellows, and Hap Young's people - maybe he will change his mind between now and two o'clock.

MR. BURGESS: They are the boys that have got to sell them.

MR. BELL: He will if he follows their advice.

MR. BROWN: Young wants a coupon bond, doesn't he? I understood from his telegram--

MR. BELL: He said a '63-'69, yes, but he did not go into the question at all like New York did.

H.M.JR: I will put it up to him again.

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

H.M.JR: I mean, I take it that that is what the ABA is going to advise me on; you are the committee, aren't you?

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MR. FLEMING: That is right.

MR. BURGESS: I think our advice is less good on that long bond than on most things, because that is not a bank bond. That is a bond for investors.

H.M.JR: You have a lot of customers; you all hook up one way or the other with this Victory Fund Committee.

MR. BURGESS: We will give you some advice all right.

MR. BELL: They think it will go, but they don't think you will get these estimates that the Victory Fund Committee is putting up.

H.M.JR: The Victory Fund says a coupon bond - they were afraid to tell me, but they have figures all the way up to four billion dollars.

MR. FLEMING: I hope they are right.

H.M.JR: A minimum of two, that is all they are saying - a minimum of two.

MR. BURGESS: If they get two, they are damned good. (Laughter)

MR. BELL: If they get the two, we will be satisfied.

H.M.JR: But can't you fellows - you have got a lot of friends around, and the telephone is at your disposal.

MR. BELL: Sure, I would like to have some insurance advice here.

H.M.JR: I tell you who we can get; he is in town. You can put him to work.

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MR. BELL: George Harrison was in town last night.

H.M.JR: No.

MR. FLEMING: I can get hold of Mr. Ecker.

H.M.JR: Donald Woodward is in town. Do you want him to help you?

MR. BURGESS: I am a director of the same company.

MR. BELL: They are all directors of insurance companies.

MR. BURGESS: They won't get more light by phoning around than thinking it over.

MR. FLEMING: I think the insurance companies would like to have a little staggered maturity, but I think they will buy either.

H.M.JR: They got the '62-'67. Now some say make it the same and announce that you are going to close it after this issue; others say make it '65-'70, to give them something new.

MR. BELL: You know Baker of the Travelers very well. We used to deal with him. Why don't you give him a ring? He has been the hard nut to crack on this registered. He says he won't buy it. You might get his views.

H.M.JR: He won't buy a registered?

MR. BELL: He won't buy a registered at all.

H.M.JR: I can't understand how New York could say right up to last night that it had to be a coupon bond and then they send for these three Government bond dealers, who are able fellows - four of these - and they all say it should be registered.

MR. BURGESS: I think they are scared of lengthening the maturity.

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H.M.JR: How about depressing some of the bonds they may have in their own portfolios, or is that unkind?

MR. BURGESS: No more than an issue that does not go regardless of where it fits the curve.

H.M.JR: One other thing, you are working on this business of this Philadelphia meeting?

MR. BELL: Yes. John McKee just called me. He is one of the strongest ones for it. He thinks now that this convention is going to do something on their own hook and we had better stay out.

H.M.JR: Anyway, you have good advice here.

There is one other thing. I am going to ask you fellows some time after lunch when we should offer these securities to the banks. I hope you will have your mind made up on that. Will you be ready to answer that?

MR. FLEMING: Yes.

H.M.JR: I explained the difference.

MR. BURGESS: We discussed it somewhat.

H.M.JR: The other thing - if we should decide to offer the four billion on one day, is the excess reserve position all right?

MR. BURGESS: They certainly should be delivered on different days.

H.M.JR: Yes.

MR. BROWN: Particularly with the December 15 tax payment coming in. The one payment ought to be relatively short, the day before December 15, and the other ought to be somewhere around December 25 to adjust it to the tax payments.

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H.M.JR: The point is, should I offer four billion on one day; should I scatter, and so forth? You people are going to be around all day, aren't you?

MR. BURGESS: We will finish up today, won't we, Henry?

H.M.JR: Yes.

MR. BROWN: I would like to take a five forty-five train, but I am perfectly willing to stay over until tomorrow.

H.M.JR: Unless something goes wrong - I am in good shape on appointments; and unless something goes wrong, we ought to be able to finish. These are the things that have to be settled.

November 17, 1942
12:02 p.m.

HMJr: Hello.

Operator: Mr. Hull has just started his press conference. Mr. Renchard is on the line and he said Mr. Hull will call you back.

HMJr: No, get me Mr. Acheson on the wire.

Operator: All right.

12:04 p.m.

HMJr: Hello.

Operator: Mr. Acheson is tied up with an ambassador, and he will be for about fifteen or twenty minutes.

HMJr: Well, tell him I want to talk to him now, and I can't wait.

Operator: Right.

HMJr: Just give him that message.

Operator: All right.

HMJr: I can't wait. I want to talk to him.

Operator: Right.

12:06 p.m.

HMJr: Hello.

Dean
Acheson: Hello, Henry.

HMJr: Dean, I'm sorry to pull you out but it's the only chance I have to talk and Paul's here.

A: Not a bit.

HMJr: Now this letter from Mr. Hull - I just tried to get him and he's in press, and so I thought I'd give this message to you for him.

- 2 -

A: Yes, sir.

HMJr: I talked with Mr. Stimson last night about this letter, and naturally he was terribly upset....

A: Uh huh.

HMJr:and his first inclination was that he'd give his part back to the Government.

A: Which letter is that?

HMJr: The letter from Mr. Hull to me.

A: Oh, yes, on this - on the Spanish....

HMJr: On this Spanish....

A: Yeah.

HMJr: And so I told him I wouldn't hear of it for a minute, that this was simply very low-class blackmail on the part of the Spanish, and I'd have nothing to do with it. Now I saw the President this morning and I told him about this thing, and he said that he agreed with me and that there's some special fund that the State Department has, and if they think this is so important, let them pay for it. Now more important than anything else, and I'm interested in Mr. Stimson, and that is I think that Mr. Hull's letter for me should be withdrawn and destroyed. I don't think it should be in the files.

A: Well, all right. How do you think we should take it out?

HMJr: Well, you've got - you've got funds. If you think that the seventy-two thousand should be reimbursed, why, you've got special funds over there. There are lots of special funds around town. Take, say, 601 of the Economy Act. You people can pay for it. But just because Mr. Stimson's in the Government and they know it, and hold a pistol at my head for \$72,000, I'm not going to be a party to it. And I don't want it in the record on account of Mr. Stimson because he's too fine a person.

A: Well, let me talk with Mr. Hull.

HMJr: Yeah. And I don't think - I don't think there should be any exchange of letters, after all, as between us on this thing. I mean I think - I mean - as I say, my only thought in the matter is - is Mr. Stimson. If - if Mr. Stimson wasn't in the Government now, they wouldn't ask for this seventy-two thousand.

A: Well, I don't think that has anything to do with - I know it had nothing to do with Mr. Hull's view about it.

HMJr: No, I'm not even implying that it did.

A: Yeah.

HMJr: But I am implying that the Spaniards are. No, I wouldn't impute that to Mr. Hull.

A: Well, let - let me - Randolph spoke to me about this....

HMJr: Yeah, and he's in here now - with me now.

A: Yes.

HMJr: I tried to get Mr. Hull and I couldn't, and I - I - I'd like all correspondence on this thing destroyed.

A: All right. I - I'll see if I can't work that.

HMJr: No, there are a lot of funds around town. Gosh, the President has a fund, Donovan's got a fund, Mr. Hull has a secret fund, and if this is an important military matter with these millions of dollars in all these secret funds, they can pluck out seventy-two thousand.

A: All right, I'll....

HMJr: We - we haven't got one. I have no secret fund.

A: Yeah, well, I'll - I'll try and work it out, Henry, and....

HMJr: Well, look at it a little bit from the standpoint of Mr. Stimson. I know you're devoted to him too.

A: Yeah, I am.

HMJr: And it puts him in a very embarrassing position.

A: All right. We'll see if we can't work it out that way.

HMJr: I'd appreciate it very much.

A: All right.

HMJr: I - this - I mean this - this - if it could be.

A: All right. I - I'll see if we can't do that.

HMJr: I thank you.

A: All right, fine, Henry. Thank you.

November 17, 1942
2:15 p.m.

FINANCING

Present: Mr. Bell
Mr. Buffington
Mr. Haas
Mr. Brown
Mr. Burgess
Mr. Fleming
Mrs. Klotz

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

November 17, 1942
2:16 p.m.

HMJr: Hello.

Robert
Rouse: Hello, Mr. Secretary.

Allan
Sproul: Hello.

HMJr: Well, where are you fellows standing now, on your head or your feet?

S: Well, we're standing on our feet.

HMJr: Good, because I don't know where I'm at.

R: (Laughs)

S: Well, I have just finished discussion with the fifteen regional chairmen of the Victory Fund Committee who are in from all parts of this district....

HMJr: Yeah.

S:and who think they're in touch with what individual non-bank investors want.

HMJr: Right.

S: They unanimously favored a coupon bond and thought that they would reach more non-bank investors with a coupon bond than they would with a registered bond even though the aggregate dollar amount sold might not be much greater. They said that their salesmen said to them, "If you want to give us the kind of merchandise we have the best chance of selling, give us the coupon bond."

HMJr: Did....

S: They also said that they thought some change in style in connection with this big, enlarged drive would be helpful, that to announce the closing of the previous registered tap issues and the issuance of this new style two and a half bond would be helpful.

HMJr: Yeah.

- S: They did not think that a slightly longer maturity, as compared with the registered issue, would be a deterrent to sales....
- HMJr: They did not....
- S:so that they - they were on all counts in favor of the coupon bond.
- HMJr: Well, that's the - different than what these - that other group told you.
- S: That's very different from what the Government bond dealers told us who had more concern about the existing market than these people could be expected to have who are looking at it in - almost entirely from a sales standpoint.
- HMJr: Well, now after you've heard it all, where does Allan Sproul stand?
- S: After hearing it all, I stand in favor of putting out the coupon bond, which I think will perhaps get a little more than the registered bond in the way of money and which, if it's made sixty-five seventy, which I think would be the best maturity, would not be too upsetting to the rest of the market, not so upsetting that we couldn't take care of it.
- HMJr: I see. Well, of course, that's what Buffington - I mean this what you're telling is what he told me this morning, and he was flat as a pancake and I was dizzy after hearing - getting your telegram, you see?
- S: Yeah.
- HMJr: Now what - what about the maturity on the one and three quarters.
- S: Well, Mr. Rouse has discussed the general idea of one and three quarter with the dealers and we've discussed it ourselves here with our people. We all feel that it should be a fixed maturity rather than have any spread. It doesn't make any difference whether it's one year or a two year. It would be better to have a fixed maturity.
- HMJr: Fixed maturity.

S: Yeah. And what that fixed maturity should be, you could do a June forty-eight, but if as you said this morning you wanted to be generous, then it should be a March forty-eight.

HMJr: Yeah, just a minute. I got - I got - wait just a second now. Will you hold the wire a minute?

S: Yeah.

HMJr: Now wait a minute. I got to put down a whole new business on the New York and Rouse.

S: What's that?

HMJr: I got to put something down all new here. I - I've been running a table on you fellows.

S: Yeah.

HMJr: Just a minute. (Talks aside) Sproul, one and three quarters - no, what - what did he want? Five - it's five and a half years?

S: That's - that is, if - you could do a five and a half year, June forty-eight, but if you want to be generous then you'll do five and a quarter years which would be March forty-eight.

HMJr: Just a minute. Now which - which - which is your first choice?

S: And - and our choice....

HMJr: Where - now these - which is your first - what....

S: Our first choice would be the March forty-eight.

HMJr: March 1948. I see. How much - how much velvet is there in that?

S: (Talks aside to Rouse) How much is there in that?

R: Well, there's not - there's not very much. In view of the size of the issue, we think it will sell very close to par.

HMJr: Uh huh.

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- R: and, of course, you're offering them - will be offering them - and on a tap basis, and so they will be at par until the books are closed.
- HMJr: Well, now let's see. (Talks aside) This - this doesn't go to the banks, does it, subsequently? No. So that the banks....
- R: There is a point in connection with that too.
- HMJr: (Talks aside) What? Well, hell, that's going to make a whale of an issue coming due on a fixed date.
- S: Well, it would be between two and three billion.
- HMJr: That's a lot of money for my successor.
- S: Well, he's got to get used to dealing in larger amounts just as we all have.
- HMJr: Well, we better begin to feed him vitamins now.
- S: (Laughs)
- R: Well, we - we've got a little over two billion out in the one and a half of forty-six. So you made a start last time and I think we can well continue it.
- HMJr: Bell says, "What would you suggest for a call in that?"
- S: Well, we suggest no call at all.
- HMJr: Yeah, but if you - if - if there was to be a call?
- S: Well, if there was to be a call, I think a one year would be better than two, but I think the difference between fixed date and no - and - and a call is - is a wide one whereas the difference between one year and two doesn't amount to much.
- R: Mr. Secretary, the - the dealer group and we - and the Securities Department and I agree with it -- feel that an option date could not be longer than four and one-half years.

HMJr: Yeah.

R: And that if you went four and a half years with an option date with either a one year or a two-year period, the new security would be calculated to the four and a half year date....

HMJr: Oh.

R:and that would have quite an obvious effect with a one and three quarter per cent coupon on the one and a half of December forty-six and all the related issues in that area.

HMJr: I see.

R: And I think it would be disruptive of your market.

HMJr: I see. But either March or June would not, eh?

S: Not with a fixed maturity.

HMJr: I see.

R: That's five and a quarter....

HMJr: Bell - Bell says....

R:forty-eight, five and a quarter years.

HMJr: Won't a forty-seven forty-eight go?

S: It would go, but, as Mr. Rouse points out, it would have a more disruptive effect on the rest of the market than the fixed maturity longer issue, because they'd figure the yield through the call date.

R: You see, your one and a half of forty-six are selling at - just at par.

HMJr: Yeah.

R: December forty-six.

HMJr: Well, Haas handed me a slip of paper - "September forty-seven forty-nine."

- R: I think it would be out of the question. In - in one sense the market looks at it as a maturity, and then in the arithmetic sense they look at it as a call date.
- HMJr: Yes.
- R: And the - the longest bond that I've heard suggested by anybody up in this part of the woods has been a four and a half six and a half, three months shorter than that, and they all thought that was too long.
- HMJr: Yes. Well, you be doing some more figuring. I'll call you back during the day. But I want to ask Mr. Sproul this thing now - whose advice am I going to take, the Victory Fund or these Government bond dealers?
- S: Well, I think you should take the Victory Fund Committee advice, which is now supplemented as - by our advice as your fiscal agent after considering both what the Government bond dealers have said and what the Victory Fund Committee people have said.
- HMJr: Well, how about - I'm going to be a little bit mean now - Sproul - Rouse was telling me about this head of the First National - First of Boston - hello?
- S: Yeah.
- HMJr: Well, what about his advice?
- S: Well, he's - he's just one of the Government bond dealers, and they were all together on that so it's - his advice is no more nor no less than that of the other Government bond dealers.
- HMJr: But is Rouse - are you on....
- R: I'm on the wire.
- HMJr: Do you agree with Sproul?
- R: One hundred per cent. I think that we ought - so far as the two and a half per cent bond is concerned, there's no question in my mind but that a coupon bond of nineteen sixty-five seventy will be the best instrument for you to use in that area. But we can take the chances if it's that long of

(cont.)

R: the disruption that might come in the market.
(cont.) I'm not worried about that, and believe we can handle it.

HMJr: Well, now - just....

R: But I'm afraid of anything shorter.

HMJr: All right. Now let me just go over this once more, because after all I expect to get thirty or forty percent of this money out of New York, see?

S: Yeah.

HMJr: So it's kind of important. You fellows feel down there if I do a coupon bond, sixty-five seventy, that's okay, eh?

S: That's right.

HMJr: Right?

R: Yes, sir.

S: Yeah.

HMJr: And on the - on the one and three quarters, either March or June, and....

S: That's right, the fixed maturity, March or June.

HMJr: And you'd a little bit rather have March.

S: That's right.

HMJr: Now do you want to go out on the end of the limb and tell me how many of those long ones you think you're going to sell?

R: Well, perhaps I'd better do that. Mr. Sproul's been away.

HMJr: All right.

R: I think we'll - I think that you'll sell two billion of them in the country.

HMJr: Of the long ones?

R: Yes, sir.

HMJr: Exclusive of the banks?

R: Oh, the banks can't buy that.

HMJr: That's right. Well, that's two billion.

R: Yeah.

HMJr: Well, that's all right. Now how - how much of the one and three quarters to the non-banks?

R: I'm not very optimistic about that.

HMJr: You're not.

R: And I'd like to make this other suggestion in connection with your whole picture....

HMJr: Yes.

R:that instead of making an offering of that in the middle of the campaign that you announce the two billion to banks to start November 30 on the basis of two billion dollars for forty-eight hours, subject to a....

HMJr: Wait a minute, wait a minute, I took something over this - I got what I want - now say that over again, please.

R: That in starting your campaign and putting the one and three quarters on tap,...

HMJr: Yeah.

R:that at the same time, November 30, you offer a fixed amount, two billion dollars, to the banks for subscription subject to allotment, that the books remain open forty-eight hours....

HMJr: Yeah, well....

R:and then be allotted. Now the reason for that is this, that I don't expect the sale of the one and three quarter to be large to the general public
....

HMJr: Yeah.

R:and the story would get around, I think, that they weren't going too well, and it would end up possibly as a sour issue so that when you offered it to the banks they would not be too keen about it....

HMJr: I see.

R:whereas at first I think they'd take it first blush and be very glad to get it.

HMJr: Yeah, but how many of them would you offer?

R: Two billion.

HMJr: Yeah. On - on November 30?

R: On November 30.

HMJr: Payable when? Payable when?

R: Well, whenever you need the money. The fifteenth or - whatever date you want that we can work out. We ought to have eleven or twelve days on it.

HMJr: Yeah.

S: And after the books have been open forty-eight hours for a bank subscription, they then could be left open for as long as you want it for subscription of others than banks.

R: And you'd have a halo of success and be more - be more readily taken by the general public.

HMJr: Well, my idea on these bank subscriptions now is to leave them open four days.

R: Well, I won't quarrel with that, but I think if the terms are known for a week in advance, as they will be I presume, forty-eight hours is ample time.

HMJr: Well, I talked to some of the fellows out west - some of the Federal Reserve Banks....

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S: I see.

HMJr:and they'd like four days to give them a chance to go to work on some of these banks.

S: Well, that should be perfectly all right. There's no harm in that, and it might do some good in some of those districts.

HMJr: They think, for instance like out in St. Louis and Chicago, oh, they were very enthusiastic when I said four days.

S: I see. Well, I think they need to do some work on some of the banks and it would be helpful to have some time.

HMJr: And they can't turn around, they say, in two days.

S: No.

HMJr: But you'd like to get that behind us, eh?

R: I certainly would.

HMJr: Well, would it get around in four days it was sour?

R: It won't - the - the offering to the banks won't be sour. I - I feel convinced that the fixed maturity of March forty-eight would be a very welcome instrument.

HMJr: When would you offer the certificate?

R: After the thing was over.

HMJr: When is that?

R: Oh, the seventeenth or eighteenth. That's Thursday or Friday.

HMJr: I see. Not until then, eh?

R: No.

HMJr: Why so far along?

R: Oh, I don't think there's any need for it 'till then. You'd rather concentrate on the other thing.

HMJr: I see.

R: You'll - you'll have all your operating funds. You don't want to pay interest any sooner than that.

HMJr: Uh huh. Well, that's a little bit different, but that isn't as much of - I mean that doesn't upset me like this morning, but that - I mean this is still fluid.

R: Well - no, I realized that upset you, but you wanted a factual report....

HMJr: That's all right.

R:of what the market thought....

HMJr: That's all right.

R:and....

HMJr: I'm glad I got the Victory Fund Committee.

S: (Laughs)

R: (Laughs) And the other thing, I wanted to be sure that....

HMJr: I'm glad I....

R:you understood that that wire did not represent any opinion of the Federal Reserve Bank.

HMJr: No, I'm glad Sproul is there as chairman of it.

S: (Laughs)

R: (Laughs)

HMJr: All right. Now your thought is - would be to offer the one and three quarters on the thirtieth?

S: That's right.

HMJr: And the seven-eighths - the seven-eighths a couple of weeks later.

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S: That's right.

HMJr: I see. Well, that - that's - that's a new one but that - that's - Bell says that's not new.

S: (Laughs) I think he's heard of it before.

HMJr: He - well, he's pulling a Roosevelt on me. He said he dreamt it.

R: (Laughs)

S: (Laughs) Well, you better follow it then.

HMJr: Yeah, he's correcting me again. He said he gave it to me in writing.

S: (Laughs)

HMJr: Okay, gents.

S: All right, you'll....

HMJr: I'll be talk....

S:you'll want to be in touch with us later today.

HMJr: Definitely.

S: Right.

HMJr: Thanks.

S: All right.

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H.M.JR: You ought to feel lots better.

MR. BUFFINGTON: I am just wondering about that one and three-quarters at the start. Wouldn't you give these fellows a little bit better start to get going if you gave them a little more time at the start of the campaign?

MR. HAAS: It will be open the full length of time.

MR. BELL: They will have the full two or three weeks. The only objection to that is the one you raised right at the beginning when we did recommend that; that you did not want a banking issue at the start of this campaign.

H.M.JR: I don't want it. I don't like it. I am glad we have it on the 30th instead of whenever we were going to have it, because we are not ready yet.

MR. HAAS: Another important reason not to have both together is the reserve situation.

H.M.JR: I am conscious of that. I personally would like to have the publicity on November 30 with the Victory Fund Committee. I don't see - why come along on the seventh? We don't have to do both issues, but we will see. I can't think that one and three-quarters will go sour in a week.

MR. BUFFINGTON: No.

MR. BELL: If it does, it is liable to go sour from day after tomorrow until the 30th. The knowledge is going to be out and there are not going to be enough of them. - I don't think anybody expects to sell enough of the one and three-quarters and the seven-eighths outside of the banks to put a load on the market.

MR. BUFFINGTON: I was using the figures on the certificates and notes done before.

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MR. HAAS: Burgess thinks those are the things you will sell.

H.M.JR: What?

MR. HAAS: He does not think you can sell the two and a half. He wouldn't advise anybody, in view of the present tax rates, to buy a long bond; then he said he thought one and three-quarters would be the one.

MR. BELL: He thinks the people with real money are going to buy the one and three-quarters and not the two and a half.

MR. BUFFINGTON: These boys are unanimous on the coupons - six banks. Four of them are unanimous on '65-'70, and two are talking '60-'70 on the two and a half's.

(Telegrams handed to the Secretary, copies attached.)

H.M.JR: Perry Hall and Stubbs say two and a half's, '65-'70.

Patton says he much prefers '63-'68.

MR. BUFFINGTON: I have talked to them about that, and they think '60-'70 is all right.

H.M.JR: Anderson - where is he?

- 3 -

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MR. BUFFINGTON: I have talked to them about that, and they think '60-'70 is all right.

H.M.JR: Anderson - where is he?

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MR. BUFFINGTON: Richmond.

H.M.JR: Here is the thing; every Government bond dealer that came in yesterday said to have a registered bond. Here these fellows have got to go out and sell a coupon. There are really three groups that I am working with: the War Bonds, the regular Government dealers, and this Victory Fund thing.

MR. BUFFINGTON: Do you want to hear these insurance men's views, briefly? Parkinson of Equitable, "Coupon or registered makes little difference; would like five-year shorter maturity than '62-'67."

H.M.JR: Would like what?

MR. BUFFINGTON: A maturity five years shorter, just to be different, than '62-'67.

Patterson of Mutual Life - and this is interesting - total investments a billion, one; Governments, six hundred and ten million; two and a half - that is their total holdings - he prefers coupon two and a half, '65-'70.

Mr. Newhall of the Penn Mutual, coupon.

H.M.JR: What was the one before that? I didn't get that.

MR. BUFFINGTON: Patterson of the Mutual Life of New York prefers coupon, two and a half, '65-'70.

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Newhall of Penn Mutual says the coupon is of no interest; that he would like '65-'70 maturity.

George Harrison of New York Life will buy either, but he personally likes the '65-'70 better and prefers the coupon.

H.M.JR: Who got those for you?

MR. BUFFINGTON: I did.

H.M.JR: You doubled up on these boys, but that is all right - not on my boys, but on these bankers.

MR. BUFFINGTON: I thought I asked you if I might talk to the life insurance people; I know most of them.

H.M.JR: That is all right. You are working fast; that is what you were hired for.

MR. BUFFINGTON: The reason I talked to Rouse - the principal reason - the Government men say that there is no magic in this coupon which the Victory Fund boys say there is magic in; and they believe that the net result to the Treasury will be as good on the registered as on the coupon because we will go out and sell the coupons and they won't stay sold and will come back into the market. Therefore the net result would be as good on registered as coupons. They don't think the Victory Fund Committee is adequately organized.

H.M.JR: Who are you quoting now?

MR. BUFFINGTON: The Government bond dealers.

H.M.JR: You agreed with them on that, didn't you?
(Laughter)

MR. BUFFINGTON: I have prepared a one-paragraph memorandum for you on the way the Victory Fund Committee is organized, so that you will have that if you want it.

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MR. BELL: They all seem to want '65-'70. I don't see how they arrived at it, but that is O.K.

H.M.JR: Magic. (Laughter)

(Mr. Burgess and Mr. Brown entered the conference.)

H.M.JR: The thing makes a little bit more sense because Allan Sproul had in fifteen men from the Victory Fund Committee, and they are unanimous for a coupon bond - and he so recommends.

MR. BURGESS: There is a smile on the face of the tiger (Buffington). (Laughter)

MR. BROWN: Danny probably said we thought a coupon bond was necessary.

H.M.JR: He has not reported.

MR. BELL: I thought I would let you do your own reporting.

H.M.JR: What do you people think?

MR. BROWN: We felt it should be a coupon bond, by all manner of means; that any insurance company which would buy a registered bond would buy either a coupon or registered bond; and there is no chance of the Victory Fund Committee selling any appreciable quantity of the bonds outside of the insurance companies unless it is a coupon bond. We did a considerable amount of telephoning this morning and verified that impression.

H.M.JR: I was upset. I could not understand this thing of suddenly switching on me. But checking with you gentlemen, it is coupon?

MR. BURGESS: Yes.

H.M.JR: Let's say it will be a coupon.

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MR. BURGESS: Not too long.

H.M.JR: What do you mean by that?

MR. BURGESS: I think a '63-'68 would be very good. Some of the contacts we made said that it ought not to go out much further than the '62-'67.

H.M.JR: Everything I have got is '65-'70.

MR. BURGESS: That is too long.

MR. BROWN: Our judgment is that that is too long. We think it ought to be shorter. The '63-'68 would be a year and a half beyond the present tap issue, which is June. This would be in December; it would be eighteen months longer. We think that the eighteen months longer is justified if your issue is a coupon bond, but not as long an extension as the '65-'70 would make.

H.M.JR: Are you together on that?

MR. BURGESS: Yes.

MR. BROWN: The three of us are all together on it.

H.M.JR: Sixty-three-'68, December?

MR. BROWN: December.

MR. BUFFINGTON: Mr. Secretary, it is only fair to say that in all our discussions with these men we have been talking '65-'70, and while I know they stand on the '65-'70, I think there has been so much discussion about that, that they are thinking of getting away from the '62-'67, and that is the way to do it. I do not think that they would stand only on '65-'70 if the question were--

MR. BELL: This is a better bond than the '65-'70 - better priced one - it should be.

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MR. BUFFINGTON: They tell these people with whom--

H.M.JR: Give me the list of bonds outstanding.
(Chart handed to the Secretary by Mr. Haas.)

MR. BELL: There are only two in that area, '62-'67; one is the tap, and the other is '67-'72, which is closed.

MR. BROWN: And which banks can buy.

H.M.JR: Which what?

MR. BROWN: The banks buy that. Because banks can buy it, it is selling at a premium of about a point and a half.

H.M.JR: But the one you are suggesting is December? Is that right?

MR. BELL: I thought it was June.

H.M.JR: I thought you said December.

MR. BROWN: Yes, December.

H.M.JR: You said December, '63--

MR. BUFFINGTON: Sixty-three-'68, which is a year and a half longer than the present outstanding.

MR. BROWN: Eighteen months.

H.M.JR: Have you talked around much?

MR. BURGESS: The Travellers made that point. They have not bought any of the tap issue so far. They said if you made it a coupon issue and not too long - they said it should not be appreciably longer than the other - they would sell short stuff and take some. But they would not be interested if it were a registered bond or if it were substantially longer than the '62-'67.

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MR. BROWN: I talked with the Penn Mutual, of which I happen to be a director. They said they would rather have a bond a year or a year and a half longer than the present tap issue; that they would not buy any more of the present tap issue if it was reopened because they already held more of that maturity than they wanted. They would like something else, and it would have to be a year or a year and a half or so longer. It would not make any difference, but they would like to have it a longer bond - a year and a half - than have the '62-'67. Being an insurance company, it was immaterial to them as to whether it was registered or coupon, but they thought as a matter of judgment, for what it was worth, that the coupon would sell better.

I checked some of the people who were close to the field of the Victory Fund Committee in Chicago. We have not so many insurance companies out there to whom to sell, and they said it was hopeless to expect any appreciable sales of registered bond by the Victory Fund Committee; that unless it was a coupon bond, you couldn't anticipate a considerable amount of sales.

H.M.JR: Let me ask you gentlemen this. The suggestion has been made - I don't like it - supposing we go to '65-'70, or '63-'68, do you think it is necessary for me to announce I am going to close the tap issue of '62-'67?

MR. BROWN: No, I don't think so.

MR. BURGESS: No.

H.M.JR: It is a small issue.

MR. BELL: We may need it before this thing is over.

MR. BUFFINGTON: I wouldn't.

MR. HAAS: No.

H.M.JR: You know it has been suggested.

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MR. BUFFINGTON: I know.

MR. BURGESS: That was on the assumption you put an additional amount into it.

MR. BUFFINGTON: And therefore they would take it now; this was the last opportunity they would get.

H.M.JR: Let's just skip a minute to this one and three-quarters. Did you do any work on that?

MR. BURGESS: Yes.

H.M.JR: What decision did you come to?

MR. BURGESS: The market would greatly prefer a fixed maturity of, say, five and a half years. You could possibly stretch it to six, but we think this would be--

H.M.JR: Five and a half is when? What month?

MR. BURGESS: That would be, say, in June; that is a little over five and a half - June '48.

MR. BELL: That is a vacant spot.

MR. BURGESS: You can do that. That is the thing that would go best. If, from the point of view of the Treasury, you think it is essential to have an option, we suggest that you do a one year option, December '47, optional December '48 maturity, which would give you three possible times for refunding. That gives you a little spread.

H.M.JR: December '47?

MR. BELL: That would be a five-six year bond - five year callable and six year maturity.

H.M.JR: I see. December '47. We have got a two percent coming due on December 15. Would that help, do you think, the one year?

November 17, 1942
2:37 p.m.

HMJr: Hello.

Operator: Mr. Young is not in the bank, but they expect him shortly.

HMJr: Okay. I got a couple of cash customers in there with Bell. There's Mr. - well - Brown, Burgess - (talks aside) and who else? - and Fleming. Brown, Burgess, and Fleming, ask them to come to my room, please.

Operator: All right.

cc- Mr. Bell
Mr. Buffington
Mr. Haas

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November 17, 1942
2:50 p.m.

HMJr: Hello.

C.S.
Young: Hello, Mr. Secretary.

HMJr: Go ahead.

Y: I - I had three meetings this morning, and one with the investment bankers and one with the - with the bankers and then one with a joint group....

HMJr: Yeah.

Y:and the consensus of opinion, after I got the joint group together....

HMJr: Yeah.

Y:why, they wanted a coupon two and a half, and they thought that the maturity should be sixty-five seventy.

HMJr: A coupon two and a half, sixty-five seventy.

Y: Yes.

HMJr: Uh huh.

Y: And they - there were one or two - that the - of the investment group that thought ~~it~~ought to be not quite so long, but they - they finally decided on - agreed on a sixty-five seventy, all of them.

HMJr: But they all wanted a coupon.

Y: All wanted a coupon.

HMJr: Right.

Y: And then on the one and three quarters, the - the investment group -- I had a little session with them in order to bring them up to date first....

HMJr: Yes.

- 2 -

Y:and they - they thought that the - the investment group as a whole wanted a - maybe a bond of five and a half and no call date.

HMJr: Five and a half and no call date.

Y: But after we got the joint group together and we discussed it and polled them, and we had a session of about an hour, why, the consensus of opinion was they wanted it to go over big, and they thought they could sell over two billion if they had a one and three quarters five-year note.

HMJr: One and three quarters five year?

Y: Yes, a five-year note.

HMJr: A five - a one and three quarters five year.

Y: Yes, and they thought that it would be over-subscribed many times if they had the note and - but the investment fellows, when I had them first together, they thought that the - five and a half-year bond but no call date.

HMJr: That would be - bring it to December forty-seven, wouldn't it?

Y: Yes, December forty-seven.

HMJr: Yeah.

Y: And they thought that the - it might, if they'd sweeten it - they call it sweeten it a little - they thought it would go over big, and there wouldn't be any question about it.

HMJr: How about a - a piece of paper that would be December forty-seven to December forty-eight.

Y: Well, they won't object. I - I told them afterwards individually, and they thought it would go over anyway very - very good.

HMJr: . Yes.

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Y: But they thought at this time if we - assuming that you wanted to raise a lot of money....

HMJr: Yes.

Y:why, they thought that a - at least a five and a half bond or the five per cent note would be desirable.

HMJr: Uh huh.

Y: And I had a very interesting session, and I think we're going to get a lot of support from the - from the investment and banking groups on this.

HMJr: Yeah. Well, I'll be calling you again. That's helpful, and now New York now says that they want a - a coupon bond.

Y: Well, they - nearly all of them wanted that, and they thought that it being that they could get a registered bond anyway if they wanted registered, why, it would help the situation if they had a coupon bond....

HMJr: Yeah.

Y:and I called Indianapolis a few minutes ago, that's the reason I was delayed....

HMJr: Yeah.

Y: They've reported that two of the unions over there are ready to buy two million and a half. That's just a small city, and so that's an indication of what to have in mind....

HMJr: Right.

Y:of the tap issue.

HMJr: Right.

Y: And so two or three of the insurance companies, the smaller ones, thought that a sixty, maybe a sixty-three or something like that or beyond a sixty-two so that it would have a different maturity on it....

HMJr: Yeah.

Y:because they had so many of the others.

HMJr: Yeah. Well, I'll be calling you again later in the day, Mr. Young.

Y: All right, and I'll - I'll be at the office - say, until six or seven o'clock.

HMJr: Right.

Y: All right.

HMJr: Thank you.

Y: Goodbye.

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MR. HAAS: Yes, sir. Every bit helps on an option. You see, this is quite similar to the one we are talking about. We are talking about September '47 with a two year - they suggested a one year and moved it from September to December in '47.

H.M.JR: December '47? One year?

MR. HAAS: We were talking September '47 and running a two-year option - '49 instead of '48. They are almost equivalent, aren't they? It depends on how you measure that option.

MR. BURGESS: I think one and three-quarters - people will look at the maturity rather than the call date. If you make your maturity '49, which is seven years, it is going to look awfully long.

(Mr. Fleming entered the conference.)

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

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H.M.JR: What he says is that he got two groups together, the investment and the other, and after they got all through - I can't remember which was which, but when they got through the consensus was a coupon bond, '65-'70, but a few of the insurance fellows wanted '63-'68. The combined group wanted a five-year note. When I said, "Would they take December, '47-'48?" he said, "Oh, yes, they would take that, but what they asked for was a fixed date."

MR. BELL: A five-year note or one and three-quarters, though! (Laughter)

MR. BURGESS: I made a little speech to Danny. I think it is terribly important at this time not to push the maturities out too long. One trouble last time, people said they are just cutting it too fine by stretching it a little too far. I think that just a difference of three months or six months makes an awful lot of difference in the reception.

H.M.JR: How do you feel about it, Mr. Fleming?

MR. FLEMING: We are shorter and longer, apparently. We are longer on the short-term note, and we are a little shorter on that '65-'70 on the bond.

H.M.JR: Where are you?

MR. FLEMING: Sixty-three-'68, we figured, on the bond.

H.M.JR: I don't know who they had lunch with, but that is what they are recommending.

MR. FLEMING: They had lunch with me. I bought and paid for it. (Laughter)

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H.M.JR: And what about the note?

MR. FLEMING: The note we figured - we preferred a one maturity, but if it had to be a double maturity we said a five-six year, wasn't it?

MR. BURGESS: Five and a half.

MR. FLEMING: Five and a half to six.

H.M.JR: Five-six?

MR. BURGESS: Five-six if double; five and a half for single.

MR. FLEMING: None of us are bothered about the certificate; we think that would go over very, very promptly. I talked with Mr. Ecker this morning. I don't know whether these gentlemen told you about my conversation with him. They have now authorization for two hundred million, but they expected financing earlier in the month and they probably think they can push it up to two hundred and twenty-five million. They would prefer a little longer maturity so that it did not run into the same maturity as the present tap.

