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War Savings Bonds
See Financing, Government
December 1, 1942
9:25 a.m.

GROUP

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

H.M. JR: I had a chance to see two Victory Fund Committees in action, one at Kansas City and one in St. Louis. I was sorry that Odegard, in notifying the Kansas City group that I was ready to meet with them, only had two men there. I thought I was going to have a chance to meet the staff and talk to them, but I didn't.

MR. GRAVES: We have no office in Kansas City. Our office is in Jefferson City, Missouri.

H.M. JR: They had time to bring people in. It is the second time I have wanted to meet with the staff and explain to them what is going on, and I have not had a chance to. I think it is unfortunate. I mean, I will have to spend an hour to an hour and a half talking with these people at lunch Wednesday - Patterson and those people. Those aren't the people I want to talk to. I want to talk to the people further down.

Anyway, the Victory Fund people have got lots of pep and enthusiasm. I told George that I think they
will fall down on the small towns. One thing I would like is somebody who could go into the field and make a study and talk to the banks. What about this fellow who is with Douglas - Lew Douglas?

MR. BELL: Don Woodward?

H.M.JR: Yes. Do you suppose he would go on it for two or three days.

MR. BELL: I think he would, if he is well enough.

MR. HAAS: I know he has been ill; but he seems to be all right. He is here this morning.

H.M.JR: Isn't he a pretty good fellow?

MR. BELL: Very good.

H.M.JR: What I was thinking was that somebody like that or somebody from George's--

MR. HAAS: Shields would be better, wouldn't he?

MR. BUFFINGTON: I have the names of five men who were recommended to me, who I talked to Guy Lemmon about yesterday.

H.M.JR: I want one advertising man to go with him, just one. I would like them to drop into towns of twenty-five thousand or under and just sit down and talk to these fellows, the banks and Federal Loan to see what they get, see what they are doing. They run into this kind of thing. After all, what happened in Kansas, just a few miles from the geographical heart of America - and up to now they have been paying two percent interest for the whole state on time deposits. And you fellows - the pressure says we should give these fellows special treatment. Well, they get a two and a half percent bond, allow you to buy up to a hundred thousand, and continue their two-percent time deposits. I
can't remember the exact figures, but a bank with three million deposits - I think they only had a half million out on loan, not very many Governments, and were paying two percent on time deposits. Naturally they are going to holler.

MR. BELL: They ought to get modern and reduce it to one.

H.M. JR: The question comes up - how many states are there still paying two percent?

MR. BELL: We can get that. There are many states not paying two percent.

H.M. JR: When these advertising people tell us we really don't know our markets, I think they are right. I was thinking if a couple of intelligent fellows - you can't send out an army - not more than three, would spend two or three days going through this Mississippi Valley, or something like that, in a car, it would be very valuable to us.

MR. BELL: All right.

H.M. JR: I think it would be very valuable to us.

Are there regulations of state banks as to how much they pay on time deposits?

MR. BELL: Yes. Also the Banking Act of 1935 - the Federal Reserve - lays down regulations. They fix not in excess of two and a half percent on time deposits. Then the states come in under that. Most of the states have reduced their interest rate.

H.M. JR: The State of Kansas is in the process, but up to now they are still paying, by and large, two percent. I picked up a lot in a short time. Did you realize that?
MR. BELL: That they were doing it?

H.M.JR: Yes.

MR. BELL: Yes, I knew there had been a cry for us to issue a special obligation of two and a half and two and a quarter percent to these banks that carry savings deposits and are paying two percent.

H.M.JR: It is silly.

MR. BELL: I think so, too. But I think you have a much more serious problem in the insurance field. The insurance people are being forced to pay two percent on their contracts. Their past contracts are in excess of three percent. It is a much more serious problem in the insurance field.

H.M.JR: Anyway, it is that kind of thing.

Can I leave it with you and some of the others to send somebody out so that they will be out, say, not later than Wednesday - today is Wednesday - maybe by Thursday?

MR. GASTON: Today is Tuesday.

H.M.JR: If they could spend Thursday, Friday, and Saturday in the field--

MR. BELL: We will try to get somebody this morning.

H.M.JR: And get somebody from the Advertising Council to go with them. And particularly look at the literature they get.

There is one of the most important announcements that has gone out from the Federal Reserve and the
Comptroller, and it just goes like that. (Circular handed to Mr. Bell.)

If I were a banker I would not even read it; I would throw it in the wastepaper basket. Who printed that?

MR. BELL: This is probably the one that went out from either FDIC or the State Bank Commissioners.

H.M.JR: You know that you gave these orders that they should not get these circulars until Monday. But they got them - I mean they got them anyway.

MR. BELL: They got them if they were members of the Victory Fund Committee.

H.M.JR: Listen, fellow, this was picked up right in Manhattan. There is your circular (indicating Treasury circular).

MR. BELL: Wasn't he on a Victory Fund Committee?

H.M.JR: I don't know, but Nee was giving me the schedule of trains on which he was mailing that out, to carry out your orders. That (indicating circular) was picked up Friday in Manhattan. He had nothing left by eleven o'clock Saturday, and all the rest of that.

That is the one, isn't it?

MR. BELL: They went out before the end of the week to the members of the Victory Fund Committee. I take it that this bank is on the Committee.

H.M.JR: There is the one the Victory Fund sent out.
MR. BELL: Then they were to mail them Thursday, Friday, and Saturday so as to be sure to reach all banks in the first mail Monday.

H.M.JR: I am sorry; I hope I am not boring everybody, but this is nine billion dollars, and I have got to get it. I think the reason I want the people to go out in the field is that I want to know who is going to go because I want to pass on the person. If they will do what I could do only very superficially — after all, we can have one announcement and advertising, and then it gets down to reaching these people in the small communities. I think you will find the small communities—this man said to me, "Well, Mr. Morgenthau, these fellows running three million or five million dollar banks just don't know what it is all about. Nobody is taking the trouble to explain it to them. And they still think that owning a lot of Governments — they don't realize that they can borrow from the Federal Reserve. They think it is a fixed obligation, and they are going to be criticized." He says that nobody has been around to see them.

Now it was the same thing when we tried to do Foreign Funds. We held schools all over New York State. You remember the Model "T" business. As a result of that the thing went along beautifully. We have got to hold schools for these banks, bring them in and have somebody go out and talk to them, Dan. And for the ABA to send them out a handsome piece of literature, that doesn't — I told this to these fellows over and over again at St. Louis, "And you fellows have to use some shoe leather. You can sit here and send all the mail in the world, but that isn't going to do the thing, sitting at a desk — in towns of ten thousand population — Federal Loan saying so and so."
H.M.JR: It is the object of the ABA committee to contact each of the members of their association.

H.M.JR: They admitted - Hemingway was there yesterday, and he admitted they have not done it.

MR. BELL: He said they did not have time to get the people together in the two weeks they had.

H.M.JR: I am not criticizing you. The thing is going to go; it is going to be a success. But there is an awful lot yet to be done to make the small-town banker conscious - what I told them was this: "I have always thought you bankers were smart, and I still think so. I think you are smart enough to realize that if you can sell these securities to somebody else you don't have to buy them yourself." I gave them in both places a fighting talk on two percent.

MR. BELL: Good.

H.M.JR: The question they asked me at Kansas City was, "Mr. Morgenthau, if this nine billion dollar thing fails, won't you raise the interest rate?" (Laughter)

MR. BELL: The answer, I hope, was no.

H.M.JR: So I said, "In the first place, it is going to be a success, but win or lose, it is going to stay at two percent, so you fellows might as well get busy and go to work." (Laughter)

I did not do any speaking; I just answered questions. I think, Harold, if you had been there you would have been quite happy to have heard this fighting talk that I gave at both places on War Bonds and their place in the future. If you want to know, your State administrator from Kansas heard it.

MR. GRAVES: Griffith?

H.M.JR: Evan Griffith. Evan and Henry were very close. (Laughter)
MR. GRAVES: Wonderful.

H.M.JR: A fellow from the hotel, Harry Ware, heard that Evan Griffith was going to fly up with me the next day, so he said to Griffith, who, incidentally, lives in Manhattan, "How can I get on that plane with the Secretary? I want to go up with you. Won't you fix it so I can go up on the plane?" Griffith said, "Listen, Harry, you found an excuse to go up there every fifteen minutes to see him. You can find an excuse to ride with him. You do your own asking. You have been bobbing in his room every fifteen minutes. You can find out how to go there." He is an old theater man - motion pictures. He said he used to run a theater in Portland. (Laughter) So he came up and we took him. I think he is the happiest man in Kansas. He was a scream.

Anyway, can we do that?

MR. BELL: Yes.

H.M.JR: I think, Harold, at the earliest possible date you ought to arrange for me to make a public address at a War Bond meeting, where you are going to present a Treasury flag, where I can go all-out as to the future of War Bonds and its place.

MR. GRAVES: We would like to very much.

H.M.JR: I think we need that very badly because these fellows are sort of--

MR. GRAVES: Uncertain?

H.M.JR: Yes, uncertain, and if what I said publicly had been listened to, I think every War Bond person would have been satisfied. But if you find a spot for me, I will be glad to do it.

MR. GRAVES: Fine, we would like to.
H.M. JR: As long as it is not too far away. They had me jumping on and off of trains. Mrs. Morgenthau and I were scheduled to go on the twelve o'clock train, twenty hours and a half, and just before they left they took us off and we came seven hundred and fifty miles in three hours and fifteen minutes.

MR. SULLIVAN: Nice wind.

H.M. JR: We were going two hundred and fifty miles an hour - tail wind.

The other thing that is bothering me - where is Paul?

MR. CAIRNS: Last night he made a speech in Philadelphia.

H.M. JR: Will he be in tomorrow?

MR. CAIRNS: No, he is making one today in New York.

H.M. JR: I saw a little squib in the paper, something about the five percent tax and how the employer has to notify the employee - something in this morning's paper over my name.

MR. SULLIVAN: Yes, sir.

H.M. JR: I think, Ferdie, what I would like to do, if they would be willing to do this thing - the Advertising Council - take just that thing, that ought to go out to all the Labor press through our War Bond Labor people. But I would like very much if the Advertising Council would come in on it, to have them study the relationship between the Treasury and the taxpayer.

MR. KUHN: I had a long talk with Guy Lemmon last night about it, asking his advice and opinions on it. I would like to go along with it today.
H.M.JR: I would like to study it. They had three very smart newspapersmen in St. Louis interviewing me. The thing has gotten out all over the country that we sort of take a relish in making it just as difficult as possible for the taxpayer to pay instead of doing what I explained, that we do everything we can to smooth the way, and so forth. It is a public relations job, and there is a big job to be done.

I have spent so much time, first on War Bonds, and now Victory Fund, and I have not spent enough time on this other thing.

I think there is a big public relations job, a big story to tell, Ferdie and Herbert. I think if these advertising people could come in and study the thing so that we can go to the people, and particularly the working man and the working woman, and explain to them the various things that we have done - I hope you have that memo, Roy.

MR. BLOUGH: I have a memo.

H.M.JR: Hold onto it.

MR. SULLIVAN: You say this was over your name?

H.M.JR: It is a little announcement--

MR. SCHWARZ: This morning's story on the extension of time on the Victory Tax.

H.M.JR: It gets so much space. For instance, the labor press - did you do anything with the labor press?

MR. SCHWARZ: Yes, sir.

H.M.JR: What did you do with that?

MR. SCHWARZ: We sent it out.
H.M. JR: But you have been on that, Ferdie. There is a big job to be done.

MR. KUHN: They have good ideas, and they are very much interested in it. They regard themselves as advisors on all phases of the Treasury's job right now.

H.M. JR: Good. Is Mr. Harold Thomas in Cleveland and Toledo on Treasury business or his own?

MR. KUHN: I think his own, today and tomorrow.

H.M. JR: Did he get permission to attend to his own business? (Laughter) I will not disturb him, but if he could come down, maybe Thursday--

MR. KUHN: Would you like to see Guy Lemmon today?

H.M. JR: We will see how we get along.

MR. KUHN: He would be helpful.

MR. GASTON: That Ruml plan drive has been advertising the Treasury as against pay-as-you-go.

H.M. JR: That is right. I explained to them as best I could where we stand on this thing.

MR. GASTON: In at least one of Randolph's speeches he was going to talk about how the Treasury has been working to try to accomplish a genuine pay-as-you-go plan and that we were the first in the field to try to do that.

H.M. JR: Anything special, Dan?

MR. BELL: I would like to get an amendment to the regulations on the Savings Bonds, changing the "F, and G from 'War Savings Bonds' to just 'Savings Bonds.'" That is effective today.

H.M. JR: Say that again.
MR. BELL: This changes the name of War Savings Bonds, Series F and G, to just "Savings Bonds." It eliminates the word "War", as you had agreed upon.

(Document referred to signed by the Secretary.)

H.M. JR: Do you know what they called - I guess you people who were at Kansas City know what they call the E, F and G Bonds, don't you?

MR. GRAVES: I don't think I know what you mean.

H.M. JR: Eleanor, Franklin, and God. (Laughter)

MR. BELL: That is pretty good.

H.M. JR: I have to go up to this Byrd Committee. I thought it would give me a chance to see old man Doughton. That is what I am really going up there for, without seeming to seek him out. If anybody has any emergencies you can tell Stephens about them.

Have you got some stuff?

MR. BELL: No. Yesterday we got a billion two hundred and twenty million bids on Treasury bills, and the rate went down from three seventy to three sixty-eight.

H.M. JR: Anybody got anything special today?

MR. THOMPSON: Mr. McReynolds is handling your deferment cases. They are all going to be approved.

H.M. JR: Good for Mac. That shows sense, instead of having Rosenman do it.

MR. SULLIVAN: There were forty-eight letters to governors of the States with regard to the distribution of this tax folder. Do you want to sign those personally? They are written for your signature.
H.M. JR: He (Buffington) has forty-eight letters
to the governors, too. Have you talked with Kuhn?

MR. SULLIVAN: The program in the original instance
was cleared with Ferdie.

H.M. JR: I mean you had better talk to him again
so we do not overlap on this governor business. On
stuff that I have to sign which has a public relations
angle, to save my time I wish you people would talk to
Kuhn before it comes to me. Now, George Buffington
had forty-eight letters all typed and we had to turn
them down.

Would you? It saves me time.

MR. SULLIVAN: Certainly.

H.M. JR: Harold, have you anything pressing?

MR. GRAVES: Mr. Gamble and I are planning to
go to Cleveland to be there Friday to meet with our
people, if that is agreeable to you.

H.M. JR: Is Odegard here today?

MR. GRAVES: He is due here today. He gets off
the train early in the morning, and he probably has
not reached here yet.

H.M. JR: All right, I will run up on the Hill.
December 1, 1942
12:09 p.m.

HMJr: Hello.
Operator: Governor Lehman in Albany.
HMJr: Hello. Hello.
HMJr: How are you?
L: First rate. How are you.
HMJr: Herbert, I'm all right and Elinor's all right.
L: Fine.
HMJr: Edith?
L: She's fine. And the boys?
HMJr: They're all right.
L: Good.
HMJr: And yours?
L: I think - as far as I know, they're all right.
HMJr: Herbert, the reason I'm calling you is this, I don't know whether you want to do this sort of thing, but....
L: I - I can't get that....
HMJr: Hello? Can you hear me?
L: Yes, I can now.
HMJr: Thursday night....
L: Yes.
HMJr: ....at the suggestion of Sam Rosenman, I'm having a few people together at my house for supper to discuss Palestine....
L: I see.
HMJr: ....and what we should advise the President....
L: Yes.
HMJr: ....and it was just five or six people - hello?
L: Yes, sir, Henry.
HMJr: And if you were going to be here, I'd very much like to have you.
L: Henry, I won't be able to be there because I've got to see a number of people in New York....
HMJr: Oh.
L: ....late on Thursday afternoon.
HMJr: I see.
L: I've made engagements, and I won't be down in Washington until very late on - on Thursday night or possibly even Friday morning.
HMJr: Well, I'm sorry.
L: I'm awfully sorry. I would have liked to have sat in, and I hope to sit in on other gatherings.
HMJr: You'll have plenty of opportunity.
L: All right. I'm sure of that.
HMJr: Don't worry.
L: All right.
HMJr: All right, Herbert.
L: I'll be down on Friday, and I hope to see you soon afterwards.
HMJr: Well, I hope so.
L: All right. Give my love to Ellie.
HMJr: Elinor sends you here.
L: Thanks.
December 1, 1942
12:16 p.m.

HMJr: ....west and I've been reading the papers and hearing on the radio that they're thinking that you're going in to take over the Manpower.

Harold Ickes: That's a hell of a job to....

HMJr: And....

I: ....give me, isn't it?

HMJr: ....and the purpose of my call was to say that I'd hoped that you take it, and this is just me. Nobody suggested I call you up.

I: Well, I don't want it, Henry. I....

HMJr: Well, I can imagine how....

I: ....I don't see how I can....

HMJr: Uh.

I: ....take it and abandon this department to certain other gentlemen.

HMJr: Well, that was what I was going to - strictly off-the-record - say. We did have a man by the name of Senator Ball once.

I: Yeah.

HMJr: What?

I: Yes, we did.

HMJr: And....

I: I think it's dreadful.

HMJr: ....and to turn this fellow loose in that department, I just wonder how much damage - how much damage could he do?

I: Oh, he could do a lot.
HMR: He could do a lot.
I: Well, we have all the physical assets except buildings.
HMR: I see.
I: The United States Government owns.
HMR: Yeah. Well, I - for whatever my two bits are worth, the Manpower thing's a mess and I know you could straighten it out.
I: Well, I'm not so sure....
HMR: But....
I: .....and I've been blue as hell over the weekend. I....
HMR: Have you really?
I: Yeah.
HMR: Oh, I'm sorry.
I: I'm depressed over the whole damn thing.
HMR: Really?
I: Yeah.
HMR: Well, I'm sorry.
I: I - God, I didn't want this job.
HMR: What?
I: I don't want that job.
HMR: Well....
I: (Laughs)
HMR: I know it's - well, this fellow in England is doing a beautiful job with it.
I: Yeah. Yes, he is.
It can be done.

Oh, it can be done but - look at the mess it’s in now.

True.

Yup.

Would you - if you took it, I take it you insist on having this - the draft thing under you.

Well, I haven’t insisted on anything. I’ve had only one talk with the President on it, and in that talk I told him I didn’t want it.

Oh.

And I told him somewhat of what I felt about McNutt coming over here....

Yeah.

...and I said, “Of course, if you need Interior for McNutt, you know it’s yours.”

Yeah.

But it’d be a whole lot easier for me to get out of the administration entirely and watch McNutt operate in Interior from the outside.

Well....

It would be dreadful for me to be still in the administration and watch him operate.

Oh. Well, I - I was glad that the President was recognizing you, and, second, that I hoped it was a straw in the wind that he might again put some of the New Dealers and his real friends back in the saddle.

Yeah. (Laughs) Well, it’s hopeful from that point of view.

Yeah. Well, I’m sure whatever you decide will be right, Harold.
I: Well, thanks, Henry.
HMJr: Goodbye.
I: Goodbye.
December 1, 1942
12:38 p.m.

HMJr: ....business?

George Buffington: Yes, sir.

HMJr: Well, what's the answer?

B: The - the comment was not in the press release.

HMJr: It was not.

B: It was in the original ad of the most important announcement made by the U.S. Treasury.

HMJr: It was in the original ad?

B: That is, referred to as the $9 billion dollar Victory Loan Drive.

HMJr: But it wasn't that I turned it over - Secretary of the Treasury.

B: No, sir, it was not.

HMJr: I see. Well, we'll....

B: I have those other ads ready to show you the progress that occurred....

HMJr: I'll see them to... I'll look it over with you sometime this afternoon.

B: Okay, sir.

HMJr: Because I want to see what - when that cropped in.

B: All right, sir.

HMJr: All right.

B: I'll have it ready for you.

HMJr: Thank you.

B: Okay.
## Funds Available for New Issues

<table>
<thead>
<tr>
<th>Fund</th>
<th>Available</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Post Fund, Veterans' Administration</td>
<td>$30,000</td>
<td>OK</td>
</tr>
<tr>
<td><strong>Post Savings System</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$25,000,000</td>
<td>25%</td>
</tr>
<tr>
<td>25% Notes</td>
<td>55,000,000</td>
<td></td>
</tr>
<tr>
<td><strong>Federal Deposit Insurance Corporation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$23,000,000</td>
<td>25%</td>
</tr>
<tr>
<td>25% Notes</td>
<td>95,000,000</td>
<td></td>
</tr>
<tr>
<td><strong>Government Life Insurance Fund</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>25% Notes</td>
<td>26,225,000</td>
<td></td>
</tr>
<tr>
<td><strong>Federal Housing Administration</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Federal Housing Administration</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual Mortgage Insurance Fund</td>
<td>$4,500,000</td>
<td>OK</td>
</tr>
<tr>
<td>Unemployment Trust Fund</td>
<td>$42,000,000</td>
<td>OK</td>
</tr>
<tr>
<td><strong>Federal Old Age &amp; Survivors Insurance Trust Fund</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>October 31 balance</td>
<td>$49,000,000</td>
<td>OK</td>
</tr>
<tr>
<td>November receipts</td>
<td>$227,000,000</td>
<td>OK</td>
</tr>
<tr>
<td><strong>Army Motion Picture Service</strong></td>
<td>None</td>
<td></td>
</tr>
<tr>
<td><strong>Indian Service</strong></td>
<td>-Net available</td>
<td></td>
</tr>
<tr>
<td><strong>Panama Canal Zone</strong></td>
<td>$500,000</td>
<td>OK</td>
</tr>
<tr>
<td><strong>Comptroller of the Currency</strong></td>
<td>None</td>
<td></td>
</tr>
<tr>
<td><strong>National Park Trust Fund</strong></td>
<td>$1,000</td>
<td>OK</td>
</tr>
</tbody>
</table>

*Approved by:*  
2:30 pm, Dec. 17/42
December 1, 1942.

Conference in Secretary Morgenthau's Office December 1, 1942 3:00 P.M.