MR. BROWN: A little longer maturity than the present tap, he means.

MR. FLEMING: Possibly a year. It does not make much difference to them whether it is a coupon or registered.

H.M.JR: You talked to the old man?

MR. FLEMING: Yes.

MR. BELL: But they do want to get off that one date they now have so many of.

H.M.JR: I appreciate that. Let me ask you gentlemen this - we will just let this date business simmer for a minute. Everybody agrees that on November 30

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we should offer to the non-banking everything that we are going to offer. I mean, there is no argument about that.

But there is considerable difference of opinion as to when we should offer these two securities to the banks. I would like to have your advice on that. Did you settle that at lunch? (Laughter)

MR. FLEMING: Well, yes, we settled that.

MR. BROWN: We felt that at the time the issues to the public are announced, it ought to be announced that two billion dollars of the seven-eighths and two billion dollars of the one and three-quarters is to be offered to the banks. We feel that it ought to be stated that bank subscriptions for those issues will be received, probably, on December 7, which gives us some time to go around and educate the banks as to the necessity of their taking them, and should probably be open for three days.

MR. FLEMING: Four days.

MR. BROWN: We think that with December 15 tax payments coming in, payments should be called for on the banks' subscriptions for the seven-eighths about the 18th, and the subscriptions for the one and three-quarters should be called for on December 26.

MR. FLEMING: Eighteenth and 26th.

MR. BROWN: That is the date of payment. We feel that the fact that the bonds are to be offered to the banks, and the amounts, should be stated at the time of the initial announcement so that the date of subscription for the banks should be fixed at December 7 through December 10, which is four days.

H.M.JR: Well, I lean your way, but I just want to tell you the arguments. One argument was we ought to offer the one and three-quarters right on November 30

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because the banks would not like the issue, and that we had better get it out soon, before it got around that the public did not like it. (Laughter)

MR. BELL: We had better get it out and into the hands of the banks before they get onto the fact that the public won't like it. (Laughter)

MR. BROWN: One of the great difficulties we had, Mr. Secretary, with the last issue, was that it was open for two days when the subscriptions began lagging. The Executive Committee, and so forth, met and authorized bank officers to subscribe up to a certain amount. It was difficult to get hold of people and urge them to do more. If there is an allotment, if it is announced some time this week that it is going to be open from the 7th through the 10th, there is sufficient time to get a little more persuasion on the banks to take their proper - I hate the word "allocation" - but something of the kind.

H.M.JR: Take what we need.

MR. BROWN: Take what is necessary to make the issue a success. And to open it all at once and give less time for preparation, we think is a mistake. I don't think that the public reception of the one and three-quarters or seven-eighths will have much difference to do with the banks added to it. The banks will realize that the one and three-quarters is an issue which is designed primarily for banks. They can't expect the public to take most of it.

H.M.JR: The thing I would like to do is to give the Victory Fund Committee one week's head start, with publicity and everything else. That is one thing. Whatever we are going to do - as I say, give them one week's head start and then if we come along on the 7th, which is the anniversary of Pearl Harbor, and offer this to the banks - you like four days?

MR. FLEMING: I think we should have, Mr. Secretary.

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some of the banks, particularly some of the smaller banks, or medium-sized banks, function through committee action; and where you only have two days, sometimes it is difficult to get that committee action.

H.M.JR: Of course they are going to know. I am going to announce this Thursday or Friday of this week, and I will announce the issue and I will announce the maturities. I will announce the whole program. So they are going to have ten days - they will have from--

MR. BELL: Seventeen days.

MR. FLEMING: But you know how those things happen. Even though they have had the notice, they wait around until the last day before they get to it. That is the answer.

H.M.JR: This time we will have ample time to get the circulars into the hands of the banks, and give the ABA time to do whatever they are going to do - moral persuasion. Is that all right?

MR. BURGESS: That is the word - education.

MR. FLEMING: I think a lot of it is a question of education, as Randy says. I think it can be done.

H.M.JR: I have got one appointment, then I am going to see Eccles at three forty-five. Your train leaves when?

MR. BROWN: Five forty-five. If I can leave here at five--

H.M.JR: That will be all right. So if you want to go back to your bank--

MR. FLEMING: No, no, that is all right. I didn't like to delay it.

H.M.JR: You didn't miss anything.

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MR. BELL: One other question, Mr. Secretary, that I asked them to consider, and that was this over-all statement, whether or not you should announce a figure other than the bank figure.

H.M.JR: Oh, yes.

MR. BROWN: We feel very strongly that, while the four billion dollar limit for the banks should be announced, it would be a great mistake to announce any total over-all figure, or any amount you would expect to obtain, either from a combination of the three issues, or from each of the three issues, from the general public. We realize that when it comes to a quota there is an advantage in a drive, because you can split up the quota - assign it to teams and put pressure on everybody to do his work. But it is not like a Community Fund drive which has been going on for a number of years. You don't know how this organization is going to work. You don't know what the response is going to be. If you fix any quota, there is a feeling that you have got to fix it way below what you hope to get, and if you fix a low quota, once the people engaged in the drive have reached that mark, they relax their efforts. On the other hand, if you fix a high quota somewhere in the neighborhood of what you really expect to get, you run a risk of a failure to reach it, due to many uncertainties of the situation. And failure to reach the quota is absolutely unthinkable. Consequently, we believe that a quota is of no value unless, after you get the quota, it is split up by States and cities and by divisions of trades, and so forth, within the cities. You would have to fix a quota so small that it would not do you any good and once the small quota was reached, you would lose the effort and steam of everybody connected with the campaign.

MR. FLEMING: But we do think that it is very necessary that the four billion dollars--

MR. BROWN: That the banks subscription be announced.

MR. FLEMING: That gives some little guide to the various banks as to how much of each issue they should subscribe to, according to their size.

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H.M. JR: Where are you, George, on this?

MR. BUFFINGTON: I have vacillated on it a good deal. I would like to have some yard stick we could put up to these boys, but I am afraid there is a good deal in what Mr. Brown says, that we have not tried this kind of an operation before, and we certainly don't want to make a mistake on it. That is the one danger I see. I think - I do not share, entirely, the view that if it is going to be effective you have to divide it up. We have told these boys on tax notes, for example, what we expected them to do, over-all, and it has been quite a stimulant to them. They have exceeded those figures. I do not know that it would be necessary to divide it up, but I am afraid there are so many disadvantages it would unwise to get into it at this time.

MR. BELL: The Executive Managers know pretty well, already, what we want. I do not think you have to set any official quotas.

H.M. JR: You are with these fellows?

MR. BELL: Absolutely, and I am scared to death to announce anything.

MR. FLEMING: You are not afraid of the bank figure.

MR. BELL: No, no, I think that should be done. I do not want the Secretary accused of having to go to the banks for the balance.

MR. BURGESS: The time to announce a figure is after you have got it.

MR. BELL: I think so.

MR. BURGESS: That is the time to make the headlines.

H.M. JR: Well, this thing is taking shape, and I think between now and midnight we can come to some decision. (Laughter) You gentlemen will hold yourselves in readiness.

Nov. 17, 1942
12:35 p.m.

BUFFINGTON

REPLYING YOUR WIRE REGARDING LONG TERM 2 1/2S HAVE CHECKED WITH FIVE AREA CHAIRMEN CLEVELAND PITTSBURGH CINCINNATI COLUMBUS TOLEDO AND REFLECT UNANIMOUS OPINION INCLUDING MINE. COUPON 2 1/2S 1960-1970 THE MOST SAL-
ABLE. WE CANNOT DO ANY KIND OF A JOB ON REGISTERED 2 1/2S 1962-1967. WE ARE GETTING SET AND HOPE TO GET WIDE COVERAGE WHICH ALL AGREE CANNOT BE ATTAINED WITH REGISTERED TAP 2 1/2. WITH US IT IS THE DIFFERENCE BETWEEN VERY MEDIOCRE PERFORMANCE AND WHAT WE HOPE WILL BE A REAL DRIVE WITH GOOD CHANCE OF SATISFACTORY RESULTS.

JOHN S FLEEK

Nov. 17, 1942.
11:58 a.m.

BUFFINGTON

MY OPINION FOR MOST SALABLE SECURITY IN THIS DISTRICT
WOULD BE COUPON 2-1/2'S OF 1960-1970.

Edw c BENDERE

Nov. 17, 1942
11:53 a.m.

BUFFINGTON

2 1/2 PERCENT BOND IN COUPON FORM HAVING ANY OF THE THREE MATURITIES MENTIONED IN YOUR TELEGRAM WOULD SELL BETTER THAN THE SAME BOND IN REGISTERED FORM. AS BETWEEN THE COUPON 2 1/2 PERCENT 1960-70 OR 1965 - 70 the 1965-70 IS THE PREFERABLE.

ANDERSON

Nov. 17, 1942
11:50 a.m.

BUFFINGTON

WE HAVE MEETING ELEVEN THIS MORNING OF CHICAGO MEMBERS
DISTRICT COMMITTEE. YOUNG WILL WIRE COMMITTEE'S VIEWS.
MCLURE AND I FEEL STRONGLY ISSUE SHOULD BE IN BEARER
FORM AND REGISTERABLE AS TO PRINCIPAL AND/OR INTEREST
AT OPTION OF OWNER. OF MATURITIES YOU SUGGEST, WE
PREFER 1965-1970. WE MUCH PREFER 1963-1968 TO THOSE YOU
SUGGEST. MCLURE AND I WONDER WHY YOU HAVE AN OPTION
DATE AT ALL THIS ISSUE. WHY NOT STRAIGHT MATURITY?

PATTON.

Nov. 17, 1942
11:11 a.m.

BUFFINGTON

OUR DISTRICT FEELS COUPON 2 1/2S 1965/1970 DISTINCTLY
DESIRABLE.

STUBBS.

Nov. 17, 1942
11:59 a.m.

BUFFINGTON

CONSIDER COUPON 2 1/2 1965-1970 MOST SALABLE IN OUR
DISTRICT.

PERRY E HALL.

November 17, 1942
3:20 p.m.

FINANCING

Present: Mr. Bell
Mr. Buffington
Mr. Eccles
Mr. Haas
Mr. Murphy
Mr. Burgess
Mr. Brown
Mr. Fleming

H.M.JR: Marriner, let's get this form fixed first. You see, you are worried about the publicity. I am not because we will have lots of experts around here tomorrow.

MR. ECCLES: I am not worried about the publicity - as to getting plenty of it. I was worried more about the basis upon which - after all, the publicity has got to be determined upon what you say. They have got to build the publicity around what you say.

H.M.JR: Here is the thing. On the long bond, the tap issue - you know they had these bond dealers in yesterday.

MR. ECCLES: I know the story on that.

H.M.JR: And now they all want a coupon bond.

MR. ECCLES: Did the dealers change?

H.M.JR: No, but I mean Sproul and his crowd. I talked again to Hap Young and he wants a coupon, and the representatives of the ABA want a coupon.

MR. ECCLES: There has never been any question in my mind, after meeting with the managers of the Victory Fund Committee - these fellows are the ones we expect to go out and sell a security, and there was never any

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question in their minds at all about it.

MR. BELL: I think it is pretty unanimous upon the coupon, except the Government bond dealers, and they are scared of the market.

MR. ECCLES: Those fellows are always - every time we follow those fellows we get into trouble, anyway.

H.M.JR: You agree it should be a coupon?

MR. ECCLES: Absolutely.

H.M.JR: Then the next thing is how long should the thing run, and we get the advice, from December '63-'68 to '65-'70.

MR. ECCLES: Sixty-five - '70, I think.

H.M.JR: What they say is you go a little bit too far - by going into December '63 you are going out a year and a half further than the present.

MR. ECCLES: Let me put it this way. Whether it is '62-'67 - it would be perfectly agreeable to me if it were not for the fact that Rouse and Piser both feel that a coupon bond, at those dates, would affect, particularly, the bonds; not so much the two's - it might reach into the two's and influence the two's, but there is quite a distance between that, but the intermediate group of bonds would be--

MR. BELL: Fifty-six - '58.

MR. ECCLES: And the '52-'54. My position is, what of it? We are not trying to support every bond in the category; we have got the two's and a half up here, the two's down here, and there is the bank issue, and the bills and certificates at the other end.

Now, so far as the in-between, let the stuff go where it wants to - if you peg the two's and a half,

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the two's, and the one and three-quarters. So I would not care even if it went to '62-'67 if it were not for the market boys. It will break the others down some.

H.M.JR: The '62 - we agreed that we wouldn't issue any more of those.

MR. ECCLES: Sixty-three - '68 would be certainly satisfactory to me. Most want '65-'70.

H.M.JR: But the insurance companies are saying '63-'68; it goes out a year and a half longer.

MR. ECCLES: Our market boys say '65-'70. That is what our staff boys feel - '65-'70.

H.M.JR: Well, I want to bring up one other thing. Then we will get Rouse and Sproul on the wire, because your man gets it from them, doesn't he?

MR. ECCLES: He got it from his own. I mean, Piser--

H.M.JR: Most of them say '65, but these ABA fellows and some of the others have been saying December '63.

MR. ECCLES: They price it, you see, based on the action of the market. That is what they have done. They give a little more reliance to the market than I do because I say we more or less make the market.

H.M.JR: I am inclined to listen a little bit more to them this time, but there are just two things that I want to get from the market. You do not care much?

MR. ECCLES: No, I do not care if they say '63-'68 or '65-'70; it would not make any difference.

H.M.JR: Do you care, George?

MR. HAAS: No, I do not care.

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H.M.JR: Do you care?

MR. BUFFINGTON: No, sir. I wanted to say that I think these boys have been a little influenced by the fact that we have been talking '65-'70 and, therefore, I think they are just staying in the pattern. Now, Ned Brown just talked to me coming out here, "I wish the Secretary would reconsider this '63-'68 idea. We think it would be much better - not getting too far away from the '62-'67." I think if you put it up to these boys in any conversation, that they would say anything over the '62-'67 was fine - whether a year or three years on the long end.

H.M.JR: I would like to hear what Sproul and Rouse say on that.

The other one is the one and three-quarters. They advise me to make it a fixed maturity, either March or June, '48.

MR. ECCLES: Yes.

H.M.JR: Now, the boys around here would like to see it December '47 to December '48 - a one-year spread.

MR. ECCLES: December what?

H.M.JR: December '47 to December '48 - one year.

Where did you have it? Did you have a fixed maturity?

MR. ECCLES: I did not have any particular judgment on it except they seem to think that, of course, that is largely a bank issue, and because of it being a bank issue, and having reasonably short maturity, that it would sell a little better at a fixed maturity. I do not know that it would make much difference, but it is their judgment that it would have a little more sale. The '67-'68, I think, would be better than the '67-'69. I think, with the short issue--

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MR. BELL: You mean, '47.

MR. ECCLES: The '47-'48 would be better than the '47-'49. The one year between the call date and the maturity date would be better than the two years on the short issue. They are both priced - it seems to me both of them are right around par.

MR. HAAS: I think a December '47-'49 would be too thin because that has two years there, where December '47-'48 is all right.

MR. ECCLES: Two years is a little long for a short issue.

MR. HAAS: If you had to put September, I think it would go all right.

H.M.JR: It gets down that close?

MR. ECCLES: We figured the September '47-'49 would be about eight or nine thirty-seconds.

MR. HAAS: Theoretically.

MR. BELL: That much?

MR. ECCLES: It does not show up. That is just pricing it the way the market is.

H.M.JR: What did you say? Say that again.

MR. ECCLES: I said that theoretically it would price at about a hundred and eight or nine thirty-seconds, the September as against the December.

MR. HAAS: The '47-'49. That is on paper, but if you offered it, it would be two or three thirty-seconds.

MR. BELL: And that is pretty thin.

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MR. HAAS: It would be par if you opened it.

H.M.JR: This thing is shaping up. We have got all day tomorrow to work on the publicity. We can get this thing straightened out today.

MR. BELL: Yes, we have tomorrow and part of Thursday.

H.M.JR: Thursday, if necessary.

MR. BELL: You won't want to give it out before your press conference.

H.M.JR: No, and I do not have to give it out until Thursday night.

MR. BELL: I think it would be nice if we could get it out Thursday.

H.M.JR: If we could do it at ten-thirty Thursday morning, I would like it.

(Mr. Murphy entered the conference.)

H.M.JR: We are clear on the seven-eighths?

MR. ECCLES: Yes.

MR. BELL: We can start printing that and get it out of the way.

H.M.JR: Henry, the way the thing is now, everybody seems to agree on the seven-eighths, one year. There is no argument there. Are we safe on that?

MR. MURPHY: Yes, sir.

H.M.JR: Then on the long issue - the two and a half - it is a question of whether it should be December '63-'68 or '65-'70. I do not know what date. What date was that?

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MR. BELL: June, I think.

H.M.JR: The insurance companies would like to have it a little shorter. December '63 is a year and a half longer than what we have now.

MR. ECCLES: December '65-'70.

(The Secretary held telephone conversations with Mr. Sproul and Mr. Rouse, as follows:)

November 17, 1942
3:34 p.m.

Operator: Go ahead.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: You're here on the loud-speaker, and Mr. Eccles is here with me.

S: Yeah.

HMJr: Now this is what we want some advice on. We'll talk about the two and a half first, you see?

S: Yes.

HMJr: Some of the people, particularly these three from the A.B.A., would like to see December sixty-three sixty-eight. It's a choice of sort of between that and sixty-five seventy.

S: Well, my own view on that is that making the maturity sixty-five seventy as compared with sixty-three sixty-eight wouldn't hurt your sales and that it would have much less effect, I think, on the rest of the market, and that, therefore, it would be better to do the sixty-five seventy than the sixty-three sixty-eight.

HMJr: Have less bad effect on the market.

S: Yeah.

HMJr: Now just - just wait a minute. (Talks aside) Well, Allan, Eccles says he doesn't care. You can flip a coin. (Talks aside) Is that right? Yeah, he says that's right. But it's a little bit....

S: You know, my - my own inclination right along has been to keep that bond as short as possible, and I haven't had so much concern about the effect on the market as some of the other people but I'm impressed by what Mr. Rouse and the market people here tell me about what the effect of too short a bond, which is available in coupon form to other than banks, might have

(cont.)

S: and I don't think it - the lengthening by two years
(cont.) would affect the sales one way or the other. Those
people are going to have to be sold this bond and
sold it with a liberal mixture of pressure and patri-
otism in it and they're not going to be thinking too
much about whether it's sixty-three or sixty-five
to the call date.

HMJr: I see.

S: So that I - I would prefer sixty-five seventy.

HMJr: On account of the effect on the market.

S: Yeah.

HMJr: Now do you mind just waiting a minute, please?

S: Not a bit.

HMJr: We're trying to make up our mind. It may be a
minute or two. Is that all right?

S: Yeah, we'll hang on.

HMJr: Got a cigarette?

S: Yeah.

HMJr: All right. Better light it.

S: It's a good idea.

HMJr: (Talks aside)
Hello?

S: Hello.

HMJr: It's easy - if you gentlemen will be at your desk,
I - I'll call you back in two or three minutes.

S: All right. We'll be right here.

HMJr: Two or three minutes.

November 17, 1942
4:00 p.m.

Marriner
Eccles:

....wanting to satisfy a - a broader list of investors, and in addition to making a security that is a little more acceptable and possibly a little easier to sell, I have this thought in mind that at a later date you might want to stretch that out from say, a sixty-three-sixty-eight to a sixty-four-sixty-nine and a sixty-five-seventy, and it's - if you make a sixty-five-seventy now, then, of course, it would be impossible to stretch it out farther than that, whereas if you make it a sixty-three-sixty-eight and then later increase it slightly, the last issue goes up to a slight premium. That is certainly not - not adverse.

Allan
Sproul:

No.

E: Now the - a - a - we all know that a two-and-a-half per cent bond at this kind of a maturity is - is - is - is a fairly high-price security.

S: Yeah.

E: And - and I don't like the tendency of - of making it appear that we're - we're cutting it down unnecessarily. Now I - I know Bob's idea that this might influence selling in the case of outstanding securities. It certainly is not going to influence the selling appreciably in what I call the Pearl Harbor issue, the sixty-seven-seventy-twos, because they're the only two-and-a-halves that are available to the banks, and - and we could let those go down anyway - down. They're - they're a point premium, and even if they did go down a half or three-quarters of a point, it wouldn't make any difference. That - you - that - that - we don't need to peg or support that market out. It's a hundred and one. And they've got a - they've got plenty of room to - to operate in - to - to - to drop. And when you get to the - the sixty -- what is it, the sixty-eights - sixty - I mean the fifty-eights....

S: Fifty-six eights.

E:and the fifty-two-fours, they're an in-between bond and - and I don't know that we need to support those at the present price. Let 'em drop down a little. What difference does it make? You - we're - we're - what we're really in effect doing, we're holding our pattern not on a straight line but we're holding our pattern on the two-and-a-half's out at the end -- this two-and-a-half coupon that's on, we would have to hold that one -- the twos, which is the longest ones now being offered to the banks, you've got to support that because you're going to have to use it, and of course on the lower end, the certificates and bills. And what happens in between, I think within a certain - within reason you've got to let them - well, the supply and the demand take care of it. And I wouldn't care if the fifty-eights did show some little weakness. Let it - let 'em adjust themselves. Let the - let the fifty-two-fifty-fours. They're both premium bonds, and - and instead of supporting them at the present premium, let the premium - let it go down. That's - that's the way I look at it, and I lean towards the sixty - the sixty-three-sixty-eight; I think it would be a little easier to sell and I think, looking to the future - and that it would - it would give us a better opportunity in future issues. Now do you feel very strongly on the other side?

S: Well, I - I don't feel very strongly because I've been converted from the idea of it not being necessary to place this issue much further out than the sixty-two-seven, but I do feel that it has advantages to put it a little ways out. Now first taking up the points you mentioned, the bankers and their idea that we don't want to get this out too long, I think if that - if we were talking of an issue we were selling to banks, that certainly would be an applicable point but where it's an issue we're not selling to banks, that they can't buy, I don't think the difference of two years in call date or maturity is a - is an important one, either from the standpoint of the - of the ability to sell the issue nor from the standpoint of the position of the holder. On the idea of being able to stretch out greater issues after this one has been put out, it seems to me we start out at such a - a low range of rates and have maintained that pattern for so long now that we're - we're pretty much barred from the possibility of - of stretching out longer and longer at the same rates. I....

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- E: Well, my - my point is that....
- S:I think we - we have, unfortunately perhaps, been set in on a pattern of rates which has too low rates at the long end, but there - there we are. Now on this question of the two-and-a-halves outstanding only being available to the - to the - only being - being the only issue available to the banks for that coupon, I think that can be turned the other way. For instance, there's a large amount of those bonds not in the hands of banks which haven't found a ready market recently. The banks haven't been interested in them. The banks are pretty well convinced by what the Treasury has said and by what the bankers' groups have said that they shouldn't buy issues out in that area, that it would be bad for them to buy such long maturities, and therefore I don't think we'll get the support we might earlier have expected from the banks in that issue, and it will....
- E: Of course, you got a good - you got a good premium on it, in spite of that.
- S: Well, then taking up that point and what it might do to the fifty-six-eights and other issues in which we're not so particularly concerned perhaps as issues, we are concerned, however, with the atmosphere of the market, and I think a one point drop in the sixty-seven-seventy-twos and carrying back through the rest of the list would create a - a rather poor atmosphere for this - for this initial big drive we're putting on.
- E: But you....
- S: So that I - I still lean directly towards a sixty-five-seventy which, I must say as far as the market is concerned, was considered the lower range of maturity. There were some recommendation and some opinion that an even longer range than that would be both appropriate and desirable.
- E: Uh huh.
- S: That with the lower range of the market's idea of what would be a bond which both would sell and would fit in as nearly as possible to the present market. I think that will - will result in some decline in prices in the longer issues, which I -

(cont.)

S:so far as I'm concerned, I think it's - it's
(cont.) all right if it's not too great and too precipitant.

E: Uh huh. Well, you feel rather strongly then - the
sixty - on the - for the sixty-five-seventy.

S: Yeah.

E: And you - you feel that - that even though that's
contrary to the general advice of the insurance
companies and the banking group that - that they -
that that won't be a deterrent in the sale.

S: Well, I don't know who the banking group are speak-
ing for other than banks, because they're not....

E: Well, they invest - they invest lots of trust
funds and they advise a lot of clients.

S: I - yes.

E: Yes.

S: Well, the insurance companies it seems to me right
along have been interested in the coupon, not the
exact maturity, and the - the two years won't make
any difference to them.

E: Uh huh. Well, if we should decide on a sixty-
three-sixty-eight, what would you think? (Laughs)

S: Well, I think that - that would be that, and I
think we'd - myself, that we'd have sacrificed some
market stability for no great gain at the other
end on sales.

E: Well, I think you've - let me see if - - the
Secretary.

HMJr: Hello.

S: Yeah.

HMJr: I only heard part of it. I had to get another
crowd started. If we went to December sixty-
three sixty-eight, do you mind once more just
repeating for my benefit what securities you
think would be affected?

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- S: Well, the sixty-seven-seventy-twos, the fifty-six-eights, and right down through the list to the - certainly to the two per cent bonds.
- HMJr: You really think so?
- S: Yes.
- HMJr: Well, that - well, to be facetious a little bit, you'd have to go out and buy some, wouldn't you?
- S: Well....
- HMJr: That would help our - that would help our reserve picture.
- S: I think we'll have to go out and buy some if it's a sixty-five-seventy, and we folks would have to go out and buy more if it was a sixty-three-sixty-eight, but I think the climate and the atmosphere in the market would be better if we didn't have to support too heavily to make this issue go.
- HMJr: Yes. Well now, what effect do you - I don't know whether they mentioned this to you -- what effect do you think we'd have - let's say we were going to make it a sixty-three-sixty-eight, and on the present tap issue, the sixty-two-sixty-seven, we gave those people the right to change their registered bond to a tap bond - coupon.
- S: To a coupon bond?
- HMJr: Yeah.
- S: Well, I don't....
- HMJr: I mean to the - to the exist.. - same year, you see? I own a sixty-two-sixty-seven....
- S: Yeah.
- HMJr:a registered bond, and the Treasury gives me the right to change my sixty-two-sixty-seven into a coupon bond. What effect would that have on what we're talking about?
- S: Well, I think that that would probably aggravate the situation. I think that there's no need of doing that - that you can close off the existing

(cont.)

S: registered issues and put out the new one without
(cont.) any right of exchange.

HMJr: It would just aggravate it.

S: Yeah.

HMJr: Well, that was my feeling. I just said that it
would introduce an extra element which is unneces-
sary.

S: That's the way it seems to me.

HMJr: Well, that's the way I felt. (Talks aside) What?
Let me just - Bell?
Well, Bell doesn't agree that it would aggravate
it, but he agrees to leave it alone so that....

S: (Laughs) Well, that's all right.

HMJr: So he's telling us that he - he does - he comes
out at the same place but for a different reason.

S: Well, then we can't argue about that.

HMJr: And I don't think Eccles cares. (Talks aside)
Do you? He doesn't care. Well, let's leave this
alone for a moment, see?

S: Yeah.

HMJr: Just for a minute - and have we talked about the
one-and-three-quarter?

S: No, not in this conversation.

HMJr: Well, let - let's talk on the one-and-three-
quarters for a minute. Now we've been advised -
you advised us on a five-and-a-half year - you
know?

S: Yeah.

HMJr: Now somebody else has said to make it - our people
here - some of the people here think we ought to
make it December forty-seven to December forty-
eight, a one-year call period. Hello?

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S: Yeah. Well, our - our idea was that - to make it on the generous side it should be five-and-a-quarter years, March forty-eight, but that you could do with safety a June - a five-and-a-half year June forty-eight.

HMJr: Yes.

S: I - I don't see myself any advantage to putting in a call period on - on that particular issue, and it's not what would be most marketable.

HMJr: It would not.

S: No.

HMJr: But - when we went over that before, you first said June but if I wanted to make it a little extra sweet, make it March.

S: That's right.

HMJr: Is that right?

S: That's right.

HMJr: But you don't like this one-year spread.

S: No.

HMJr: Very definite on that.

S: That's right.

HMJr: All right, now just a moment, please.
(Talks aside) Why don't you talk to him?

Daniel
Bell: Allan?

S: Yeah.

B: Why do you feel so strongly about - about a year's call period....

S: Because I think that that would be considered - a bond to run to the maturity date - it would be a six-year one-and-three-quarter and it just wouldn't fit. I - I would have doubts about it going.

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- B: Well, of course, everything we've put out - you take the twos, and they have a call - a two-year call period....
- S: Well, this is more nearly back in the area of the - of the forty-six notes, which were - the December forty-six notes....
- B: Yes.
- S:one-and-a-half. This is just beyond those.
- B: You think that to price it....
- S: I think they'd price it to the maturity, and that it just doesn't fit for a six-year one-and-three-quarters.
- B: Well, they'd price the maturity all right, wouldn't they?
- S: Yes, I don't think there's any question about it.
- B: And that would mean - that would mean six years.
- S: Yeah.
- B: Well, if you were going to have - of course, the two-year call period would be too long. The one-year call period would - would not be so bad if you made it a - a - a September forty....
- S: Well, to put it the other way around, I don't see - I think that the call period on that type of issue is - is meaningless from the standpoint of the market. They look at the maturity, and I don't see the advantage or need of it. We - we have a three billion issue and - in - maturing in March for.. - in December forty-six. An issue of this size with a fixed maturity in the kind of financing we're doing now doesn't seem to me to be an unwieldy operation at all. I don't see why any flexibility is needed there from the side of the Treasury.
- B: Well, I just wanted to get your - I hadn't heard your....
- S: Yeah.

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- B:point of view on it. I hadn't discussed it with you before.
- S: Now....
- B: I - I personally leaned a little toward the - the
- S: The spread?
- B: The - the June forty-eight.
- S: Well, June forty-eight with a fixed maturity is all right....
- B: Yeah, that's what I mean....
- S:I was indicating....
- B: Yeah, that was my first - that was my first choice and the second, of course, would be the - would be the one-year spread, the forty-seven-forty-eight, but....
- S: Well, the - the June forty-eight fixed maturity, I think is all right, but if he wants to be a little generous, as he said he did....
- B: Well....
- S:then I think it's the March forty-eight, and I think....
- B: I - I....
- S:that would go very well.
- B: I think that your argument is a - is a pretty sound one and that they will figure the maturity date, and....
- S: I think so.
- B:and if you put it over into - into December forty-eight, which is the way they will price it, it's a little....
- S: It comes too long for a one-and-three-quarter.

B: Yeah, yeah, I think that's a good argument.
Yeah, we'll call back again.

S: You're going to call back again?

B: Yeah.

S: All right.

B: All right. Goodbye.

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H.M.JR: You wanted '65-'70?

MR. ECCLES: I said personally I would prefer the shorter, ignoring the market question. I think it would be a little better sale of the shorter issue. I mean, I think it would be a better article to sell, but the fellows who are looking at it from a market standpoint are thinking of the influence on outstanding issues.

MR. BELL: Well, I cannot see this '65-'70 as not having any effect on the market. I do not see how they get it.

I haven't talked to these technicians here, yet, but it seems to me that you have got, now, outstanding, a registered security worth about ten or twelve thirty-seconds premium.

MR. MURPHY: I think it was bid twelve, the last I saw.

MR. BELL: Ten or twelve. You have got a fully negotiable security that is worth a hundred and one to four-thirty-seconds. This security you are going to put out here in a coupon form, not available to the banks, has got to fall some place between that twelve thirty-seconds premium and that one hundred and one. It seems to me that they ought to give less to the form of the obligation which is the difference between coupon and registered than they do the restricted market by leaving out the banks; so if you do that it has got to bring it back closer to the '62-'67 period. That is the only way I arrived at my '63-'68. I did that last night; I came to June '63-'68 last night in thinking over the whole picture.

MR. ECCLES: I would go to December, if you go to that.

MR. BELL: That is all right. This '65-'70 does not make sense to me. It is a bear on the market.

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MR. HAAS: It is an unimportant question, the effect on the market. The open market operations being what they are, if they have to buy a few - they need a lot of securities, anyway. So I think we are arguing about something - I agree with Marriner - toss a coin.

MR. ECCLES: The '67-'72 is the market issue that is available to the banks and is selling at a hundred and one, now. That was the Pearl Harbor security that we put out. Now that is selling at a hundred and one and this is available to the banks. It is the only two and a half market issue, now, that is available to them; so the scarcity value of that thing is going to take care of that security. I am not worrying about - even if you put the '65-'70 out, I am not worrying about the effect of the '65-'70, which is not available to the banks, having any serious adverse effect on the other issue. Do you agree with me on that, Henry?

MR. MURPHY: I think the outstanding issues bearing more than a two percent coupon and available to banks have a tremendous reservoir, and not a leaking one, either, of technical strength, because the banks that want a yield higher than two percent have just got to buy them. There is only a limited supply of them.

MR. ECCLES: Therefore that is in a special category, and we do not need to consider that in the same sense that you would--

H.M.JR: If we get hard pressed, some day we can sell another billion of those.

MR. BELL: Mr. Secretary, it is just a question of how much weight you give to that new two and a half coupon - because it isn't going to be available to the banks. Which side of that line should it go on? (Indicating chart) Here is your fully registered note available to the banks (indicating); here (indicating) is your coupon and fully marketable. Everybody

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can buy it. Now, this one is going to be limited only in its marketability to banks. How much value to give that, and which side of that line--

H.M.JR: Is this what they are worried about?

MR. BELL: Yes, right in between there, but, of course, they say it has effect further down the market.

H.M.JR: You mean, if you make it '63-'68 that that will have an effect on the '67-'72?

MR. BELL: Yes, clear back down almost to the two's. They think it might even have some effect on the two's.

MR. MURPHY: I do not place a great deal of weight on the market effect, first because I feel that these issues under two are a great potential strength; and second, because there wouldn't necessarily be any effect on their market price in any event. There might be some greater acquisitions by Federal, and I do not think those would be large.

MR. BELL: In either place--

H.M.JR: May I just put a little bit different angle on this - talking more as a salesman? Which is going to be the easiest to sell, I want to know?

MR. HAAS: Those people feel strongly about the '62-'68.

MR. BELL: The '63-'68.

H.M.JR: They are bankers, though.

MR. ECCLES: I know, but they are thinking of the market - the salability.

H.M.JR: They have been talking to the insurance fellows and the insurance fellows want '63-'68.

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MR. ECCLES: They are the big market.

H.M.JR: And the question is which are you going to be able to sell the most of. Isn't that what you are interested in?

MR. ECCLES: Yes, sure, I am not worrying about the market end of it.

MR. BUFFINGTON: I can't believe that it has much effect on the market, and I can't believe that either maturity makes a lot of difference in peace time. As a bond salesman, I would rather sell the '63-'68 because it is a little shorter maturity and it sounds a little better. I agree with Allan that you are really going to sell these by putting on patriotic and other pressure. Therefore, I do not know as it makes a lot of difference. If it were my decision - I have never quite followed these fellows on the '65-'70 - why they didn't think in terms of '63-'68.

MR. ECCLES: Allan felt that way when I talked to him, but Bob and these market boys have swung Allan over.

H.M.JR: I am shaky on New York because - I asked him, I said, "Are you standing on your head or your feet - because you have got me dizzy." He said, "I am on my feet." This morning they were all out for a registered bond.

MR. ECCLES: That was the dealers.

MR. BELL: That was the dealers.

H.M.JR: They gave me this about Pope and all the rest.

MR. ECCLES: This is a dealer--

H.M.JR: If Rouse is influenced on this--

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MR. ECCLES: The dealers have influenced Rouse. The dealers and Rouse work very close together in the market and naturally they talk the same language; and Allan has relied a good deal upon Bob because, after all, he has got to manage the market - the open market account. Bob has got to direct day-to-day operation of it, and so Allan has been influenced, without question, on what Bob has said - the influence that he thinks that the '63-'68 would have on the market of outstanding issues. That is really what has happened. They are thinking of it from the market standpoint, rather than from the salability.

MR. BUFFINGTON: If you leave that market situation out, there is no question in my mind but what I would rather go out to sell a '63-'68 than I would a '65-'70.

MR. ECCLES: I think of it from this standpoint: we have had a shorter issue; we have had a '62-'67 - true, it is registered. It seems to me that you have got to give these people with registered securities the opportunity, possibly, to convert them into coupon securities. That is what you intended to do, isn't it?

MR. BELL: We don't think so, now.

MR. BUFFINGTON: I do not think the insurance people care whether it is--

MR. ECCLES: There are a lot of others besides insurance people.

H.M.JR: The outstanding ones - yes.

MR. BELL: We have been thinking this morning that you should not make any change in the outstanding ones, at this time.

MR. MURPHY: I would like to have an opportunity to argue that we should, when the case comes up.

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H.M.JR: Do we have to discuss this this minute, while we are trying to get the yearage?

MR. ECCLES: I think it has this influence.

MR. HAAS: It has some effect on this market.