Present: Secretary Morgenthau
The Swedish Minister
Mr. Boheman, Under Secretary of State
Mr. White

Mr. Boheman stated that his Government was making every effort in its arrangements with Germany to obtain imports to an equivalent value of their exports. Part of the favorable terms which they had been getting up to now in their dealings with Germany was to obtain the coal at pre-war prices whereas the goods Sweden was exporting to Germany were sold at current prices. He stated Germany was objecting to that provision and wished to raise the price of coal. The present negotiations may, he said, break down on that issue.

He stated that Sweden very much needed the oil it was trying to get in the United States for the Swedish Navy and Air Force — mostly heavy oil and 84 octane gasoline.

In response to a question by the Secretary, Mr. Boheman explained that there were two Norwegian ships which Britain wished them to release but Sweden could not see its way clear to letting them go because of Germany's strong opposition. He said if Sweden let the ships go he feared Germany would not let the oil Sweden badly needed come in. He said Germany was already annoyed at the number of Norwegian ships that had escaped from Swedish ports.

The Secretary expressed his thanks for the brief survey of Swedish conditions that Mr. Boheman had submitted.

H. D. White
December 1, 1942
3:27 p.m.

HMJr: Who's been shooting off his mouth about this $25,000 - on that investment?

Charles Schwarz: That United Press story and one in the A.P., I was able to check with the United Press story because....

HMJr: Yeah.

S: ....the Treasury man wrote that one. I said that I doubted that anybody in the Treasury had talked about it. He said they got most of it from the Budget, and he was able to confirm it by talking with some Treasury people down the line.

HMJr: So he got it from the Budget?

S: That's right.

HMJr: I see. Well, then....

S: And - and they - they were told that the A. P. - which - which got it first - which scooped them - got it originally from the Budget people.

HMJr: I see. Okay.

S: Right, sir.
December 1, 1942
3:51 p.m.

HMJr: Hello.
Harold Graves: Yes, sir.
HMJr: Harold? Hello.
G: Yes, sir.
HMJr: I — after all the fuss that Roy Welch made about those two boys....
G: Yes.
HMJr: ....nobody I find ever thanked the Army for their services.
G: Oh, that's terrible.
HMJr: And I'm doing it now myself.
G: Well, I'm ashamed. I didn't know that.
HMJr: Well, I mean I think that after all the fussing — and the boys did a good job.
G: They certainly did.
HMJr: Well, I'm doing it now in connection with sending copies of their records.
G: Yes.
HMJr: But you can tell Roy Welch with my compliments, it seems to me with all the fussing that he did, he might have seen that the boys — well, that something went into their official record.
G: I'll do it. Yes, sir.
HMJr: Okay, Harold.
G: Yes, sir.
Dear Sergeant Uhl:

I thought you would be interested in seeing the enclosed promotion material and memorandum from Mr. Callahan regarding "Ev'rybody Ev'ry Payday". We feel sure that the song is going to be a great success, and are indeed grateful to you for your untiring work on it.

My kindest regards and best wishes.

Sincerely,
(Signed) H. Morgenthau, Jr.

Henry Morgenthau, Jr.
Secretary of the Treasury

Sergeant Richard Uhl
80th Division Artillery Band
Camp Forrest, Tennessee

VFC/mon

Copy in Diary
Copies to Thompson

(Promotional material & records sent)
TO
Secretary Morgenthau

FROM
Vincent F. Callahan

DATE November 25, 1942

I am attaching hereto sets of promotion material on the song "Ev'rybody Ev'ry Payday" to be sent to Corporal Adair and Sergeant Uhl. I have prepared cover letters to these gentlemen for your signature.
DEC 1 1942

Dear Corporal Adair:

I thought you would be interested in seeing the enclosed promotion material and memorandum from Mr. Callahan regarding "Ev'rybody Ev'ry Payday". We feel sure that the song is going to be a great success, and are indeed grateful to you for your untiring work on it.

My kindest regards and best wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Henry Morgenthau, Jr.
Secretary of the Treasury

Corporal Thomas Adair
Radio Division
Post Public Relations Office
Fort Jackson, South Carolina

VFC/mom

Copy in Diary
Copies to Thompson

(Promotional material & records sent)
December 1, 1942
4:57 p.m.

HMJr: ..... in here with me. He tells me we have $500 million from the banks on the one-and-three-quarters.

Daniel Bell: Uh huh.

HMJr: Should I worry?

B: Not yet.

HMJr: Not yet?

B: Not yet.

HMJr: Uh huh.

B: No, I don't think that - that's two days. I suppose that's larger than we've been getting. At least, as large.

HMJr: Have you talked to them in New York?

B: Yeah, and Bob Rouse said that he and Allan had talked about it this morning, and they thought they'd wait until this evening to see what they're going to do - what came in, and then if it looked as though that they weren't coming in very good or if the mail wasn't heavy, they'd begin to call up and ask them if they'd, in their enthusiasm to sell these bonds outside of the banks, had they lost track of their own subscription.

HMJr: (Laughs) Well, you better talk to me about it the first thing in the morning.

B: Yeah, yeah. Well, I - they've got it in mind....

HMJr: Yeah.

B: ..... and I think they'll begin to put pressure on tomorrow.

HMJr: Good.
B: Yeah.
HM: You – I don't think I have to worry.
B: I don't think so. I think it's going over.
HM: I gather they don't want a one-and-three-quarters. I don't know what the hell they will take.
B: That's right. By the way, Murray Shields is tied up – two days that he's promised long time ago he's got to make a speech and he says he can't get out of it. I thought I'd send Don Woodward to Chicago....
HM: Yeah.
B: ....and let Murray Shields go to Cleveland Sunday night for three days....
HM: Yes.
B: ....and go through Ohio.
HM: Good.
B: Is that all right with you?
HM: Okay.
B: Swell.
HM: Thank you.
Original (and carbons) given to Heffelfinger's secretary 12/11/42 for transmittal to Attorney General.

Photo file in Diary

(Signed) Ramsey S. Black. (Signed) Francis Biddle
At a meeting of the Board of Trustees of the Postal Savings System held at Washington, D. C., on this date, the following action was taken:

WHEREAS on December 1, 1942, the President authorized the Board of Trustees of the Postal Savings System to purchase from postal-savings funds, bonds to the aggregate amount of one hundred million dollars ($100,000,000), par value, in addition to securities already authorized to be purchased, embracing any or all of these classes—(1) bonds or other securities of the United States; (2) bonds of the Federal Farm Mortgage Corporation authorized by Act of Congress approved January 31, 1934, fully guaranteed both as to principal and interest by the United States; and (3) bonds of the Home Owners' Loan Corporation authorized by Act of Congress approved April 27, 1934, fully guaranteed both as to principal and interest by the United States;

RESOLVED, That pursuant to the authority conferred by the President, the Board of Trustees hereby authorizes and empowers the Secretary of the Treasury to invest in any or all of the securities specified above, either by original subscription or purchase, in an aggregate amount not exceeding one hundred million dollars ($100,000,000), par value, of postal-savings funds, which, on being consummated, will leave no unexecuted balance under the President's authorization of December 1, 1942:

RESOLVED, That the Secretary of the Treasury is authorized to leave the securities purchased under this resolution with the Federal Reserve Bank of New York, to be held in safe-keeping, in coupon form, subject to his order, for account of the Board, or to have them registered in the name of the Board of Trustees of the Postal Savings System and deposited with the Treasurer of the United States as custodian for such Board, whichever the Secretary of the Treasury may elect.

[Signatures]

Postmaster General

Secretary of the Treasury

Agent of the Board

Attorney General
Office of the Postmaster General
Washington, D.C.

DEC 1 1942

The President:

The undersigned members of the Board of Trustees of the Postal Savings System hereby respectfully request that they be authorized to purchase bonds to the aggregate amount of one hundred million dollars, par value, in addition to securities already authorized to be purchased, embracing any or all of the classes described below:

(1) Bonds or other securities of the United States.

(2) Bonds of the Federal Farm Mortgage Corporation authorized by Act of Congress approved January 31, 1934, fully guaranteed both as to principal and interest by the United States.

(3) Bonds of the Home Owners' Loan Corporation authorized by Act of Congress approved April 27, 1934, fully guaranteed both as to principal and interest by the United States.

Power to grant the authority desired is conferred upon the President by the Act of May 18, 1916, amending the Organic Postal Savings Act; by the Federal Farm Mortgage Corporation Act, approved January 31, 1934; and by the Home Owners' Loan Act of 1933, as amended by the Act of Congress approved April 27, 1934.

Very respectfully,

[Signature]
Postmaster General

[Signature]
Secretary of the Treasury

Attest:

[Signature]
Agent of the Board

Approved,
TO Secretary Morgenthau
FROM Mr. Haas

Subject: Recent Developments in the High-grade Security Markets

SUMMARY

(1) The announcement, on November 20, of the Treasury’s December financing program set in motion a decline in the prices of Treasury bonds, which continued up to the eve of the financing campaign (Chart I). Partially tax-exempt bonds suffered somewhat more than taxable bonds (Chart II). The net increase in the Government security portfolio of the Federal Reserve Banks in the period November 19-23, amounted to $327 millions. Purchases of taxable bonds in this period were confined principally to intermediate-term bonds, with the result that price declines were small in this range as compared with the declines in the prices of longer issues which were, for the most part, unsupported.

(2) Excess reserves of member banks were, at the last weekly report date, about $2,525 millions (Chart III). It is estimated that the effect of the increase of money in circulation and of the growth in deposits resulting from the sale of new Treasury securities to banks would be to reduce excess reserves to about $1,100 millions by the end of December, unless offset either by Federal Reserve purchases of Governments or by a reduction of reserve requirements.

(3) New money corporate and municipal bond offerings in the New York market continue small. In the refunding field, the City of Philadelphia has offered an exchange to holders of $162 millions of bonds first callable from 1944 to 1953, at an interest saving of about $45 millions. Insurance companies have recently been taking advantage of the growing scarcity of tax-exempt bonds to sell some of their holdings of municipals.

(4) The decline of commercial loans of weekly reporting member banks in leading cities, which commenced last March, has slackened during the past two months (Chart IV).
I. United States Government Securities

The reaction to the Treasury's announcement on Friday, November 20, regarding December financing was by far the most significant development in the market for Government securities during November. On the day of the announcement, most outstanding Treasury bonds, both taxable and tax-exempt, lost ground sharply; and they continued to decline through Saturday, November 28. There was no rally before the beginning of the campaign for the new financing. The average decrease in the price of Treasury bonds with 15 years or more to their earliest call date was slightly more than 1/2 point, while that of intermediate-term bonds was about 1/4 point (Chart I). Partially tax-exempt bonds suffered somewhat more than taxable bonds (Chart II). Net changes in prices of Treasury notes were negligible.

Purchases by the Federal Reserve Banks aggregated $421 millions in the period November 19-28. They consisted of $171 millions of bills, $50 millions of certificates, $100 millions of other taxable issues, and $100 millions of partially tax-exempt bonds. Sales, confined solely to bills, amounted to $78 millions and bill maturities were $16 millions, with the result that the net increase in the combined portfolio was $327 millions.

Federal Reserve open-market purchases were confined principally to the intermediate bonds, with the result that their price declines were smaller than might have been expected by comparison with the movements of the longer issues. This is illustrated with respect to taxable issues in the following table:

<table>
<thead>
<tr>
<th>Issue</th>
<th>Price change (In thirty-seconds)</th>
<th>Federal Reserve purchases (Millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 percent bond 9/15/49-51</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>2 percent bond 12/15/49-51</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>2 percent bond 3/15/50-52</td>
<td>0</td>
<td>23</td>
</tr>
<tr>
<td>2-1/2 percent bond 3/15/56-58</td>
<td>-15</td>
<td>0</td>
</tr>
<tr>
<td>2-1/2 percent bond 6/15/62-67</td>
<td>-12</td>
<td>0</td>
</tr>
<tr>
<td>2-1/2 percent bond 9/15/67-72</td>
<td>-16</td>
<td>0</td>
</tr>
</tbody>
</table>
It will be remembered that the new restricted issue was made a 1963-65, rather than a 1965-70, primarily in order to make it "sweet". Sweetness, however, is a relative thing and depends principally upon the position of an issue in relation to the rest of the market. Now, as a result of the decline in the long end of the market, a 1963-65 is no sweeter than a 1965-70 would have been two weeks ago. Thus, because of the absence of Federal Reserve support, the principal effect of the liberal pricing of the new issue has been to raise the whole pattern of rates at the long end of the market, rather than to enhance the attractiveness of the new issue.

The forthcoming offerings of the 7/8 percent certificates of indebtedness due December 1, 1943, and the 1-3/4 percent bonds due June 15, 1948, had no appreciable effect on outstanding issues in these maturity ranges.

II. Outlook for Member Bank Reserves During the Remainder of the Year

The December Treasury financing gives special importance to the reserve position of member banks at the present time. The October financing was the first occasion on which the banks were asked to subscribe for more Government securities than the amount of their excess reserves. This was, without doubt, an important factor in the failure of the banks to make a large oversubscription as they had done in the past. The December financing will not pose so great a problem because the offering dates for commercial banks for the 1-3/4 percent bond and the 7/8 percent certificate of indebtedness are 16 days apart. The amount to be offered to banks is, in each case, $2.0 billions, however, so it cannot be said that the problem is entirely absent.

Excess reserves of member banks are currently about $2,525 millions - about $550 millions in New York City, $25 millions in Chicago, and $1,950 millions in other localities (Chart III). December is customarily marked by a high seasonal level of money in circulation which has the effect of reducing excess reserves; and to this must be added a strong upward long-time trend of circulating currency. Additional reserves will be required against the deposits created by the Treasury's borrowing from the banks. This, too, will have the effect of reducing the excess reserves of member banks. On the other hand, none of the factors which tend to increase member bank reserves, except Federal Reserve purchases of Government securities, have been active recently.

A confidential estimate of probable changes in excess reserves for the last six weeks of the year, making no allowance for possible action by the Federal Reserve System, prepared by Dr. Goldenweiser for the Federal Reserve Board, has been made.
available to the Treasury. This estimate is substantially corroborated by Mr. Roelke of the Federal Reserve Bank of New York. It is presented in tabular form below (in millions of dollars):

<table>
<thead>
<tr>
<th>Excess reserves, November 15, 1942</th>
<th>2,489</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net changes, November 15-December 30, 1942:</td>
<td></td>
</tr>
<tr>
<td>Increase of currency in circulation</td>
<td>765</td>
</tr>
<tr>
<td>Less decrease in required reserves due to substitution of currency for deposits</td>
<td>153</td>
</tr>
<tr>
<td>Net effect of currency increase in reducing excess reserves</td>
<td>612</td>
</tr>
<tr>
<td>Increase in required reserves due to growth of deposits</td>
<td>763</td>
</tr>
<tr>
<td>Reduction in reserve held due to increase in Treasury balance with Federal Reserve Banks</td>
<td>20</td>
</tr>
<tr>
<td>Excess reserves, December 30, 1942, before allowing for Federal Reserve purchases of Government securities</td>
<td>1,094</td>
</tr>
</tbody>
</table>

With aggregate reserves at this low level, some individual banks would undoubtedly have lost all of their excess reserves some time since. The fear of such a situation tends to enforce conservatism upon the banks when they are subscribing to Treasury issues. In the interests of successful Treasury financing, such a situation should not be permitted to exist. Excess reserves should be maintained at or above their present levels, either by purchases of Government securities by the Federal Reserve Banks or by further reductions of reserve requirements. Of these two courses, the former would appear to be preferable from the standpoint both of economy in financing during the war and of postwar monetary control. As the table above indicates, the net decrease in excess reserves which would have to be offset by Federal Reserve purchases of Government securities between November 15 and December 30 is estimated to be about $1,400 millions, or about $233 millions weekly. During the first week of the period (November 15-25), such purchases amounted to $148 millions.
III. Other Recent Bond Market Developments

The volume of new bond offerings to the public in the New York market continues small. During November, the total was only about $6 millions, as compared with about $131 millions for the corresponding period a year ago.

In the refunding field, an outstanding event of recent weeks has been the exchange offer made by the City of Philadelphia, through a nation-wide banking group, of Refunding Bonds of 1942, to holders of $162 millions of its bonds which are first callable between 1944 and 1953, inclusive, and which bear coupons ranging from 4 to 5 percent. The new securities will bear interest at the rates of the securities surrendered in exchange until the first call date of the latter, and thereafter at 3-1/4 percent. The estimated saving to the City, according to press reports, will be about $45 millions. The terms of exchange and the interest saving to the City furnish a pertinent example of the value to an issuer of optional call dates in its obligations.

Another illustration of the disadvantage to an issuer of having no option to call his securities before maturity is the offer, on November 24, of the Bethlehem Steel Corporation to redeem $7.5 millions of 6 percent bonds due in 1998, but not callable prior to maturity. According to press reports, the Corporation wishes to take advantage of the provision in the Revenue Act of 1942 which permits corporations to take immediate credit against the refundable portion of the excess profits tax to the extent of 40 percent of the amount by which they reduce their indebtedness. In order to do so, however, the Corporation has found it necessary to offer to purchase the securities at 121! Thus the cost of redeeming $7.5 millions of securities would be about $13.6 millions.

The small amount of new offerings and the general strength of the State and municipal bond market have stimulated some insurance companies to reoffer blocks of securities which they had previously acquired. Within the past few weeks, the Prudential Insurance Company has thus disposed of $14 millions of State of New Jersey bonds, $4 millions of City of Utica, New York, bonds, and $5 millions of Nashville, Tennessee, electric revenue bonds. It is also reported in the press that the same company has disposed of other blocks of tax-exempt issues privately, and that the New York Life Insurance Company has also been reducing its holdings of municipals.
Secretary Morgenthau — 6

Presumably, these companies, and any others which may be following a similar policy, are placing themselves in a position to take a larger amount of new Treasury issues than would be possible on the basis of their normal accumulations alone. Such a course is undoubtedly advantageous from their point of view, inasmuch as the tax-exemption privilege is of relatively little value to them and as it has been possible to dispose of the issues at prices higher than those at which they were acquired. This situation is, of course, the natural consequence of the growing scarcity of fully tax-exempt securities, and it may be expected to persist as long as any such securities, which are most valuable to taxpayers in the upper surtax brackets, are held by tax-exempt institutions.

IV. Commercial Loans of Member Banks

The decline in the commercial loans of weekly reporting member banks in leading cities, which commenced last March, has slackened during the past two months (Chart IV). Apparently, Regulation V loans have served so far only partially to offset declines of bank loans in other quarters. During the reporting week ended November 11, the General Motors Corporation drew against its billion-dollar Regulation V credit to the amount of $50 millions. During the same week, commercial loans of weekly reporting banks increased by $44 millions. In the following two weeks, however, commercial loans declined again by $124 millions.

New Regulation V credits reported in recent weeks include one of $60 millions for the Lockheed Aircraft Corporation (the first of such credits for the airplane industry), and one of $30 millions for the Vega Aircraft Corporation. It is also reported that a credit of $200 millions for the Bendix Aircraft Corporation will be arranged soon.

Attachments
Table I

CHANGES IN THE PRICES OF U.S. SECURITIES
Points Plotted Represent the Difference from December 6, 1941 Price of Each Maturity Class

Saturday Quotations

Points (Net Change)

Daily

Points (Net Change)
AVERAGE YIELDS OF LONG-TERM TREASURY AND CORPORATE BONDS

**Table II**

**WEEKLY Saturday Quotations**

- Partially tax-exempt Treasury Bonds
- Taxable Treasury Bonds
- High-Grade Corporate Bonds

**PERCENT**

*Change in composition of Long-Term Treasury average*

Regraded Unclassified
Table III
MEMBER BANK EXCESS RESERVES

All Member Banks

New York City Banks

Chicago Banks

*Change in reserve requirements
HENRY MORGENTHAU
SECRETARY OF THE TREASURY

ALL OF US HERE AT CHICAGO METROPOLITAN AREA VICTORY FUND
DINNER EXPRESS GRATITUDE FOR YOUR THOUGHTFUL AND ENCOURAGING
MESSAGE WHICH WAS RECEIVED WITH ENTHUSIASM. WE ARE DEEPLY
CONSCIOUS OF THE IMPORTANCE OF OUR TASK AND ARE GIVING IT OUR
BEST ATTENTION AND EFFORT "PICK OUT THE BIGGEST ONE AND FIRE"
- THE ORDER GIVEN BY CAPT. EDWARD J. MORAN, OF THE U.S.S.
BOISE, WHO IS OUR GUEST, IS THE KEYNOTE OF OUR CAMPAIGN. WE
ARE PICKING OUT OUR BIGGEST PROSPECTS AND FIRING, AND LIKE THE
BOISE, WILL KEEP ON FIRING TO BRING US OUT ON TOP.

JAY N. WHIPPLE, CHAIRMAN.

757 AM DEC 2.

Regraded Unclassified
December 1, 1942

Mr. Jay Z. Whipple
Investment Bankers Association
135 South LaSalle Street
Chicago, Illinois.

PLEASE CONVEY TO THE GUESTS AT YOUR DINNER MY DEEP SATISFACTION OVER THE WAY THE SECURITIES INDUSTRY HAS JUMPED TO WORK ON THE VICTORY LOAN DRIVE, FOR NINE BILLION DOLLARS OF BORROWED FUNDS. YOUR GATHERING PROVES AGAIN THE SPLENDID MORALE OF THE HOME FRONT IN FACING THE BIGGEST FINANCIAL TASK EVER PLACED BEFORE IT. WHEN THE PRESIDENT BOUGHT THE FIRST OF THE VICTORY TWO-AND-ONE-HALF PERCENT NOTES, HE SAID THAT WE MUST MAKE OUR DOLLARS FIGHTING DOLLARS BY INVESTING THEM IN GOVERNMENT BONDS. NOTHING LESS THAN THE FORGING OF FUNDS INTO FIGHTING WEAPONS IS INVOLVED IN THIS DRIVE. SUCCESS IN OUR EFFORTS IS ESSENTIAL TO THE CONTINUED PERFORMANCE OF MIRACLES OF COURAGE BY OUR FIGHTING MEN ON LAND, ON SEA, AND IN THE AIR. THERE CAN BE NO SLACKENING IN OUR EFFORTS. I KNOW I CAN COUNT ON YOU TO SEND THIS DRIVE OVER THE TOP IN TRIUMPH.

Henry Morgenthau, Jr.
Secretary of the Treasury
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 sales of Bonds to these employees throughout the country so far has resulted in criticism, 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.