MR. ECCLES: That is right. That is exactly the point, that if you are going to convert the registered issues into the coupon bond - permit the conversion - then, of course, if you have a spread of '65-'70 there would be less conversion than there would be if you make it '63-'68.

In other words, if you have got a '62-'67 registered, and you say to the holders of that registered, "Well, now, you can get a coupon bond, which is just one year's difference" - in fact, it is less than a year in those that were issued six months ago - it is only a half a year's difference - there would be more of them convert, because it is almost the same maturity, than there would be convert if you make it a '65-'70.

MR. BUFFINGTON: Sixty-five - '70?

MR. ECCLES: If the holder of a registered bond has '62-'67, and in order to get a coupon bond he has to take three years or longer maturity, he would hang onto the registered.

I do not know that it makes any difference, personally, whether they do convert. If you want them to convert, then make it short; if you do not want them to convert, then make it '65-'70.

MR. BELL: I think you are talking about converting the present outstanding into the new one coupon. We were thinking of making the one outstanding a coupon.

H.M.JR: Get that, Marriner.

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MR. BELL: We were thinking about making the present outstanding registered security a coupon.

MR. ECCLES: That is what I mean.

MR. MURPHY: You are discussing permitting them to convert the outstanding into the new one. The proposal is to make the old one available in coupon form only.

MR. ECCLES: You have an argument for '63-'68 there. If you are going to permit the outstanding to be converted into a coupon bond, then it seems to me that would go to a premium.

MR. BELL: A greater premium than it is now.

MR. ECCLES: Well, if you make the new offering a '65-'70, then it would go to a still greater premium than it would if you made it a '63-'68.

MR. BUFFINGTON: But that decision about the exchangeability of the '62-'67's is not going to be met now, at this point, is it?

MR. MURPHY: Why not?

MR. BUFFINGTON: Isn't that going to affect your market on selling?

MR. MURPHY: It seems to me that it ought to help it. If we permit the '62-'67's to be changed into a coupon security they will naturally go to a premium, and it seems to me that it is not a bad sales argument that the people that bought the last issue did all right. On the other hand, if we make the '62-'67's exchangeable into the new security--

H.M.JR: That won't do. I won't make the '62-'67's exchangeable into the new. That is out.

MR. BELL: That would be my recommendation.

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MR. ECCLES: I think that is better.

H.M.JR: Go ahead, Henry, about the '62-'67's. The only thing I am willing to consider is, should the '62-'67's have a chance to change from a registered to a coupon of '62-'67.

MR. MURPHY: The original theory of making the '62-'67 a registered bond was because that was necessary to administer the restriction that they should not be held by commercial banks. It has now been decided that the restriction can be effectively administered through the bank examiners if they are coupon bonds.

Now, the registration is merely a source of annoyance to the holders and a source of no gain to the Treasury; it is, in fact, a source of annoyance, if anything, to the Treasury. It seems to me that there is no reason why we should keep our bondholders annoyed to no good end. If they prefer a coupon bond, why not let them have one? We have found a new means of administering the restriction since the last offering. So everything is in favor of giving them the right to exchange to coupon form.

H.M.JR: But might not they exchange the '62-'67 into a coupon and sell it?

MR. MURPHY: If they--

H.M.JR: Quicker?

MR. MURPHY: If they want to now, they can sell them. They are perfectly negotiable. There have been very few of them sold.

H.M.JR: What I am getting at is, wouldn't some of this new market be buying the '62-'67 coupon as against--

MR. BUFFINGTON: That is right, because they are a shorter maturity there if you go to '65-'70.

MR. ECCLES: If you put it to a slight premium it would help the sale of the new bonds.

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H.M.JR: If I got a '62-'67 and I could make it coupon - it is a more desirable bond than the '63-'68 coupon.

MR. BUFFINGTON: Or the '65-'70, yes.

H.M.JR: And it would not hurt the market.

MR. BUFFINGTON: I would think you would postpone that, but I would want to think about it further. I am just wondering if you go to '65-'70--

H.M.JR: Do you follow me?

MR. MURPHY: I follow you, but I do not agree with you.

H.M.JR: Well, that is all right. I mean, we are talking here in the room. These people that got the bonds, why worry about them?

MR. BELL: Let them keep them for awhile.

MR. BUFFINGTON: Beyond this offering and then do it.

MR. BELL: Henry is thinking if you take this restriction off, the bonds will go up a few thirty-seconds, and, naturally, that makes all the bondholders that have got them feel good. That tones the whole market.

MR. BUFFINGTON: I do not believe the class of people who have them now are as much interested - there are only nine thousand of those people in each issue.

MR. BELL: What I have been thinking over this morning and last night was just let the present bondholders alone that have got two and a half's '62-'67. Let them have their registered and don't touch that security.

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H.M.JR: I think it unnecessarily muddies the water. I mean, we have got - the fellows will be thinking these sharpshooters and begin to switch. Some fellow will say, "I do not want to buy this new tap issue; I would rather buy a coupon '62-'67."

MR. ECCLES: He has to pay a premium.

MR. MURPHY: I do not think many of them want to pay a premium.

H.M.JR: But why - you have got enough troubles as it is - why introduce a new factor which you do not have to?

MR. MURPHY: It seems to me a new factor will help sales.

H.M.JR: How about it?

MR. BUFFINGTON: I would want to think about it. The stronger that '62-'67 market is the better the new securities.

H.M.JR: I wouldn't have to settle that, now. I do not have to settle it tomorrow in my publicity. It could always be an added starter.

MR. BUFFINGTON: Except you may want to set your maturity of this new issue based on what you are going to do.

H.M.JR: All right. Let's say we leave the '62-'67's as they are - no change. Leave them registered. Come on, you experts.

MR. HAAS: I have no strong feeling, either way, '60-'70 or '65-'70, but some of the others may have some strong feelings on it.

H.M.JR: Make up your mind. Nobody in this room has any strong feelings. I have leanings.

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MR. HAAS: Some of those other people advising you have, and they have talked to the boys, so I would be inclined to give them what they are asking for.

H.M.JR: What is that?

MR. HAAS: The '63-'68.

MR. MURPHY: I will not enlarge on the point, but I think we are missing a very good bet in not putting in a ten-year call period. It looks rich, having a 1960 call period, and it would save a future Secretary money in the future.

MR. HAAS: I agree with that.

H.M.JR: I agree with you, but nobody likes it.

MR. MURPHY: They won't like it the first time, ever. No one likes innovations, but there always has to be a first time. Pardon me for bringing the point up, but I just wanted to express my views.

H.M.JR: I did not bring you in here to be a dummy. (Laughter)

MR. MURPHY: For a second choice I have very little between the '63-'68 and the '65-'70. It is alleged that making the bond shorter will tend to weaken the other market, i.e., the market for fully eligible securities. I do not think that the point is a very important one. Naturally, people will say that it is easier to sell a '62-'67 or a '63-'68. That more or less follows. I think a '65-'70 would constitute a much stronger position. It is an even number, which I think is something that is not to be disregarded in a campaign of this kind.

H.M.JR: Are you going in for numerology?

MR. MURPHY: Well, I have been intrigued by it in "Winnie Winkle" of late, but I don't think-- (Laughter) I don't know whether any others--

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H.M.JR: What is "Winnie Winkle"?

MR. MURPHY: She is in the funny papers. She has been stuck by it. I hoped you wouldn't have the same experience. (Laughter)

My first choice, I think, would be the '65-'70, but--

H.M.JR: All right.

MR. MURPHY: But if there is a strong feeling that that would be harder to sell, I would have very little objection to the '63-'68, and would value very little the point that it would disturb the rest of the market.

H.M.JR: Now, listen, I want you to give me a preference.

MR. MURPHY: Sixty-five - '70.

H.M.JR: And you would--

MR. MURPHY: That is my second choice, as I have explained before.

H.M.JR: Now that is irrespective of whether we make the '62-'67 convertible?

MR. MURPHY: Irrespective, although my preference is for immediate convertibility.

H.M.JR: George?

MR. HAAS: I take the '63-'68 because some of the boys seem to feel very strongly toward it, and the basis is that they want to sell as much as possible.

MR. ECCLES: I think my leaning is for the '63-'68, if there is any leaning. I would like to talk to Allan a minute on that point. It seems to me that if you take a '63-'68, now, you have, looking to the future, an

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opportunity to increase that to '65-'70.

MR. HAAS: Sixty - '70?

MR. ECCLES: That is right, whereas, if you go to '65-'70, now, you can't drop it back to '63-'68, and I think there is also an advantage in lengthening it a little and having the last issue at a little premium. I think that looking at the future of financing, in offering this tap issue again you may want to increase it to '65.

MR. BELL: Like we did the two's.

MR. ECCLES: That is right - '65-'70 at some later date, and if you do that now, then you are stuck with a ceiling.

H.M.JR: I agree with you, and there will be plenty more.

MR. HAAS: When the Secretary gets the machinery oiled up he might try a ten-year call period. (Laughter)

H.M.JR: Have you got a crowd like I have?

MR. ECCLES: They are so much worse than yours that there is no comparison.

MR. MURPHY: Ten-year call periods are out for the duration, I would like to express that view.

H.M.JR: I would like to have somebody tell me - I am not going to get in on that - somebody tell me what the effect is if we did '63-'68. I lean toward '63-'68.

(The Secretary left the conference temporarily.)

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

November 17, 1942
5:23 p.m.

HMJr: Operator. Hello.

Operator: Sproul and Rouse.

HMJr: Hello.

Robert Rouse: Hello, Mr. Secretary.

Allan Sproul: Hello.

HMJr: How do you do? After much confabbing and so forth and so on, we've decided the one-and-three-quarter should be June forty-eight.

S: June forty-eight.

HMJr: Yeah.

S: Yeah.

HMJr: And on the long issue, December sixty-three-sixty-eight.

S: December sixty-three-sixty-eight.

HMJr: Well, now wait - I don't know whether it's December. (Talks aside) Is it? Did Bell say - is it December?
Bell says, yes, December.

S: Yeah.

HMJr: Yeah.

S: Well, there's only one thing I'd say we should have in mind then on that, that is that you can't maintain a pattern of rates which drops down out at the long end, but it's not just a question of how much we buy but there'd have to be some adjustment in the list to that issue. I think myself it's - it's all right to have adjustment but we ought to have it in mind.

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HMJr: Well, frankly, I'm looking at something which is the most saleable, and I think the sixty-three-sixty-eight is the most saleable.

S: Yeah.

HMJr: And if you fellows got to buy a couple hundred million dollars worth of bonds between now and November 30, why I think it would be fine.

S: If what?

HMJr: If you've got to buy a couple hundred million dollars worth of bonds between now and November 30, I think it will be fine.

S: Well, I think we'd be buying a couple hundred million dollars worth in any case....

HMJr: Right.

S:but it's a question of having to have some adjustment in the pattern in the rate picture in the market, no matter how much we buy, with this issue.

HMJr: Well, I - I appreciate that.

S: Yeah.

HMJr: But for the first time I'm not looking at the market, I'm looking at what's the most saleable.

S: Yeah.

HMJr: And everybody agrees that this is the most saleable.

S: Well....

HMJr: I think - I think you would too, wouldn't you?

S: Oh, if you're - if you have to choose between one or the other as to which is the most saleable, there's no question about it. This is the most saleable issue. My question would be as to whether it would sell enough more to justify the - the market disturbance. But that you've decided.

HMJr: Well, we've spent a lot of time on it, and we're out to make a sales record.

S: Right.

HMJr: And you're not worried about selling it, are you?

S: No, I'm not worried about it.

HMJr: You're just worried about the market.

S: Well, I'm not even worried about that so long as it's understood that there's going to be some adjustment there, and that it's not just a question of how much we buy, because we'll have to buy in any case.

HMJr: Right.

S: Right.

HMJr: Now can I just give you something to think over during the night?

S: Yeah.

HMJr: This is what I'm thinking of saying, and we'll be working on this all day tomorrow with a hope that we can get out a statement at ten-thirty Thursday.

S: Uh huh.

HMJr: That's a hope, see?

S: Yeah.

HMJr: But my thought is something along this line - I've got all these publicity people here tomorrow to advise me.

S: Yeah.

HMJr: And I'm going to say that during the months of December and January, the Treasury proposes to sell twelve billion dollars worth of securities, approximately sixty per cent to non-banking sources and forty per cent to the banks; that on December 30 - November 30 we will offer to the public these seven-eight certificates, the one-and-three-quarter bond, the tax notes, the tap bond,

(cont.)

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HMJr: and the E, F, and G. Period, paragraph. On December 7 we will offer to the banks two securities, the seven-eighths certificates for two billion dollars, one-and-three-quarters Treasury bond for two billion dollars, to be open for four days.

S: Uh huh.

HMJr: If the public response is greater than what I had counted on, subsequent sales to the banks will be less.

S: Uh huh.

HMJr: Now that is approximately what I've got in mind subject to these sales advertising experts telling me what is the best way to present it.

S: Yeah.

HMJr: But I wanted you to think about it and then I'd like to talk to you about it in the morning.

S: All right. We'll do that.

HMJr: Now this isn't what the A.B.A. wanted and it isn't what Eccles wanted, but I cannot face the press, whenever I face them, and not give them a figure because they're going to say, "Well, Mr. Morgenthau, after nine years you ought to know how much money you need in December and January."

S: Well, I think you not only have to give them a figure but it's a good idea to give them a figure.

HMJr: Good. And - well, that - that's the idea. I - it's late. I don't expect you to comment on it, but I would like your comments in the morning.

S: All right. We'll give them to you.

HMJr: Thank you so much.

S: Thank you.

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R: Thank you.

HMJr: Goodnight.

S: Goodnight.

R: Goodnight.

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MR. BELL: I would be in favor of just leaving those alone.

MR. BUFFINGTON: It is a new element.

H.M.JR: Bell does not agree it would aggravate it, but he agrees to leave it alone.

Did you have it at March or June?

MR. HAAS: We had a two-year call, Mr. Secretary.

H.M.JR: Leaving that out, if it is to a fixed maturity--

MR. HAAS: I would take June.

MR. ECCLES: June.

MR. MURPHY: I would have a June. I would not recommend it, but I think a June would go.

H.M.JR: You fellows say if it were going to be fixed it would be June?

MR. MURPHY: That would be my reaction.

MR. BUFFINGTON: Yes.

H.M.JR: I think we had better make this certificate June.

MR. BELL: You mean the bond.

MR. ECCLES: The one and three-quarters short bond.

H.M.JR: Make it June '48.

MR. BELL: Yes.

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MR. ECCLES: That hits right in with the long note.

MR. BELL: The definite maturity date will make it a little stronger, won't it?

H.M.JR: Yes, it always has.

MR. HAAS: It is sure to.

H.M.JR: We are not going with the regular bond boys this time.

MR. ECCLES: "This time"? You talk as though you might have gone with them last time. (Laughter)

H.M.JR: Or last time. (Laughter)

MR. ECCLES: As a matter of fact, I have heard more of them say that the decision on the two's instead of the two and a quarter was absolutely right.

MR. BELL: I have had a lot of them come in to see me. They agree with that.

MR. ECCLES: They absolutely say you would have made a mistake if you had gotten the banks into longer stuff.

(Mr. Brown, Mr. Burgess, and Mr. Fleming entered the conference.)

H.M.JR: The thing is beginning to take a little shape and form. We have had New York on the phone a half a dozen times, and we have pretty well agreed here as to the one and three-quarters, that it should be June '48.

MR. BURGESS: Fixed maturity, right; that is fine.

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H.M.JR: Does that strike you fellows all right?

MR. BROWN: Yes, sir.

MR. FLEMING: Fine.

H.M.JR: Marriner, you help me out if I do not report this correctly. You talked to New York longer than I did on this thing. New York wants a '65-'70, and the reason that they do is they say if you come out with a December '63-'68 it will knock off the '56-'58 and the '52-'54 - that intermediate group. That is what they are worrying about. Is that their chief worry?

MR. ECCLES: That is right, a market problem. They also feel that a weakness in the market and a lot of selling in that field would more than offset any advantage of the shorter two-year short maturity; that whether it is '63-'68 or '65-'70 makes practically no difference to the investor, in any case.

MR. BURGESS: They are all agreed on it?

MR. ECCLES: Yes. Allan and Bob feel pretty strongly on that.

MR. FLEMING: Coupon, though?

H.M.JR: Yes, everybody is for a coupon.

MR. ECCLES: The point is if you are going to put a coupon bond out, that coupon bond should be spread out to the '65-70 in order to be priced in line with the '67-'72's that are now out, and a great many of them are held outside of the banks. They feel that there may be a very substantial sale of those '67-'72's by holders wanting to take '63-'68's. They think there still may be some, but less at the '65-'70 than there would be if you made it '63-'68.

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These intermediate bonds have pretty good premiums on them, and there would be an inclination of a lot of shifting in those intermediate issues, in order to take some of the premiums and take the '63-'68. They think there will still be some with the '65-'70, but there will likely be less and the market problem would be less disturbed. That is their feeling from a market standpoint.

On the side of pattern, a security that would readily sell, they think that, after all, this is a pressure job anyway, that it is a question of actually making a drive to sell, and that the insurance companies would take the '65-'70 - the mutual savings and other large investors, possibly - as quickly as they would the '63-'68. They feel there is not enough difference in the market attractiveness of the two to offset the bad effects that it would have upon outstanding issues.

H.M. JR: That is New York. That is not what we here amongst ourselves - everybody here in the room was very undecided but leaned toward the '63-'68. Is that right?

MR. ECCLES: Yes. We leaned for that because it was felt that it might be a little better article to sell. We were not thinking so much - Sproul would lean to that if he did not have the market problem, I think. It is the market problem that makes them feel as they do.

MR. FLEMING: The insurance companies we talked to all wanted - they did not want the reopening of the tap. They did not want the same maturity. They wanted a longer one so it would not fall--

MR. BROWN: A longer maturity than the reopening of the tap, because they had all the maturities of the same date that they wanted. But they realized that it would have to be at least a year longer if a coupon bond was issued, but they would like to keep

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it to as short a period beyond the present '62-'67 as possible; and the '63-'68 was eighteen months longer. I am clear that the closer you can keep it to the tap the better sale it will meet. The effect on the market I am in no position to judge.

H.M.JR: May I interrupt you? Close to the tap - if you make it '64-'69 you are getting away from it.

MR. BROWN: '64-'69 would be closer than '65-'70.

MR. BURGESS: That would be a compromise between the two points of view.

H.M.JR: I would like to ask you gentlemen this. I am not so worried about the market thing because the more securities the Fed has to buy the better I am pleased. (Laughter)

Did you three gentlemen, in talking to the insurance companies, get the feeling that if it were '65-'70 they would not buy?

MR. BURGESS: I got that decidedly from the Travellers. That is the only one I got it from.

MR. BROWN: I did not get it from the others. I got the impression from the insurance companies I talked to that they would buy the '65-'70 but they would much prefer a shorter issue. The Travellers said definitely that they would not buy a '65-'70.

H.M.JR: There was one argument advanced in this room, for whatever it was worth, that if we lengthen this thing by a year and a half we will sell whatever we are going to sell, two or three or four billion dollars of that, then next time go another year and a half. If we go to '65-'70 and come back, that is not so good.

MR. BURGESS: No, if you go a year and a half now you have still got the next one open; whereas if

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you take the whole jump you cannot use the in-between period next time.

H.M.JR: And that had some weight with me.

MR. BURGESS: I think it is much more important to make this issue attractive and sell it than it is to fuss around about an issue that is already selling but at a substantial premium. The main thing is to sell bonds.

H.M.JR: Well, we have still the memory of people. They can remember the Mellon three's; they certainly can remember this last one, and it is still there, so I think we want to be just as sure as possible that this is going to be good. I hope they don't call these other things the Morgenthau something. (Laughter)

MR. BELL: The Morgenthau two's.

MR. ECCLES: There are a lot of them.

See what you think of this argument. You are going to have a week or ten days' notice before this thing is opened, that the holders of these securities, New York seems to think, are going to do some selling; let them do the selling. I mean, let the market adjust. Don't peg them right there, but just let the market adjust during this thing; let those issues adjust in line, we will say, with the '63-'68, if that is what you announce. If they think the '63-'68 will influence the rest of this market, then let it do it; announce that and let the market adjust in relation to it. You have got ten days.

MR. BELL: The market come up to the '63-'68? That is the way you said it. (Laughter)

MR. ECCLES: That is right, the price go down and the rate go up to adjust to it; that is what would happen. Now, you have got ten days - let the market do that. Then the minute that the thing is opened for

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subscriptions it would have had all of its adjustment, and these particular securities that have adjusted in this interim period could then show some strength and the whole pattern would be fixed in line with the '63-'68. That is what you would have.

It is not as though you were announcing this tomorrow, and the next day you took subscriptions. That would be another matter. But you have got ten days in which to adjust, which makes this market problem very much less serious, Mr. Secretary, than I think otherwise would be the case.

H.M.JR: Well, it is one of these things. After all, I told Burgess that some time Thursday or Friday we are going to announce it, and we want to keep this thing secret until Thursday or Friday. But the way we are going now I ought to be able to announce it Thursday. The market will have more time to adjust itself than it has ever had before since I have been here. I may be wrong, but I think there is less trading in Government securities than there used to be.

MR. FLEMING: That is right.

H.M.JR: We had one case here a month or so ago of a bank. We sent a man over there to see him, and since then he has been good, hasn't he?

MR. BUFFINGTON: Yes.

H.M.JR: But they are not doing that so much any more.

MR. FLEMING: I don't think so at all.

H.M.JR: In the first place, there is no profit.

MR. FLEMING: This switching in and out - there is very little of that.

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H.M.JR: Fine. After you have heard this, do you change your mind?

MR. BROWN: Still '63-'68, as far as I am concerned.

MR. FLEMING: I check on that.

MR. BURGESS: Yes.

H.M.JR: What do you think?

MR. ECCLES: As I told you--

H.M.JR: What do you call it - they do not pass the buck, but they stand pat. They stand pat. (Laughter)

MR. ECCLES: Well, Randolph knows the market thing just as well as anybody else. I mean he handled that for a month of Sundays.

H.M.JR: He did a good job at it, too.

MR. BURGESS: If it is a choice between thinking about making this issue go and wondering whether maybe this issue will affect some of the other outstanding issues, I would choose the first: Make it an issue that will go for sure.

H.M.JR: That is the whole thing. This issue should go and go well.

MR. ECCLES: Let the market adjust.

MR. FLEMING: You have done that on the one and three-quarters.

H.M.JR: Yes.

MR. BURGESS: That '67-'72 is the one you put out before Pearl Harbor; you expected it to go below par. Now it has held up magnificently.

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MR. ECCLES: A hundred and one - a big premium.

MR. FLEMING: That is the only two and a half they can buy.

MR. BROWN: No possibility of its going below par.

MR. BELL: It has a good market because those banks out in the country who want a two and a half have to buy that.

H.M.JR: I think December '63-'68.

MR. ECCLES: As you know, I leaned that way.

H.M.JR: Bell said he wrote me a memorandum on it. I want to get that straight. I did not get the memo, but he said he wrote it.

MR. BELL: That is the way I feel. Mine was June '63-'68, but the December does not worry me.

H.M.JR: I am not going to ask these fellows because they want something quite different (indicating Murphy and Haas). They want '60-'70. And they are right.

MR. HAAS: We are patient. (Laughter)

H.M.JR: Would you mind, for Eccles' benefit, telling him how you feel about this announcement? I would like to get it direct from you.

MR. BROWN: We feel very strongly, Marriner, that the thing to do in the initial announcement is to tell the whole program, to say that the seven-eighths and the one and three-quarters and the two and a half's are going to be open to the public on December 7. We think it ought to be four days, which means from the 7th through the 10th; two billion dollars of the seven-eighths and two billion dollars of the one and three-quarters will be open for bank subscription, with the limit on bank subscriptions of that total amount.

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We think that announcing it in advance gives time for a certain amount of educational work and moral persuasion to be exercised on the banks in order to get them - not to take quotas but to make them realize that all the banks in the country have got, in the first instance, to subscribe to these issues; that they cannot be allowed to fail. These prices are attractive; I do not think there is going to be any trouble about the bank subscriptions.

We do not feel that any quotas should be announced as to the amount which is expected to be obtained from the public. We realize the great advantage of the quota because you can take a quota and you can break it up by States and break it up by counties and by cities. But in this case you have an organization which has not been tried. You have a variety of merchandise that you don't know just how the public is going to react to; you are uncertain of the public's feeling, which I think with these victories of the last few days is going to be better than it was. But you have a great uncertainty.

Now, if you announce a quota you have to announce a quota which is so low that you are certain to get it, which means you have to announce a quota that is way below what you probably will get. If you announce a low quota, once it is realized it is just human nature for these Victory Fund Committees and bond dealers and banks, and everybody else, to feel that their work is done and they are going to stop.

If you announce a high quota, you will run the risk that you may not reach it. In view of the uncertainties of the situation you simply can't afford, because of the credit and morale of the country, to run that risk.

Therefore, we three feel very strongly - and it was the judgment of the whole ABA committee when it was here last week - that no over-all quota, or no

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quota of what was expected to be raised from the public, should be announced.

That is a fair statement of our position, isn't it?

MR. FLEMING: Yes.

MR. ECCLES: Ned, has it occurred to you - of course you are announcing a quota for the banks--

H.M.JR: It is a fixed sum. It is not a quota.

MR. ECCLES: I mean it is a quota out of the total you need. For instance, you have got to let the public know, haven't you, or have you - I don't know - that you do not expect another drive before February. I understood that that was the thought.

H.M.JR: If everything goes well.

MR. BROWN: I don't think you are going to make any announcement that there is not going to be another public offering of any kind before February. I did not understand from Danny that it was contemplated that any such announcement would be made.

MR. BELL: We have not made any such announcement.

MR. BROWN: He felt reasonably confident that if the minimum expectations of the Victory Fund Committee were realized it would not be necessary to sell anything except on the increasing of the issue of the bills.

H.M.JR: The point you are making is if the Victory Fund Committee does what we hope they will do and the public responds, then it will not be necessary to go to them again until after February 1.

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MR. BROWN: Yes, but no announcement would be made at this time to that effect.

MR. ECCLES: Of course that is almost the reverse of what we all feel about it. I talked to Sproul today about the picture, and he and all of us over at the Board feel that if you announce specifically that you want the banks to take so much, when we have said we want to use the banks as a last recourse, and place all we can with the public, that is exactly the opposite to what should be done from the standpoint of the right kind of public psychology. We feel to go to the banks and say, "We want you to take four billion dollars irrespective of how much you sell to the public in this picture" is sort of going contrary to the whole philosophy and discussion of avoiding the use of the banks except as it may be necessary, recognizing, of course, that it is necessary to use the banks in a very substantial amount.

But instead of saying we will get four billion from the banks and then what we can get from the public, the point is to say we will get all we can get from the public on this drive, and then we would use the banks for what additional amount is required.

It is just completely reversed. Of course we could argue that indefinitely, and you may be right.

MR. BROWN: I don't want to argue it, Marriner. I would only say that it seems to me that it is apparent to anybody that if the banks take four billion and if the public takes a large amount, then the time in which it will be necessary to go back to the banks will be longer if the public responds to a lot than it would be if they fall down in their issue.

I think the banks of the country realize that and will be made to realize it even more. So I do not think there is much to that argument. But it is one of those things you can argue for hours. After you have stated your conflicting opinions, I do not

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think it adds much to the Secretary's understanding - trying to argue it.

H.M.JR: I wanted Eccles to hear it.

Now, tomorrow I have these national sales managers and three different advertising agencies coming down here. I am going to put this before them.

MR. FLEMING: I think they will all want a quota.

H.M.JR: I don't know.

MR. BURGESS: I think another time, after we have had this first drive, you would be in a better position to have a quota.

H.M.JR: I am not going to settle anything on this tonight. I am getting the best advertising and sales brains that I can lay my hands on to be here for a day or two to help me on this very question. I do not know how they will react.

MR. FLEMING: How do you feel, Marriner, on the amount of the two and a half's that can be sold to individuals - the public - laying aside insurance companies? That figure is going to be somewhere around eight hundred million.

MR. ECCLES: I would figure a billion and a half as a minimum. I think we ought to get two and a half billion, coupon issue, of the two and a half's. Two and a half billion is what I have said would go on that thing.

MR. FLEMING: I am trying to weigh the benefit - sales benefit of a quota as against the danger of setting your quota too low.

MR. ECCLES: What I said is this. You need twelve billion in December and January. Let the country know that that is what is necessary. You know definitely

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that there is four billion you are going to get through War Savings, through the sale of Treasury bills, and through the tax notes that will be sold in January, so that then you have to have a billion dollars. Say that you are going to need eight billion dollars, say that you expect to get during the month of December - I don't care how long you leave it - say we are going to get all we can from the public.

It is true a financing of this size is going to require a lot of bank financing. Leave that door wide open so that you can come into the banks and get two or three or four or five, whatever is called for. That was my thought.

MR. FLEMING: Your thought is a little bit different from the quota on this particular offering.

MR. ECCLES: I did not have a quota in mind for the public. My idea is not a question of a quota. I have been possibly misunderstood on that. My idea was merely to tell the public the needs for December and January so that they have an idea of the terrific size of this job to be done. Put the thing in proper perspective.

If you say that we are spending so much a day and that for these two months we have to have not less than twelve billion dollars, and you know where approximately four of it is going to come from, whether you have a drive or not - it does not make any difference. You have that; that is just automatically, more or less, coming in. But it does leave eight billion dollars that you have to get in December and January from some source, and that means from the public and the banks by special drives. Instead of having two drives you say we are going to try to get about eight billion dollars at this period, and then use bills or certificates in January. But at least give them an idea of what you need and let them know

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at the time that you want to get all that you can get from the public. You are going to have a drive that is going to be open for two weeks, or three weeks, or a whole month, if you want to. Leave the thing open as long as you want, and simply say that in connection with that drive we expect that the banks are going - they are going to have to take a very substantial amount of this financing; but we want to get all we can from the public. Then leave it open so you can ask the banks for four billion, but don't fix any amount for either of them at this time except let the public know what you want in the over-all picture.

MR. FLEMING: When you are talking about the over-all picture you are talking about more than the particular offerings that the Secretary is getting ready to announce. You are talking about more Treasury bills, and you are talking about more tax notes, too.

MR. ECCLES: No, I am talking about four things available in the drive: the one and three-quarters, the two and a half, the certificates, and the tax notes. Now, those are the four issues.

MR. BURGESS: The F and G's.

MR. ECCLES: They are not going to be emphasized. It was not the idea to put the F and G's out in front in this thing. The idea was to have these four issues.

MR. BROWN: You will sell a hell of a lot of G's.

MR. ECCLES: To sell F and G's, but to put the drive on those four. As I understood it, Henry, you did not want to give a lot of publicity to this F and G thing.

H.M.JR: No. Of course I think I am sort of in-between. The way the thing stacks up and the way I

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would like to see it, is something like this. For the month of December and January the Treasury has to raise twelve billion dollars, and we are planning to get sixty percent of it from non-banking sources and about forty percent of it from the banks. I think it sounds good.

MR. FLEMING: No danger in that.

H.M.JR: And then go ahead and announce the program of what we propose to do on November 30 and December 7.

MR. ECCLES: Then if you only have to get thirty-three from the banks, so much the better.

MR. BROWN: I think you have to announce the four billion dollars from the banks definitely, because I think if we are going to give any - if a bank comes to you and says, "How much do you think I ought to subscribe to of this issue?" and you say, "You have got ten million dollars of assets and deposits, and there is seventy billion in the banks of the country, so you ought to take one seven-hundredths of the whole issue."

H.M.JR: What I was going to say, which I think would satisfy Marriner, was this. If, for instance, we say that on December 7 we are going to ask the banks to subscribe to four billion dollars, then if the public takes more than we expect subsequent borrowings from the banks would be less.

MR. BURGESS: Subsequent, yes.

MR. FLEMING: That is good.

MR. BURGESS: That is good.

H.M.JR: We will just have to ask the banks - "Gentlemen, I am now giving you the program for the whole month of December, so everybody can go to work

and see what they can get."

MR. ECCLES: And January.

H.M.JR: December and January.

MR. ECCLES: Allan Sproul made this point. Let me mention it.

H.M.JR: That is the way I felt. I can see a half a dozen or a dozen press men here, and they will never go out of this room until they say, "Well, Mr. Morgenthau, you, as Secretary of the Treasury, have to know how much money you need for December and January. Don't tell us you don't know, and the public is entitled to know it."

MR. FLEMING: The way you described it, it takes away any fears I have of the quota.

H.M.JR: I have no quota. I will say it again. We need twelve billion dollars from now through December and January, and the plans call for getting about sixty percent from the public and forty percent from the banks. If the public responds more handsomely than we expected, then subsequent borrowing from the banks will be less.

MR. BROWN: That is all right provided you announce the four billion from the banks as a definite amount at this time.

H.M.JR: Then I would go on and say that on November 30 through the Victory Fund that will be opened for sale to non-banking sources, the seven-eighths and the one and three-quarters percent bond, the tax notes, the two and a half percent tap, and series E, F and G. On December 7 we will sell four billion dollars' worth of securities to the banks; it will be open for four days.

MR. ECCLES: That is for the banks only. The same securities will be available for seven days to the public.

H.M.JR: The others will be open not seven days. They will be open through the month of December.

MR. ECCLES: Let me ask you this. Do you mean that on December 1 you would open up the one and three-quarters?

H.M.JR: The seven-eighths, the two and a half, everything.

MR. ECCLES: But you would not take any bank subscriptions?

H.M.JR: Not until December 7, then take it for four days.

MR. BELL: Not more than two billion on each of the two.

MR. ECCLES: Allan Sproul suggested this idea, that for the month of December, taking the whole month, you would expect to get in the month of December about ten billion dollars of this twelve, and that you don't need the drive in January. You would get about two in January from the bills, anyway, and from the sale of War Savings securities, automatically. That would just be coming in to give you the twelve - those two. So in the month of December, that would include, then, the War Savings drive for E, F and G for the month, include the drive for all these other securities, tax notes and all. You would then say you would open up the drive by announcing that you would permit the banks to take the one and three-quarter percent bond. I mean, that is available to the banks; later in the month you would make available to the banks the certificate issue.

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In other words, you would then get from the banks on the certificate issue any amount that was necessary, whether it was two billion or one billion, or whatever it was. In other words, his idea for having the banks come in immediately on the one and three-quarters was that practically the entire market on the one and three-quarters was with the banks, and therefore the day you opened the issue let the banks come in on the one and three-quarters for a period of, say, a week.

H.M.JR: I have told these fellows all this.

MR. ECCLES: They are very polite. (Laughter)

H.M.JR: If they don't like it, they can speak for themselves.

MR. FLEMING: We thought the bank issue ought to be open the same date, but payment dates on different dates.

H.M.JR: Incidentally, they said that payment for these bank issues would be December 17 and December 26.

Let me come back - before Brown leaves, what do you think of this suggestion that I have, the way I am putting the twelve billion dollars for December and January, sixty percent from the public and forty percent from the banks; and go ahead and do the things just the way I said, and then tell them the whole business on Thursday or Friday.

MR. BROWN: I do not see why you say sixty percent from the banks and - sixty from the public and forty percent from the banks. I would simply say that you are planning to offer four billion dollars of these to the banks and that the additional amount of bills which will be offered to the banks will produce an additional amount of so many millions more.

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H.M.JR: The reason I have got to do it, Mr. Brown, is that the press will not be satisfied unless I name an over-all.

MR. BROWN: All right, name an over-all. Now, you say that to the extent that the public takes this twelve billion, the future calls on the banks will be less. I do not see much objection to that way.

H.M.JR: I have got to give them a figure. I can't meet the press and not give them a figure.

MR. FLEMING: You have to tie it for the months of December and January, I think.

H.M.JR: That is right, and these advertising men will never be satisfied. They have said to me already, "Mr. Morgenthau, you have got to tell us what the size of the selling project is. You have got to give us a figure, so we will know how much we are selling."

MR. ECCLES: I think for the Victory Fund Committees to do the job in the field, not from the standpoint of publicity but from the standpoint of putting pressure on them - I think we have got to sit down here and say that we expect them to get about so much of this so that we won't have one of these districts, or two of them, falling down. I do not mean a quota from the standpoint of publicity, but I think privately we have got to sit down and tell each of these districts what they have got to do.

H.M.JR: I told Allan Sproul I expected between thirty and forty percent out of New York.

MR. ECCLES: You have got to tell these other boys, though.

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H.M.JR: Then some of these bank presidents - one or two - I am worried about.

MR. ECCLES: So am I.

H.M.JR: Let me say this. It has been very helpful having you gentlemen here in making up my mind. After we get this thing out in the press, which will be Thursday or Friday, then I take it the ABA will go to work with this committee and will be in contact with us, and so forth. Will there be another group that will be working on that? Who will be here Thursday and Friday from the ABA?

MR. BROWN: That will necessarily have to be the permanent staff and officers of the ABA.

H.M.JR: Will Stonier--

MR. BUFFINGTON: They are going to be here on Thursday and Friday of this week.

H.M.JR: Let's have Stonier here, with your publicity group? Couldn't they be here Thursday and Friday?