It is my understanding that District Engineers of the War Department receive directives to proceed on construction projects which are approved here in Washington. It will be appreciated if the District Engineers, upon receipt of directives for projects involving $100,000 or more, will immediately advise the Administrator of the War Savings Staff for the State in which the project is located. Information as to the location, duration, amount of money involved, and the contractor to whom the contract is awarded will be very helpful.

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 and all their sub-contractors install a Payroll Savings Plan for the convenient and systematic sale of War Savings Bonds to their employees.

Very truly yours,

Secretary of the Treasury.

The Honorable,
The Secretary of War,
Washington, D. C.
Dec. 1, 1942

Dear Frank:

Last June, the Navy Department very kindly agreed to cooperate in our War Savings program through the placement of a plaque on ships "built" by the War Bond purchases of cities and counties.

The practical development of this plan has shown that the program could be very greatly extended in scope and interest if organizations, as well as cities and counties, could be included.

I have in mind such organizations as the American Legion, certain labor unions, the employees, as a group, of various manufacturers, etc.

We are, incidentally, expecting to promote this "Sponsor a Fighting Ship" plan on a nationwide scale in February, and it would be most helpful if we could include organizations in the drive.

Sincerely,

Henry

The Honorable,
The Secretary of the Navy.
Dec. 1, 1942

Mr. K. H. Fulton
Director of War Activities
Outdoor Advertising Association of America
60 East 42nd Street
New York, New York

Dear Mr. Fulton:

I have read with much interest the interim report on Outdoor Advertising activities that you submitted at the recent meeting here at the Treasury.

The importance of a continuous, sustained endeavor in a program such as that of the War Savings Staff cannot be over-estimated.

The large number of participating sponsors, the impressive space value and the nationwide distribution of the displays are all indicative of the high caliber of your organization's effort ... which we trust will continue to play the same important part for the duration that it has in the past.

Sincerely yours,

H. Morgenthau Jr
### Sales of United States Savings Bonds

**November 1 through November 30, 1942**

Compared with sales quota for same period

(At issue price in millions of dollars)

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**Total**

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

Source: Actual sales figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. Figures have been rounded and will not necessarily add to totals.

December 1, 1942.
Dear Mr. Secretary:

I told you I would let you know about the offer you made me.

I am not in a position yet to be definite. It is my intention to go through the clinic at the University of Michigan immediately after January 1. I think I will be there about a month. I want to defer making any decision as to my future until that is over.

Again thanking you for the opportunity,
I am,

Sincerely yours,

Prentiss M. Brown

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

There are a number of former Treasury men now in the Navy recently commissioned as Ensigns or Lieutenants who are stationed in Washington. They are, I am informed, engaged in duties pertaining to noncombatant service such as Intelligence, Censorship, Accounting, and the like.

From time to time we need men with Treasury training to send abroad either to work with the occupation forces on problems dealing with monetary, exchange, banking and fiscal matters, or in connection with the new Foreign Territory Group recently set up in the State Department to assist in civil administration connected with the occupation.

In the past year, we have lost the services of a number of our men and find difficulty in fulfilling the calls made upon us. I am wondering whether you would consider placing on the inactive list several of the former Treasury men referred to above. For the present, we should like particularly to have Lt. Frank A. Southard, Jr., Reserve Officer in Naval Intelligence, placed on the inactive list to be detailed to the Treasury so that we could send him immediately to North Africa.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of the Navy

CC in Diary
Copies to White 12/2/42

Del. by Harmon 5:17
12/1/42
AMENDMENT NO. 1 OF
ORDER OF THE SECRETARY OF THE TREASURY
OF AUGUST 19, 1940

Effective as of the date hereof, paragraph 2
of the Order dated August 19, 1940, relating to
purchases of supplies pursuant to section 40 of
the Emergency Relief Appropriation Act, fiscal
year 1941, and Executive Order No. 8495 of July 26,
1940, is hereby revoked.

Secretary of the Treasury
THE SECRETARY OF THE TREASURY
Washington

August 19, 1940

ORDER OF THE SECRETARY OF THE TREASURY

1. Effective as of the date hereof, the Director of Procurement and the Assistant to the Director of Procurement, each are designated and empowered to make awards and enter into contracts for the purchase and transportation of supplies, other than agricultural supplies, for distribution by The American Red Cross, pursuant to Section 40(a) of the Emergency Relief Appropriation Act for the fiscal year 1941, Public Resolution No. 88, 76th Congress, and Executive Order No. 8495 dated July 26, 1940, and jointly with The American Red Cross to determine the supplies to be purchased for such purpose.

2. No contract for the purchase of such supplies shall be entered into without prior compliance with Section 3709 of the Revised Statutes, unless such contract shall have been approved by the Secretary of the Treasury or an Assistant Secretary thereof.

3. The Director of Procurement is further authorized to deliver or cause to be delivered such supplies so purchased to The American Red Cross at such points as it shall designate and to require such evidence of the receipt thereof by The American Red Cross as he shall determine.
4. The Director of Procurement is further authorized to utilize the services of any officer or employee of the Procurement Division in carrying out the functions which he is authorized to perform under this order.

/s/ H. Morgenthau, Jr.

Secretary of the Treasury.
MEMORANDUM TO THE SECRETARY:

Our purchasing for the "Red Cross" or refugee relief program, as you know, was taken on before we got into Lend-Lease procurement and into the field of purchasing by negotiation on a large scale. At that time, in August, 1940, we thought it advisable to require your approval or that of an Assistant Secretary in all cases involving the purchase of refugee relief supplies by negotiation, and a provision requiring such approval was contained in paragraph 2 of your order of August 19, 1940.

Now that we are handling transactions of far greater magnitude by negotiation, it has seemed to me that you might wish to do away with the requirement that each negotiated purchase of refugee relief supplies be approved by you or by an Assistant Secretary, and I think that such a step might safely be taken.

I am therefore attaching for your consideration a proposed order which would eliminate that requirement.

Director of Procurement.

Attachments
My dear Mr. Byrnes:

I have your letter of November 23, 1942, asking that I inform you as to the standards of profit control applied in my Department, as well as those which, in my opinion, would best effectuate the purposes of Executive Order No. 9025 with respect to the negotiation and renegotiation of contracts.

Purchases by negotiation, as distinguished from purchases made after competitive bidding, are made under authority of Executive Order No. 9025. Such contracts are ordinarily concluded after face to face dealings, telephone, telegraph, or informal written offers. The method followed and the number of prospective contractors which are contacted will be generally governed by the circumstances involved.

All contracts executed require the contractor to certify his compliance with applicable price ceilings and contain the usual covenant against contingent fees clause.

In placing contracts by negotiation, primary emphasis is placed upon securing deliveries or performance within the time required by the war program. Contracts are placed with concerns needing to acquire the least amounts of new machinery, equipment, or facilities for performance of the contracts. It is the policy of the Procurement Division of the Department to avoid contracting for the production of items or materials in
communities or areas in which acute labor shortages are known to exist whenever it is practicable to procure the needed items or materials elsewhere. Contracts are placed so as to spread production among as many firms as is reasonable and feasible consistent with delivery requirements.

Awards are recommended and reviewed by officers thoroughly familiar with the item or material being purchased and at this point prices are considered to ascertain whether or not they appear to be excessive. Admittedly, the pressure of time is such that such scrutiny cannot in all cases be adequate to protect the Government's interests on the price side, and this, as we view it, is one of the considerations that led to the renegotiation statute.

In all of the above efforts, the Procurement Division works very closely with the War Production Board to bring about the realization of the overall objectives of the War Powers Procedure.

The Treasury Department was not authorized to renegotiate contracts until October 21, 1942, the date of passage of section 501 of the Revenue Act of 1942. Prior to that time, however, there was established within the Procurement Division of the Treasury Department a board known as the Contract Review Board whose functions were to examine all negotiated contracts and all non-negotiated contracts in excess of $10,000 and to determine, in general, the reasonableness of prices paid by the Procurement Division on articles it purchased. This Board will exercise the authority conferred by the renegotiation law, and will work in cooperation with the Price Adjustment Boards of the War and Navy Departments and the United States Maritime Commission.

Inasmuch as the Department was given the renegotiation power on October 21, 1942, it has had little occasion
actually to renegotiate any contracts. In the only cases which have so far arisen, the contractor had contracts in much greater amounts with other agencies, the contracts with this Department being relatively small. In each of these cases the agencies having the greatest number and amount of contracts did the actual renegotiating, and the Department, after independent examination, approved the settlements made.

With respect to the standards of profit control which would best effectuate the purposes of Executive Order No. 8250, the matter is one in which the Department is very interested and to which it is giving considerable study. Any suggestions that you can make would be appreciated, and the Department will be pleased to cooperate with you in any way possible. The Department’s views on the general subject of excessive profits and the renegotiation of contracts are set forth in the testimony of the Treasury representatives at the hearings before the Senate Committee on Finance on the amendments to section 403 of the Sixth Supplemental National Defense Appropriation Act and in Mr. Randolph Paul’s testimony before the House Committee on Naval Affairs during the hearings on H. R. 6790 (see pages 2740-2757). Copies of the aforementioned hearings containing the relevant testimony are enclosed.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. James F. Byrnes Economic Stabilization Director Washington, D. C.

Enclosures.

JH:11-27-42
JJO’C.Jr:ERF/lsw
11-28-42

File to Thompson
Photo file in Diary

Del. by Harmon 5:17
12/1/42
THE ATTACHED LETTER HAS BEEN PREPARED FOR YOUR SIGNATURE IN ANSWER TO JUDGE BYRNE'S LETTER TO YOU ON THE SUBJECT OF NEGOTIATION AND RENEGOTIATION OF CONTRACTS.

MOST OF THE FACTUAL MATERIAL WAS OBTAINED THROUGH MR. MACK, AND THE LETTER WAS ACTUALLY DRAFTED BY MESSRS. O'CONNELL AND FEIDLER OF MY OFFICE.

I DISCUSSED THE INCOMING LETTER WITH MR. SULLIVAN, AND IT IS HIS VIEW THAT AT THIS STAGE THE MATTER IS NOT OF DIRECT CONCERN TO REVENUE. FOR THIS REASON MR. SULLIVAN DID NOT THINK IT NECESSARY THAT HE PARTICIPATE IN THE DRAFTING OF THE REPLY.

LETTER TO HON. JAMES F. BYRNE ATTACHED.
To: Mr. Paul
Mr. Sullivan
From: Secretary Morgenthau

Nov. 25, 1942

Would you please collaborate on this and have something ready for me on Monday morning.
My dear Mr. Secretary:

Executive Order No. 9250 charges me with the responsibility for formulating and putting into effect a comprehensive national policy with respect to profits. Furthermore, the Price Administrator is directed to take account of excessive profits in fixing the prices of those items now under ceiling control.

Such a comprehensive national policy must find application in the negotiation and renegotiation of government contracts.

I should, therefore, be grateful if you could inform me as to the standards of profit control now applied in your Department; as well as those which, in your opinion, would best effectuate the purposes of Executive Order No. 9250.

Sincerely yours,

[Signature]

Director.

Hon. Henry Morgenthau,
Secretary of the Treasury,
Washington, D. C.
MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended November 28, 1942.