MR. FLEMING: We can get in touch with them tomorrow morning.

MR. BURGESS: I hope to see them tomorrow morning.

H.M.JR: I think they ought to be here Thursday and Friday.

MR. BELL: They are going to work with Dr. Burgess' committee - the Economic Policy Committee - on this.

H.M.JR: Don't you think they ought to be here?

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MR. BUFFINGTON: The twelve Federal publicity men are coming in. Mr. Drew agreed it would be helpful for him to have their views. He said he would be here Thursday and Friday, but in any event Friday.

H.M.JR: Who is Drew?

MR. BUFFINGTON: He is one of the staff men of the ABA.

MR. BURGESS: The publicity man.

MR. BUFFINGTON: He is the man we have been having all our discussions on publicity with.

H.M.JR: All right.

Secretary of the Treasury Morgenthau today announced further details of the Government securities to be offered on Monday, November 30.

The securities to be offered will consist of a 2-1/2 percent bond, a 1-3/4 percent bond, and a 7/8 percent certificate of indebtedness. Each of the bonds will be issued in both coupon and registered forms. The certificates will be issued in coupon form only. Commercial banks (which are defined for this purpose as banks accepting demand deposits) will not be permitted to hold the 2-1/2 percent bonds until ten years after issue date. There will be no limitation on the ownership of the other securities.

All three securities will be dated Tuesday, December 1, and will bear interest from that date. Accrued interest will be charged on all subscriptions for which payment at a Federal Reserve Bank or an authorized depository is received later than December 1.

Books for subscriptions to all three of the new securities will be opened on Monday, November 30, for all classes of subscribers except commercial banks, and all such subscriptions will be allotted in full.

Books for subscriptions by commercial banks will be open on Monday and Tuesday, December 7 and 8, for the 1-3/4 percent bonds; and on Thursday and Friday, December 17 and 18, for the 7/8 percent certificates. Sales of these securities to commercial banks will be limited to \$2 billions, or thereabouts, for each issue; and commercial bank subscriptions will be subject to allotment.

Any bank or trust company qualified to hold War Loan deposits will be permitted to make payment by credit for securities subscribed for its own account or that of its customers up to any amount for which it shall be qualified in excess of existing deposits.

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The Victory Fund Committees will conduct a vigorous campaign to secure a wide public participation in the new securities. The Committees will also during the same period further the sale of tax notes and Series F and G savings bonds to those investors whose requirements are better served by these securities (which are on continuous sale) than by the new securities.

Commercial banks will take an active part in the campaign both by urging their customers to subscribe to the fullest extent, as well as by their own subscriptions.

The Secretary also announced that, in line with the new financing program, the 2-1/2 percent bonds of 1962-67 offered last May and August, which have hitherto been issued only in registered form, will, commencing on January 1, 1943, be exchangeable into coupon form at the option of the holders. The restriction limiting the holding of such bonds before 1952 to others than commercial banks will continue in effect, however.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17,
1942

TO Secretary Morgenthau
FROM Mr. Hagg
Subject: Suggested Maturities and Call Dates for Proposed
New 1-3/4 Percent and 2-1/2 Percent Bonds

The following are suggested as the most desirable maturities and optional call dates for the proposed new securities:

1-3/4 percent bond

September 15, 1947-49

2-1/2 percent bondFirst choice December 15, 1960-70
Second choice December 15, 1965-70

In our opinion the fixing of the exact maturities and call dates of the proposed issues -- as long as the dates chosen are in reasonable conformity with the "pattern of rates" -- will have little effect on the success or failure of the issues. Success or failure will depend upon the sales effort put forth.

In suggesting the maturities and call dates listed above we have had in mind two primary criteria: (1) that they should present the maximum of real advantage to the Treasury, and (2) that the issues should be priced generously by market standards. These criteria may be more fully explained as follows:

(1) Value of optional call periods. All of the issues suggested above contain optional call periods. In the case of the 2-1/2 percent bond the optional call period suggested as a first choice is 10 years.

Optional call periods are of great value to the Treasury, a value which remains long after the other circumstances attending the financing are forgotten. Compare a 5-7 year 1-3/4 percent bond with a 6-year fixed maturity bond, for example. Unless the interest rate on short-term money is exactly 1-3/4 percent 5 to 7 years hence, the Treasury is bound to gain by the optional call period, since if rates

Secretary Morgenthau - 2

are lower than 1-3/4 percent it can call the bond at the end of 5 years, whereas if they are higher than 1-3/4 percent it can let the bond run to maturity. Even if rates are exactly 1-3/4 percent the Treasury does not lose.

Long call periods are of particular value to the Treasury. A pertinent case at the present time is that of the 4-1/4's of 1947-52. These bonds, now outstanding in the amount of \$759 millions, were issued in October 1922 with a 5-year call period. A 10-year call period might have been as easily inserted -- and in fact was in the two succeeding issues of long-term Treasury bonds. If a 10-year call period had been used in the 4-1/4's the bonds could have been refunded last month into taxable 2's of approximately the same final maturity and the Treasury would save \$85 millions in interest during the next 5 years as well as converting the bonds from partially tax-exempt to taxable status.

(2) Liberality of pricing. Our choice for the 1-3/4 percent bond and both choices for the 2-1/2 percent bond are cut slightly on the generous side compared with the so-called "pattern of rates".

In the October financing the Treasury was accused of pricing its issues in such a manner as "to skin a louse for its hide and tallow". Such pricing is necessary, under present conditions, when securities are offered for which the interest rate and description are already fixed in the "pattern of rates". It is necessary, for example, in pricing a 1-1/2 percent note or a 2 percent bond. In establishing the description of a new security like a 1-3/4 percent bond or a coupon 2-1/2 percent bond the Treasury has a small amount of latitude, however, and we feel that this latitude should be exercised in the direction of generosity.

There is some pressure for a fixed maturity 1-3/4 percent bond or even for a 5-year 1-3/4 percent note. One and three-quarters percent is a lower rate than has ever been placed on a Treasury bond before. There is also some grumbling about a 10-year call period for the 2-1/2 percent bond -- although it is also contended that 1960-70 would be "too rich". These two circumstances, however, would seem to strengthen the case for a liberal pricing.

It has been contended that a 1960-70 bond would affect outstanding issues adversely. We would give this argument little weight. The long end of the market has a reserve of

Secretary Morgenthau - 3

potential strength now that the banks must rely entirely on the purchase of outstanding issues in order to secure yields in excess of 2 percent. If any selling of outstanding issues should develop, however, it would result not in a decline in prices but in an increase in the Federal Reserve portfolio.

OFFICIAL

MR. C. S. YOUNG
PRESIDENT FEDERAL RESERVE BANK
CHICAGO ILLINOIS

NOVEMBER 17, 1942

I SHALL NOT BE CALLING YOU AGAIN THIS EVENING

HENRY MORGENTHAU JR.

November 17, 1948.

Dear Chester:

Thank you for sending me a copy of the address which you delivered in St. Louis last Saturday evening. I am taking this home with me in order to read it carefully and at my leisure. I have already glanced through it and noted with interest what you said of the Treasury financing.

With thanks again for seeing that I had an opportunity to read the manuscript,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Chester C. Davis,
President, Federal Reserve Bank
of St. Louis,
St. Louis, Missouri.

GMJ/dbs

NOV 23 1942

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FEDERAL RESERVE BANK
OF
ST. LOUIS

OFFICE OF
THE PRESIDENT

November 16, 1942

Personal

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

My dear Mr. Secretary:

As I told you over the phone today, I paid a little attention to the Time Magazine article in a speech to the Missouri Press Saturday night. Here is the marked copy.

Yours very truly,



Chester C. Davis,
President.

Enclosure

Huber please
to have avo. for
my signature
AA

THE WAR, THE PRESS, AND THE PUBLIC DEBT

Address

By

Chester C. Davis

President, Federal Reserve Bank of St. Louis

Before the 76th Annual Convention of the
Missouri Press Association

Hotel Jefferson, St. Louis, Missouri
Saturday evening, November 14, 1942

THE WAR, THE PRESS, AND THE PUBLIC DEBT

You are nearing the end of a long and serious session. You have earned the right to be entertained and amused. I wish from the bottom of my heart that conditions in the world and in our own country set an appropriate background for fun and gaiety as you conclude your Seventy-sixth Session, but events of world-shaking importance have been unfolding every hour of your meetings. Issues of utmost gravity impose new responsibilities on the press of Missouri and the United States. You are concerned over what is ahead of newspaper publishers as business men; even more so over how a free press can best serve a challenged America.

When I was working on the fringes of the newspaper business, it seemed to me that everyone I met started out his talk to me with the words "you ought to --". If men in high military office think there are too many armchair strategists telling them how to plan and carry out a campaign, or if men in high political office complain about critics who tell them how jobs should be done, they ought to try running a newspaper for awhile. Everybody knows how a newspaper ought to be run; nearly everyone is articulate about it. I catch myself doing it too. I can think of lots of things I would like to say to the St. Louis newspapers about the way they handle or don't handle their financial news. I still think the announcement of a four billion dollar Treasury issue to be sold to the Country in two days is worth more than a stick-and-a-half back among the want ads.

I turn reluctantly from that tempting field, however, to make a few observations about your place in a nation whose very existence is at stake in a desperate war. The conversion of the United States from peace has many implications and consequences for its newspapers. Strictly on the business side, as

representatives of an eighty million dollar industry in Missouri, the newspaper publishers have many serious problems. They are a vital part of the sales system of our economy. It doesn't require an economist or a business analyst to see what is in store for all parts of a sales organization when two-thirds of a nation's production is taken for war, leaving only one-third rationed to the needs of the civilian population.

There is no other business that is more thoroughly decentralized than the newspaper publishing business. Talk about small business, independent business! No industry fits the term more accurately. The newspaper plant is a manufacturing enterprise. War has brought you many of the operating problems of other manufacturers - materials, labor, priorities, deliveries, repairs. Under these operating complications you still carry on the work that cements in unity a vigorous, vital, and free people.

What an enormous number of great blessings we take for granted in this country! It is natural for us to gripe about irritating censorship, colored and over-numerous handouts, suppressed and delayed news. But in this country if men of the press don't like the way things are handled or the men who are handling them, they can say so and still have an office to come back to the next day, a life to live free from the shadow of the Gestapo, concentration camp, or firing squad. If you want to get a gripping picture of what your profession is like under the dead hand of Nazi Germany, read Howard Smith's "Last Train from Berlin".

If Branch Rickey had been here tonight, you would have expected him to devote at least a part of his talk to his specialties - young men and baseball. He would not have disappointed you. A speaker ought to concentrate on the subject he is supposed to know something about. This war has many fronts.

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While I have you here in one room, I want to talk about the war on the financial front. Its sheer dimension and scope make it news.

We are proud of the job this nation's industry and labor are doing in making machines and materials for war. In the Federal Reserve System we have a convenient index which we call the index of industrial production. It is based on the volume of production in the years 1935-39 as 100. It measures the output at factories and mines.

One year ago, this volume of production index stood at 165, that is, we had increased the volume of our industrial production by 65 per cent over 1935-39. About one-half of that production went for war. Last month, this index passed 185. Of that volume, 100 points in the index represented production for war; 85 points only were for civilian, non-war uses.

By June, 1943, it is estimated that our production will have reached 210 per cent of the 1935-39 level. Of those 210 points, 140 will be for war and only 70 for civilian life at home. In other words, two-thirds of our national effort will go to make possible the tremendous war effort of this country and of our allies in the United Nations; only one-third will be available for the home front. This means, of course, an absolute reduction in the physical quantity of goods for civilian use. It means that we who have been talking so much about willingness to sacrifice and to do without are going to get the opportunity to do a little of it; not much compared with what other people are doing, but still more than we have been called upon to deliver heretofore.

The cost of this war production during the fiscal year which ends June 30 next will average a billion and a half a week. Seventy-eight billions will be spent for war from last July to next June. Including Federal non-war

expense, the year's total will exceed Eighty-four billion, or Seven billion for each month.

The Government has two means of raising this money - taxation and borrowing. After we have raised all the revenue that the Federal taxes will yield, we will still have to borrow at the rate of Sixty billion a year, or Five billion each month.

Let me by two comparisons illustrate the size of this financing job. During five short months we will raise in this country, by borrowing, more than the nation borrowed to finance its part in World War I. The Government borrowed slightly over \$24 billion in 1917, 1918, and 1919. That sum would not finance the cost of the present war on the present scale for four months.

In the war against depression from 1933 to 1939, the Federal Government borrowed less than \$21 billion. Three months and a half of war at the present rate swallows up that sum.

Borrowing for the war means that the public debt of the United States will continue to grow. Today the total is approaching \$100,000,000,000. To forecast its future course requires many "ifs" and assumptions. If the war lasts through 1944 and if revenues from taxation are no greater than we now have reason to expect, we will go out of 1944 with a public debt in excess of \$200,000,000,000. This debt will be represented by Government bonds, notes, certificates and bills held by individuals, corporations, insurance companies, and commercial and savings banks.

Government borrowing can be divided roughly into two categories. First and most desirable is the borrowing from individuals and corporations other than commercial banks. When investors in this class buy Government

securities, they are investing part of their current income or their savings. In other words, they are putting at the Government's disposal money that has already been created. Borrowing in the second category, i.e., from the commercial banks, is considerably different in its nature. When a commercial bank lends to the Government by paying for Government bonds with deposit credit, an equivalent sum is added to the total quantity of money in existence.

That difference explains why, in the effort to avoid serious inflation, the Government seeks to borrow as much as possible from individuals, and institutions with money to invest, and only turns to the banks for the remainder. If a person who has \$1,000 or can save it from his income buys Government bonds, his \$1,000 becomes active but he no longer has it to spend. If, instead, the Government borrows the \$1,000 from a bank, the original owner still has his \$1,000 to spend when he feels like it. There is more inflationary force in borrowing from banks.

But in spite of all we can do to push sales to individuals and non-bank investors, the banks will still have to buy enormous quantities of Government bonds. In recent months, banks have financed two-fifths of the total increase in the Government debt. If that proportion continues, it is reasonably safe to guess that the banking system as a whole will invest 9 billions in Government securities during the last quarter of this year, between 20 and 25 billions in 1943, and about the same amount in 1944.

Their holdings of Government securities which were 26 billions on last June 30th, will be about 40 billions at the end of this year, 60 to 65 billions by the end of 1943, and probably will reach 80 to 90 billions by the end of 1944.

That is the outlook for bank purchases of Government bonds. There will be a corresponding increase in the volume of bank deposits. It is possible also to do a little guessing at that. At the beginning of 1940 before the step-up in the rate of Government war financing, the total of demand deposits in the commercial banks in the country amounted to less than \$30 billion. At the end of last June, they reached \$42.6 billion. By the end of this year, they will probably reach \$50 billion. Assuming that the war continues and our effort does not slacken, it is not unlikely that demand deposits will touch \$75 billion at the end of 1943, and be in the neighborhood of \$100 billion at the end of 1944.

One by-product of the war, therefore, is a vastly increased supply of money. It is natural and proper, I think, that the Government, in its heavy borrowings, should seek to prevent a general advance in the cost of the money it needs. With a brake on the prices of everything else, there is no good reason why the interest rate, the price of money, should finally be set by the money market.

I mention that particularly because newspapers and periodicals have it in their power to present the story of Treasury financing either wisely or superficially, fairly or unfairly. One of the best examples of journalistic mishandling I have seen in this war was Time Magazine's treatment of the four billion dollar October financing. Some of you may have read their story in which they called the recent issue of 2 per cent $7\frac{1}{2}$ to $9\frac{1}{2}$ year bonds the "greatest flop since the Mellon 3's", and castigated the Secretary of the Treasury because he hadn't offered a $2\frac{1}{4}$ instead of a 2 per cent bond.

I'm not the Secretary's defender, but let me tell you a little about that issue. It was intended for the banks. Long ago thoughtful bankers as

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well as government banking authorities had recognized that it would not be prudent banking to invest the rapidly swelling demand deposits I have been telling you about in extremely long-term obligations. A ten-year limit was thought plenty long by a Special Committee of the American Bankers Association which studied the matter. To fit in the existing pattern of rates, which generally should be maintained for the duration, a $2\frac{1}{4}$ per cent bond would have had a fourteen year maturity, too long for commercial bank investment. To offer a ten-year $2\frac{1}{4}$ per cent bond meant blowing up the existing pattern of rates, cutting loose the cost of money to finance the war.

Bear in mind that when the four billion dollar issue was put out, the banking system had altogether just about two billion dollars in excess reserves. If Time had criticized the Treasury for allowing the banks so little time in which to absorb the issue, I would say "Amen". Of course, the issue had hard sledding. In this district we had just about one full day to work on it. Of course, the day of enormous over-subscriptions is gone. That was when the banking system had six or seven billions in excess reserves and when the issues were peanuts compared with those coming along now.

Time Magazine considered none of those factors. To my mind, it was a perfect illustration of what can happen when the responsibility of editorial expression is delegated to the superficial hand of a wise-cracking reporter.

This isn't a bankers' meeting, so I'm not going to pursue this line much further. You will agree with me that war developments have created a totally new condition for bank operations in the United States, one that calls for the closest possible cooperation between the banks and the agencies of Government.

Right now, I want to go on record with a few observations as to the important work the bankers are doing in this war. It is not spectacular, but it is highly creditable. Take the part they have played in the sale of Series E War Savings bonds, for example. Here in the State of Missouri total sales of E Series War bonds through August 31 amounted to \$116 million. The banks of Missouri sold \$72 million or 62 per cent of that total.

Just as you have given your space to advertising War bonds, so have the bankers hired the help to handle these bond sales to the public without any charge to the Government or anyone else. It has been a magnificent job. I do not think the bankers have been given full credit for it; I know they haven't asked for any.

I want to stress the next point, underscoring it particularly for the editors. I should say that 99.9 per cent of all the publicity that has been given to Treasury financing has gone to the War Savings bonds, yet for every dollar that is raised through the sale of bonds of that type, four dollars is raised through the sale of other kinds of Government securities. I am not quarreling with this distribution of publicity. The sale of War Savings bonds is important for other reasons than the money they raise. But allowing for that, the public ought to be made aware of the size and nature of the other financing that is going on, whose dollar volume is four times as large as that of War bonds.

Bankers are doing a magnificent job of this other financing too. As Bob Hill can tell you, bankers make up the bulk of the membership of the Victory Fund Committees that have been set up in each Federal Reserve District to help the Treasury with the sale of securities other than Savings bonds. To do this selling job effectively, bankers have to do things that violate long-established

habits of thought and practice. They have to solicit their customers, big and little, to withdraw their money from the bank and invest it in Government securities. It takes a lot of nerve for a banker to advise a corporate depositor, for example, to draw down its account, which may amount to a million dollars, and invest it in tax anticipation notes. But the bankers are doing it, just as they are urging their small savings depositors to withdraw their money and buy War bonds.

This isn't as rough on the bankers as it sounds. Just think back for a minute on the figures I gave you to show how bank deposits have increased and how they are going to increase still more as the war goes on. No matter how hard a banker works to get his depositors to take their money out of the bank and invest it in Government securities, his deposits are going to continue to increase at even a faster rate. That is because so large a part of the Government financing is of the sort that increases bank deposits.

Forces operating in the money market used to be centripetal in character. The tendency was for money to flow toward the money centers for investment by the big banks. All that has changed. The new forces are centrifugal. Vast Government expenditures at Army camps, munitions plants, and to pay contractors and farmers for the great volume of supplies needed to feed a war, keep drawing money out of the money centers and scattering it into the small communities. The bulk of the reserves of the banking system today are out in the country banks, not in the central reserve cities.

In a word, the bankers have enormously important war work to do, and they are doing it well. As I have shown, they are handling the bulk of the War Savings bonds. Beyond that, in close cooperation with the Government, their role is to help provide funds to finance the cost of the war to the extent it

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is not met by taxation and through the sale of bonds to individuals, insurance companies, and other non-bank corporations.

This is a war of many fronts. In a sense it is not one but a multitude of wars. I have talked to you mainly about the war on the financial front. The far-flung military and naval struggle will come to a pause some day, but when it ends there are other phases of the war which must go on indefinitely.

Many of our present desperate problems are on us because we have not always understood that this is true. We have acted as though we believe the blessings of liberty and freedom were bought and paid for by our forefathers and handed down to us as a heritage to enjoy without further payment or effort on our part.

That isn't the nature of the world at all. Freedom isn't something you can buy at one payment as you might purchase a beautiful painting to hang on the wall and enjoy in perpetuity. You pay for it in installments which never end, and if the payments lapse the penalties are terrific. We are now learning how costly they can be.

Our struggle for a system of international cooperation to promote security and justice and to safeguard peace cannot stop when the guns fall silent, as it did for all practical purposes after the last war. In the years ahead we must accept responsibility and furnish leadership in the development of an enduring international organization to promote justice and guarantee freedom and peace. If freedom and democracy are to survive, there is another war on the home front yet to be won. Our forefathers bequeathed us a material empire of fabulous and diversified wealth, and we have wasted it shamefully. In many ways we have defaulted in its care and management. I think we have done even a

- 11 -

better job in protecting our political and civil liberties than we have done in perfecting the practices of economic and social democracy.

Our struggle to establish and maintain an economic and social system within the United States that satisfactorily meets the needs of all the people must go on and it must become more definite and pointed. When it became apparent on this Continent that free nations everywhere were menaced by the pestilential spread of dictatorships that deny freedom, we were compelled to turn aside from an unfinished job on the home front - we laid down unsolved, even undiagnosed, the problem of how to use our resources to maintain full employment for the people within our borders. Some day we must pick it up again, and it will be bigger than ever.

No economic system or political organization can survive long periods of widespread chronic unemployment or even recurrent cycles of general depression. As the world society has become more closely knit and complex, the impact on our institutions of the ups and downs of the employment cycle has become increasingly violent. You recall Victor Hugo's vivid story of the battle between men and the cannon that broke loose in a storm at sea. With every lurch and sway of the storm-tossed ship, the force of the rolling cannon grew more destructive until it threatened to batter the ship itself to pieces. Men captured and chained it.

We in America are not consciously shirking our responsibilities in today's all-out war. The mood of the people will permit nothing to stand in the way of our military victory. I am not so sure we are equally determined to win these other wars which must be won if military victory is to have permanent meaning.

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There are hopeful signs all over the country and in all walks of life. Without lessening their war effort many men are giving thought to post-war problems. It is a military axiom that you cannot fight feebly and win a war. That holds just as true for the future war for international security and for a strong and growing economy at home. In a real sense our job is only beginning when the military war ends.

We must accept these longtime responsibilities with courage and confidence. Certainly there are conditions ahead of us that cause uneasiness. As I said, we may come out of the war with a national debt that amounts to \$200,000,000,000 or more. As men concerned with public policy, that thought worries you. It isn't a trifling consideration for any man to contemplate. Yet if we keep our thinking straight it need not dismay us. Examined closely, some of the terrifying aspects disappear.

No matter how long it takes, we know we will end this war victoriously. We will emerge with our natural resources unimpaired. Furthermore, we will have in this country the largest and best trained army of factory workers in the history of the world. We will also have a mechanical plant beyond anything man has dreamed of heretofore. These things mean capacity to produce; they are the elements of real wealth. We shall not have expended them.

Our national debt we will owe to ourselves. The cost of interest service and gradual repayment that is collected in taxes from one generation will be paid to the same generation. The debt will be held wholly within the United States and by our citizens. It will present none of the impossible problems that accompany an external debt. If we fail in the future to make democracy worth while, it will not be the size of the public debt that defeats us. It will be because we have not learned how to use these great resources -

human and material - to provide full employment and a high standard of living for all our people.

Let me conclude on that note of challenge. No one can do as much to set these problems in perspective in the popular mind as the men of the calling represented here tonight. I have not attempted to give you answers to the many questions the future will have to solve. I do not know them. No one has the master blueprint. The genius of America must develop one - and it will. We have staked everything because of our conviction that the best society is the one which rests on human freedom and the dignity and independence of the individual soul. We must keep our hands joined to insure that such a society can survive.

oooOooo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1942

TO Secretary Morgenthau

FROM George Buffington *GBJ*

The following facts which we secured the end of last week from Executive Managers may be of interest in connection with announcement to the press about the contemplated Victory Fund campaign:

The Victory Fund Committees have an executive staff of 27 in the twelve Federal Reserve Districts which includes Executive Managers and Assistant Executive Managers. There are 100 Regional Managers. The country is divided into 186 Regional Committees with 6,577 Regional Committeemen. It is estimated that there are 37,960 volunteer workers, making a total sales personnel of 44,644.

NOV 17 1942

Dear Mr. Harrison:

As the Chairman of the Life Insurance Coordinating Committee, you recently made available to the Treasury a carefully selected group of agents to assist the War Savings Staff in the sale of F and G Bonds. This very generous offer of cooperation was accepted and we had completed plans for a program whereby we would be able to take full advantage of this talent.

As you know now, however, it has been decided in the light of our overall task not to pursue this particular activity.

I wish to express my appreciation to you and to the members of your committee, as well as to the Insurance Agents who had volunteered their services for this undertaking.

I would like to suggest further that their services not be lost to us as a result of this decision affecting F and G Bond promotion. You are somewhat familiar with our whole program, and if you feel that this new group of Insurance Men could give assistance to the program of the Victory Fund Committee, I would appreciate your so advising me.

I am informed by Mr. Graves that a few of these men who have recently been made available to us have already taken up new duties in the promotion of the sale of E Bonds. This request should in no way involve the men who are working under the Life Underwriters Association on Payroll Savings nor any others who are currently engaged in various "E" Bond activities.

In closing, may I thank you and the members of your committee for your continuing support.

Sincerely yours,

(Signed) H. Morgensthan, Jr.

Mr. George L. Harrison
Chairman, Life Insurance Coordinating Committee
c/o New York Life Insurance Company
New York, New York

TRG:jro

extra copies to Thompson

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

DATE
November 17, 1942

Here are some ideas from Vince Callahan about publicity (as distinct from advertising) for the November-December drive. Many of these ideas strike me as good and practical, others not so good. In any case, I think we can count on getting a good deal of publicity rolling from next Thursday on.

F. K.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 17, 1942

TO Secretary Morgenthau
FROM Vincent F. Callahan

Since talking with you on Friday I have had a meeting with members of my staff and I am outlining in the following paragraphs the suggestions we have to make:

Obviously the proposed program is designed to reach a limited number of the American people; nevertheless we feel it is of paramount importance that for a short period we conduct an intensive educational campaign in every media. However, we feel radio should be used sparsely. The purpose of this campaign would be to bring home to the American people the magnitude of the Treasury's problem of war financing and to show how it affects every American citizen.

This educational campaign would not be expected to produce tangible results in sales. It would be expected to condition the country to circumstances which will develop in the months to come.

In line with this thought we can take immediate action in radio, press and advertising, as follows:

1. Send to all newspapers for use on the financial pages each day for a period of three weeks, one column pictures of

-2-

war material which the Government can purchase as a result of investment in Treasury securities. Attached is a sample of how this procedure has been followed for War Bonds.

2. Prepare a statement quoting Secretary Morgenthau on new campaign, in general. This to be released to all newspapers, press associations, and radio commentators.

3. Prepare statement in which Under Secretary Bell describes Treasury securities specifically. This again to be released to all news channels.

4. Arrange nation-wide broadcast on which Secretary Morgenthau, or whoever he delegates, would personalize the information on the campaign generally, and each issue specifically.

5. Arrange for statements urging the purchase of Treasury securities from national financial leaders, such as presidents of the American Bankers' Association, U. S. Chamber of Commerce, National Association of Manufacturers, and the National Association of Life Underwriters. This can be done as a series of broadcasts or press releases - or both.

-3-

6. Arrange for these same statements to be published in all leading financial trade journals, such as the house organs of the American Bankers' Association, National Association of Manufacturers, National Association of Life Underwriters, etc.

7. Hire at least two new employees immediately - an outstanding financial writer and an outstanding financial advertising man.

8. Have speeches for local broadcasting prepared by the American Bankers' Association, U. S. Chamber of Commerce, National Association of Manufacturers, National Association of Life Underwriters. These should be released to all the local radio stations of the country and to the local leaders of each of the above groups simultaneously. The local financial leaders should be urged to broadcast this material and give the campaign their personal blessing.

9. These same financial leaders should prepare a series of statements on this program to be released locally by their various state and local organizations to the local press.

10. Write all financial institutions sponsoring broadcasts urging them to promote the sale of Treasury securities through their own radio programs - local, regional and national.

-4-

11. Arrange to have prepared by leading financial writers of the country articles on these securities to be distributed to all newspapers.

12. Send brief, highly factual data sheet on all of these securities to the editorial writers of every newspaper in the country, asking them to use it as basis for their own editorial comment.

13. Call a meeting, preferably in New York, of the nation's leading financial writers to explain the whole plan to them and to enlist their support.

14. Prepare charts and other graphic illustrations of our story for publication in all newspapers and magazines.

15. Request all financial institutions to incorporate our material in all their own advertising.

16. Arrange round-table broadcast with Secretary Morgenthau presiding, at which he explains the over-all picture and on which financial leaders such as the presidents of the financial and business associations personally endorse the campaign.

As you told me, the Federal Reserve Bank System is appointing publicity men in each of their districts. I understand that these new publicity men will meet in Washington on

-5-

Friday, November 20. I would like very much to personally be in charge of that meeting so I can advise these men of our over-all plan of promotion, point out to them the important part they individually play in it, and make specific recommendations to them of localized activities they can inspire in connection with our national campaign. I make this recommendation because I think it highly important that we coordinate all the efforts in this connection.

I am assigning Charles J. Gilhrest to assist me in this operation.

Vincent F. Collola

NOV 1 1942

My dear Mr. Secretary:

In furthering the War Savings Program, we have found that the sale of War Bonds to wage earners in private industry through the medium of Payroll Savings Plans has been most efficient and most productive. We are concentrating our efforts on this medium of sale, particularly in connection with the sale of Bonds to employees working for contractors engaged on Government construction projects.

Public scrutiny of the small sale of Bonds to these employees throughout the country so far has resulted in criticisms, which has been repeatedly brought to the attention of this Department. In order to forestall some of this unfavorable publicity, we are exerting every effort to have the Payroll Savings Plan installed on every Governmental construction project throughout the country. To accomplish this, current information is necessary from the contracting agencies of the Government to be made available to our State offices before the project is started.

In connection with the construction projects of the War Department, we would like very much to be supplied currently with a copy of directives on all future projects issued from the Construction Division of the Corps of Engineers to their District Engineers to proceed with construction projects planned and approved in Washington. We would also appreciate receiving information on all construction projects for which directives have been issued to Division Engineers within the past thirty days.

It will be of further assistance to this Department if the District Engineers are advised to suggest to all contractors awarded construction contracts by the War Department, that they install a Payroll Savings Plan for the convenient and systematic sale of War Savings Bonds to their employees.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

The Honorable,

The Secretary of War,
Washington, D. C.

RHO:M:mec
11-16-42

extra copies to Thompson
By Messinger Sturgis
11:05

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 17

TO: Secretary Morgenthau
FROM: Vincent F. Callahan

You might be interested to know what has been done regarding the promotion of "Everybody, Every Payday".

1. Records have been made by:

- a. Victor Recording Company with Barry Wood.
- b. Decca Recording Company with Guy Lombardo.
- c. Columbia Recording Company by Tommy Tucker.

2. Part of Victor Promotion:

special easel card for coin machines -
quantity - 25,000.

A 20" X 20" two color window streamer for
dealers - quantity - 10,400.

Special title strip for coin machines -
quantity - 150,000. (see samples attached).

In addition to these they are using extensive
newspaper, magazine, billboard and all phono-
graph record industry publications. (see sample
cards).

3. Decca and Columbia Recording Companies are doing
a promotional campaign similar to Victor's.

4. Through the cooperation of The Rudolph Wurlitzer
Company; Rock-Ola Manufacturing Company; Mills Novelty
Company; J. P. Seeburg Corporation; and The John Gabel

Manufacturing Company; the Automatic Phonograph Manufacturers' Association; and the Automatic Phonograph Operators' Association we have sent letters to approximately 8,700 phonograph operators in the United States urging them to make this record their No. 1 in the virtually 375,000 juke boxes which they control. (see attached sample of Wurlitzer Company promotion). Others doing likewise.

5. The record of "Everybody, Every Payday" has been sent to 872 radio stations.

6. Orchestrations have been sent to approximately 1,250 band leaders.

7. Slides are being made to be used in motion picture theatres.

Vincent F. Callahan



VICTOR and BLUEBIRD

"EV'RYBODY EV'RY PAYDAY"

WRITTEN BY TWO SOLDIERS

RECORDED BY THE TREASURY TROUBADOR



Corporal Tom Adair and Sergeant Dick Uhl know how to write hits. Adair wrote "Everything Happens To Me" for Tommy Dorsey before donning khaki. His lyrics speak in plain language.



Barry Wood sings with an orchestra and mixed chorus—solidly delivering the swiny zing of Sergeant Uhl's catchy melody. He waxed it at the request of the Treasury Department on his greatest record.

"EV'RYBODY EV'RY PAYDAY"

An "Over There" For The Home Front

BARRY WOOD

at his best on

Bluebird Record No. 30-0804

10%
IN WAR BONDS
"EV'RYBODY
EV'RY
PAYDAY"



Order Today!

HIT OF THE WEEK

BARRY WOOD

"Ev'rybody Ev'ry Payday"

Bluebird Record 30-0804

Record Over.

30-0804

WEEK'S BEST SELLERS

Record Over.

27923

27924

27925

27940

27974

28-1004

28-1005

Record Over.

0-11842

0-11886

0-11847

0-11849

0-11888

30-0806

30-0801

0-11877

0-11863

LUCKY STRIKE HIT PARADE

Record Over.

27948

27949

27954

27976

28-1010

0-11874

0-11872

0-11804

30-0804

HIT OF THE WEEK

BARRY WOOD

"Ev'rybody Ev'ry Payday"

Bluebird Record 30-0804

Please enter my order for following varieties of records:

Green Class. Red Seal Cactus

Promotional Material (Refer to your local Victor Record Store for terms and conditions)

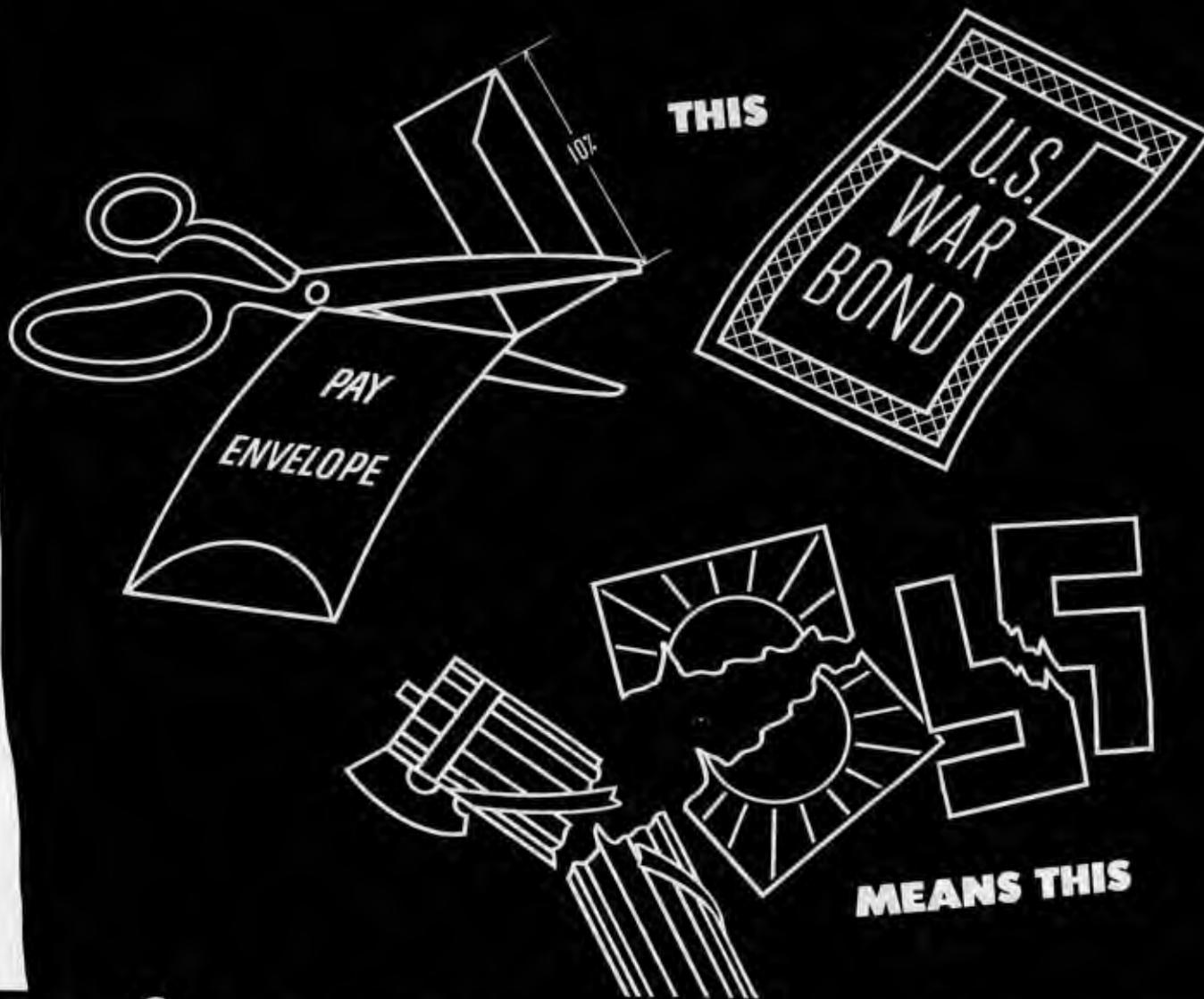
Signal

Address

City

State

Regraded Unclassified

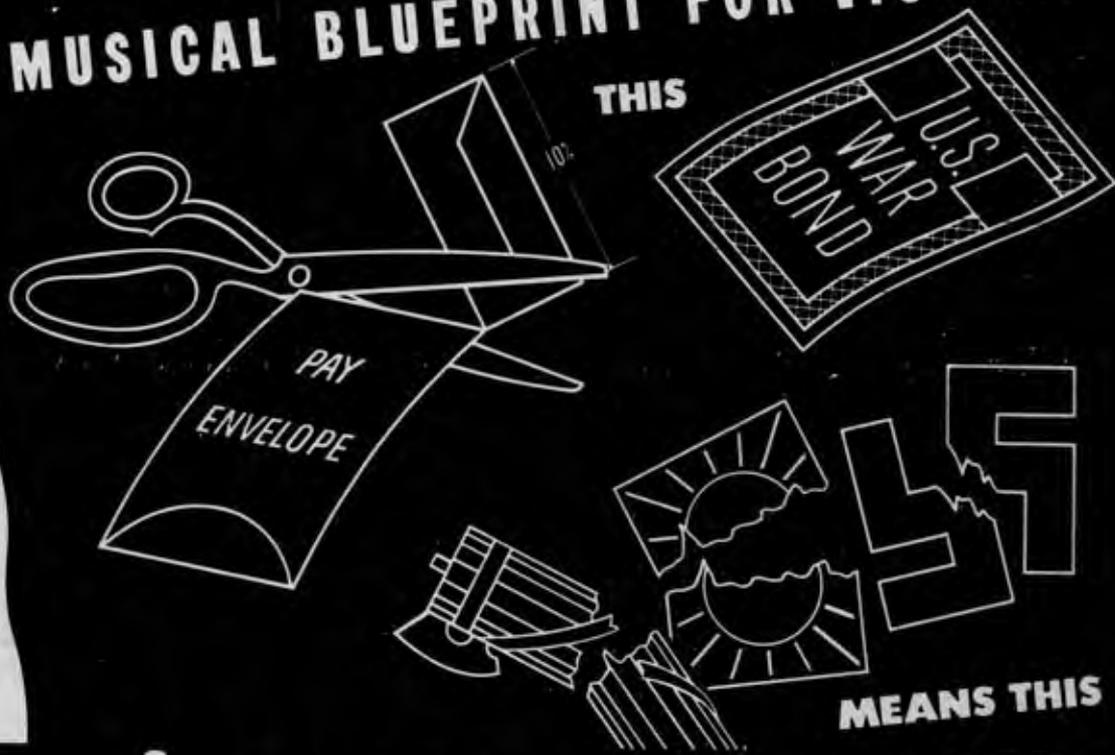


**EV'RYBODY
EV'RY PAYDAY**

IN
SWINGTIME BY
**BARRY
WOOD**

17-Piece Orchestra
Mixed Chorus

MUSICAL BLUEPRINT FOR VICTORY



PRINTED IN U.S.A.

EV'RYBODY
EV'RY PAYDAY

PLAY IT ON THIS MACHINE

IN
SWINGTIME BY
BARRY WOOD
17-Piece Orchestra
Mixed Chorus

185

WURLITZER

186

Automatic*Phonographs*

THE RUDOLPH WURLITZER COMPANY

NORTH TONAWANDA, N. Y.

Oct. 30, 1942

TO ALL WURLITZER DISTRIBUTORS

Gentlemen:

Attached is a proof of a Wurlitzer Billboard Magazine ad, It outlines another opportunity for you to cooperate with Uncle Sam in selling War Bonds.

"Everybody Every Pay Day" is an inspiring record that carries the blessing of the United States Treasury Department - worthy of a place on every phonograph you operate.

Give it the Number One spot on your instruments. It will take in plenty of nickels for every Wurlitzer Music Merchant. It will inspire thousands of people to buy more bonds.

You did a grand job with "Any Bonds Today." Let's all get behind "Everybody Every Pay Day" and show the Government AGAIN how effective Wurlitzer Phonographs can be in doing a bang-up Bond selling job.

Cordially,

THE RUDOLPH WURLITZER COMPANY

Spence Reese
Spence Reese
Asst. General Sales Manager
North Tonawanda Division.

SR/gb
att.

P.S. Under separate cover you will receive a sample recording of "Everybody Every Pay Day." Play it and you'll appreciate its possibilities.

A NAME FAMOUS IN MUSIC FOR OVER 200 YEARS

WURLITZER MUSIC MERCHANTS



LET'S PUT SOME
OF OUR SAVINGS
IN BONDS

LISTEN JACK, WHY
DON'T WE DO OUR
PART AND BUY SOME
BONDS?

EVERYBODY
EV'RY PAYDAY

THAT RECORD
HAS
ME SOLD

WE
OUGHT TO
BUY A
BOND
FOR
JUNIOR

Feature THE NEW
RECORDING

"EVERYBODY
EVERY PAY DAY"

*In The No. 1 Position on
Every Phonograph and
Wall Box You Operate*

HERE IS ANOTHER OPPORTUNITY TO HELP SELL WAR BONDS AND STAMPS

You Music Merchants did a swell job for the U.S.A. with "Any Bonds Today."

Here comes another and even greater hit, "EVERYBODY, EVERY PAY DAY."

You'll hear it on the radio and at WAR BOND rallies in every town in the land. People will want to play it on your phonographs.

Here's your chance to help Uncle Sam and make additional profits from which you can buy more War Bonds yourself.

Get "EVERYBODY, EVERY PAY DAY" on every phonograph you operate NOW!



WURLITZER

Is Working for Uncle Sam

THE RUDOLPH WURLITZER COMPANY NORTH TONAWANDA, N. Y.

in The Treasury Dept.'s
10% IN WAR BONDS

EV'RYBODY EV'RY PAYDAY"

CAMPAIGN

ORDER:

Barry Wood's New Record
"Ev'rybody Ev'ry Payday"

This Record As If Your Life
Depended on it.* Display
Material is Available FREE
At Your Distributor
*IT DOES—ON THE SONG'S THEME

PROMOTE:

The Song and Record to All
Customers. It's Swingy, Popular
Merchandise with Plenty S.A.*
It'll Sell Itself and Do a Great
Job for the War Effort . . .
*S.A. = SALES APPEAL

MENTION:

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

November 17, 1942

You may interpolate some amusement in your life by reading the attached copy of a letter to the New York Tribune, November 17, 1942. Apparently some of my remarks in Cincinnati at the National Tax Conference in answer to a question from the floor on the subject of tax exempts sent shivers up and down the spine of an Albany reader. At least one defense for my statement is the famous statement of the former Chief Justice Hughes that the Constitution is what the Supreme Court says it is.



Attachment

C
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P
Y

New York
Herald Tribune
Nov. 17, 1942

EXTREMELY FLEXIBLE

To the New York Herald Tribune:

It occurred to me that you would be interested in the following quotation from the official record of the remarks of Mr. Randolph E. Paul, Assistant Secretary of the Treasury and Mr. Morgenthau's tax expert, on Oct. 21, 1942, before the National Tax Conference held in Cincinnati:

"The commitment was made in the light of a certain understanding of the Constitution, but our Constitution is such, and very properly such, that it is flexible enough to change understandings of one day that must be adapted to the events of another day. Everybody must be prepared for a changed Constitution, if events require the change, and as the Supreme Court determines that there should be a change."

It is about the finest bit of New Deal philosophy that has come to my attention and is enough to send shivers up and down one's spine.

READER

Albany, N. Y., Nov. 14, 1942.

November 17, 1942

Last night, on the invitation of Stimson, I went to his house at 5:30. Jack McCloy, MacLeish and Frankfurter were there. Stimson started to give us the background on this war in Africa. He said we had only landed about 100,000 troops - approximately five or six divisions - that the Spaniards in Spanish Morocco had about 150,000 first-class troops which were a constant menace; that these troops in Spanish Morocco were a bridge-head which the Germans could use if they tied up with the Spaniards.

Stimson went on and read a three-page telegram from Eisenhower which he sent last Saturday. Eisenhower said he felt it was a military necessity to use Admiral Darlan, and he asked for authority to go ahead, but that if they didn't want him to do that, they should send a commission out at once to advise him. Stimson then told us that both Churchill and Roosevelt had approved what Eisenhower had done.

When Stimson got through giving us all this background, none of which was very new, showing how necessary it was to use Darlan, and how using him meant the saving of many American lives, somebody mentioned Edward Murrow's broadcast. I had a copy of it in my pocket and I asked Stimson whether he didn't want to read it. He lost his temper and said that he wasn't interested and didn't want to read it. I just let it pass.

Then MacLeish had a memo which he said the President had dictated to Elmer Davis yesterday at noon which went on to explain the situation. Davis was sitting in his office waiting to give it out over his own name, but the President said to clear it with Secretary Hull and General Marshall. MacLeish said that Hull said he wasn't interested in it. Then MacLeish said that the President said it should be cleared with Marshall but that it wasn't necessary to clear it with Stimson. Afterward Frankfurter told me that this was a very cruel thing for MacLeish to say, and I added, "Crude also." They went on to discuss this memorandum trying to decide whether or not Davis should release it.

Finally I said, "I am going to say Davis shouldn't release it because this is something the people won't believe unless it comes from Roosevelt himself. It shouldn't come from anybody else." As a result of my very firm statement, they phoned Davis not to make it, and when I saw the President at 11:00 this morning, he asked me about it and he didn't know whether Davis had released it or not. He told me he had not dictated this statement but that Davis had written down what he said - I don't know where the difference is.

Then I went on and made a very passionate address on what I thought about Darlan. I said he was a most ruthless person who had sold many thousands of people into slavery, and that to use a man like that in these times, no matter what the price is, the price is too great. I went on to say that there is something else besides temporary military victories, and I said, "You can't tell me the whole campaign was set up with the expectation of using Darlan because the President told me that that wasn't so." Then I said, "There is a considerable group of rich people in this country who would make peace with Hitler tomorrow, and the only people who really want to fight are the working men and women, and if they once get the idea that we are going to sit back and favor these Fascists, these Hitlerites, etc., not only in France but in Spain, which is what we are doing every day because we are freezing Franco into his job, these people are going to have sit-down strikes; they are going to slow up production, and they are going to say, 'What's the use of fighting just to put that kind of people back into power?' ". I said, "If something isn't done about it and that idea once gets into the minds of the people, you will never be able to get it out."

Then I said, "Now for the English - Darlan is known as one of the most violent British haters. How do you suppose the men and women of England feel about this? General Giraud also hates the English, and when they sent an English submarine to take him out of there, they had to put an American Captain in charge before they could get him to go on the submarine."

When I finished I could tell from MacLeish's face that he agreed with me, and approved everything I had said. Then Frankfurter said, "Yes, we agree with what Henry said." Then he began to try to fix a middle course, and I was never so disgusted in my life. Then he said, "What would you do if

you had the decision to make?" I said, "That isn't the question." I said, "The question is how to explain to the American people what this means, and are we going to let the State Department put in this kind of people." I said, "If we do that, nothing will be settled and in another ten years we will have another war on our hands."

Stimson was quite flabbergasted at my vehemence. McCloy said nothing, but then one of them spoke up and said, "Well, you know that last Friday the President issued orders to Robert Murphy to take up with Admiral Darlan the matter of rescinding the Nurnberg Decree and freeing all political prisoners." I asked them when that would be made public, and they said they would have to wait until it was carried out. Then I said, "Well, somebody said that Murphy is living in the pocket of Darlan, and supposing Darlan refuses to carry out these orders." They had no answer for that.

Shortly before I left, Stimson said, "Give me that copy of Murrow's address. I want to read it." McCloy said, "Isn't that typical of the man? He gets mad and then he cools off, and he does what you ask him."

Just before I left, I told Stimson that I had this letter from Hull in which the Spanish Ambassador asked that the Treasury pay for the legal fees covering the suit against me on Spanish silver. Stimson was quite upset, but I subsequently asked McCloy whether I did the right thing in telling Stimson about it, and he said, "Yes, you did absolutely right." Stimson said he would draw a check and give back the \$20,000 if it was going to be embarrassing. I said, "No, I am going to ask Hull to withdraw the letter." Then somebody suggested that Hull has a secret fund and the President has a secret fund, and if it is so important, let one of them pay it out of the secret fund. Stimson became quite angry about it.

When I saw the President this morning, I told him the whole story, and I said that I was going to ask Hull to take the letter back. The President said, "Absolutely. Just take the letter over there and ask Hull to take it back."

Frankfurter called me up as soon as I got home, and I was very disagreeable with him. He wanted me to write a letter to Stimson saying how ethical I thought this legal matter

had been handled, etc., but I said that if a man does something that is ethical, you don't have to write and tell him so. Then he wanted me to write the President a letter telling him that he should say publicly that all brutality and cruelty in North Africa should be stopped. It was typical of Frankfurter. He didn't say anything while we were all together; yet as soon as he got home he wanted to become "Mr. Fixer".

~~George~~

EXCERPT FROM PRESIDENT'S PRESS CONFERENCENovember 17, 1942

AFRICA -- President Roosevelt said today that he had asked for the abrogation in northern and western Africa of all laws and decrees inspired by Nazi Governments or Nazi ideologists. In a prepared statement, he also announced that he had accepted General Eisenhower's temporary political arrangements for that area. The relations with Admiral Darlan, the President said, had served to save American, British and French lives and also had saved valuable time in the preparations for the march on Tunisia "...and, we hope, on Tripoli." In closing the Darlan discussion, the President very much off the record, called attention to this Balkan proverb, "My children, you are permitted in time of great danger to walk with the devil until you have crossed the bridge."

Nov. 17, 1942

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When HM Jr saw the President today, he suggested that he leave this alone for the rest of this year, and the President agreed with him.

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THE WHITE HOUSE
WASHINGTON

November 11, 1942

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

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THE WHITE HOUSE
WASHINGTON

November 7, 1942

MEMORANDUM FOR

THE PRESIDENT

Now that the \$25,000 limitation of salary has been put into effect, I think it would be well to ask Congress to authorize doing the same thing for all incomes. What is true of salaried people should be true particularly of those who do not work but get their income solely from tax-exempt coupons.



SAMUEL I. ROSENMAN

November 17, 1942

Address delivered by Honorable James F. Byrnes
on November 16, 1942, at 8:00 P.M., New York
Herald-Tribune Forum on the Columbia Broadcast-
ing System.

THE RELATION OF THE WAR TO OUR CIVILIAN ECONOMY

In time of war we must deal with hard realities. We have no time to theorize and play with words. Military men must discard their technical talk about principles of logistics, get down to brass tacks. They must discuss their problems in the language of the ordinary citizen, in terms of ships required to move troops, and the food and ammunition which we must move to battle areas in order to enable the troops to fight. Likewise, now that we are getting down to organizing our home front for the prosecution of the war, I think we should avoid, as far as we possibly can, theoretical terms like "inflation" and "stabilization", ~~Let us~~ ^{and} consider the very concrete problems which we have to meet.

~~So tonight I wish to speak briefly and plainly about the relation of the war to our civilian economy and the principal problems which we must try to meet.~~

Our first and chief problem is to consider how we are going to organize our civilian economy to win the war. We must consider the men we shall have to take out of civilian life in order to have the soldiers to fight; the food and materials we shall have to take out of the civilian economy to feed and equip our soldiers and to help feed and equip the soldiers of our allies; and the food and materials we shall have to take out of our civilian economy to provide minimum sustenance for the civilian population in allied and occupied countries. In a real sense these requirements are war requirements. No one who knows the conditions prevailing in war-stricken countries can accuse us of planning to pamper other people or to impose unnecessary hardship on ourselves. No matter what hardships we endure America still is and in all probability will remain the best fed, best clothed and best sheltered nation on earth. Certainly, for example, we are not taking on ourselves undue hardship when we limit ourselves to 2½ pounds of meat per person per week, while the average Englishman ~~does not get that much in a month.~~ can buy but 23¢ worth of meat per week.

We cannot consider how we are to take the necessary men and food and material out of our civilian economy without considering how those of us remaining in civilian life are going to be able to produce the food and material required for our fighting forces, for our fighting allies and for our own sustenance. In total war we are all war-workers. We cannot tolerate the use of our manpower for any activity which does not aid the war effort. We must see that within the limits of our resources we all have enough to do our part with maximum efficiency but that none of us has more, because in total war there are neither men nor food nor materials to spare.

We should not be ~~solaced~~ ^{misled} by the joy we feel with launching of our first major offensive. The road ahead is hard and may be long. And there is no question that to meet the requirements of the war plans of our military leaders we must draw in our belts just as far as we can draw them in without reducing the overall efficiency of our war effort.

Of course the American people need direction and guidance from their government as to where there is the greatest need for restraint in their normal living habits. But just as our soldiers, buck privates as well as generals, take pride in the initiative and enterprise they show on the field of battle, so it is up to us at home to take pride and satisfaction in the initiative and enterprise we can show in drawing in our belts before ~~even~~ the government ~~gets around to~~ compelling us to do so. We should not have to be constantly told we are in a total war for our own survival. When our soldiers face the anguish of death on the battlefield we should be willing to undergo the inconvenience of Rationing at home. We should take pride in showing how much we can get along without and how little we can get along with.

Our soldiers are trained to do their very best on the battlefield. They are taught to emulate the crack troops of the division. We civilians must emulate the example of those who are drawing in their belts and not the example of the slacker, the hoarder, the sponder as usual. We should show our scorn for them, just as our soldiers show their scorn for the coward on the battlefield. In war-time we must seek to achieve the highest and not the lowest common denominator of patriotism.

Nothing has distressed me more than the suggestion that the great mass of American citizens will not follow a direction or an order or even a law of their government unless it is enforced to the last slacker. I do not believe it. The great mass of American citizens are all-out to win this war. They are intelligent enough to know that they can win it even if a small minority of slackers fail to do their duty. They are not so stupid as to believe that they will win the war if they wait for slackers to turn patriots. There are few wilful slackers in America. There are quite a number of thoughtless slackers, and the quickest way to bring them into line is not to put them in jail but by our example to put them to shame.

As I have said, our first and chief problem is to organize our civilian economy to win the war. Our second problem is to organize our civilian economy so that the burdens and restrictions of war are equitably and democratically shared. The restrictions on our civilian economy are intended to help the average man and woman and child to obtain more rather than less than he would otherwise obtain, and to buy what he needs at a lower price than he would otherwise have to pay.

In war-time, price controls, wage controls and rationing controls are not ingenious devices to punish people and to make the grim business of war grimmer than it need be. They are measures designed to help our war effort and to reduce the hardships of war, particularly on the family in modest circumstances. By and large, the average citizen, be he a farmer, a wage-earner, a business or professional man, has less to fear from price, wage and rationing controls than he has from their absence. Of course a person would be better off if he could get any price he wanted for the goods, commodities or labor he had to sell, and the government saw to it that the price of the goods, commodities or labor that he had to buy, did not rise. But no government can do that. The cost of living cannot be kept down or the greatly reduced supply of civilian goods fairly distributed by someone waving a magic wand. The burdens of war can be equitably shared only if all of us, industrialist, farmer and worker alike, cooperate in sharing these burdens.

Wartime controls, however carefully devised and administered, will bear more severely on some than on others. That is inevitable, just as it is inevitable that some of our soldiers will make the Supreme Sacrifice while others will return unharmed and wrapped in glory.

But in a war for survival we must not seek individual advantage. If we do most of us will be bound in the end to suffer from our own selfishness. If we are far-sighted, instead of seeking to escape the controls necessary for our own wellbeing, we should be alert that our burdens are not increased by too long delay in the imposition of necessary controls. I should be the last to favor unnecessary controls, but it is better that we draw in our belts a little tighter than hindsight may prove absolutely necessary, than that we should later regret our inability to realize how serious was the need.

The task of keeping down the cost of living and ensuring a fair distribution of food, clothing and other civilian supplies is doubly difficult in wartime. Not only are the available civilian supplies enormously cut down, but the potential demand for those greatly reduced supplies is enormously increased. It is much easier for us to see and understand why there is less food, clothing and other supplies available for home consumption, than it is for us to see and understand why there is such a greatly increased home demand for ordinary retail goods and services.

That is, I think, one of the major reasons why many people underestimate the need for further rationing and further drawing in of the belt when they are already buying fewer things and spending less than usual. This is particularly true of those of us whose taxes have increased but whose money income has not increased during the war. This, however, is not true of the nation as a whole. The income of the nation as a whole has enormously increased, even though some few of us may have less money.

In the boom year of 1929 our consumer income was slightly over 81 billion dollars. This year it will rise to something over 115 billion dollars. Next year it may exceed 125 billion dollars. It is estimated that 15 billion dollars of this consumer income will be taken away by Federal, state and local taxes paid by individuals, including the new Federal taxes. ~~It is estimated that~~ If we save out of our incomes as much as we normally do, we will not save more than 25 billion dollars. We will then have left to spend for civilian goods and services 85 billion dollars. But owing to curtailment of civilian production for home consumption, goods and services available to meet consumer demand will ~~scarcely aggregate~~ ^{only amount to} 70 billion dollars.

That is only part of the picture because do what we may, some of the things we want and need most will be least available. If therefore we do not take measures to restrict our purchasing power and our purchasing habits, we will be trying to buy 85 billion dollars worth of goods and services when only 70 billion dollars of goods and services are to be had. And if we do not take precautions, but simply trust to luck we will destroy not only our present purchasing power, but our past savings by trying to outbid one another to get goods and services that a country engaged in total war cannot produce. And if we do try to outbid and outsmart one another to get more than our fair share of the available limited civilian supply, the average man and woman is going to get less not more.

But some people will ask why should we have this enormous increase in our national income? And others will ask why have others so much more to spend when our incomes have not gone up and our taxes have increased? The

answer is that many more people are employed than ever before in our history. While some people after paying their taxes have less to spend than they used to have, most people after paying their taxes have more to spend than they used to have.

From what I have said, it is clear that we must ration many more commodities. But, before a commodity is rationed, we must be careful to let the people know the facts upon which we base the decision that rationing is necessary.

We must do more. We must syphon off the excess purchasing power. We can do it by taxation and by an equitably devised plan of compulsory savings. After the war these savings would be returned to the people over a period of years. They would then have the money to spend to create markets for peace products. Such a Savings Fund would provide employment. It might save us from a business depression. If, however, depression came, the savings would enable many to escape want and suffering. It would make unnecessary frantic efforts to provide relief programs. Above all else, it would help us to win the war more quickly. And that should be our objective because the more quickly won, the more of our boys will we save.

It will be necessary also to simplify and standardize production and distribution in order to make the most effective use of the materials and manpower that we can spare for civilians. We must concentrate our energies on the production of relatively few types of goods of standardized quality, design and price. This can be done without destroying the competitive spirit. Each industry will be consulted and encouraged to perfect its own plans. But we must do away with bigger and better frills and reduce unnecessary delivery services.

There are some people who readily see the need for the control of prices and wages, but do not see the advantage to the war effort of limiting profits on salaried incomes in the higher brackets. Some honestly believe that such limitations are in the nature of social reforms imposed under the guise of war needs. I disagree. Peace is peace, and war is war, and the conditions which make for the success or failure of business are not necessarily the same in wartime as in peacetime. Individual enterprise can and is helping to win the war, but the war has made and destroyed businesses without a nice regard in all cases to the enterprise of their owners. Enterprising men capable of earning the highest salaries have been drafted into the war, while fate, not judgment, has decreed that others remain at their civilian posts. When men of enterprise are fighting on the desert sands, men of enterprise at home should not object to sharing the burdens of war.

The so-called \$25,000 salary limitation actually affects only those having a salary in excess of \$67,200. The tax on that salary will reduce the net income to \$25,000. That salary limitation in 1942 would affect only 3000 persons. From the fury of the protests one would think it affected three million persons. Some of these persons assert that they object only because they fear this limitation will continue after the war. I, too, would object to its continuance. But the law upon which this action was based expires June 30, 1944. It can be continued only by affirmative action of the Congress. If a man fears the Congress, he fears the people.

Many of the 3000 persons affected by this limitation receive salaries from corporations having war contracts or corporations whose profits come from the inflated war incomes of the people. Such excessive salaries are responsible for the demands of many for increased wages and increased prices for commodities, which demands make it difficult to prevent inflation.

Twenty-four years ago we had another war. When our army came home broke and jobless and learned how their neighbors had profited, they angrily demanded that it should never happen again. Every man in public life, regardless of political affiliation, pledged that we would take the profits out of war. It has not been done. Some day another army will come marching home. There will be some without an arm, some without a leg and many without a job. In that hour I pity the man who profited while these men suffered. If we would preserve private enterprise, if we would preserve the profit system, we must now take the profits out of war.

There is a third and very important problem that we must bear in mind in organizing our civilian economy in war-time. That is the problem of the peace that follows war, the question of the effect of what we do during the war on our national well-being after the war. Do not misunderstand me. In a war for survival we cannot trifle with victory just to promote some desirable post-war objective. But it so happens, I think, that the most effective way of organizing our civilian economy to win the war, is not only the fairest way of organizing it to distribute equitably the burdens of war but is also the best way of organizing it to enable us to return with the least hardship to the paths of peace. What is thus doubly desirable is doubly imperative.

But if we allow ourselves to outbid and outsmart ^{each other} ourselves to get goods and services that a country engaged in total war cannot produce, prices will rise, wages will rise, and profits will rise, but we won't have more food to eat or clothing to wear or better houses to live in. The money we earn will buy less and savings of past years will be dissipated in a mad effort to get our fair share of the things we need in competition with those who happen to have more money than we have.

If we allowed ourselves to indulge in any such folly where would we be when the war comes to an end. With inflated prices for goods and services we could not successfully compete in the markets of the world. For a while we might keep busy making up some of the most urgent and acute war shortages. We might even have a short-lived post-war boom, but then prices would begin to decline, ^{and} wages would begin to fall; profits would begin to shrink, ^{and} factories would begin to close. ~~We~~ ^{we} would have ~~more~~ unemployment and poverty.

If anything like that happened, our people would not be ready to take the part which we are pledged to take to organize the world for peace. There could be no greater tragedy. After a while by drastic national action and radical social planning we would recover, but there would have passed the time when our leadership must be asserted if peace and order are to be established in a prostrate world. We the strongest and most powerful nation in the world must keep our own house in order. We must be in a position when the war is over to turn our energies, our productive resources to the arts of peace. We must show the way to a world of expanding freedom. We must show the way to a lasting peace.

November 17, 1942

My dear Mrs. Callaghan:

Mrs. Morgenthau and I were shocked to learn through the newspapers of your husband's death.

During the time that he was Aide to the President, I came to know him very well and held him in the highest esteem. Admiral Callaghan's death is a great loss to the United States Armed Forces.

Our deepest sympathy goes out to you at this time.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mrs. Mary T. Callaghan,
1090 61st Street,
Oakland, California.

AIR MAIL

*See memo 5.40
B. F. Sta*

11-17 - 42

Dear Fiorella:

I am enclosing Preference Rating Certificate (WPB-164544) covering your tabulating equipment requirements for accounting purposes in connection with the Victory Tax.

Kindest regards.

Sincerely,

Honorable Fiorella H. La Guardia,
Mayor of New York,
City Hall,
New York, N. Y.

1947

November 17, 1942

Dear Mr. Shepard:

Thank you for your letter of November 17 enclosing a letter from the Chief Justice to the Secretary of the Treasury with respect to the investment of the proposed endowment fund for the Gallery. I also want to acknowledge receipt of your letter of November 14 and its enclosures. The bill will be sent to Congress in the next day or so.

Sincerely yours,

(Signed) Huntington Cairns

Assistant General Counsel.

Mr. Donald D. Shepard
716 Jackson Place, N. W.
Washington, D. C.

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Donald D. Shepard
716 Jackson Place
Washington, D. C.

November 17, 1942

Dear Mr. Cairns:

Referring to our conversation with the Chief Justice this morning, I hand you herewith a letter addressed by him as Chairman of the Board of Trustees of the National Gallery of Art to the Secretary of the Treasury regarding the investment of the proposed endowment fund for the Gallery.

Thanking you again for your fine co-operation in this matter, I remain

Sincerely yours,

/s/ D. D. Shepard

Huntington Cairns, Esquire,
Assistant General Counsel,
Treasury Department,
Washington, D. C.

Enclosure.



NATIONAL GALLERY OF ART
SMITHSONIAN INSTITUTION
WASHINGTON, D. C.

November 17, 1942.

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

My dear Mr. Secretary:

In behalf of the Board of Trustees of the National Gallery of Art, of which as Chief Justice I am ex officio Chairman, I am writing to enlist the interest and support of the Treasury Department in the matter of a proposed endowment fund for the Gallery.

As you are aware, the Act of March 24, 1937 (50 Stat. 51, U.S.C. Title 20, Sections 71-75), creating the National Gallery of Art, authorizes the Board to accept gifts, bequests and devises of money, securities or other property, and to hold and administer the same for the benefit of the Gallery. Unless restricted by the terms of such gift, the Board is authorized to sell or exchange, and to invest and reinvest in such investments as it may determine, such properties as may be given for the benefit of the Gallery. In respect to all such trust funds, the Act vests in the Board the usual powers and obligations of a Trustee.

I am advised that a certain charitable organization has proposed to give to the National Gallery of Art a substantial fund, totaling \$5,000,000.00 in cash, to be held and administered by the Board in the establishment of an endowment fund for the benefit of the Gallery, the income from which, it will be specified, shall be used and applied for stated purposes of the Gallery other than those for which public funds are made available, as contemplated by the creating act. In connection with the proposed gift, the donor has requested that, if feasible, the Board effect an arrangement whereby it may deposit the principal of such fund in cash with the Treasury as a permanent loan to the United States, upon which the United States will pay interest of four per centum (4%) per annum, such income to be

subject to disbursement by the Board in promotion of the purposes of the endowment fund, and for the benefit of the National Gallery of Art.

It is apparent that the suggested arrangement is intended for the safeguarding of the investment of the proposed endowment fund, and to insure income therefrom in the future.

I understand that the Library of Congress Trust Fund Board is privileged, under Federal Statute, to deposit with the Treasurer of the United States as a permanent loan to the United States Treasury principal sums in cash up to \$5,000,000.00, upon which it is paid interest at the rate of four percentum per annum, to be disbursed for the purposes of the Library. Also, I understand that for many years the statutes have permitted the Smithsonian Institution to make deposits on loan with the Treasury of sums which, with the original bequests of James Smithson, shall not exceed \$1,000,000.00, at an interest rate of six percentum per annum, such income to be used for the purposes of the Institution. Similarly, it would be most desirable if the Treasury were authorized by statute to accept loans from the Board of Trustees of the National Gallery of Art and pay interest thereon for the use of an endowment fund of the Gallery.

It would seem to me that if the Board of Trustees were permitted to make loans to the Treasury of principal sums not to exceed \$5,000,000.00, at an interest rate of four percentum per annum, the income which would be assured to the Gallery would be sufficient to meet the basic needs for the endowment fund. It would be understood, of course, that should the Gallery be so fortunate as to receive other funds for endowment purposes, that the Board of Trustees would be responsible for their investment through the ordinary channels of investment.

As Chairman ex officio of the Finance Committee of the Board of Trustees of the National Gallery of Art, I am sure that you will appreciate the desirability of the Board

- 3 -

meavoring to make such an arrangement, and I trust that
our Department will look upon this matter with favor and
and such aid as it may in obtaining the necessary
legislation.

Sincerely yours,

Harlem F. Howe

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Donald D. Shepard
716 Jackson Place
Washington, D. C.

November 14, 1942.

Dear Mr. Cairns:

I enclose final draft of the form of Trust Indenture creating the Endowment Fund for the National Gallery of Art, a former draft of which you were kind enough to review and give me the benefit of your comments.

I am having this Indenture printed, and will send you a copy of the page-proof. I think it will be desirable to have quite a number of copies of the Indenture, as finally executed, printed for purposes of possible use of public spirited persons who may wish to contribute to the Endowment Fund of the Gallery, and transfer of any securities, of which the Endowment Fund may become possessed.

Also I enclose copy of letter from the Trustees to the Chief Justice, Chairman of the Board of the Gallery, making the offer of gift, as well as copy of the proposed draft of letter from the Chairman of the Board of the Gallery to the Secretary of the Treasury, containing the changes we agreed upon at our meeting of yesterday.

Trusting to see you on Tuesday, I remain,

Sincerely yours,

/S/ D. D. Shepard

Huntington Cairns, Esquire,
Assistant General Counsel,
Treasury Department,
Washington, D. C.

Enclosures

November 14, 1942.

Honorable Harlan F. Stone,
Chairman of the Board of Trustees
of the National Gallery of Art,
Washington, D. C.

Dear Mr. Chairman:

During the lifetime of the late Andrew W. Mellon, he expressed the intention that in addition to giving his collection of works of art and a building to house and exhibit these works of art and others contributed by public spirited citizens for the benefit of the Nation, he would create an Endowment Fund, the income from which could be used to pay the compensation of certain executive officers of the Gallery and for future art acquisitions, but not for the upkeep of the building and other administrative expenses and salaries, which he stipulated should be provided from appropriations to be made by the Congress. He fixed the amount of the proposed Endowment Fund at \$5,000,000.00. However, Mr. Mellon died in August, 1937, shortly after the beginning of the construction of a gallery building and the formal transfer and gift of his Collection to the Trustees of the Gallery, but before the carrying out of his plan for the creation of such an Endowment Fund. The Trustees of The A. W. Mellon Educational and Charitable Trust completed the construction of the Gallery building, which, as you know, was opened to the public on March 18, 1941, and it has been in operation under the administration of the Trustees of the National Gallery of Art since that date.

From the beginning of the Gallery project, the Trustees of this Trust have provided for the payment of the compensation of certain officers of the Gallery, which Mr. Mellon not only indicated should be paid from the trust funds but is also required under the Joint Resolution of Congress, approved March 24, 1937, creating the Gallery and

Honorable Harlan F. Stone - p. 2.

the By-Laws of its Board of Trustees; have given to the Gallery other works of art, and have provided funds for certain extraordinary expenses in connection with the operation and administration of the Gallery, as well as for improvements to the Gallery building, for which public funds have not been made available to the Trustees of the Gallery.

The Trustees of this Trust now desire to carry out the wishes of its founder to establish such an Endowment Fund for the Gallery. In effecting this program, we have had under consideration a plan for the creation of a trust under the administration of the Board of Trustees of the National Gallery of Art, to which would be given a sum of \$5,000,000.00, in cash. The proposed trust agreement would define the uses and purposes of such an Endowment Fund and provide for the administration and distribution thereof. The principal conditions as to the use of the Trust Fund would be that the fund shall be operated exclusively for the benefit of the Gallery, and shall not be expended by the Trustees for those purposes for which the faith of the United States has been pledged that public funds will be provided by the Congress. You may recall that the Act of Congress creating the Gallery pledged the faith of the United States to provide such funds as may be necessary for the upkeep of the Gallery and the administrative expenses and costs of operation thereof.

In the actual operation of the Gallery, its officers have found that in order to maintain the Gallery at a high standard, appropriate to its general purpose of being the art gallery of the Nation, it is not only desirable but necessary for the Trustees to be furnished with funds in addition to those ordinarily appropriated by the Congress, so that they may provide for the payment of certain extraordinary operating expenses, such as special exhibitions, lectures, music, publications and similar costs, funds for which purposes may not be made available to the Trustees by the Congress. Accordingly, we deem it desirable to enlarge upon the purposes as indicated by Mr. Mellon, for which such an Endowment Fund may be used, so as to provide that the income therefrom may be applied by the Trustees of the Gallery, in their discretion, for such expenditures, in addition to paying for the compensation of the executive officers of the Gallery and for art acquisitions.

In addition, the trust agreement would provide that the Trustees would not only be responsible for the administration of the fund, but they would also have the responsibility for the investment and reinvestment of the same. Necessarily, such duties under present world conditions, would place considerable responsibility on the members of the Board in that they would have to look to the investment and reinvestment of the Trust Fund so as to insure that the fund would produce sufficient income to meet the basic needs of the Gallery for the purposes for which the fund is to be established. Therefore, in connection with the establishment of the Endowment Fund, we consider it desirable and have to request that, if practicable, an arrangement be made by the Gallery, whereunder the Board of Trustees of the Gallery would be permitted to deposit the principal of the fund given as a permanent loan to the Treasury of the United States, at a fixed rate of interest of not less than four per centum per annum, such interest to be paid to the Board, and be subject to disbursement by it as income of the fund for the benefit of the Gallery. Such an arrangement, we conclude, would necessarily involve obtaining the approval of the Secretary of the Treasury and appropriate legislation.