Mr. Harry Hopkins, Chairman of the President's Soviet Protocol Committee, called a meeting of the Committee on November 25, 1942, which I attended, and it was decided that a subcommittee consisting of representative members of the entire Committee would undertake the determination of supply problems affecting the Soviet program. The immediate problem under consideration is the accumulation of supplies, primarily steel products, which are in excess of indicated available shipping. Diversion of certain of such stocks and curtailment of production will be undertaken in order to maintain a stock sufficient but not in excess of scheduled shipping for the USSR.

Clifton E. Mack
Director of Procurement
<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>U.K.</th>
<th>Russia</th>
<th>China</th>
<th>Administrative Expenses</th>
<th>Miscellaneous &amp; Undistributed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocations</td>
<td>$2639.3</td>
<td>$1247.5</td>
<td>$778.1</td>
<td>$58.2</td>
<td>$8.7</td>
<td>$451.8</td>
</tr>
<tr>
<td></td>
<td>(2434.3)</td>
<td>(1243.7)</td>
<td>(774.3)</td>
<td>(58.2)</td>
<td>(8.7)</td>
<td>(353.9)</td>
</tr>
<tr>
<td>Purchase Authoriza-</td>
<td>$1883.7</td>
<td>$1090.0</td>
<td>$732.7</td>
<td>$41.1</td>
<td>-</td>
<td>$19.9</td>
</tr>
<tr>
<td>tions (Requisitions)</td>
<td>(1849.0)</td>
<td>(1083.4)</td>
<td>(704.2)</td>
<td>(41.3)</td>
<td>-</td>
<td>(20.1)</td>
</tr>
<tr>
<td>Requisitions Cleared</td>
<td>$1794.4</td>
<td>$1076.7</td>
<td>$657.0</td>
<td>$41.1</td>
<td>-</td>
<td>$19.8</td>
</tr>
<tr>
<td>for Purchase</td>
<td>(1772.2)</td>
<td>(1070.9)</td>
<td>(640.3)</td>
<td>(41.2)</td>
<td>-</td>
<td>(19.8)</td>
</tr>
<tr>
<td>Obligations (Purchas-</td>
<td>$1731.4</td>
<td>$1047.1</td>
<td>$624.2</td>
<td>$41.1</td>
<td>$2.9</td>
<td>$16.1</td>
</tr>
<tr>
<td>es)</td>
<td>(1715.2)</td>
<td>(1036.7)</td>
<td>(618.7)</td>
<td>(41.0)</td>
<td>(2.9)</td>
<td>(15.9)</td>
</tr>
<tr>
<td>Deliveries to Foreign</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governments at U. S.</td>
<td>$753.7</td>
<td>$597.2</td>
<td>$131.0</td>
<td>$20.2</td>
<td>-</td>
<td>$5.3</td>
</tr>
<tr>
<td>Ports*</td>
<td>(739.0)</td>
<td>(586.7)</td>
<td>(126.9)</td>
<td>(20.2)</td>
<td>-</td>
<td>(5.2)</td>
</tr>
</tbody>
</table>

*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 21, 1942.
EXPLANATION OF DECREASES

The reduction in Purchase Authorizations and Requisitions cleared for Purchase for China is the result of the resurvey of the cost to purchase on two requisitions.
My dear Mr. President:

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

Faithfully,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

The President,
The White House.

Enclosure

Del. by Harmon 5:17 12/1/42
File in Diary
Extra copies direct to White's office 12/2/42

FILE COPY

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

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending November 20, 1942 amounted to $45,867,000 as compared with $53,144,000 during the previous ten-day period. Military equipment accounted for $24,452,000 of the total and included 48 light bombers, 87 fighter planes and 20 tanks. (See Appendix C.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to $2,032,000, of which military equipment accounted for $773,000. (See Appendix B.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland and Portugal amounting to $443,000 and $396,000 respectively.
APPENDIX A

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

(In thousands of Dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>10-day Domestic Exports</th>
<th>10-day Domestic Exports</th>
<th>Total Domestic Exports</th>
<th>Total Domestic Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nov. 20, 1942</td>
<td>Nov. 21, 1942</td>
<td>Aug. 1, 1942 to Nov. 20, 1942</td>
<td>July 28, 1942 to July 31, 1942</td>
</tr>
<tr>
<td>U. S. S. R.</td>
<td>$ 45,867</td>
<td>$ 53,144</td>
<td>$ 464,866</td>
<td>$ 742,941</td>
</tr>
<tr>
<td>Free China</td>
<td>2,032</td>
<td>233</td>
<td>9,198</td>
<td>97,720</td>
</tr>
<tr>
<td>L. a.</td>
<td>3</td>
<td>9</td>
<td>769</td>
<td>2,858</td>
</tr>
<tr>
<td>Switzerland</td>
<td>443</td>
<td>2</td>
<td>4,694</td>
<td>11,537</td>
</tr>
<tr>
<td>Sweden</td>
<td>-</td>
<td>1</td>
<td>2,626</td>
<td>12,056</td>
</tr>
<tr>
<td>Portugal</td>
<td>396</td>
<td>-</td>
<td>1,192</td>
<td>9,743</td>
</tr>
<tr>
<td>French North Africa 2/</td>
<td>-</td>
<td>-</td>
<td>2,088</td>
<td>6,305</td>
</tr>
</tbody>
</table>

Treasury Department, Division of Monetary Research

November 30, 1942

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

2/ Includes Morocco, Algeria and Tunisia.
APPENDIX B

Exports from the U. S. to Free China and U. S. S. R.
as reported to the Treasury Department
July 26, 1941 - November 20, 1942 1/

(Thousands of Dollars)

<table>
<thead>
<tr>
<th>Period</th>
<th>Exports to Free China</th>
<th>Exports to U.S.S.R.</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 26, 1941 - Jan. 24, 1942</td>
<td>$32,758</td>
<td>$98,902</td>
</tr>
<tr>
<td>1942 Jan. 26 - Jan. 31</td>
<td>6,934</td>
<td>9,608</td>
</tr>
<tr>
<td>Feb. 1 - Feb. 10 2/</td>
<td>4,889</td>
<td>13,315</td>
</tr>
<tr>
<td>Feb. 10 - Feb. 20 3/</td>
<td>4,653</td>
<td>26,174</td>
</tr>
<tr>
<td>Feb. 20 - Feb. 28 3/</td>
<td>2,921</td>
<td>28,119</td>
</tr>
<tr>
<td>Mar. 1 - Mar. 10</td>
<td>2,879</td>
<td>32,503</td>
</tr>
<tr>
<td>Mar. 10 - Mar. 20</td>
<td>8,058</td>
<td>28,556</td>
</tr>
<tr>
<td>Mar. 20 - Mar. 31 4/</td>
<td>2</td>
<td>42,435</td>
</tr>
<tr>
<td>Apr. 1 - Apr. 10</td>
<td>4,836</td>
<td>51,698</td>
</tr>
<tr>
<td>Apr. 11 - Apr. 20</td>
<td>5,335</td>
<td>66,906</td>
</tr>
<tr>
<td>Apr. 21 - Apr. 30</td>
<td>2,827</td>
<td>50,958</td>
</tr>
<tr>
<td>May 1 - May 10 5/</td>
<td>296</td>
<td>28,652</td>
</tr>
<tr>
<td>May 11 - May 20</td>
<td>1,672</td>
<td>18,000</td>
</tr>
<tr>
<td>May 21 - May 31 4/</td>
<td>2,533</td>
<td>26,180</td>
</tr>
<tr>
<td>June 1 - June 10</td>
<td>3,299</td>
<td>12,764</td>
</tr>
<tr>
<td>June 11 - June 20</td>
<td>2,707</td>
<td>53,799</td>
</tr>
<tr>
<td>June 21 - June 30</td>
<td>1,664</td>
<td>49,919</td>
</tr>
<tr>
<td>July 1 - July 10</td>
<td>7,900</td>
<td>35,657</td>
</tr>
<tr>
<td>July 11 - July 20</td>
<td>5,900</td>
<td>35,940</td>
</tr>
<tr>
<td>July 21 - July 31 4/</td>
<td>3,066</td>
<td>35,669</td>
</tr>
<tr>
<td>Aug. 1 - Aug. 10</td>
<td>208</td>
<td>14,970</td>
</tr>
<tr>
<td>Aug. 11 - Aug. 20</td>
<td>192</td>
<td>23,325</td>
</tr>
<tr>
<td>Aug. 21 - Aug. 31 4/</td>
<td>2,850</td>
<td>112,492</td>
</tr>
<tr>
<td>Sept. 1 - Sept. 10</td>
<td>655</td>
<td>24,339</td>
</tr>
<tr>
<td>Sept. 11 - Sept. 20</td>
<td>11</td>
<td>44,434</td>
</tr>
<tr>
<td>Sept. 21 - Sept. 30</td>
<td>902</td>
<td>30,947</td>
</tr>
<tr>
<td>Oct. 1 - Oct. 10</td>
<td>1,645</td>
<td>14,564</td>
</tr>
<tr>
<td>Oct. 11 - Oct. 20</td>
<td>30</td>
<td>55,083</td>
</tr>
<tr>
<td>Oct. 21 - Oct. 31 4/</td>
<td>--</td>
<td>55,701</td>
</tr>
<tr>
<td>Nov. 1 - Nov. 10</td>
<td>233</td>
<td>53,144</td>
</tr>
<tr>
<td>Nov. 11 - Nov. 20</td>
<td>2,032</td>
<td>55,867</td>
</tr>
<tr>
<td>Total</td>
<td>$109,521</td>
<td>$1,208,626</td>
</tr>
</tbody>
</table>

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

Treasury Department, Division of Monetary Research November 30, 1942

Regarded Unclassified
# APPENDIX G

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

<table>
<thead>
<tr>
<th>Unit of</th>
<th>Quantity</th>
<th>Quantity</th>
<th>Value (Thousands of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL EXPORTS</td>
<td></td>
<td></td>
<td>$ 45,867</td>
</tr>
<tr>
<td>Military Equipment ($24,452)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft</td>
<td>No.</td>
<td>46</td>
<td>13,645</td>
</tr>
<tr>
<td>Light bombers (2 eng. A-20)</td>
<td>No.</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Fighters (1 eng. P-39)</td>
<td>No.</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Fighters (1 eng. P-40)</td>
<td>No.</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Ammunition</td>
<td>-</td>
<td>-</td>
<td>4,206</td>
</tr>
<tr>
<td>Aircraft parts and accessories</td>
<td>-</td>
<td>-</td>
<td>2,439</td>
</tr>
<tr>
<td>Ordnance combat vehicles</td>
<td>No.</td>
<td>1,112</td>
<td>1,200</td>
</tr>
<tr>
<td>Scout cars</td>
<td>No.</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Armored cars, medium</td>
<td>No.</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Ordnance combat vehicles, n.e.s.</td>
<td>No.</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Explosives</td>
<td>-</td>
<td>-</td>
<td>1,078</td>
</tr>
<tr>
<td>Military tanks</td>
<td>-</td>
<td>-</td>
<td>1,040</td>
</tr>
<tr>
<td>Light tanks (M-3, M-3A-1, M5 or T7)</td>
<td>No.</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Medium tanks (M-4, A-2)</td>
<td>No.</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>All other</td>
<td>-</td>
<td>-</td>
<td>644</td>
</tr>
<tr>
<td>Non-Military Goods ($21,415)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor trucks, motorcycles and auto replacement parts</td>
<td>-</td>
<td>-</td>
<td>4,526</td>
</tr>
<tr>
<td>Meat products</td>
<td>-</td>
<td>-</td>
<td>3,764</td>
</tr>
<tr>
<td>Industrial, electrical, agricultural machinery and parts</td>
<td>-</td>
<td>-</td>
<td>3,415</td>
</tr>
<tr>
<td>Iron and steel manufactures and semimanufactures</td>
<td>-</td>
<td>-</td>
<td>2,715</td>
</tr>
</tbody>
</table>
Appendix C (Continued)