Enclosed is copy of a draft of a Trust Indenture creating such Endowment Fund, setting forth the uses and purposes of the fund, the terms and conditions thereof and directions governing its operations. I would be pleased if you would review this draft of Trust Indenture, and to receive your advice as to whether or not you consider the gift would be acceptable to the Trustees of the Gallery under the general terms and conditions thereof, and in particular your conclusion as to the suggested loan of the principal amount of the gift to the United States Treasury at a fixed amount of interest. In this connection, we would also appreciate receiving your comments and recommendations as to any particular provision of the agreement. If you approve of the draft of the agreement as written, may I suggest that this offer of gift be conveyed to the members of the Executive Committee and the Finance Committee of the Board, so that they may make appropriate recommendations as regards thereto, for the consideration and action of the Board of Trustees at their next meeting.

Yours sincerely,

(Signed) David K. E. Bruce

Co-Trustee

Enclosure



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON*MA*

November 17, 1942

MEMORANDUM TO THE SECRETARY:

We concluded today the purchase of the refineries owned by the Douglas Oil Refinery Company which is located at Los Angeles, California.

The original price quoted was \$2,230,000. We purchased this plant for \$1,900,000, including four miles of pipeline and all spare parts, not included in the original offer, estimated to be worth \$55,000. Our final price also includes the removal of foundations and restoration of the ground to its original condition by the owner.

This refinery was purchased in lieu of the two Texas refineries originally contemplated.

Clifton E. Mack
Clifton E. Mack
Director of Procurement





TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

November 17, 1942

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

Mr. Brant Holme is now located at New York City as the Treasury representative with E. B. Badger & Sons Company, the engineer architects for the Russian refinery program.

In line with your suggestion that we locate a technical consultant to whom we could look in connection with this program, pointing out that possibly someone with the Petroleum Technology Faculty of Columbia University might be available, I now have a recommendation from Mr. Holme that two men be considered as consultants. He has recommended Dr. Jerome J. Morgan, Professor of Chemical Engineering at Columbia University and a member of the faculty of the School of Engineering with specialized knowledge of fuel combustion and fuel refining. He also recommends Dr. Benjamin T. Brooks who has a long record of practical experience in the petroleum field. Both are located at New York City and would be quickly accessible on recurring problems.

It is my thought that it would be well to appoint both of these men as consultants on a per diem basis of \$25 per day, plus expenses for such periodic consultations as the program may require, according to Mr. Holme's discretion.

You will notice from the attached statements concerning Dr. Morgan and Dr. Brooks, emphasis is placed upon the theoretical knowledge in the case of the former, and the practical experience in the case of the latter.

Do you approve of the appointment of both of these men as consultants on a per diem basis?

OK on both.
H.M.P.

Clifton E. Mack
Clifton E. Mack
Director of Procurement



MORGAN, Jerome John - Professor of Chemical Engineering
Columbia University
Home: 67 Salter Place
Maplewood, New Jersey
Office: Broadway at 119th Street
266 Chandler Laboratories
New York, New York

Since 1931 has taught the following Course at Columbia,
the details of which are copied from the catalogue of the
School of Engineering.

Chemical Engineering - Fuel technology II. Petroleum.
This course is designed to supplement Chemical Engineering
165 but may be taken separately. The course treats in
general of the importance, origin, and occurrence of fuels
and in particular of the winning, refining, and marketing
of petroleum and its products. It includes discussions of
the theories of heat transfer, of fractional distillation
and condensation, and of cracking of hydrocarbons in their
applications to refinery practice; petroleum and natural gas
as chemical raw materials; oil shales and other sources of
liquid fuels; and the utilization of liquid fuels.

Degrees: B.S., Pennsylvania State, 1905;
M.S., 1910; Pennsylvania State;
Ph.D., Columbia, 1919

Consultant for American Gasoline Association.

Wrote on Water Gas.

From the 1942-43 Edition of WHO'S WHO

BROOKS, Benjamin Talbott, chemist; b. Columbus, Ohio, 12/29/85; s. Nathaniel Wilson and Rae (Saunders) B.; Ohio State U., 1906; Ph. D., Gottingen U. 1912; m. Sarah Osgood, 1909; children - William Barker, Margaret Benjamin Talbott, Robert Osgood. Assistant chemist Bureau of Standards, 1906-7; research chemist Bureau of Science, P.I., 1907-11; fellow Mellon Institute, Pittsburgh, Pa., 1912-17; professor chemical engineering, University of Pittsburgh, 1913-17; chief chemist Commercial Research Co. of New York, 1917-18; consulting practice, 1918-19; chemical engineer, Mathieson Alkali Works, 1919-24; consulting chemist since 1924; petroleum consultant to Venezuela since 1940. Maj., Chemical Warfare Reserve, U.S. Army. Member board visitors Ohio State U., 1933. Member American Chem. Society (chairman, N. Y. Sect.) American Institute Chemical Engineers., Soc. Chemical Industry (London), Institute Petrol. Technology (London), Soc. Am. Mil. Engineers., Delta Upsilon, Phi Beta Kappa, Sigma Xi; fellow A. A. A. S., Chemical Soc., London. Clubs: Chemists' (New York); Chem. Industries Club, London. Author: Non-Benzenoid Hydrocarbons, 1922; Am. editor, The Science of Petroleum. Home: Old Greenwich, Connecticut. Office 114 East 32nd Street, New York, New York.

At present retained on problems periodically by

The Texas Company
Shell Oil Company
Standard Alcohol Company



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

November 17, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended November 14, 1942.

The War Production Board has issued instructions concerning the Controlled Materials Plan which is to be operative January 1, 1943, and we are now working out plans with Lend-Lease whereby the Procurement Division will determine bills of material by the conversion of their products in terms of tonnage of carbon and alloy steels, aluminum, and copper as is required under the plan. It will also be necessary for us to maintain control records according to the participating Lend-Lease governments in order that the requirements may be within the limits of allocated critical materials under the Controlled Materials Plan.



Clifton E. Mack
Clifton E. Mack
Director of Procurement

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF NOVEMBER 14, 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	\$2328.9 (2327.3)	\$1237.2 (1234.9)	\$758.5 (756.9)	\$56.9 (56.7)	\$3.7 (3.7)	\$272.6 (275.1)
Purchase Authoriza- tions (Requisitions)	\$1825.1 (1796.8)	\$1076.4 (1065.3)	\$687.6 (672.4)	\$40.1 (40.1)	-	\$ 21.0 (19.0)
Requisitions Cleared for Purchase	\$1759.1 (1735.3)	\$1069.4 (1053.6)	\$629.3 (622.9)	\$40.0 (40.0)	-	\$ 20.4 (18.8)
Obligations (Pur- chases)	\$1685.1 (1654.9)	\$1023.2 (1007.1)	\$602.3 (590.1)	\$39.8 (39.8)	\$2.8 (2.8)	\$ 17.0 (15.1)
*Deliveries to Foreign Governments at U. S. Ports	\$ 719.0 (703.0)	\$ 573.1 (561.1)	\$120.8 (117.0)	\$20.2 (20.2)	-	\$ 4.9 (4.7)

* Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of November 7, 1942.

Treasury Department 218
Division of Monetary Research

Date Nov. 17, 1942 19

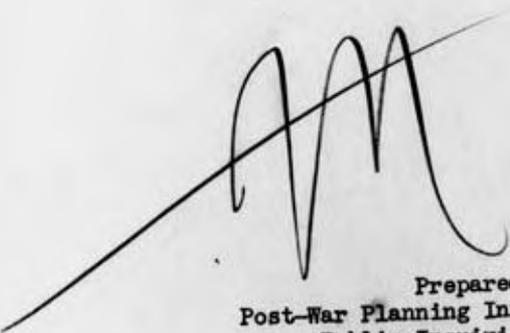
To: Secretary Morgenthau

You may be interested in
glancing at what the Treasury Depart-
ment is reported to be doing in the
field of post-war activities (see
last page).

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

POST-WAR PLANNING ACTIVITIES OF THE FEDERAL GOVERNMENT



Prepared by
Post-War Planning Information Section
Public Inquiries Division
Bureau of Special Operations
OFFICE OF WAR INFORMATION
November 1942

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DEPARTMENT OF AGRICULTURE

Claude A. Wickard, Secretary of Agriculture

The organizational unit concerned with post-war planning is the Interbureau Coordinating Committee on Post-War Planning. Raymond C. Smith, Bureau of Agricultural Economics, is chairman of the Committee and the members are:

Samuel B. Bledsoe, Office of the Secretary
 Joseph L. Orr, Agricultural Adjustment Administration
 Mordecai Ezekiel, Office of the Secretary
 C. C. Farrington, Commodity Credit Corporation
 Norman L. Gold, Surplus Marketing Administration
 Charles E. Kellogg, Bureau of Plant Industry
 M. L. Wilson, Extension Service
 Raymond E. Marsh, Forest Service
 David Meeker, Office of Agricultural War Relations
 John R. Mohler, Bureau of Animal Industry
 Melville Cohee, Soil Conservation Service
 O. E. Reed, Bureau of Dairy Industry
 Morse Salisbury, Office of Information
 Ralph R. Shaw, Library, Department of Agriculture
 Harry Slattey, Rural Electrification Administration
 Louise Stanley, Bureau of Home Economics
 Robert A. Walker, Office of Budget and Finance
 C. W. Warburton, Farm Credit Administration
 Ernest Wiecking, Office of Land Use Coordination
 Bonney Youngblood, Office of Experiment Stations
 James Maddox, Federal Security Agency
 Leroy K. Smith, Federal Deposit Insurance Corporation

The Committee was originally organized on May 31, 1941, under the title "Interbureau Coordinating Committee on Post-Defense Programs". It was organized pursuant to the instructions of the Secretary of Agriculture as set forth in the Secretary's Memorandum No. 913. In this Memorandum, Secretary Wickard said in part: "In some quarters there is a fear that a severe economic depression is inevitable when the defense effort ceases. The Department of Agriculture does not share this pessimism. We believe the country need never go through a major economic

depression again. We visualize a postwar world in which we will make full use of our man power and our resources for the benefit of the American people. We believe it is possible to maintain a national income greater than ever before in the history of the nation.

"It is in this setting that the Department should make its contribution in planning for the kind of world we wish to live in when the peace comes. If we plan soundly and courageously, if we enlist the help of the greatest possible number of people in making these plans, we can build an economy which will offer everybody a fair chance for work and security. Planning for this kind of future is part of the defense effort itself. . ."

The Interbureau Committee has no separate appropriation or allotment and operates by requesting assistance from the regular bureaus and offices of the Department of Agriculture.

Through the Committee's work, the Department is giving attention to planning to meet problems which will probably be confronting agriculture immediately after the war and also in the longer post-war period. Consideration is being given to programs for physical resources conservation and development, production and marketing, agricultural-industrial relations, rural housing, health, rural electrification, and other problems. The members of the Interbureau Committee work with the chairmen of the nine regional post-war planning committees. The nine regions and the respective regional chairmen are as follows:

Northeast Region	W. S. Middaugh, Regional Bureau of Agricultural Economics Representative
Appalachian Region	Richard E. McArdle, Director, Appala- chian Forest Service
Southeast Region	Thomas S. Buis, Regional Conservator, Soil Conservation Service
Midwest Region	Gladwin E. Young, Regional Bureau of Agricultural Economics Representative
Great Plains Region	Elmer A. Starch, Regional Coordinator
South Central Region	E. R. Henson, Regional Coordinator
Southwest Intermountain Region	Maurice M. Kelso, Vice Chairman
California-Nevada Region	Laurence I. Hewes, Regional Director, Farm Security Administration
Pacific Northwest Region	Lyle F. Watts, Regional Forester, Forest Service

The Interbureau Committee on Post-War Planning has been actively cooperating with the National Resources Planning Board and other Federal agencies concerned with post-war planning.

The Committee prepares pamphlets from time to time. One of these, a general introduction, and two statements on agricultural-industrial relations have been released for public distribution.

BOARD OF ECONOMIC WARFARE

Milo Perkins, Executive Director

The Reconstruction Section, Louis Bean, Chief, is concerned with post-war planning for the Board of Economic Warfare.

The Board is primarily a war agency and is chiefly occupied at present with current war problems. However, the nature of many of the functions of the Board is such that they must be planned on a long-term basis, continuing beyond the war period.

Executive Order 8839 of July 30, 1941, which established the Board, states that it shall be one of the Board's duties to "make investigations and advise the President on the relationship of economic defense...measures to post-war economic reconstruction and on the steps to be taken to protect the trade position of the United States and to expedite the establishment of sound, peacetime international economic relationships".

The Board's work is primarily in the international field, and is carried on with the cooperation of the Department of State, the Federal Reserve Board, the Bureau of Foreign and Domestic Commerce, the Treasury, Lend-Lease, the War Production Board, and others working in related fields.

Publications: None.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mariner S. Eccles, Chairman

The organizational unit concerned with post-war planning is the Division of Research and Statistics of the Board, in which a post-war planning unit is operating under the direction of Alvin H. Hansen, Special Economic Advisor to the Board of Governors.

The work of this unit was started in the summer of 1940.

The work in post-war planning was undertaken as a part of the general functions of the Division of Research and Statistics, which is charged with the study and analysis of substantially all matters relating to the stability of the economy in general and to the functioning of the financial system in particular.

The work is financed by the Federal Reserve System in the usual way (without appropriation of public funds) as a part of the recognized work of the Division of Research and Statistics.

The particular phases of post-war planning undertaken thus far are:

1. Fiscal and monetary policies;
2. Overall surveys of public investment programs, domestic and international;
3. Problems of Federal-State-local taxation;
4. Inter-American and American-British economic collaboration.

The staff members of the Division of Research and Statistics principally concerned with post-war planning are Alvin H. Hansen, Guy Greer, and Harvey S. Perloff. Dr. Hansen, who is in charge of all the work, is devoting particular attention to fiscal and monetary policies, inter-American and American-British economic and trade relations, investment programs of a developmental character, both domestic and international, and problems of taxation. Guy Greer is working principally in the field of urban redevelopment and housing, but is actively participating also in studies of fiscal policies and international developmental programs. Harvey S. Perloff

is engaged principally in studies of Federal-State-local taxation, of river valley and regional developmental programs, and of transportation. Certain preliminary research programs have been completed, among them studies of urban redevelopment and housing, overall fiscal policies, American-British and Canadian-American economic and trade relations, and river valley development. On the whole, these programs are of a continuing nature and are still in process. Studies will also be made of other fields of public investment including international development programs.

The Board cooperates with other agencies working on similar or complementary programs by means of informal consultation and collaboration. Such cooperation is particularly close with such agencies as the National Resources Planning Board, the Bureau of the Budget, the Board of Economic Warfare, the Bureau of Labor Statistics, the National Housing Agency, the Department of Agriculture, the Treasury, and the Department of Commerce. They are also working in close cooperation with a number of non-governmental agencies such as the United States Chamber of Commerce, the National Association of Real Estate Boards, the National Planning Association, and various groups and individuals, notably David C. Prince of the General Electric Company. Dr. Hansen is also an informal consultant of the National Resources Planning Board, as well as being the American Chairman of the Joint Economic Committees of Canada and the United States.

No publications on post-war planning have been issued by the Board of Governors of the Federal Reserve System; however, certain results of the Board's post-war planning work have been made available through other publications as follows: "After the War — Full Employment", published by the National Resources Planning Board; "Britain's Trade in the Post-War World" and "Urban Redevelopment and Housing" which are Planning Pamphlets Numbers 9 and 10, respectively, of the National Planning Association; "The Federal Debt and the Future" by Alvin H. Hansen and Guy Greer, Harper's magazine, April 1942; "The 1942 Economic Tasks of the Post-War World" by Alvin H. Hansen and Charles P. Kindleberger in Foreign Affairs, April 1942; "We Can Pay the War Bill" by Alvin H. Hansen, Atlantic Monthly, October 1942, and "Toward Full Utilization of Our Resources", Fortune, November 1942, by Alvin H. Hansen and Guy Greer.

DEPARTMENT OF COMMERCE

Jesse Jones, Secretary of Commerce

Two units of the Bureau of Foreign and Domestic Commerce are engaged in post-war planning: The International Economics Unit, Amos E. Taylor, Chief, and the National Economics Unit, S. Morris Livingston, Chief. These are both regular units of the Bureau and were not established for the purposes of post-war planning; however, the nature of their work is such that it involves the consideration of post-war problems.

The International Economics Unit is part of a division largely devoted to servicing the Board of Economic Warfare, and it naturally follows that consideration of the broader problems of international economic relations in war-time requires the projection of certain relevant studies into the post-war period. Problems of broad international scope fall within the functions of this Unit, as contrasted with the more specialized problems covered by the geographical units of the Division of International Economy. No individuals are specifically assigned to post-war planning; various members of the staff have assignments from time to time which fall into that category. One of the primary studies is directed chiefly toward an evaluation of those factors inherent in the United States economy which tend to influence the country's international and financial position and are therefore certain to be of great significance after the war. Two others are designed to provide an appraisal of the economic and financial rehabilitation efforts during the 1920's by the League of Nations and by other international bodies. The fields of operation of bilateral and multilateral international boards and commissions during the present war and the possible subsequent usefulness of such types of international collaboration also constitute the basis of a special study. On the whole, it may be said that the Unit's studies are concerned primarily with laying the groundwork for post-war economic reconstruction and are not to be viewed as blueprints of a post-war economic system.

The chief function of the National Economics Unit is to work on domestic economic problems. Such work at the present time almost invariably raises post-war questions. Furthermore,

the Unit is making every effort to stimulate planning by business and industry, in cooperation with the Department of Commerce, looking toward the maintenance of a high level of productive employment after the war. One phase of the Unit's work in this connection is the analysis of post-war markets for goods and services, indicating to what extent these markets will be expanded above the pre-war level if we are successful in achieving maximum employment after the war. This study on a national level serves as a background for more detailed analyses of the markets for the products of particular companies, industries, or communities. The Unit expects to cooperate in such analyses, although the primary responsibility must necessarily fall on these companies, industries, and communities. Another phase of the work is the relationship of potential post-war markets to the potential output of goods with maximum employment, thus indicating the extent to which private enterprise can contribute toward maximum employment and the varying extent to which reliance must be placed in the several post-war "periods" on public works programs or other stimuli. The relationship between the volume of savings to be expected with a high level of income and the volume of investment necessary to reach a comparable level of production and consumption is also being considered.

The Unit is also concerned with the broad economics of the post-war situation and the difficulties which will have to be overcome if private enterprise is to make its full contribution, such as those arising from the need for speedy reconversion to peace-time production and the maintenance of consumer purchasing power during the transition. Over the longer range, there are "environmental" problems having to do with the conditions under which business operates and how these might be changed to encourage the production of more goods for more people at less cost.

As stated above, the work in post-war planning undertaken by the International Economics Unit is essentially a part of the general program which the Bureau of Foreign and Domestic Commerce carries on in collaboration with the Board of Economic Warfare. The National Economics Unit is giving considerable aid to business executives in their long-range planning both through individual consultations and through the recently organized Committee for Economic Development. The purpose of the latter Committee is "to develop means whereby industry and commerce will be in a position in the post-war period to make their full contribution to high and secure standards of living for people in all walks of life through maximum employment and high productivity in our domestic economy". The Unit is in turn relying upon business executives' knowledge of new products, new materials, new production techniques,

possible changes in price policy or distribution methods, and all of the internal industrial developments which will have an important bearing on post-war markets. In addition to its work with private enterprise, the Unit is cooperating with other agencies in the formulation of Government policies relating to post-war conditions. Other units in the Bureau, particularly the National Income Unit, are cooperating through developing data which, while not primarily intended for post-war planning, are highly useful in this connection.

Publications:

Memoranda and Articles

Bissell, Richard M., Jr., "The Anatomy of Public Spending", Fortune, Vol. 25, Nos. 5 & 6, May & June, 1942.

The May article discusses implications of public spending as a permanent peacetime policy and concludes that the policy appropriate to the years of the great depression may by no means be relevant to the situation at the conclusion of the war. The June article outlines possibilities for postwar private investment and consumption expenditures. Suggests possibility that immediate post-war problem may not be depression but boom.

McCracken, Paul W., and Roose, Kenneth D., "A Technique for Analysis of Private Investment Expenditures", July 15, 1942. Isolates investment which is an initiator of changes in income from investment which is derivative from income.

_____ : "The Table on Investment Expenditures for Selected Years, 1929-1940, and Estimates for a Postwar Year". Methods developed in preceding releases on private investment expenditures used to present estimates of investment expenditures in a postwar year.

Addresses

Ugrien, Arthur R., "Discussion of Prospects for and Problems of Business in the Postwar Period". Presented at the New Hampshire Bank Management Conference in Hanover, New Hampshire, June 5, 1942. Reprinted with a few minor changes in the Domestic Commerce Weekly, July 9, 1942. Analyzes favorable and unfavorable factors affecting business for the postwar period.

_____ : "Postwar Planning for American Industry". Paper delivered at the Midyear Convention of the American Marketing Association, Ann Arbor, Michigan, June 13, 1942. Discusses factors which will determine whether private business activity will be sufficient to sustain the high level of national income flowing at the end of the war.

_____ : "Raw Materials and Inter-American Solidarity". Addresses delivered at the Fifth Oklahoma International Relations Conference, Norman, Oklahoma, June 18, 1942. Reprinted in Foreign Commerce Weekly, July 4, 1942. Concludes that world-trade leadership on the part of the United States promises to promote a more prosperous world after termination of hostilities if vigorous measures are taken to balance our own national "production-consumption budget" at a high level.

_____ : "A National Program for Private Business for the Postwar Years". Address presented at the Annual Meeting of the Producers' Council, Detroit, Michigan, June 23, 1942. Reprints available from the Producers' Council, Inc., 815 15th Street, N.W., Washington, D. C. Discusses opportunity and obligation of business to develop a postwar program to take the place of war production. Summarizes possible measures for assuring the maintenance by business of a high level of activity in the postwar period.

Livingston, S. Morris, "The Postwar Construction Market", an address presented at the Annual Meeting of the Producers' Council, Detroit, Michigan, June 23, 1942. Reprints available from the Producers' Council, Inc., 815 15th Street, N.W., Washington, D. C. Analyzes the major contribution which the construction industry can make to the maintenance of full employment at high income levels at the conclusion of the war.

_____ : "The Building Construction Industry and Our Postwar National Economy", an address presented before the Chicago Building Congress, Chicago, Illinois, October 22, 1942. Emphasizes the importance of making preliminary plans now to meet post-war problems; discusses the probable post-war housing market.

OFFICE OF COORDINATOR OF INTER-AMERICAN AFFAIRS

Nelson A. Rockefeller, Coordinator

This Office was established by Executive Order No. 8840, July 30, 1941. The Office is not primarily engaged in post-war planning, but because of the importance of post-war planning in the Government to the program of the Office, its personnel are constantly in touch with the work being done in this field.

One of the designated functions of the Office is "to formulate, recommend and execute programs in the commercial and economic fields which, by effective use of governmental and private facilities, will further the commercial well-being of the Western Hemisphere". Such programs are necessarily of a continuing nature and carry over into the post-war period. John E. Lockwood, General Counsel, as director of the division responsible for research, reports, analysis, and reviews, is the officer in charge of consideration of post-war aspects of the program. The studies and activities concerning post-war problems that are engaged in by the Office are not considered as separate projects but are interwoven as an integral part of the general affirmative program of the Office. Current studies with respect to Latin American countries include such questions as their post-war position in world trade, their internal economic reorganization and industrial development as affected by the war, and the development of their health, education, immigration, and other welfare programs.

The Office of the Coordinator of Inter-American Affairs collaborates with and utilizes the facilities of all existing departments and agencies which perform functions and activities affecting inter-American cultural and commercial problems.

Publications: None.

FEDERAL SECURITY AGENCY

Paul V. McNutt, Administrator

The post-war planning work of the Federal Security Agency is under the direction of the Program Planning Committee, of which T. J. Woolter, Jr., Director of Research, is Chairman. Other members of the Committee are George E. Bigge, Social Security Board; Bess Goodykoontz, Office of Education; Aubrey Williams, National Youth Administration; G. St. J. Perrott, National Institute of Health; Charles Taylor, Civilian Conservation Corps; Mark A. McGloskey, Defense Health and Welfare Service; and M. L. Wilson, Assistant Director of Defense Health and Welfare in charge of nutrition. There are affiliated planning committees within the various constituent organizations of the Agency.

The Program Planning Committee was organized in July 1941 at the direction of the Federal Security Administrator.

The work of the Program Planning Committee involves the consideration of problems of social security, youth, health, education, nutrition, and recreation.

Staff assignments in the constituent organizations are made in accordance with the projects undertaken. Post-war researches and programs are not necessarily segregated from current planning. However, plans are being made for a number of programs appropriate to the post-war period which should be initiated at that time if not previously put into effect. These programs include the following:

The amendments to the Social Security Act already recommended by the President

The continuation in the demobilization period of a considerable part of the activity of the United States Employment Service

The expansion and extension of grants-in-aid programs operating under the various units of the Agency

Revision of the rural hospital plan in terms of post-war needs

The program for prevention of stream pollution and the proposal of sanitary engineering work prepared in cooperation with the National Resources Planning Board

The development as a public health program of former WPA projects of mine sealing and malaria control

Organization of a program of health education

Integration of a nationalized school building program

Promotion of education for special groups

A special program worked out in collaboration with the National Resources Planning Board and other agencies working toward educational opportunity for men demobilized from the armed services and war industries

Expansion of programs of physical and vocational rehabilitation for disabled veterans and war workers

Continuation of a recreation program after the war

State-wide planning of library facilities

The above listed projects are in various stages of completion; some have been actually formulated into proposed legislation and others are still in the preliminary or developmental stage.

The Committee is cooperating with the National Resources Planning Board, the Selective Service System, and other agencies concerned with or interested in the programs mentioned above.

Publications: "Planning Schools for Tomorrow", Office of Education (in preparation).

FEDERAL WORKS AGENCY

Maj. General Philip B. Fleming, U.S.A., Administrator

Two principal types of activity have characterized the post-war planning work in the Federal Works Agency to date. These include long-range public works programming, and plans currently under way for post-war highway development.

In the spring of 1941 a project known as the Public Work Reserve was set up in the Work Projects Administration under the joint sponsorship of the Federal Works Agency and the National Resources Planning Board. Sponsorship was withdrawn in March, 1942, and as of April 1 the project was taken over as an administrative function of the Federal Works Agency under the name of the Local Public Works Programming Office. However, there was no change in the essential function of the office, which was to assist local communities in the preparation of six-year programs of essential public works to be undertaken after the war. Studies were made in cooperation with State, county and city officials of community needs and of community resources out of which construction could be financed. At the peak of operations some 600 persons were employed in the project, and 24 States and several hundred cities, towns, counties and other divisions of local government were cooperating.

Funds for this activity were discontinued in July, 1942, and, accordingly, the work of the Local Public Works Programming Office was terminated as of July 20, leaving most of the local six-year programs uncompleted. Apparently it will not be possible for the Federal Works Agency to resume the work until its authority to do so has been clearly expressed. At the direction of the President, the Agency has in preparation the draft of suggested legislation intended to effectuate this purpose.

The Office of the General Counsel has in preparation a study entitled "A Comprehensive Program of Public Works to Facilitate War-to-Peace Conversion and Eminent Domain in Connection Therewith, Including Marginal Taking", which should soon be available in mimeographed form. This study also contemplates legislation in the special field described by the title.

DEPARTMENT OF LABOR

Frances Perkins, Secretary of Labor

(Information on the activities of the Division of Post-War Labor Problems, Department of Labor, was not received in time for publication. This report will be added to the directory as soon as possible.)

MARITIME COMMISSION

Rear Admiral Emory S. Land, Chairman

The Merchant Marine Act of 1936 provided for fostering the development and encouraging the maintenance of a United States merchant marine "(a) sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times, (b) capable of serving as a naval and military auxiliary in time of war or national emergency, (c) owned and operated under the United States flag by citizens of the United States insofar as may be practicable, and (d) composed of the best-equipped, safest, and most suitable types of vessels, constructed in the United States and manned with a trained and efficient citizen personnel." Responsibility for carrying out this policy as stated in the Act rests with the Maritime Commission. The Commission is primarily occupied at present in working with the War Shipping Administration on the war-time merchant marine program, but many phases of this program have important post-war implications.

The studies and projects concerning post-war planning in the Maritime Commission are generally concentrated in the Division of Economics and Statistics, of which Henry L. Deimel, Jr., is Director. The program of the Division at present consists primarily of making preliminary analyses and outlining the scope of the problems to be met after the war. Inasmuch as shipping is a broad subject, involving both domestic and international considerations, the background work now being done must include a wide range of subjects, such as domestic employment in shipyards, employment aboard ships, coast-wise traffic and foreign trade.

In the domestic field the Commission is considering the problems of private shipping companies. The operating differential subsidy contracts with these companies have been suspended during the war due to the general requisition of vessels and their operation under the War Shipping Administration. The Division of Economics and Statistics is giving attention to the post-war results of present developments affecting these companies. Consideration is also being given to the post-war implications of present trends in ship-building.

In the international field the Commission is considering trends in the shipping situation as a whole, post-war economic and commercial conditions which will affect essential trade routes, the status and composition of merchant fleets of the world, and probable opportunities for employing American ships in peace-time. The Commission is carefully observing what other countries, particularly Allied and neutral countries, are doing with respect to their merchant marines. For example, the British policy involves the sale of war-built ships to private operators in compensation for their losses and for post-war use, and the similar transfer of such ships to their Allies.

The Maritime Commission's post-war plans for shipping are closely connected with those of related Government agencies. The Commission is also giving consideration to the probable influence on water transportation of developments in air transportation, both passenger and cargo, and the fields in which each is likely to be most efficient in terms of types of cargo, geographical considerations, etc., and is maintaining informal contact with the Civil Aeronautics Administration in this connection.

Over the last twenty years the Maritime Commission and the Shipping Board which preceded it have published statistical reports of United States ocean commerce and shipping. Many of these reports are now out of print. They are now being reviewed with a view to the re-issue of summary statistics covering pre-war years, which will be useful in connection with post-war studies.

NATIONAL HOUSING AGENCY

John B. Blandford, Jr., Administrator

The National Housing Agency was established by Executive Order in February 1942, bringing into one agency the Office of the Administrator, the Federal Home Loan Bank Administration, the Federal Housing Administration, and the Federal Public Housing Authority. While its planning activities are not primarily related to the post-war period in so far as housing and related facilities are concerned, and such development is extremely important for post-war purposes.

Office of the Administrator

In the Office of the Administrator, urban development planning is studied in the Division of Urban Studies, the Technical Division, and the Research and Statistics Division, which are established by the Administrator under the authority of the Executive Order.

Outlines for study of post-war housing programs have been prepared, but no specific programs have as yet been completed. One of the objectives is the development of housing programs by agencies of local government.

The Office of the Administrator is cooperating with other Federal agencies such as the National Resources Planning Board, the Federal Works Agency, and the Federal Reserve Board, as well as with the constituent organizations of the National Housing Agency.

Federal Public Housing Authority

The Federal Public Housing Authority was established by Executive Order as one of the three constituent units of the National Housing Agency. The FPHA is responsible for the administration of functions and duties with respect to public housing formerly vested in various Federal agencies, including the United States Housing Authority which was created as a corporation of perpetual duration to assist local public housing agencies in providing decent, safe and sanitary dwellings for families who cannot be adequately housed by private enterprise. While the FPHA was not established to undertake post-war planning, it is now administering the Federally assisted long-term public housing program, and thus is concerned with post-war planning.

The officers primarily engaged in this work are Warren Jay Vinton, Chief Economist, and Lawrence N. Bloomberg, Associate Chief Economist.

• war period, the Agency has responsibility for general urban develop.

The FFHA cooperates in the post-war planning studies of the Office of the Administrator and other constituent agencies of the NHA, the Bureau of Labor Statistics, the National Resources Planning Board, and other Governmental agencies.

Federal Housing Administration

In its housing operations the Federal Housing Administration recognizes the necessity of studying the problem of urban redevelopment. In such studies it is necessary to take into consideration the fact that execution of any plans or programs for large-scale rebuilding of cities will have to be postponed until after the war; consequently the post-war planning the FHA is doing is essentially a part of its regular planning and research work. FHA is concerned with the maintenance of a sound home mortgage market and the improvement of housing standards. The regular operations of its underwriting, technical, research and statistics divisions, and such special studies as are undertaken by planning experts on its staff, are directed towards this end.

The chief administrative officer responsible for post-war planning is Earle S. Draper, Deputy Commissioner, and the staff working full or part time on post-war problems includes Frederick Bigger, City Planner; Paul Oppermann, City Planner; Herbert S. Colton, Attorney; and William K. Wittausch, Housing Economist, with occasional assistance from members of divisions previously mentioned.

Means for implementing plans are being studied to arrive at methods of operation which will adapt FHA's mortgage insurance activities to the work of the NHA in post-war activity.

As a constituent agency of the NHA, the FHA has cooperated with the Office of the Administrator, as well as other constituent agencies, and has taken part in special committee activities which included staff members of the National Resources Planning Board and the Federal Reserve Board.

Federal Home Loan Bank Administration

In keeping with the requirements of the several programs in which they are engaged, the Federal Home Loan Bank Administration and its component agencies, the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation, and the Home Owners Loan Corporation, maintain a continuing study of conditions in the fields of thrift and home mortgage finance. Increasing attention is being given

to the problems and opportunities of the post-war period, and of the contribution the Administration and its agencies and associated savings and loan associations can make to the post-war economy. No special unit has been organized for this purpose, nor have any special projects of a research or planning character been undertaken. The consideration of post-war problems, programs, and policies has thus far been carried on by the regular staff as a part of its normal operating functions.

Publications

The Division of Urban Studies of the Office of the Administrator has published "A Bibliography on Post-War Housing and Urban Development" (Bulletin No. 4), September 1, 1942. Abstracts have been made of the more recent material.

"A Handbook on Urban Redevelopment for Cities in the United States" was published by the Federal Housing Administration in November 1941.

NATIONAL RESOURCES PLANNING BOARD

Frederic A. Delano, Chairman
Charles E. Merriam
George F. Yantis
Charles W. Eliot, Director

The post-war planning work of the National Resources Planning Board is the concern of the whole staff of the organization. The Post-War Agenda Section in the Director's Office acts as a central service agency for the staff and cooperating agencies on post-war planning. The Staff members particularly concerned with direction of the post-war aspects of the Board's program are Mr. Eliot and the Assistant Directors, Thomas C. Blaisdell, Jr., Frank W. Herring and Ralph J. Watkins, and Luther Gulick, Consultant.

The legal foundation for the work of the National Resources Planning Board is in the Federal Employment Stabilization Act of 1951. This Act gives to the Board the responsibility to advise the President from time to time about the trend of employment and the "existence or approach of periods of business depreciation and unemployment". The Act also states that it is the policy of Congress "to arrange the construction of public works so far as practicable in such a manner as will assist in the stabilization of industry and employment through the proper timing of such construction, and to further this objective there shall be advanced planning, including preparation of detailed construction plans of public work by the construction agencies and the Board". On the basis of this authorization, and by reason of its continual consideration of the long-term aspects of the utilization of national resources, the Board from the beginning of the defense emergency gave attention to the problems that will follow the completion of the war program. It organized a series of conferences of the administrative heads of Federal agencies concerned with such problems. In November 1940 the Board was requested by the President to undertake a study of what was then called post-defense planning. In a memorandum to the Board, dated January 4, 1941, the President said: "I am glad to know that the Board is proceeding with the development of plans and proposals for the post-defense period. These plans will, of course, involve many Federal agencies and cooperation with State and local governments and private citizens, and I hope all executive agencies of the Government will assist you in correlating proposals for my consideration".

The Board's role as a central clearing house for planning necessarily gives it a very broad interest, and its studies cover practically all fields. Through a series of conferences with Federal

officials, state and local planning agencies, industrialists, labor leaders, and professional groups, and with the help of special consultants, various aspects of the problem are being explored, and specific projects, committees, and studies have been set up. A Post-War Agenda has been prepared to relate the work of public and private organizations in planning for post-war readjustments. There is work under way involving cooperative relations with Federal, regional, state, local, and private agencies in the fields of fiscal policy, science and research, employment and social security, health and education, urban redevelopment, energy resources, industrial location, transportation, land and water resources. A program of Federal works projects is made jointly with the Bureau of the Budget, and assistance given to states and municipalities in the preparation of a shelf of non-Federal works suitable for use in the immediate post-war period. The work of the Committees on Transportation, Land, Water, Energy Resources, Science and Long-Range Work and Relief Policies is related closely to the post-war planning activities of Federal departments whose representatives are members of the Committees. Through its regional offices the Board is initiating a series of projects to prepare, with the assistance of local, state and Federal field agencies, post-war plans for the conversion to peace-time activities of selected areas throughout the country.