<table>
<thead>
<tr>
<th>Unit of Quantity</th>
<th>Quantity</th>
<th>Value (Thousands of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminum, copper, zinc and molybdenum ore</td>
<td>-</td>
<td>1,327</td>
</tr>
<tr>
<td>Leather and rubber manufactures</td>
<td>-</td>
<td>1,085</td>
</tr>
<tr>
<td>Brass and bronze and manufactures</td>
<td>-</td>
<td>1,009</td>
</tr>
<tr>
<td>Petroleum and products</td>
<td>-</td>
<td>853</td>
</tr>
<tr>
<td>Relief supplies</td>
<td>-</td>
<td>605</td>
</tr>
<tr>
<td>All other</td>
<td>-</td>
<td>1,794</td>
</tr>
</tbody>
</table>
APPENDIX D

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

(Thousands of Dollars)

<table>
<thead>
<tr>
<th>TOTAL EXPORTS</th>
<th>$2,032</th>
</tr>
</thead>
</table>

Principal Items:

- Printed matter: 673
- Military equipment: 773
- Electrical machinery and apparatus: 139
- Cameras and photographic supplies: 37
- Rubber and manufactures: 26
- Writing paper: 19
- Graphite electrodes: 18
- Wire rope and cable: 18
- Wheels, except automobile and car: 10
- Iron and steel hand tools: 7
- Industrial machinery and parts: 6
- Relief supplies: 5

Treasury Department, Division of Monetary Research November 30, 1942

EFH/efc 11/30/42
My dear Mr. Secretary:

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

Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

The Honorable,

The Secretary of State.

Enclosure

Del. by Harmon 5:17 12/1/42
File in Diary
Extra copies direct to White's office 12/2/42
November 30, 1942

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

1. **Exports to Russia**

   Exports to Russia as reported during the ten-day period ending November 20, 1942 amounted to $45,667,000 as compared with $53,144,000 during the previous ten-day period. Military equipment accounted for $24,452,000 of the total. (See Appendix C.)

2. **Exports to Free China**

   Exports to Free China as reported during the period under review amounted to $2,032,000, of which military equipment accounted for $773,000. (See Appendix D.)

3. **Exports to selected blocked countries**

   Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland and Portugal amounting to $443,000 and $396,000, respectively.

19F/ofn
11/30/42
APPENDIX A

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

(In thousands of Dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>10-day Period ended Nov. 20, 1942</th>
<th>10-day Period ended Nov. 10, 1942</th>
<th>Total Domestic Exports Aug. 1, 1942 to Nov. 20, 1942</th>
<th>Total Domestic Exports July 28, 1942 to July 31, 1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. S. S. R.</td>
<td>$ 45,867</td>
<td>$ 52,144</td>
<td>$ 464,866</td>
<td>$ 742,941</td>
</tr>
<tr>
<td>Free China</td>
<td>2,082</td>
<td>233</td>
<td>9,198</td>
<td>97,720</td>
</tr>
<tr>
<td>Spain</td>
<td>3</td>
<td>9</td>
<td>769</td>
<td>2,858</td>
</tr>
<tr>
<td>Switzerland</td>
<td>443</td>
<td>2</td>
<td>4,694</td>
<td>12,537</td>
</tr>
<tr>
<td>Sweden</td>
<td>-</td>
<td>1</td>
<td>2,626</td>
<td>10,956</td>
</tr>
<tr>
<td>Portugal</td>
<td>396</td>
<td>-</td>
<td>1,192</td>
<td>9,743</td>
</tr>
<tr>
<td>French North Africa [2/]</td>
<td>-</td>
<td>-</td>
<td>2,088</td>
<td>6,305</td>
</tr>
</tbody>
</table>

Treasurer, Division of Monetary Research

November 30, 1942

[1/] Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

[2/] Includes Morocco, Algeria and Tunisia.
## APPENDIX B

**Exports from the U.S. to Free China and U.S.S.R.**

as reported to the Treasury Department

*July 28, 1941 – November 20, 1942 1/*

(Thousands of Dollars)

<table>
<thead>
<tr>
<th>Date</th>
<th>Free China</th>
<th>U.S.S.R.</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 28, 1941– Jan. 24, 1942</td>
<td>$32,758</td>
<td>$98,902</td>
</tr>
<tr>
<td>Jan. 26 – Jan. 31</td>
<td>6,238</td>
<td>9,608</td>
</tr>
<tr>
<td>Feb. 1 – Feb. 10 2/</td>
<td>4,489</td>
<td>13,315</td>
</tr>
<tr>
<td>Feb. 10 – Feb. 20</td>
<td>4,853</td>
<td>26,174</td>
</tr>
<tr>
<td>Feb. 20 – Feb. 28 3/</td>
<td>2,921</td>
<td>28,119</td>
</tr>
<tr>
<td>Mar. 1 – Mar. 10</td>
<td>2,879</td>
<td>32,509</td>
</tr>
<tr>
<td>Mar. 10 – Mar. 20</td>
<td>6,058</td>
<td>28,256</td>
</tr>
<tr>
<td>Mar. 20 – Mar. 31 4/</td>
<td>5,2</td>
<td>42,439</td>
</tr>
<tr>
<td>Apr. 1 – Apr. 10</td>
<td>4,536</td>
<td>52,694</td>
</tr>
<tr>
<td>Apr. 11 – Apr. 20</td>
<td>5,335</td>
<td>66,906</td>
</tr>
<tr>
<td>Apr. 21 – Apr. 30</td>
<td>2,827</td>
<td>50,354</td>
</tr>
<tr>
<td>May 1 – May 10 5/</td>
<td>2,96</td>
<td>28,652</td>
</tr>
<tr>
<td>May 11 – May 20</td>
<td>1,872</td>
<td>18,000</td>
</tr>
<tr>
<td>May 21 – May 31 6/</td>
<td>2,573</td>
<td>26,180</td>
</tr>
<tr>
<td>June 1 – June 10</td>
<td>7,399</td>
<td>12,764</td>
</tr>
<tr>
<td>June 11 – June 20</td>
<td>1,664</td>
<td>49,319</td>
</tr>
<tr>
<td>June 21 – June 30</td>
<td>7,900</td>
<td>35,667</td>
</tr>
<tr>
<td>July 1 – July 10</td>
<td>590</td>
<td>33,940</td>
</tr>
<tr>
<td>July 11 – July 20</td>
<td>3,066</td>
<td>35,669</td>
</tr>
<tr>
<td>July 21 – July 31 7/</td>
<td>208</td>
<td>14,970</td>
</tr>
<tr>
<td>Aug. 1 – Aug. 10</td>
<td>208</td>
<td>23,125</td>
</tr>
<tr>
<td>Aug. 11 – Aug. 20</td>
<td>2,850</td>
<td>112,892</td>
</tr>
<tr>
<td>Aug. 21 – Aug. 31 8/</td>
<td>655</td>
<td>24,339</td>
</tr>
<tr>
<td>Sept. 1 – Sept. 10</td>
<td>11</td>
<td>44,454</td>
</tr>
<tr>
<td>Sept. 11 – Sept. 20</td>
<td>902</td>
<td>30,947</td>
</tr>
<tr>
<td>Sept. 21 – Sept. 30</td>
<td>1,685</td>
<td>14,564</td>
</tr>
<tr>
<td>Oct. 1 – Oct. 10</td>
<td>30</td>
<td>55,083</td>
</tr>
<tr>
<td>Oct. 11 – Oct. 20</td>
<td>--</td>
<td>65,701</td>
</tr>
<tr>
<td>Oct. 21 – Oct. 31 9/</td>
<td>233</td>
<td>53,144</td>
</tr>
<tr>
<td>Nov. 1 – Nov. 10</td>
<td>2,032</td>
<td>45,867</td>
</tr>
<tr>
<td>Nov. 11 – Nov. 20</td>
<td>109,521</td>
<td>1,208,626</td>
</tr>
</tbody>
</table>

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

Treasury Department, Division of Monetary Research  November 30, 1942

Regarded Unclassified
APPENDIX C

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

(Thousands of Dollars)

<table>
<thead>
<tr>
<th>Principal Items</th>
<th>$ (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military equipment</td>
<td>24,452</td>
</tr>
<tr>
<td>Motor trucks, motorcycles and auto replacement parts</td>
<td>4,526</td>
</tr>
<tr>
<td>Industrial and agricultural machinery and parts</td>
<td>2,960</td>
</tr>
<tr>
<td>Iron and steel bars, plates, sheets, wire, nails, etc.</td>
<td>2,715</td>
</tr>
<tr>
<td>Canned sausage and pork</td>
<td>2,547</td>
</tr>
<tr>
<td>Meat products, n.e.s.</td>
<td>1,237</td>
</tr>
<tr>
<td>Brass and bronze plates, sheets, wire, pipes and tubes</td>
<td>1,009</td>
</tr>
<tr>
<td>Petroleum and products</td>
<td>853</td>
</tr>
<tr>
<td>Aluminum and manufactures</td>
<td>762</td>
</tr>
<tr>
<td>Relief supplies</td>
<td>609</td>
</tr>
<tr>
<td>Cotton and wool manufactures</td>
<td>590</td>
</tr>
<tr>
<td>Rubber and manufactures</td>
<td>567</td>
</tr>
<tr>
<td>Copper, zinc and molybdenum ore</td>
<td>565</td>
</tr>
<tr>
<td>Leather and manufactures</td>
<td>518</td>
</tr>
<tr>
<td>Electrical machinery and apparatus</td>
<td>435</td>
</tr>
<tr>
<td>Chemicals and related products</td>
<td>353</td>
</tr>
<tr>
<td>Dried egg products</td>
<td>334</td>
</tr>
<tr>
<td>Tallow and lard</td>
<td>310</td>
</tr>
</tbody>
</table>

Treasury Department, Division of Monetary Research
November 30, 1942

Regraded Unclassified
APPENDIX D

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

(Thousands of Dollars)

<table>
<thead>
<tr>
<th>Principal Items</th>
<th>$ 2,032</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printed matter</td>
<td>873</td>
</tr>
<tr>
<td>Military equipment</td>
<td>773</td>
</tr>
<tr>
<td>Electrical machinery and apparatus</td>
<td>139</td>
</tr>
<tr>
<td>Cameras and photographic supplies</td>
<td>99</td>
</tr>
<tr>
<td>Rubber and manufactures</td>
<td>37</td>
</tr>
<tr>
<td>Writing paper</td>
<td>26</td>
</tr>
<tr>
<td>Graphite electrodes</td>
<td>19</td>
</tr>
<tr>
<td>Wire rope and cable</td>
<td>18</td>
</tr>
<tr>
<td>Wheels, except automobile and car</td>
<td>18</td>
</tr>
<tr>
<td>Iron and steel hand tools</td>
<td>10</td>
</tr>
<tr>
<td>Industrial machinery and parts</td>
<td>7</td>
</tr>
<tr>
<td>Relief supplies</td>
<td>6</td>
</tr>
</tbody>
</table>

Treasury Department, Division of Monetary Research  November 30, 1942

KFM/ece 11/30/42
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE: December 1, 1942

TO: Secretary Morgenthau
FROM: Mr. White

Subject: 1937 arrangement with China.