In addition to these cooperative activities, many sections of the Board are carrying on specific post-war studies within the organization. Examples of current studies are: the study of War-Time Planning for Continuing Full Employment, an analysis of consumer demands in terms of a post-war economy of high national income, basing its estimates on probable post-war economic factors, and suggesting policies necessary to produce full employment at a high income level; study of problems of the post-war adjustment of industry, including possibilities of conversion to peacetime production of specific war plants; and studies by the Urban Section dealing with urban planning procedures, with new forms of government organization for metropolitan areas, and with taxation and revenue in cities.

The Board's publications include a pamphlet series of which five titles, "After Defense--What?", "After the War--Full Employment", "Better Cities", "The Role of the Housebuilding Industry", and "Post-War Planning" together with their annual report, "National Resources Development, 1942" are now available. Other pamphlets and publications are in preparation.

SELECTIVE SERVICE SYSTEM

Major General Lewis B. Hershey, U. S. A., Director

The organizational unit primarily concerned with post-war planning is the Reemployment Division, of which Colonel Lewis Sanders, U. S. A., is Chief.

Authorization for the work of this Division is contained in Section 8 of the Selective Training and Service Act of 1940, approved September 16, 1940.

The Division was informally established in October 1940 and formally organized about December 1, 1940.

The work of this Division includes both current and post-war problems. It is of course primarily a war agency, but its function is continuing and will extend into the peace period. The Division's programs deal principally with ascertaining and recording the occupational and educational background and experience of the men in the armed services, to which are added their military records. The Division is also responsible for setting up agencies throughout the country to handle the cases of these men as they arise. The principal objectives of the Division are to assure the return of men to former jobs or to secure employment for them before the date of their discharge from the Armed Forces. This will involve, among other things, planning for demobilization in terms of potential employment in certain locations and at certain times. The Division will operate under a decentralized system through the medium of local voluntary reemployment committees affiliated with each local Selective Service Board. It will be the function of these committees to make contact with the service men assigned to them and give them a personal representative with whom they can take up their employment problems; this will serve both to decentralize and distribute the work and to improve the morale of the soldier and his family by making them feel that there is a definite person interested in securing employment for each soldier, in place of the feeling that the man is merely a serial number in a vast card index.

Clearing House Committees are also being established at National, State and town levels. These Committees are made up of

representatives of all important civic organizations, for the purpose of coordinating their activities and through them placing the entire community behind those problems of reemployment of returned members of the Armed Forces which are difficult of adjustment through ordinary channels, or for men for whom jobs cannot be found through the U. S. Employment Service.

One of the functions of the Division is to act as a coordinating and liaison agency between other Government departments and the Armed Forces for the procurement of data required by these Departments concerning men in the service, such as that required by the Social Security Board in order to freeze unemployment benefits. The purpose of this is to minimize interference to the work of the Armed Forces by having a single agency for requesting data, a single point for securing it and, as far as possible, all recorded on a single form. The Division has active coordination with the following agencies: United States Employment Service; Veterans Administration; War Department; Surgeon General's Office, War Department; Navy Department; Surgeon General's Division, Navy Department; Department of Agriculture; Bureau of Labor Statistics, Department of Labor; Bureau of the Census; War Manpower Commission; American Red Cross; National Roster of Scientific and Specialized Personnel. Activities are carried on through the regular operating officials of all of the above mentioned agencies.

Publications: None.

DEPARTMENT OF STATE

Cordell Hull, Secretary of State

Several divisions of the Department of State are concerned with post-war planning, in particular the Division of Special Research and the Office of the Geographer.

The Division of Special Research, of which Leo Pasvolksy is Chief, is making studies in the field of international relations including the economic, political and social trends to be taken into account in considering the problems of the peace. This Division also serves as coordinating office for the post-war planning work done by various other divisions and committees within the Department.

The Office of the Geographer, under S. W. Boggs, Geographer of the Department, includes among its activities the preparation of a series of world maps, supplemented by continent maps in some cases, designed to visualize and clarify problems of international relationships. The principal phases of the work which are related to post-war planning are geographical research, by areas and subject, and the preparation of world maps to include population distribution and total population, and by languages and religions, transportation and communication costs and speeds, agriculture, minerals and mining, inanimate energy, and political geography.

The Division of Special Research cooperates with other Federal agencies working in the field of international relations, such as the Board of Economic Warfare, the Coordinator of Inter-American Affairs, the Treasury Department, and others. The Office of the Geographer works with appropriate agencies in the preparation of maps, for example, the Departments of Agriculture and Commerce, and the Bureau of Mines.

Many statements by officials of the Department dealing with post-war planning have been published in the Department of State Bulletin, among them the following:

"Business Works To Win The War", address by Assistant Secretary Berle before the National Dry Goods Association, New York City, January 15, 1942 — Bulletin, January 17, 1942

"The Problem of Economic Peace After the War", address by Mr. Leo Pasvolksy before the Federal Council of the Churches of Christ in America, Delaware, Ohio, March 4, 1942 — Bulletin, March 7, 1942

Radio Address by Assistant Secretary Berle in Commemoration of the Second Anniversary of the Invasion of the Netherlands, Belgium and Luxembourg, broadcast from New York City, May 10, 1942 — Bulletin, May 16, 1942

"Why Are We Fighting & For What", address by Mr. Stanley K. Hornbeck before the International Relations Club, University of North Carolina, Chapel Hill, May 21, 1942 — Bulletin, May 23, 1942

Memorial Day address of Under Secretary Welles at Arlington National Amphitheater, May 30, 1942 — Bulletin, May 30, 1942

"Our Education, This War & Essentials of Peace", commencement address by Mr. Stanley K. Hornbeck at Utah State Agricultural College, Logan, June 1, 1942 — Bulletin, June 6, 1942

"Building In War For Peace", address by Assistant Secretary Acheson before the Institute of Public Affairs, University of Virginia, July 6, 1942 — Bulletin, July 11, 1942

"The War and Human Freedom", address by Secretary Hull, broadcast over all networks, July 23, 1942 — Bulletin, July 25, 1942

Address by Under Secretary Welles before World Trade Dinner, October 8, 1942 — Bulletin, October 10, 1942

"British-American Trade Relations After the War", address by Mr. Harry C. Hawkins before 29th National Foreign Trade Convention, October 9, 1942 — Bulletin, October 10, 1942

"The Realist Base of American Foreign Policy", address by Assistant Secretary Berle before Alabama State Chamber of Commerce, October 15, 1942 — Bulletin, October 17, 1942

TREASURY DEPARTMENT

Henry A. Morgenthau, Jr., Secretary of the Treasury

Three divisions of the Treasury Department are interested in post-war planning — the Division of Monetary Research, E. D. White, Director; the Division of Tax Research, Roy Blough, Director; the Division of Research & Statistics, George C. Mason, Director. These are all regular divisions of the Department and are not primarily engaged in post-war planning as such; however, they are engaged in research projects the nature of which involves consideration of problems of the post-war period.

The Division of Research and Statistics is concerned, among other things, with problems involved in the formulation of Treasury fiscal policy, especially as it relates to the war borrowing program. Since this program, on the scale required, is bound to have a far-reaching influence upon the pattern of economic and financial activity in the post-war era, the Division is giving attention to the effects which may be expected from the various possible solutions to present fiscal problems. Particular study is being given to the post-war effects of utilizing different sources of funds for financing the war. The results of these studies are for the use of Treasury officials, and are therefore confidential except as they may be specifically released by the Department, or certain data may be included in regular Treasury publications.

The Division of Monetary Research includes among its responsibilities the management of the Exchange Stabilization Fund and other matters in the international field with which the Treasury is concerned. Since the outbreak of war, this Division has extended its work to include problems arising from the war which come within the same general fields as its peacetime research and has, as a matter of course, undertaken some continuing studies of post-war problems. There is no specific designation of staff for the purpose of post-war planning; various staff members from time to time give their attention to such problems. The principal post-war studies being carried on in this Division relate to the problems of exchange stabilization and post-war economic reconstruction and development. Resolution XV of the Rio Conference committed the signatory countries to a conference of finance ministers looking toward the establishment of an international exchange stabilization fund. It was and still is the thought that such a fund should be planned so as to be open to all friendly countries. The Division is currently studying the types of international institutions which might undertake the tasks of exchange stabilization and post-war reconstruction and development.

The Division of Tax Research is giving attention to the long-run aspects of fiscal problems, particularly the need for a Federal revenue system which can be readily adjusted to the nation's post-war requirements. The Division is also cooperating in a study of Federal-State fiscal relations, conducted by a temporary Committee on Inter-governmental Fiscal Relations, appointed by the Secretary of the Treasury. This Committee is considering the question whether the overall fiscal system is well suited to the attainment of such non-fiscal ends as full employment and maximum national income. The techniques which may best serve to meet the probable fiscal responsibilities of the post-war period are being considered, and complaints against lack of coordination in the tax system and the remedies offered are being thoroughly reviewed. This work is under the direction of Harold M. Groves.

The Division of Monetary Research has represented the Treasury on various inter-departmental committees dealing with economic and financial matters, such as the Trade Agreements Committee, the State Department's committee studying post-war problems, and the Board of Economic Warfare, in connection with the more specific and detailed study of exchange stabilization. The Division is also working with an inter-departmental committee assembled by Secretary Morgenthau.

Publications: None.

Treasury Department
Division of Monetary Research 236

Date 11/24/42.....19

To: Mrs. McHugh

Mr. White has read the attached.

L. Shanahan

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE November 17, 1942

TO Secretary Morgenthau

FROM Randolph Paul

Subject: French goods destined for North Africa but stranded in this country.

As reported in my memorandum of November 8, the North African clearance arrangement under which the French Government could purchase goods in this country for shipment to North Africa was suspended on November 8. The effect of this suspension was to enable us to pass specifically on any payments by the Vichy Government for goods to be sent from this country to North Africa.

Information in respect to goods already purchased and ready for shipment was obtained by Foreign Funds Control and has been made available to the Board of Economic Warfare and the Office of Lend-Lease Administration. This survey indicated that nearly \$4,500,000 worth of French owned goods are now ready for shipment. A recapitulation of such goods is attached hereto.

As you know, there was a bitter dispute in the Government as to which agency would handle the provisioning of North Africa. Apparently this issue has been resolved in favor of the State Department and Lend-Lease.

Yesterday morning Lend-Lease informally requested our assistance in having title to the French owned goods transferred to the Procurement Division, acting for Lend-Lease, in order that such goods might be sent promptly to North Africa. The matter was discussed with Lend-Lease and the attached letter was agreed upon, signed by Mr. Stettinius, and transmitted to the Treasury. The necessary instructions were drafted to the Federal Reserve Bank of New York to issue a directive license and the directive license was issued the same day. Under the terms of the directive license title to the goods will be transferred to the Procurement Division of the Treasury, acting for Lend-Lease, against the written agreement of Procurement to pay promptly the invoice price thereof into an appropriate French blocked account.

R E C A P I T U L A T I O N

Cotton Piece Goods.	\$2,784,288.72
Used Clothing	320,593.90
Condensed Milk.	11,300.00
Powdered Milk	127,440.38
Matches	113,552.56
Tea	119,375.86
Nails	674.65
Copper Sulphate	459,920.22
Pharmaceutical Products	3,784.90
Tobacco	17,927.98
Peruvian Sugar.	129,620.14
Refined Sugar	276,425.00
	<hr/>
Total.	\$4,364,904.31

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

November 16, 1942

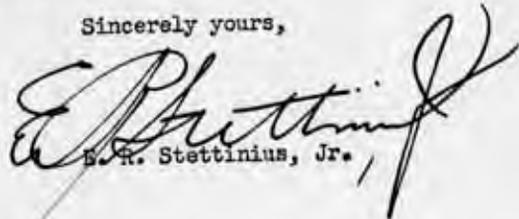
My dear Mr. Paul:

Reference is made to the goods and materials located in the United States which have been purchased by the French government and which were intended for shipment to French North Africa. It is understood that these goods and materials are, or will be under the control of the New York office of the French-American Banking Corporation.

You are informed that the Lend-Lease Administration has been directed by the President to furnish lend-lease aid to North Africa, and, for this purpose, desires to acquire part of such goods and materials. The Lend-Lease Administration has discussed this matter with both the Department of State and the Board of Economic Warfare, and those agencies are being kept advised of all developments. In acquiring such goods and materials, the Lend-Lease Administration will use the facilities of the Division of Procurement of the Treasury Department.

It is requested that Foreign Funds Control facilitate such acquisition by the issuance of a directive license under Section 5(b) of the Trading with the Enemy Act, as amended, to the New York office of the French-American Banking Corporation, directing immediate transfer of title to such goods and materials to the Division of Procurement of the Treasury Department, acting for the Lend-Lease Administration, against the written agreement of the Division of Procurement to pay promptly the invoice price thereof into an appropriate French blocked account, to the extent such materials are acquired.

Sincerely yours,


E. R. Stettinius, Jr.

Honorable Randolph Paul

Acting Secretary of the Treasury



OFFICE OF LEND-LEASE ADMINISTRATION
Five-Fifteen 22d Street NW
WASHINGTON, D. C.

November 16, 1942

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Sincerely yours,

/s/ E. R. Stettinius, Jr.

Honorable Randolph Paul

Acting Secretary of the Treasury

*For H. Whites
Information
IMJ.*

November 16, 1942

MEMORANDUM TO THE SECRETARY:

This noon the Lend-Lease Administration requested us to take over certain supplies purchased by the Vichy Government (piece goods, garments, foodstuffs, medical supplies, etc.), totaling approximately \$5 million, which property is now in the custody of the Foreign Funds Control.

In cooperation with the Frozen Funds Control, documents are now being obtained from the French-American Bank of New York City and immediate action will be taken to forward the supplies to shipside for shipment to North Africa.

Clifton E. Mack
Director of Procurement

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Treasury Department
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Division of
Procurement

Treasury Department
Division of Monetary Research

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Date Nov. 17, 1942 19

To: Secretary Morgenthau

From: Mr. White

Appended are memoranda on the Hanseatic League and the Bavarian Palatinate.

Neither the League nor the Palatinate seem to constitute the kind of political organization which is helpful to what I gather is in your mind.

Since you have indicated an interest in the matter, I have initiated a report on the Colonial question which will provide a basis for discussion and possible recommendation as to how the problem might be handled. Unless I hear from you to the contrary, we will go ahead on the report and I'll bring it to your attention when enough has been done to warrant your consideration.

H.D.W.

TREASURY DEPARTMENT

243

INTER OFFICE COMMUNICATION

DATE November 16, 1942

TO Mr. White
FROM Mr. Snider
Subject: The Hanseatic League.

SUMMARY

The Hanseatic League was an economico-political organization of German commercial towns guaranteeing to its members the enjoyment of trading facilities obtained by the League. The League which was not definitely formed until 1358, had its genesis in the mercantile enterprise which began to flourish in Northern Europe at the end of the Medieval period. In the twelfth and thirteenth centuries, cities -- the most formidable of which was Lubeck -- began to spring up along the Baltic as centers of trade with England and the Scandinavian countries.

The primary purpose of the League of cities was to protect and further the commercial interests of the cities' merchant citizens. Before the League itself was formed, German merchants engaging in trade in England or Flanders were organized into guilds, and those who made commercial voyages in common formed a Hansa (i.e., a company or fellowship of individuals) of this guild. The first German merchants in England, those from Cologne, were accorded privileges by the English and granted legal status as the Cologne Hanse. When merchants from other German cities, particularly Hamburg and Lubeck, penetrated into England they were also treated as hanses of their particular native cities, until toward the end of the thirteenth century a uniform legal status was established in England for all German merchants, who had common rights and duties and a joint establishment at London.

At first, the German merchants were organized into a universitas, which had a number of independent branches, but gradually the cities came to be the centers of organization. By 1358 the term hansa was used to designate the association of certain towns on the coast and inland which were interested in maritime trade in the Baltic and North Seas. When in 1366 the enjoyment of the Hanseatic privileges abroad became dependent upon citizenship in one of the towns of the hansa teutonica, the League had attained its definitive character. The privileges obtained by the League throughout its foreign trading area comprised freedom and security of traffic for the citizens of Hanseatic towns as well as customs rebates. In England, for instance, Hanseatic merchants were allowed certain customs privileges in the export of undyed cloth, and

elsewhere their trade was often entirely free of duty. Particularly in cities such as Bergen and Novgorod where they were permitted to establish themselves as individual alien merchants they received the privilege of autonomous jurisdiction within their settlement. It was because the Low German merchants in the thirteenth century became the first and soon the indispensable link between Flanders and England in the West and the Baltic coast in the East that they were able to wring these concessions from the western towns and countries which they served.

The exact identity of all the towns belonging to the League is difficult to determine because of its nature as a loose and fluid economico-political alliance rather than a political union with fixed territorial boundaries. A town acquired the distinctive characteristic of a Hanseatic city by obtaining for its citizens the right to enjoy commercial privileges abroad; and this right might be at any time granted, withdrawn or renounced. Hence, although it is customary to speak of seventy-seven Hanseatic towns, the number enjoying Hanseatic privileges at one time or another was much greater. It was, however, a fixed rule that only towns with German population could join the League. From Lubeck, always the undisputed leader, and the so-called Wendish towns grouped about it -- Wismar, Rostock, Stratsund, Kiel, Hamburg and Luneburg -- the line of Hanseatic cities extended along the coast through Pomerania and Prussia to the Baltic states.

Periodic Hansa diets were held to settle the major problems of the League, but participation in them often entailed heavy cost and was enacted only from the larger towns. In addition, there existed local assemblies, such as the Prussian town diets, to which all the Hanseatic towns in the territory sent representatives. The councilors of Lubeck presided over the diets and conducted all the correspondence of the League. In the intervals between assemblies Lubeck was the recognized spokesman of the other towns.

The internal political organization of the towns which were members of the League was based on the economic and social predominance of the merchant class. It was the trading activities of the merchants which were responsible for the economic importance of the towns and it was in the merchants' hands that the wealth and political power predominantly rested. Municipal government in the cities was so organized that the members of the governing council were recruited from the wealthy, and those who lost their fortunes concomitantly lost their political power.

In their domestic policy the councils neglected no means of tightening the bonds by which the merchants held the artisans in subordination to their interests. The achievement of their object involved little difficulty in view of the artisan dependence upon the commercial class through the latter's ownership of real estate. The homes of the artisans and work shops and their market stalls were at first owned outright by the families of mercantile entrepreneurs and later with the same result were controlled in part by the councils. Those who manufactured for export -- shoe makers, coopers, amber workers -- were even more immediately subjected to the merchants.

As a natural reflection of the hegemony of the successful merchants, the councils bent all their energies to the promotion of trade. Toward the end of the thirteenth century, they began to pursue an unscrupulously progressive foreign policy. The Lubeck merchants invaded Norway and opened it to world commerce. Whatever ultimate benefit their activity may have conferred upon Norway, the immediate effect was to force it at the risk of antagonizing the formidable power of the leader of the hansa to accept the commercial dictatorship of Lubeck and to yield to it unquestioned control of the principal articles of export, dried codfish and butter. Not content with the ingenious system by which it preserved and developed its indispensable position in the exchange of Eastern raw materials for the finished products of the West, Lubeck thus set itself to seize also the North-South routes.

By the latter part of the fourteenth century, the aggressive activities of the League had begun to decline and it concentrated thenceforward upon preserving the economic and political position it had already achieved. Several factors were responsible for the decline of the League. One of these was the emergence of commercial competition; for example, in the latter part of the fourteenth century, England which had formerly sent its wool to Flanders to be manufactured began to make the cloth itself and sought its own markets on the Baltic. As a result, Bruges the chief western outpost of the Hanseatic system lost importance. Another factor was the political movement of the early modern period which was characterized by the emergence of national states and gradual eclipse of local independent political authority. By the end of the fifteenth century, each of the numerous small principalities in the Holy Roman Empire was endeavoring to deprive the towns in its areas of the independence which had made the participation in the League possible and to subordinate them to its own government. Until 1400 the Hanseatic towns, because of their superior political organization, still possessed greater military resources than the principalities. But in the fifteenth century

- 4 -

some of the towns were forced to sever connection with the League.

The gradual elimination of their monopoly of trading activities together with the internal political dissension and external political pressure lead inevitably to the downfall of the hansa. The catastrophe was postponed until the sixteenth century when the Scandinavian countries, soon followed by England, officially abolished the Hanseatic privileges. This action amounted to no more than the formal declaration of a fact long recognized, that Europe no longer required the Hanseatic merchants as middleman. The last Hanseatic diet which assembled in 1669 brought to Lubeck only the representatives of Hamburg, Bremen, Dansig and Brunswick.

A fuller account of the history of the Hanseatic League is contained in the attached memorandum.

The Hanseatic League

The Hanseatic League, or the league of the cities van der dudeschen hense, was an economic-political organization of German commercial towns guaranteeing to its members the enjoyment of trading privileges obtained by the league. This organization was not definitely formed as a league of cities until 1358. Before that time the term hansa (Gothic, Old High German and also the Latinized form; Low German, hense; Middle High German, hanse) designated a company or fellowship of individuals rather than of cities. It came into general use in northern Europe at a time when mercantile enterprise was conducted by groups of merchants traveling with their wares from market to market and it evolved in connection with their status in the places which they visited. Thus the German merchants engaging in trade in England or Flanders were organized into guilds; and those who made commercial voyages in common formed a hanse of this guild. The first German merchants in England, those from Cologne, were accorded privileges by the English and granted legal status as the Cologne hanse. When merchants from other German cities, particularly Hamburg and Lubeck, penetrated into England they were also treated as hansas of their particular native cities, until toward the end of the thirteenth century a uniform legal status was established in England for all German merchants, who as the mercatores de hansa alemanie had common rights and duties and a joint establishment at London called the Guildhall, later the Steelyard. In the following century the English and Norwegians used a collective term, mercatores de hansa theutonicorum, not merely for the Germans in England but for all the German merchants trading outside of Germany, whether in England, Flanders, Scandinavia, in the Baltic states or in northwest Russia. Such a development was the more natural, since at this time all these merchants were actually organized into a universitas communium mercatorum exclusively for natives of the German, or Holy Roman, Empire. The universitas had its headquarters on the island of Gottland in the Baltic and a number of local branches, the most important next to the Guildhall being at Bruges, Bergen and Novgorod. These branches were independent; this was true, for instance, of the Bruges branch until 1356, when it found itself in difficulties with which it was unable to cope. Representatives of the German cities most immediately concerned intervened in its affairs. In this connection there occurs for the first time in 1358 the term hansa as the name of the association of towns on the coast and inland from the lower Rhine north to Riga, Reval and Dorpat which were interested in maritime trade in the Baltic and North seas. When in 1366 the

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enjoyment of the Hanseatic privileges abroad became dependent upon citizenship in one of the towns of the hansa teutonica, the league had attained its definitive character and the term hansa its final meaning. The privileges obtained by the league throughout its foreign trading area comprised freedom and security of traffic for the citizens of Hanseatic towns as well as customs rebates. In England, for instance, Hanseatic merchants were allowed in 1350 certain customs privileges in the export of undyed cloth, and elsewhere their trade was often entirely free of duty. Particularly in cities such as Bergen and Novgorod where they were permitted to establish themselves as individual alien merchants they received the privilege of autonomous jurisdiction within their settlement.

The peculiar position of the Hanseatic League can be explained only in terms of the economic role which the towns of the Hansa had come to play in European life. The emergence of this role in its turn depended upon the conditions prevailing in northern Europe in the twelfth century. During this century Germans of all tribes and callings began to migrate across the Elbe-Saale line, the previous eastern limit of German civilization, and to take up their abode, usually with the consent of the Slav rulers, in the sparsely settled Slav territory beyond, where they cleared the forests and broke the heavy soil which had defied the primitive agricultural implements of the Slavs. At this time there already existed in western Germany, in Westphalia and along the lower Rhine a highly developed town life. The dominant social class in these towns consisted of merchants engaged in foreign trade who had penetrated across Schleswig to the Baltic coast traveling on foreign ships, for the Baltic was still a Scandinavian-Slavic lake, and thence to Novgorod on Lake Ilmen, a famous fur mart sought by Scandinavians, Greeks and even Arabs. When the German colonization in Slav lands began, these commercial pioneers, fully aware of the prizes to be won in the east, plunged into it with vigor. It was they who really founded and built the eastern towns, receiving in their enterprise the protection of the local rulers. Lubeck, the first and most famous settlement, was re-founded in 1158 under Henry the Lion, the great Guelph prince. A line of cities sprang up in the twelfth and the early thirteenth century -- Visby on Gottland, Riga, Dorpat and Revel on the eastern coast of the Baltic -- all pointed toward the magnetic market of Novgorod, while the southern rim at the same time and later became dotted with other German towns, like Wismar, Rostock, Stralsund and Danzig. After a brief peaceful competition with the peasant traders, particularly the natives of Gottland, who had formerly plied that region, the German merchants acquired economic control of the Baltic. One factor responsible for their speedy success was the nature of their municipal organization, which was modeled on the old German plan

and thus directed toward the sole purpose of facilitating foreign trade; another was the fact that the Germans had developed a craft peculiarly adapted to the carrying trade, the Kogge with its capacious hold for cargo. Western Germans from Cologne, Soest, Dortmund and Munster joined those from the newly settled eastern towns in exploiting the Baltic trade; and the centrally located island of Gottland became the seat of the all German universitas, which preceded the Hanseatic League. The significance of this monopoly was that it enabled the Low German merchants in the thirteenth century to become the first and soon the indispensable commercial link between Flanders and England in the west and the Baltic coast in the east and to wring concessions from the western towns and countries which they served. Flanders in particular, overpopulated and more highly industrialized than any other region of Europe, was so dependent upon the grain and raw materials of the east that rather than jeopardize its supplies its towns and rulers willingly granted extensive privileges to the Easterlings, as the Hanseatic merchants were called in the west. England, then a producer of raw wool for the use of Flemish weavers, also favored them above other merchants.

The transition from the universitas of German merchants to a league of Hanseatic cities took place about 1300 under the leadership of Lubeck, which occupied a crucial position in the Hanseatic trade route; at this port the eastern wares left the Baltic to be transported across the narrow isthmus of Holstein to Hamburg and thence to the west. Its leadership among commercial towns was due also to the extraordinary political sagacity and energy manifested by the council of Lubeck in the face of great difficulties. The geographical position of Lubeck devolved upon it the formidable task of protecting Holstein against the southward push of Danish imperialism. By capturing Holstein the Danes would have completely crippled Hanseatic trade, for they controlled The Sound between Scandinavia and Denmark, which was the chief water passage from the Baltic to the North Sea, and had this control further fortified by the possession of Skane, the southern tip of Sweden. So important for the political destiny of the Hansa were the relations with Denmark that practically its entire foreign policy revolved about that problem. Following its formation of a coalition which repelled the Danish imperialistic wave on the field of Bornhoved in Holstein in 1227, Lubeck pursued a continuously brilliant policy of alliances, which eventuated in its official recognition as the leader of the Hanseatic cities. Because of this position, combined with its constantly growing economic importance as the center of the east-west trade route, Lubeck was able at the end of the thirteenth century to silence forever the claims of the Gottland universitas to hegemony over the German merchants. The development of the definitive Hanseatic League was temporarily impeded at the beginning of the fourteenth century by a fresh Danish invasion, which eclipsed Lubeck's power until after the

death of the Danish king Erik Menved. But by the latter half of the century Lubeck had completely recovered, and in the years following 1358 the league was organized not as a political and military alliance but as an economic-political association.

The league rose to the proud apogee of its power and influence almost as soon as the work of organization had been completed, as the result of the brilliant termination of its first great military test in the Danish wars of the 1360's. To meet the aggressiveness of the famous king Valdemar Atterdag a great number of the Hanseatic cities formed a special political alliance known as the Cologne Confederation of 1367, which under the leadership of Brun Warendorp, burgomaster of Lubeck, concluded the second of the wars with the triumphant Treaty of Stralsund. The political victory was signalized by the terms of the treaty providing that Denmark relinquish to the allied cities for a period of fifteen years two thirds of the very important tolls from Skane to Helsingborg on The Sound, that this indemnity be guaranteed by the cession of strong castles located on The Sound and that the cities be awarded a veto power in the choice of Valdemar's successor. Economically the treaty resulted in the guaranty and extension of the league's trading privileges abroad.

The exact identity of all the towns belonging to the league is difficult to determine because of its nature as a loose and fluid economic-political alliance rather than a political union with fixed territorial boundaries. A town acquired the distinctive characteristic of a Hanseatic city by obtaining for its citizens the right to enjoy commercial privileges abroad; and this right might be at any time granted, withdrawn or renounced. Hence, although it is customary to speak of seventy-seven Hanseatic towns, the number enjoying Hanseatic privileges at one time or another was much greater. It was, however, a fixed rule that only towns with German population could join the league. From Lubeck, always the undisputed leader, and the so-called Wendish towns grouped about it -- Wismar, Rostock, Stralsund, Kiel, Hamburg and Luneburg -- the line of Hanseatic cities extended along the coast through Pomerania and Prussia to the Baltic states. In Prussia Danzig, Thorn, Elbing and Konigsberg were the most important; but the activity of the Teutonic Knights, who not only had created a network of commercial towns throughout Prussia but as an order were engaged in mercantile enterprise and were shipowners on a grand scale, had made virtually the entire land dependent upon the Hansa. Riga, Reval, Dorpat and Pernau were the principal towns in the Baltic states with Visby on the Baltic Sea itself. Stockholm and Kalmar, the development of both of which was connected with the foundation of German towns on the Baltic, were, although loosely, affiliated with the league; at least in the fourteenth century Stockholm's commercial interests are scarcely distinguishable from those of the Hansa. In the far west certain towns of the province of Gelderland in

what is modern Holland belonged to the league and many towns along the lower Rhine from Wesel to Kampen and Zwolle. The leader of this group was Cologne. In Westphalia besides the important cities of Soest, Munster and Dortmund there were a great number of tiny Hanseatic towns and villages. The league also had many members inland in lower Saxony and Brandenburg, the lower Saxon towns finding their outlet to the sea through Bremen. Others like Cracow and Breslau were located still more remotely inland.

Periodic Hansa diets were held to settle the major problems of the league, but participation in them often entailed heavy cost and was exacted only from the larger towns. The latter served as representatives of the smaller towns in their region. In addition there existed local assemblies, such as the Prussian town diets, to which all the Hanseatic towns in the territory sent representatives. Invitations to the Hansa diets came from Lubeck, whose councillors also presided over the diets and conducted all the correspondence of the league. In the intervals between assemblies Lubeck was the recognized spokesman of the other towns. The league had no permanent periodically recurrent revenues. The cost of embassies was covered by individual cities, while the expense of maintaining offices and factories in foreign countries was defrayed out of fees paid by Hanseatic merchants who used them. For extraordinary expenditures such as those entailed by war special import and export duties, called poundage, were imposed on ship cargoes. The register of such duties, introduced in 1368-71 to pay for the cost of the Danish war, constitutes at present one of the most valuable sources for the study of mediaeval commercial history.

In Hanseatic history two great stages can be distinguished, the period when it was dominated by the drive to expansion and that of stagnation and decline. The first may be dated from approximately 1150 until the Treaty of Stralsund. During the first century of this early Hanseatic period, while the merchants were still carrying their wares from port to port and sharing the risks of foreign travel with a group, or hanse, of their comrades, their enterprise was motivated by a cooperative spirit. But after about 1250 the compulsion became individualistic and for the next hundred and twenty years there was manifested an unrestrained quest for private gain far surpassing that evidenced at any other period in Hanseatic history. The new stimulus to commercial activity was provided by the changes accompanying the introduction of writing, which enabled the merchant to operate on an efficient basis. Instead of being forced to undertake trading voyages in person the merchant from 1250 onward could and did establish a central office, the Skrivekamere or Kontor, from which he conducted business with all the towns in the sphere of his interests by means of written documents. At the central office he maintained a bookkeeping system; remarkable examples of these early books have been preserved. The employment of assistants, partnership contracts

and agreements with commission agencies were introduced and grew constantly more common, widening the potentialities of commercial activity at the same time that they made it more complex.

During this period the citizens of the Hanseatic towns who aspired to wealth, power and prestige had to seek them through the avenue of commercial success; profit from real estate held only secondary attractions. In general whoever failed to exploit the commercial innovations as they presented themselves became submerged beneath the stratum of homines novi. Merchants like Bertram Mornewech (d. 1286), whose, for the time, astounding fortune is attested by the fact that his widow was able to purchase in the form of annuities real estate equivalent to about 1,500,000 modern marks, had a dominating position in Lubeck by 1300. They ruthlessly bought out the descendants of the old Lubeck mercantile elite who had prematurely retired to living on their incomes. Since municipal government in the Hanseatic cities was so organized that the members of the governing council were recruited from the wealthy, those who lost their fortunes concomitantly lost their political power. This identity of political and economic responsibility, which placed the towns under the political leadership of its most enterprising citizens, helps to explain the vitality of the Hanseatic League.

As a natural reflection of the hegemony of the successful merchants the councils bent all their energies to the promotion of trade. Toward the end of the thirteenth century they began to pursue an unscrupulously aggressive foreign policy. The Lubeck merchants invaded Norway and opened it to world commerce. Whatever ultimate benefit their activity may have conferred upon Norway, the immediate effect was to force it at the risk of antagonizing the formidable power of the leader of the Hansa to accept the commercial dictatorship of Lubeck and to yield to it unquestioned control of the principal articles of export, dried codfish and butter. Not content with the ingenious system by which it preserved and developed its indispensable position in the exchange of eastern raw materials for the finished products of the west, Lubeck thus set itself to seize also the north-south routes. It acquired a monopoly of the rich northern fisheries, of the herring from Skane as well as of the cod from Bergen. For a while all of northeastern Europe depended upon the salt which the Lubeck merchants brought from Luneburg. With their fish they exploited the southern consumers' market as far to the east as Prague and beyond the Alps, taking full advantage also of such routes into the German interior as that through Frankfort to the upper Rhine region, to Erfurt and later even to Nuremberg.

In their domestic policy the councils neglected no means of tightening the bonds by which the merchants held the artisans in subordination to their interests. The achievement of their object involved little difficulty in view of the artisans' dependence upon the commercial class through the latter's ownership of real estate. The homes of the artisans, their workshops and their market stalls were at first owned outright by the families of mercantile entrepreneurs and later with the same result were controlled in part by the councils. Those who manufactured for export -- shoemakers, coopers, amber workers -- were even more immediately subjected to the merchants.

The Treaty of Stralsund marked the beginning of the period of stagnation and decline because by this time the Hansa had already exceeded the limits which it could easily maintain. It is the sign of a high state of political development that Lubeck clearly evaluated the growing forces of resistance against the league and, renouncing a policy of further expansion, concentrated after 1370 entirely upon preserving the position already achieved.

Part of the danger arose from the emergence of commercial competition. In the latter part of the fourteenth century England, which had formerly sent its wool to Flanders to be manufactured, began to make the cloth itself. Unlike the Flemish, the English cloth producers sought their own markets on the Baltic. As a result Bruges, the chief western outpost of the Hanseatic system, lost importance. Simultaneously the "bay salt" obtained along the western coast of France acquired a more extensive market in the Baltic region, impairing the value of the Hanseatic monopoly of Luneburg salt. These two developments were less ominous in themselves than because they contributed to the increased use of the Umlandfahrt; that is, the direct water route from the North Sea to the Baltic around the Jutland peninsula and through The Sound. Of all the league's problems this deflection of traffic from Lubeck constituted the gravest. As the power controlling The Sound Denmark gained inversely as Lubeck suffered. It became the much sought and obliging ally of the league's other rivals, first of the English and then principally of the Dutch, whose Baltic trade grew rapidly from the fifteenth century on. Lubeck was, however, often successful in supervising and confining the voyages of the Dutch, until her valiant efforts to do so and her political power finally collapsed in 1535.

A variety of converging factors after the Treaty of Stralsund resulted also in the progressive disruption of the internal unity of the league. The problem of The Sound, for

instance, wore an entirely different aspect for Lubeck and her neighbors on the one hand and for the eastern Hanseatic towns on the other. The latter had much to gain from the increase of the all water trade in the Baltic and could hardly be expected to deplore the entry of Lubeck's English and Dutch competitors. With the stagnation of eastern colonization, attributable in part to the havoc wrought by the Black Death, the estrangement became further intensified. The old ties which blood relationship had cemented between east and west grew slack, and local interests began to take precedence over those of the league.

The momentous changes in the political structure of Europe accompanying the transition to the modern era had a pernicious effect upon the Hansa, whether they be considered from the point of view of the emergence of national states outside of Germany or from that of the simultaneous virtual disappearance of the Holy Roman Empire. The first gave new and ever more portentous strength to the league's rivals. At the end of the fifteenth century the English bourgeoisie and monarchy united in promoting an aggressive foreign policy against the privileged Hansa; a similar development took place in the Scandinavian countries, while behind the Dutch merchants was arrayed the impressive power recently acquired by the house of Burgundy. Although in any case an organization so loose as the Hansa must have eventually succumbed to these forces, the inevitable result was hastened by the fact that each of the numerous small principalities in the Holy Roman Empire was endeavoring to deprive the towns in its area of the independence which had made their participation in the league possible and to subordinate them to its own government.

Until 1400 the Hanseatic towns because of their superior political organization still possessed greater military resources than the principalities; the supremacy of their fleets on the sea, their command of artillery and of mercenaries, rendered whatever campaigns the princes hazarded futile. But in the fifteenth century they met with less success. So proud a city as Stendal was forced along with all the other Hanseatic towns in Brandenburg to sever connections with the league. At the same time the towns remaining in the narrowing Hanseatic circle began to be rent by internal dissensions. Conflicts between the merchants and the councils, on the one hand, and the craftsmen protesting against what they considered an unjust distribution of the tax burden, on the other, paralyzed their political vigor. Commercial competition grew constantly more intense and less manageable during the century. When

Nuremberg, whose commercial prosperity was rapidly increasing during this period, organized separate connections with Flanders and Antwerp in the west and Posen, Latvia, Breslau and Galicia in the east it terminated the Hanseatic monopoly of the exchange of Flemish cloth for eastern furs. In desperation the league resorted to a series of petty measures against its rivals, multiplying obstacles in the way of merchants who were not citizens of the Hanseatic towns and inaugurating an equally xenophobic policy in staples. These measures so far defeated their intention that they caused Nuremberg to make retaliations, in the course of which Lubeck was superseded by Leipzig as the intermediary in the fur trade. Another decisive factor was the rupture of Hamburg with the league and its concurrence in the establishment of a branch within its walls by the English Merchants Adventurers.

The fact that the Hanseatic League could maintain a brave front in the face of these events was due primarily to the effectiveness of its diplomatic leadership, which continued to be successful. After every solid economic support of the league had decayed, it enabled the Hanseatic merchants to reap the fruits of the achievements of their daring ancestors. The catastrophe was postponed until the sixteenth century, when the Scandinavian countries, soon followed by England, officially abolished the Hanseatic privileges. But this action amounted to no more than the formal declaration of a fact long recognized, that Europe no longer required the Hanseatic merchants as middlemen. The last Hanseatic diet which assembled in 1669 brought to Lubeck only the representatives of Hamburg, Bremen, Danzig and Brunswick.

Thus the downfall of the Hansa is to be explained entirely by developments within Europe. Contrary to the frequently repeated hypothesis, the power of the league had been broken before the discovery of America and that of the sea route to India began to manifest their effects. After the century of Iberian commercial monopoly they led to a great revival of trade in the Baltic, but it was Holland not the Hansa which profited. The Hanseatic towns were affected by the discoveries only to the extent that they found some compensation for their loss of the northern trade in traffic with Spain. This occurred, however, at a time when they were bereft of all political importance and were playing a minor role in European economic life in the shadow of other powers.

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For centuries the Hanseatic League had succeeded in welding northern Europe into an economic unit, although one which never attained complete homogeneity. Its work was primarily but not entirely economic. Even today the aspect of the towns from Soest to Dorpat, particularly of their churches and town halls, testifies to the extraordinarily close cultural bonds forged by the league. The blood relationship of the populations of these cities has endured through the centuries. From the lower Rhine to the Baltic states the Hanseatic merchants spoke the same Low German tongue. As the leader Lubeck naturally had the most impressive church, the Marienkirche, which served as a model for numerous churches in the east. Lubeck's position as the carrier of all important civilization to Scandinavia and the Baltic states is proved by the large number of altars of Lubeck origin. In turn Lubeck itself owed much to Flemish but later to High German influence. Lubeck, Hamburg and Bremen were received into the German Empire as free cities by virtue of their Hanseatic origin. The administration of these cities retains to this day the characteristic features of the Hanseatic constitutional form -- the senate and the governing burgomaster at the head and alongside them the representation of the citizenry. The Hanseatic tradition was also a contributory factor in the creation of the free state of Danzig after the World War.

Fritz Rorig, Encyclopaedia of the Social Sciences.

(Underscored phrases in the text indicate those in italics.)

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 16, 1942

TO Mr. White

FROM Mr. Gass

Subject: The Bavarian Palatinate

Summary

Geographical Position

The Bavarian or Rhenish Palatinate (known in German as Pfalz) is a territory of some 2,300 square miles on the left bank of the Rhine. It is just north of Alsace and west of Baden.

Early History

The Bavarian Palatinate, like the south Rhineland in general, is the ancient center of German civilization. Because of its geographical position, between strong states which were formed both in France and in Germany, the Palatinate has been repeatedly subjected to conquest and devastation. Following the acceptance of Calvinism by the Palatine Elector in the 17th century, the area was devastated by the Spanish and Bavarian armies. After the Treaty of Westphalia (1648), the Palatinate -- an ancient center of civilization -- was little better than a desert. A further devastation of the Palatinate took place when it was evacuated in the 1690's by Louis XIV; the devastation effected by Louis XIV in the Palatinate has often been regarded by historians as one of the great crimes of history.

The name Palatinate has no very meaningful significance from a modern point of view. In the Carolingian Empire, the title of Count Palatine was conferred upon high judicial and administrative officials exercising wide powers of sovereignty in the name of the Emperor. Such powers were conferred most often to Counts resident on the fringes of the Empire. The title has been hereditary in the Bavarian Palatinate from 945. In the Holy Roman Empire, the Counts Palatine were independent Electors.

Recent History

The citizens of the Palatinate enjoyed no special privileges until the French Revolution. Political democracy in the Rhineland is of French origin.

By the end of 1793 the Palatinate territory west of the Rhine was all in French occupation. The invaders did not meet with a hostile reception -- at such cities as Speyer they were warmly welcomed -- though the period of military occupation witnessed a decline in their popularity. In 1798 the Rhineland was divided into regular French Departments, the Palatinate territory being chiefly in the Departments of Mont Tonnerre and the Bas Rhin. The laws and institutions of revolutionary France were introduced and the old feudal privileges were abolished. French became the official language, and instruction in the schools was given in French. There can be no doubt that the Rhineland, and especially the Rhenish Palatinate, gained much from the French regime, and when it came to an end "the change was viewed by the inhabitants with indifference, if not with active dislike".

Since 1816 the Bavarian Palatinate has been governed as a province of Bavaria. With the formation of the National Socialist unitary state (Einheitsstaat) in 1933, the significance of the independent existence of the province came to an end.

The Palatinate, and the southern Rhineland in general, no doubt retains some trace of the basic liberalism of its earlier history, but that historical survival is of little importance under current conditions. It does not provide a basis for any current policy with regard to the reconstruction of Germany.

A more detailed account of the history of the Palatinate is attached.

THE BAVARIAN PALATINATE

Geography of the Palatinate

The Bavarian or Rhenish Palatinate (Pfalz) is a territory of some 2,280 square miles on the left bank of the Rhine, which has formed part of Bavaria since 1815. It lies between 48°57' and 49°48' north latitude and 7°05' and 8°30' east longitude. The province is bounded on the north by the Hessian province of Rhenish Hesse; on the north-west and west by Rhenish Prussia; on the south by Alsace; and on the east, across the Rhine, by the Grand Duchy of Baden.

Apart from the small sections in which the boundaries, other than the eastern, follow the courses of rivers, they coincide with no natural or racial divisions.

Political History

(1) Introduction

The Bavarian Palatinate is a portion of the ancient Palatinate of the Rhine, the history of which goes back to the time of Hermann, Count Palatine of the Rhine from 945 to 966. The title 'Palatine' was originally given to officials of the Court of the later Roman Empire, and it came to be employed in a number of different significations. Under Constantine the Great it was applied to the troops stationed near the capital; and his successors in the Eastern Empire used it to describe officers engaged in the administration of the finances and of the Crown lands. The term was given a further variety of significations by the Merovingian and Carolingian sovereigns, who conferred the title of Count Palatine upon high judicial and administrative officials; and the form 'Paladin' commemorates its literary associations with the times of Charlemagne. Out of these various uses there emerged the general significance of a personal representative of the sovereign entrusted with special powers; and, by a natural development, the term was extended to the district in which these powers were exercised. Thus, in the tenth century, we find Counts Palatine in Bavaria, Suabia, Saxony, and Lorraine, as well as in the Rhineland. In Bavaria and in the Rhineland, the Counts Palatine became the actual rulers of the districts; elsewhere they continued to be subordinate representatives of the Emperor, exercising definite and limited functions. The office became hereditary and, down to the dissolution of the Holy Roman Empire in 1806, Pfalzgrafen continued to enjoy what had passed into a mere title.

(2) The Rhenish Palatinate

In the Rhineland alone, the title of Count Palatine was the highest dignity held by the territorial sovereign. It was conferred by the Emperor Frederick I upon his half-brother, Conrad, who made Heidelberg the capital of the Palatinate. Conrad's successor was his son-in-law, Henry, a son of Henry the Lion, who, in a dynastic struggle which followed the death of the Emperor Henry VI, supported alternately the rival claimants for the Imperial throne. His line failed after the death of his son Henry in 1214; and the Emperor Frederick II conferred the Palatinate upon Otto, an infant son of Duke Louis I of Bavaria, who, it was agreed, should marry the sister of the late Count Palatine. The Palatinate was under the direct rule of Louis I of Bavaria until 1228, when Otto's minority came to an end. By this date, the Palatinate was recognized as one of the electoral dignities of the Empire.

Otto succeeded to the Duchy of Bavaria in 1231, and held it, along with the Palatinate, until his death in 1253. His sons, Louis and Henry, after a joint rule of two years, divided the inheritance; and the Palatinate, along with Upper Bavaria, fell to the lot of Louis. During the later Middle Ages various changes and divisions of these territories took place, the Palatinate proper becoming known as the Lower or Rhenish Palatinate, and Upper Bavaria -- with which it was, generally speaking, combined -- as the Upper Palatinate. Divided among the four sons of Rupert III, Elector Palatine, on his death in 1410, the Palatinates, including the Duchy of Simmern, were re-united in the course of the fifteenth and sixteenth centuries; but the Duchy of Zweibrücken remained independent till 1799 (see below, p. 4). The Reformation introduced a fresh source of trouble and division, as the Elector Palatine, Frederick III, adopted the Protestant faith, and attached himself to the Calvinistic persuasion. His great-grandson, Frederick V, under the influence of his mother, a daughter of William the Silent, and of his wife Elizabeth, daughter of James I, took the Protestant side, to his own destruction, in the Thirty Years' War.

(3) The Palatinates in the Seventeenth Century

The seventeenth century was a tragic period in the history of the Palatinate. The acceptance of the Bohemian Crown by the Elector Frederick V in 1619 was quickly followed by the loss not only of Bohemia but of the Palatinate, which was devastated by Spanish and Bavarian armies. By the Peace of Prague (1635), the territory and the electoral dignity were alike declared to have been forfeited by the family of Frederick V. By the Treaty of Westphalia (1648), Maximilian of Bavaria restored the Rhenish Palatinate to Charles Louis;

son of Frederick V, but retained the Upper Palatinate, which had been separated from Bavaria since 1253. A new electoral dignity was created for Charles Louis. The restored Palatinate was little better than a desert when he entered into his inheritance. It was only beginning to recover when a fresh series of calamities began. In spite of a marriage alliance between his daughter, Charlotte Elizabeth, and the Duke of Orleans, the Elector Charles Louis joined in 1674 the coalition formed by the Emperor Leopold I to resist the aggrandizement of France under Louis XIV; and in the same year Turenne devastated the Palatinate.

(4) Struggle with Louis XIV

In 1679 Louis XIV obtained definite possession of the town of Landau, over which France had acquired undefined rights by the Treaty of Westphalia. Landau, though situated in Palatine territory, was a Free City of the Empire, but had belonged to the Palatinate from 1331 to 1511. Charles Louis died in 1680, and his son and successor, Charles, expired in 1685, leaving the Duchess of Orleans as the last representative of the Simmern line. The succession to the Electorate passed to the descendants of Wolfgang of Zweibrucken, who had purchased Neuburg and Sulzbach in 1557. Wolfgang's eldest son, Philip Lewis, had become Duke of Neuburg, which was separated from Zweibrucken and Sulzbach; and it was Philip William of Neuburg, the grandson of Philip Lewis, who in 1685 was recognized as Elector Palatine. His father, Wolfgang William, had secured the succession to the duchies of Julich and Berg; and these possessions, along with Neuburg, were united with the Palatinate. Louis XIV did not miss the opportunity of asserting the pretensions of the Duchess of Orleans, and in 1688 he made this claim one of his pretexts for the invasion of Germany. His first step was the conquest of the Palatinate. This was easily achieved, but the changes in the political situation brought about by the fall of the House of Stuart and the accession of William of Orange to the English throne rendered it necessary to evacuate the territory. Louis made the evacuation the occasion of the devastation of the Palatinate, which is one of the great crimes of history. Heidelberg, Mannheim, and the free cities of Speyer (Speyer) and Worms were sacked, and the whole country was ravaged. By the Treaty of Ryswick (1697) Louis XIV obtained pecuniary compensation for the abandonment of his claims on the Palatinate.

The Elector Philip William, who had fled before the French invaders, died at Vienna in 1690. The Neuburg branch of the family were Roman Catholics; and under the Elector

John William, son of Philip William, there was considerable persecution of the Calvinists of the Palatinate until, in 1705, Prussia intervened on their behalf. At the outbreak of the War of the Spanish Succession, the Elector John William joined the Grand Alliance; and troops from the Palatinate, paid by English subventions, served under Prince Eugene. The country suffered from French invasions, especially in the campaign of Villars on the Rhine in 1707; but the Peace of Utrecht left John William in possession of the Lower Palatinate, Neuburg, Julich, Berg, and Ravenstein. John William died in 1718, and was succeeded by his brother, Charles Philip, who died in 1742, leaving no male heir. His daughter, Elizabeth Augusta Maria, had married Joseph Charles Emmanuel of Sulzbach, descended from a son of Philip Lewis of Neuburg. Their daughter, Maria Elizabeth, had married her cousin, Charles Theodore of Sulzbach, who succeeded in 1742 to the Palatinate and the other possessions of Charles Philip.

(5) Union of the Palatinate with Bavaria and Zweibrucken

In 1777 Charles Theodore succeeded to the Electorate of Bavaria, with which the Palatinate was united. A further reunion of the territories which, in the thirteenth century, had been held by Otto of Bavaria took place on the death of Charles Theodore, without heirs, in 1799. The succession passed to a branch of the Zweibrucken line, descended from Lewis, Count Palatine of Zweibrucken, son of Stephen, Count Palatine of Simmern and Zweibrucken. The Zweibrucken territories had been divided in the sixteenth century into three principalities -- Neuburg, Zweibrucken, and Birkenfeld. We have already dealt with the Neuburg branch. The Zweibrucken branch became connected with the kingdom of Sweden by the marriage of one of its members to the daughter of Charles IX of Sweden. On the death of the Elector Frederick Lewis in 1681, Zweibrucken passed to his cousin, Charles XI of Sweden, and from him to Charles XII. From 1718 to 1731 it was held by the Elector Gustavus Samuel Leopold, a grandson of Charles IX. He died without heirs; and Zweibrucken was united with Birkenfeld, the rulers of which were descended from Charles, youngest son of that Wolfgang of Zweibrucken who had purchased Neuburg in 1569. The Duke of Zweibrucken and Count Palatine of Birkenfeld in 1799 was Maximilian Joseph. His succession as Elector of Bavaria united the Territorial claims to Bavaria, the Rhenish Palatinate, Neuburg, Sulzbach,

Zweibrucken, Birkenfeld, Julich, Berg, and Ravenstein.

The history of the Palatinate in the eighteenth century is chiefly the dynastic record just given. The prospect of the succession of the Sulzbach line to the Palatinate had led Prussia, before the death of Charles Philip, Elector Palatine, in 1742, to claim the reversion of Julich and Berg on the extinction of the Neuburg family. Negotiations for this purpose between Prussia and the Emperor were connected with the acceptance of the Pragmatic Sanction; and Prussia also made an arrangement with France, intended to secure Julich and Berg. It was thus possible, and at one time probable, that the death of the Elector Charles Philip would be followed by a war in which the Palatinate must be involved. But it happened that Charles Philip survived both the Emperor Charles VI and Frederick William I of Prussia; and by the date of his death Frederick II of Prussia had abandoned his claims on Julich and Berg for those on Silesia, which he had already seized. The Elector Charles Theodore joined, in 1744, the League of Frankfort, organized by Frederick II of Prussia to re-establish peace on the basis of Frederick's retentions of Silesia; and throughout the War of the Austrian Successions he remained a partisan of Prussia and France. After the Diplomatic Revolution of 1756, he joined the Franco-Austrian alliance, and in 1757 sent 5,000 men from the Palatinate to support Maria Theresa. The circumstance that the Palatinate was on the side of France from 1744 to 1763 prevented its suffering greatly in the conflicts of that period, for the campaigns only occasionally touched the Elector's territory. Another possibility of conflict was connected with the ambition of the Emperor Joseph II to obtain for Austria the succession to the childless Elector of Bavaria, Maximilian Joseph, to the detriment of the Elector Palatine, Charles Theodore. For some years before the death of Maximilian Joseph in 1777, diplomatic negotiations were in progress for this purpose. Charles Theodore was also childless, and had no wish to preserve the rights of the Zweibrucken branch of his family; and after his own succession to Bavaria he continued the negotiations with the Emperor. But Frederick II of Prussia, supported the Zweibrucken claims; and the War of the Bavarian Succession broke out in 1778. It was short and desultory, and Palatine territory was not involved. A later attempt of Joseph II to exchange the Netherlands for Bavaria was also foiled by Prussia; and by the date of the death of Charles Theodore in 1799 the whole situation had changed.

(6) French Administration of the Palatinate

The Palatinate was involved in the early campaigns of the Revolutionary Wars; and by the end of 1793 the Palatine territory west of the Rhine was in French occupation. In 1794 the Allies tried and failed to recover it. The Elector made an armistice with the French in September 1796, but he refused to accept the terms of the treaty which was offered; and, when Maximilian Joseph of Zweibrucken succeeded in 1799, he joined the Second Coalition, in spite of a danger from Austria scarcely less grave than that from France. After the defeat of Hohenlinden in 1800, Maximilian Joseph had to acquiesce in the cession of the left bank of the Rhine to France by the Treaty of Luneville (February 1801), and was promised compensation at the expense of the Empire. This compensation was secured in the following August by a separate treaty between Bavaria and France; and in 1805 the Elector took the title of King, and his troops fought on behalf of the French both in 1805 and in 1809.

These events, however, affected only Bavaria proper, and not the Palatinate, which with the Elector's other territories of Zweibrucken and Julich had been annexed to France in 1801, and had been under French administration since 1792, or, in parts, 1793. The invaders did not meet with a hostile reception -- at Speyer they were actually welcomed -- though the period of military occupation lessened the popularity of the French. In 1798 the Rhineland was divided into departments, the Palatine territory being chiefly in those of Mont Tonnerre and the Bas Rhin. The laws and institutions of revolutionary France were introduced and the old feudal privileges abolished; but the administration was much less satisfactory than the legislation, and the Rhine provinces asked that they might be constituted into French Departments. This was done in 1802, and a reign of order began. French became the official language, and instruction in the schools were given in French, though German did not entirely disappear from elementary education. There can be no doubt that the Rhineland, and especially the Rhenish peasantry, gained much from the Napoleonic regime, and when it came to an end 'the change was viewed by the inhabitants with indifference, if not with active dislike'. ^{1/}

^{1/} H. A. L. Fisher, Napoleonic Statesmanship: Germany, London, 1903, p. 373.

(7) The Palatinate After The Fall of Napoleon

The Palatinate did not suffer in the later Napoleonic wars until the campaign of 1814. After Napoleon's abdication in the spring of that year, its destiny was decided by the first Peace of Paris (1814); the arrangement never came into operation, but is important at the present moment. The general principle of the treaty was that France should be limited to the frontiers and possessions held on January 1, 1792. These possessions included, as we have seen, the former Free City of Landau; and, in these circumstances, concessions were made in order to consolidate national territories.

The rest of the old Palatinate, which had been included in the French Departments of Bas Rhin, Mont Tonnerre, and Sarre, was, by an arrangement between Bavaria and Austria, to be restored to Bavaria.

The arrangement about Landau was nullified by the Treaty of November 20, 1815.

(8) Bavarian Administration

The arrangement between Austria and Bavaria, contemplated by the Treaties of Vienna, was made by the Treaty of Munich in 1816, with certain stipulations which were annulled in 1819, when a strip of territory was given to connect Bavaria with the Palatinate. Since 1816 the Bavarian Palatinate has been governed as a province of Bavaria. It includes the two ancient Free Cities of Landau and Speyer, and also part of the small principality of Leiningen-Hartenburg, on the left bank of the Rhine. The history of the Bavarian Palatinate is thenceforward indistinguishable from that of the kingdom of Bavaria. A Constitution was granted by Maximilian I in 1818. Under Lewis I (1825-48), while the King was under the influence of Jesuit advisers, there was a political reaction, accompanied by religious repression. When the Jesuits lost their influence there was a short period of internal trouble, followed by the revolution of 1848 and the abdication of Lewis. His son, Maximilian II, allied himself with Austria against Prussia, and aimed at making Bavaria the leader of a league of the Rhenish States, and enabling her to hold the balance between Austria and Prussia. He died in 1864, and, under his son Lewis II, Bavaria shared in the defeat of Austria in 1866, supported Prussia against France in 1870, and became a State of the German Empire in 1871.

Maximilian I, cherishing the hope of exchanging the Palatinate for territory on the right bank of the Rhine, at first interfered very little with the institutions established by the French, and, as in Rhenish Prussia, the Code Napoleon survived for many years. The King had both personal and political associations with France, and his liberal tendencies, as illustrated in the Constitution of 1818, led to the development of a policy which gradually reconciled the Palatinate to Bavarian rule. The period of French rule was too brief to leave really permanent results, and by the middle of the nineteenth century the conditions described by Treitschke had undergone a complete change. Since then, the Palatinate, although retaining a recollection of its own independent history as a German State, has willingly acquiesced in its membership of the kingdom of Bavaria.

Based on a handbook prepared under the direction of the Historical Section of the British Foreign Office, entitled Bavarian Palatinate.

Treasury Department
Division of Monetary Research

26
Date 11/20/42.....19

To: Miss Chauncey

The Secretary may possibly
be interested in glancing at this
memo on the situation in eastern
India.

H. D. White

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

268

DATE November 17, 1942

TO Mr. White
FROM Mr. Friedman

Subject: Conditions in Northeastern provinces of India.

The conditions in the Northeastern provinces of India are of particular interest at this time because of the likelihood that this area will either be the object of a large scale Japanese attack in the near future or on the other hand, may be the main base for a United Nations offensive against the Japanese in Burma. The following is a brief summary of the situation existing in this area, and, although, largely because of the British censorship, there is a dearth of exact and detailed current information, enough is known to give a general picture. In brief, the existing political crisis, coupled with acute economic problems, undoubtedly are tending to weaken the capacity of this area either for resistance against Japanese attack or as a base of offensive operations.

1. Political crisis continues.

From the information available it would seem that the political situation in the three Northeastern provinces of Bengal, Bihar and Assam still remains one of crisis. Although detailed reports of daily disturbances have ceased to arrive, it is more likely that the reason for this is that such disturbances have become commonplace rather than that they have ceased to exist. Even reports emanating from seemingly British sources, which have stressed that disorders in India are on the decline, have indicated that they have declined least in the Northeastern provinces. Mr. Churchill's recent speech, in which he made the by now famous statement that he had not become leader of the British Government "to preside over the liquidation of the British Empire" must have undoubtedly caused unfavorable reaction in these provinces, as well as in other areas.

2. Labor disturbances.

According to recent reports from the American Consulate in Calcutta, India, there are a dozen actual or potential strike situations among the most important industrial plants in the Calcutta area although none have been mentioned in the press. The demands being made by the laborers are chiefly for cost of living allowances and other pay adjustments made necessary by the Government's failure to check the large and constant increase of food prices and to affect adequate distribution of food. The same source reports that the industrial employers propose to meet this situation by what they call a "test of strength" and are encouraged in this attitude by the position taken by the British authorities on the political crisis.

3. Food riots.

Throughout India today, food shortage is being experienced. Food riots in increasing numbers have broken out in the villages in Bengal and other provinces. There is apparently enough rice and sugar in India but the problem remains one of transport and that factor has become worse. Furthermore, as will be indicated below, the situation with respect to transport is expected to deteriorate even further.

4. Crisis in jute industry.

The growing of jute and its processing into burlap is one of the major industries of Northeastern India. There is at present a tremendous surplus of jute, with no ready market for it. This has resulted in extreme distress in Eastern Bengal, aggravating the already bad economic situation. In this connection the point should perhaps be made that India, unlike other countries, has experienced little of war "prosperity".

5. Terrorism in villages.

Eastern Bengal in previous periods of civil disorder has produced the most extreme brand of terrorism found in India. During recent months in rural Bengal, village mobs have taken to killing police and civil officers. Both the Inspector General of Police of Bengal and the Major General commanding in Bengal have expressed concern over the current situation.

6. Railway shortage.

Reports from India indicate that the Indian railways, under the pressures of internal and external political and military efforts, are probably approaching practical collapse. Moreover, little hope is seen of improving matters and instead a worsening of conditions is anticipated. In connection with this, it is interesting to note that the Duke of Devonshire, the Undersecretary of State for India, in a statement made in the House of Lords on October 20, said, "It is a significant fact that the disorders which have been principally directed against communications have been most serious in those parts of India where any interruption of communications would be most paralyzing in the event of a Japanese invasion". The "parts of India" referred to here is undoubtedly the Calcutta area.

7. Tidal wave and flood.

In addition to the man-made difficulties outlined above, the Calcutta area experienced, during the first week of November, a great tidal wave that drowned over ten thousand people and swept over nearly five hundred square miles of rice fields. The exact information on damage done is not known, but it is known that hundreds of small villages have been flooded, with houses and rice crop destroyed. This loss of foodstuffs, in addition to the other damage, was particularly unfortunate since the transport of the produce of these fields to Calcutta probably does not depend on railway transport.

THE WHITE HOUSE

WASHINGTON

November 17, 1942

SECRET

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you and the Under Secretary of our take this over and let me know where we go from here?

F. D.R.

Enclosure.

BOARD OF ECONOMIC WARFARE
ECONOMIC DEFENSE BOARD

WASHINGTON, D. C.

OFFICE OF THE CHAIRMAN

November 16, 1942

SECRET

The President,

The White House.

Dear Mr. President:

On October 15 you asked me to give you the judgment of the Board of Economic Warfare regarding our trade with Sweden. There are enclosed:

1. A resolution passed by the Board on November 12 based on the documents attached to it.
2. A dissent from the resolution signed by the Secretary of the Treasury and the Under Secretary of War on the grounds that our Board resolution was not tough enough.
3. A letter of November 14 from The Joint Chiefs of Staff which is in line with our Board resolution and with which I am in complete agreement.

Since our Board meeting, our Swedish friends have reversed themselves and refused to release two ships under British charter now ready to sail for England. As a price for their release, the Swedes want us to release at once a large Swedish tanker, the Sveadrott, now in our waters. We think this should be done after we get some of the concessions recommended by the Board and The Joint Chiefs of Staff, and not before. Even though the State Department disagrees with this procedure, my recommendation is that you authorize me to proceed in line with the resolution of the Board and the letter from Admiral Leahy. I would then ask the State Department to conduct these negotiations in collaboration with our people, one of whom spent a month in London on this matter.

If you approve, please initial this letter so that we shall not lose any time in getting on with these complicated negotiations.

Respectfully,

H. A. Wallace

H. A. Wallace

Enclosures

THE JOINT CHIEFS OF STAFF
WASHINGTON

SECRET

The Joint Chiefs of Staff have given consideration to your letter of November 5th and have concluded that the policy toward Sweden. They submit the following recommendations:

- (1) That the economic policy of the United States toward Sweden be one of continuing friendly relations with that nation, with the provision that immediate concessions be made by Sweden to meet the United States' objections to unsatisfactory features of the actual Swedish trade situation.
- (2) That the United States and Great Britain conclude with Sweden a trade agreement paralleling the present Anglo-Swedish War Trade Agreement, with the following modified and added objectives:
 - (a) Reduce blockade quotas for Swedish overseas imports which are excessive and eliminate as far as practicable imports which enter into Swedish production for the enemy.
 - (b) An increase in the flow of strategic materials from Sweden to the United Nations, and cooperation by the Swedes in the matter of substantial purchases by the United Nations for preclusive purposes, as well as for supply.
 - (c) Assistance by the Swedes in effecting transport by sea and air for materials from Sweden to the United Nations.



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- (d) Satisfactory arrangements for the use by the United Nations not only of Swedish shipping at present outside the Baltic, but also for the vessels built or being built by Sweden.
 - (e) Reduction of Swedish Government credits, direct or indirect, to enemy countries.
 - (f) Access to full information on Swedish exports to and imports from enemy territory.
 - (g) The chartering by the War Shipping Administration of twenty-one Swedish vessels now in this hemisphere.
 - (h) That only Axis troops on leave status be permitted to travel through Sweden.
 - (i) That Axis military traffic or materials permitted through Sweden be curtailed.
 - (j) Satisfactory agreement concerning German military traffic in Swedish territorial waters, and of the use of Swedish convoys by the enemy.
 - (k) A reduction in the iron ore exports from Sweden to enemy territory to normal pre-war exports to Germany.
- (3) That no immediate shipment of petroleum products to Sweden will be authorized until reasonable agreement on the items outlined in subparagraphs (a) to (k) above have been reached. Subsequent shipment will be predicated on continued compliance with these agreements.
- (4) That the commission for the negotiation of the trade agreement with Sweden be composed of Combined U.S.-British members with equal standing, and that the Standing Commission be similarly composed.

Sincerely yours,

For the Joint U. S. Chiefs of Staff:

William D. Leahy

WILLIAM D. LEAHY
Admiral, U. S. Navy
Chief of Staff to the

Commander in Chief of the Army and Navy

SECRET

MINUTE BOOK OF THE BOARD OF ECONOMIC WARFARE

On October 14, 1943

(with Secretary S. C. Greenberg and the Chief Secretary
C. W. [unclear])

RESOLVED, that the Board of Economic Warfare recommends
the continuance of trade with Sweden, including the
shipment of raw-lead products in exchange for com-
modities, or credit or otherwise, on the type set forth in
paragraphs (a) to (d) of the report and recommenda-
tions of the subcommittee on Sweden, and that this
policy be carried out in consultation with the interested
agencies of the Board of Economic Warfare in collaboration
with the Department of State.

VPS
11-22

We are in favor of the
trade approval of the
various articles
in connection with the
divisions.

As we understand the
shipments of oil, iron
Sweden. While the
be made to other
that ports of
concessions.

It seems to me
to a large extent
her efforts
to export to
of large quantities
war material, and
benefiting the enemy.
dominated by the enemy,
enemy's blockade, is
In permitting Sweden
substantial quantities
are in shortest supply
Germany.

In our opinion, we should permit Sweden to receive no supplies which we control unless she stops all unneutral action and unless it is assured that such supplies as she may receive will not significantly aid the enemy. It is also our view that trade should not continue during negotiations but that all shipments, including oil, should be held up until the negotiations have been concluded.

It is believed that the report of the "Essential Facts on Swedish Relations with the Enemy and with the Area outside the Blockade," prepared by the staff of the Board of Economic Warfare, copy of which is attached, fully supports our views. Also attached is a short memorandum summarizing the principal points upon which we rely.

H. M. P. H.
Secretary of the Treasury

R. L. P. H.
Under Secretary of War

Attachments

SWEDEN'S CONTRIBUTION TO THE ENEMY'S EFFORT

The report prepared by the Board of Economic Warfare in connection with the proposed restriction on Swedish trade, reveals the following points of assistance being rendered by Sweden to the enemy:

1. About 90% of Sweden's current exports go to the enemy. This country receives none of Sweden's exports.
2. Exports to Germany of the commodities most urgently needed by the enemy far exceed normal pre-war shipments.
3. The principal economic contribution made by Sweden to the enemy is the export of 9.5 million tons of high-grade iron ore, enormous quantities of wood products, machinery, ball bearings, and other metal manufactures. Also Sweden has been exporting large quantities of food to Finland.
4. An excessive volume of exports of wool, oil seeds, hides, and skins - all militarily strategic commodities to the enemy - have been exported from the Western Hemisphere to Sweden.
5. Sweden imports goods from the Western Hemisphere which are components of manufactured goods exported to the enemy. In some cases these commodities are exported in their original form.
6. Sweden is granting substantial credits to Germany to enable Germany to import Swedish goods without giving up her own products. Sweden is extending credits to Finland to pay for Finland's purchases in Denmark.
7. Sweden permits the transit of large numbers of German troops and large amounts of enemy war materials across its territory. (Approximately 250,000 troops in 1941 and 250,000 tons of war material during the same period.)

8. Swedish territorial waters have been used for enemy military traffic in which Swedish naval vessels have acted as escorts.
9. Sweden is reported to be building a number of merchant ships for the enemy.
10. Sweden has acceded to the German demand that all her exports to the Western Hemisphere must be routed to Argentina and Chile. Thus, ships coming to the United States to take cargo back to Sweden, arrive here empty.

II

Some alleged advantages in the policy recommended the resolution are as follows:

1. It is stated that about 22% of the Swedish national income is devoted to supporting her army and navy. It is contended that if the amount of supplies obtained through the blockade were reduced, Sweden would cease these activities and, accordingly, the enemy would obtain even greater benefits from Sweden. We contend that there are strong reasons for believing that Sweden would attempt to maintain her armed forces at any cost and that failure to receive supplies from us would necessitate a real reduction in her aid to the enemy.
2. It is claimed that Sweden is a source of useful information for us. The War Department says that this information is of little value.
3. The British get by air high-grade ball bearings, some machine tools, and some replacements of parts for Swedish machinery. Very little is coming now (only about three tons a month).
4. It is pointed out that a good many Swedish ships are engaged in trade which benefits the United Nations, thus affording some relief to the Allied shipping shortage. It is contended that the discontinuance of supplies to Sweden would prejudice our use of these vessels. Against this it is our view that regardless of our trade with Sweden, these vessels will necessarily continue to operate in our interests. Actually, if any real effort is made to control the activities of these vessels, we have a number of effective controls at our disposition.

5. It is argued that there are important political advantages in our maintaining the Swedish economy because this enables Sweden to take a stronger position against Germany. In fact, Sweden cannot be considered a free agent, unless it is believed that she voluntarily extends vast credits on current account to the Axis, voluntarily accepts Germany's prohibition of exports to the United States, voluntarily permits German troops to pass through her territory, and willingly violates her engagements under the War Trade Agreement. To strengthen the economy of a country so dominated by the enemy by allowing trade to pass through the enemy's blockade, is nothing less than to strengthen the enemy.

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BOARD OF ECONOMIC WARFARE
Office of Economic Warfare Analysis

TRADE POLICY TOWARD SWEDEN

A Summary of the Essential Facts
on Sweden's Relations with the
Enemy and with the Area outside
the Blockade

BL-10-b
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TRADE POLICY TOWARD SWEDEN

A REPORT AND RECOMMENDATIONS TO THE BOARD OF
ECONOMIC WARFARE SUBMITTED BY THE STAFF OF
THE BOARD AND APPROVED BY THE FOLLOWING
REPRESENTATIVES FROM OTHER AGENCIES REPRE-
SENTED ON THE SUB-COMMITTEE ON SWEDEN

NOVEMBER 5, 1942

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 401

Information received up to 7 A.M., 17th November, 1942.

1. MILITARY

LIBYA. 15th. All landing grounds in the MARTUBA area were secured and were serviceable by 9 A.M. During the afternoon our forward elements continued North towards DERNA and west towards CARNUSA (18 miles northwest of IMIMI). On 14th our troops occupied SIWA.

FRENCH NORTH AFRICA. A United Kingdom mobile column has crossed the Tunisian border from BONE but has not yet made contact with the enemy. A United States parachute battalion was dropped at YOUKS LES BAINS, 100 miles south of BONE, and occupied the airfield without incident. Anti-aircraft defences at BOUGIE have been strengthened. Unloading at ALGIERS is proceeding well and units are clearing the port rapidly.

2. AIR OPERATIONS

WESTERN FRONT. 16th. Our aircraft made harrassing attacks on railway and other targets in GERMANY, Northern FRANCE and BELGIUM. Three mine-sweepers off ZEEBRUGGE were damaged, a gun post was destroyed, two locomotives hit and a Junkers 52 shot down.

16th/17th. Aircraft were despatched - Sea mining 68, leaflets 5, Intruders 10. Three are missing.

FRENCH NORTH AFRICA. 14th and 15th. BONE and BOUGIE were subjected to persistent enemy attacks. No details available.

LIBYA. Our fighters attacked landing grounds at JEDABYA and JALO destroying two enemy aircraft. 50 mechanical transport vehicles were destroyed and 25 damaged in this area, and also many casualties inflicted on troops between CYRENE and BENGHAZI. Our East-bound mechanical transport convoys between SOLLUM and GAZALA were attacked by enemy fighters, some damage and casualties being caused.