1. The enclosed cable from Dr. Kung is in reply to your letter of November 23, 1942 to him regarding the future status of the 1937 arrangement with China.

2. Dr. Kung expresses his appreciation of your inquiry as to his views on the future status of the arrangement. Dr. Kung is instructing Mr. Hai Te-mou, one of the members of the Stabilization Board of China, who is now in Washington, to call on you with new proposals regarding the renewal of the 1937 arrangement.

3. You will recall that last October the Central Bank of China paid off all outstanding debts to the United States under the 1937 arrangement, amounting to approximately $19 million. This, however, still left the status of the arrangement itself undetermined.
November 30, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 1404, dated November 30, 1942, from the American Embassy, Chungking, China, via Karachi, transmitting the text of a letter to Secretary Morgenthau from Dr. Kung.

Enclosure:

From Embassy, Chungking, no. 1404, November 30, 1942.
Gray
Chungking via Karachi
Dated November 30, 1942
Rec'd 11:46 a.m.

Secretary of State,
Washington.

IMMEDIATE
1404, November 30, 11 a.m.
FOR SECRETARY HURONENTILLO FROM DOCTOR KUNG

Dear Mr. Secretary

I have the pleasure of receiving, through the American Embassy, your message expressing your satisfaction for the way in which China has fulfilled her obligations to the United States stabilization fund under the 1937 arrangement, and inquiring whether the Chinese Government would prefer to have this arrangement continue in effect as otherwise it will automatically expire on December 31, 1942.

In reply, I wish to express to you my appreciation of your kind message and thoughtful inquiry. In view of the spirit that motivated your good self and me to make this agreement when I was in Washington in 1937, I am instructing Mr. Hai Te Mou to call on you on my behalf.
-2- #1404, November 30, 11 a.m. from Chungking via Karachi

behalf with new proposals regarding its renewal.

With kindest personal regards.

Yours Sincerely,

H.H. Kung

Minister of Finance".

G.LUSS

BB
Treasury Department
Division of Monetary Research

Date Dec. 1, 1942

Miss Chauncey

The Secretary might be interested in glancing at this interesting comparison of British war financing during this war and the last war.

H.D.W.

MR. WHITE
Branch 2088 - Room 214½
TO
Mr. White

FROM
Mr. Wood

Subject: British Finance in the Last War and in the Present One (No. 1002, U. S. Embassy, London, Nov. 3, 1942)

Speaking on October 20 in Commons on the Fourth Vote of Credit for the current fiscal year, Sir Kingsley Wood made some comparisons between Government finance in the two wars.

1. During the years 1939-42 expenditure was two and a half times that of the period 1914-17.

2. In this war taxation has raised 40 percent of expenditures compared with 21 percent in the last war.

3. The amounts secured through borrowing were 66 percent greater in the period 1939-42 than in the period 1914-17.

4. The small investor lent approximately £200 million to the Government during the last war and £1,500 million so far during this one.

5. The average rate of interest on the increase in the debt from 1914-17 was 5 percent, but the corresponding rate for 1939-42 was only 2 1/2 percent. The average rate for the floating debt was 4 1/2 percent in the former period and about 1 percent in the latter.

At the time of the speech current daily average expenditure on the fighting services was £10.5 million compared with £9.75 million last March.
Information received up to 7 A.M., 1st December, 1942.

1. **NAVAL**

One of H.M. Trawlers shot down a F.W. 190 off DORSET yesterday. The French submarines MARSOUIN and CASABLANCA arrived at ALGIERS yesterday. IRIS has been interned at BARCELONA. Eight more submarines are reported by the Allied Naval Commander to have escaped from TOULON and may arrive at North African ports.

2. **MILITARY**

**TUNIS.** 29th. Our advance in the forward area was slowed down by heavy low flying air attacks but pressure was maintained against DJEDDEZA which was partially in our hands by evening. Our troops have made contact with an enemy strong point ten miles west of MATEUR. Allied parachute troops have been dropped in the PONT DU PAHS Area, thirty miles southwest of TUNIS. The area between TEBESSA and KAROUIAN reported clear of enemy. Our tank losses relatively light. RÉUNION surrendered to the Fighting French at 4:45 a.m. G.M.T. yesterday.

**RUSSIA.** The Russians attacking from the north along the east bank of the DON have captured VSERTYACHI and have narrowed the ring around the encircled Germans. The KALMUK STEPPE engagements continue between mobile forces and the Russians are still pressing forward.

3. **AIR OPERATIONS**

**WESTERN FRONT.** 29th/30th. TURIN. About 28 tons of bombs dropped. Severe icing conditions and dense haze over objective. Two bombers missing. 30th. 7 enemy aircraft shot up several localities in DEVONSHIRE, HAMPSHIRE and SUSSEX. One was shot down. Our losses 2, nil, nil. 30th/1st. Six aircraft sent sea mining, four to drop leaflets. One is missing.

**FRENCH NORTH AFRICA.** 27th. Fighter sweeps were flown and all night Bisleys bombed EL AOUINA airfield. 28th. U.S. Bombers heavily attacked BIZERTA docks and airfield and also objectives at SFAX. 11 enemy aircraft were destroyed on the ground. 29th/30th. Wellingtons bombed BIZERTA docks. Casualties over above period - enemy 10, 2, 11. Ours nil, nil, nil. Five pilots safe.

**MEDITERRANEAN.** 30th. Our fighters successfully attacked airfields at GELA and COMISO. Beauforts laid mines in PALERMO Harbour. Direct hits were obtained on a 1,200 ton ship near PANTELLARIA.

**LIBYA.** 29th. U.S. Bombers attacked TRIPOLI (L) and saw a ship on fire.
December 2, 1942
9:55 a.m.

FINANCING

Present: Mr. Bell

MR. BELL: I am a little worried about this publicity this morning, all these stories in the papers.

Last night New York asked me about some publicity. I said they ought to wait until we have the figures in Washington. Apparently some banker outside - Perry Hall did not talk, but apparently some banker outside said it looked as though New York had a billion and a half, and there was another story of nine hundred million.

H.M.JR: You got my message about publicity?

MR. BELL: Yes. I would not have done it, anyhow.

If we give out these figures, I think it makes it look worse.

H.M.JR: What figures?

MR. BELL: These figures I gave you last night, seven hundred and forty-five million.

H.M.JR: Why give them out daily?

MR. BELL: You see, these boys think you ought to have something going every day, trying to keep people interested and enthusiastic.
H.M.JR: Let's do the publicity last, and I will have the publicity men in last. Can I do that last?

MR. BELL: Sure. I didn't know you had something else.

H.M.JR: Should we do anything about calling up the banks, or anything? Should I speak to Eccles and find out what he is going to do?

MR. BELL: That is part of this program. I just talked to Bob Rouse, and I asked him what good he thought it would do to give out the bank subscriptions to the one and three-quarters. He thought it might be a good thing to give out the bank subscriptions up to this point, to show them that they had not come through with two billion. But I don't know what explanation you would give for it.

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

MR. BELL: We have done it before. I would like to get across to the country that the banks have not yet subscribed for two billion dollars. If we could send each Federal Reserve--

H.M.JR: If the thing goes out, then it is a failure - I wouldn't give anything out.

MR. BELL: There might be danger of that.

H.M.JR: I would not give out anything on the banks.

MR. BELL: I tell you what we can do. We can get the mail reports at about one o'clock from Chicago and New York, which are the big ones, and see how they stand. We can ask for a three o'clock report from all the banks, and that will give us another hour ahead.
I think the thing will go over, but I think we ought to be a little surer than we were in October.

H.M.JR: You haven't got the thing by districts?

MR. BELL: I have it downstairs. Kilby has it. I will get it.

The four o'clock report yesterday showed that it was eight hundred and thirteen, and they think it may be up another hundred million in New York.

H.M.JR: How much?

MR. BELL: Eight hundred and thirteen was the four o'clock report, and it may be up another hundred million now. Rouse thinks today's mail is going to be heavy. We will not know that until around twelve o'clock.

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

Regraded Unclassified
December 2, 1942
10:00 a.m.

HMJr: Hello.
Operator: Chairman Eccles.
HMJr: Hello?
Marriner Eccles: Hello.
HMJr: Hello, Marriner.
E: Good morning, Henry.
HMJr: Good morning to you. Bell and I are sitting here. We were talking over how many bonds we'd sold yesterday to the banks....
E: Yeah.
HMJr: ...and it's somewhere between eight and nine hundred million.
E: That was up to the four o'clock report, was it?
HMJr: Well, it was eight hundred and thirteen....
E: Yeah.
HMJr: ....and then Bell thinks another hundred million came in late.
E: Yes.
HMJr: Now have you got it there by districts?
E: No, I haven't. All I got was what Bell gave me. You see, we don't get it. It comes in to Bell.
HMJr: Well, what I'll have him do is to phone it over to your secretary and she can type it down.
E: Yeah.
HMJr: Now what I thought was this, I thought we - just -- I'm just thinking out loud -- that we ought to wait until the last minute. We got the third day.
E: That's right.
HMJr: And if some of the districts don't look so good, I wondered if you'd like to call up the presidents of the Fed.
E: I'll be glad to.
HMJr: See?
E: I'm just as anxious to see 'em get it over as anybody.
HMJr: Now Bell says that there'll be a mail report in by noon.
E: Yes.
HMJr: But I don't know whether you want to wait until that or whether you want to start this morning on some of them.
E: Well, New York I think will be all right.
HMJr: Yeah.
E: And, of course, in the west it would be an hour....
HMJr: Yeah, later.
E: There - there'd be a change. It would be early enough there, you see. It would only be - at noon it would be ten o'clock in San Francisco, and....
HMJr: The thing - what we'd say to them in their enthusiasm on this Victory Fund, they're kind of overlooking the banks.
E: Well....
HMJr: I'm not worried this time, but I - I don't....
E: I - I think - I think this, that the - they always waited before until the....
HMJr: Yes.
E: ...until the last - when they had two days, they....

HMJr: Right.

E: ...they always waited until the last day.

HMJr: But we had the interest running against them, and we thought that....

E: I - I think it's well to be - it's certainly well to be a little bit cautious.

HMJr: What I was thinking of, if you had the time to call up some of these fellows and say, "Well, how are things in your district? Are you worried or will they be all right?" you know?

E: Well, I'd like - I'd - if Bell will send that - that over....

HMJr: Yes.

E: ....and....

HMJr: He will.

E: ....then I'll - I'll take a look at it, and see how the percentages are.

HMJr: Good.

E: They run - they usually have a relationship, and it will show some of them, of course, that may be out of line.

HMJr: Right.

E: Those that are out of line, why I'll be glad to call up....

HMJr: Now....

E: ....and just as soon as you get the information on the noon report, if you'd likewise give that to me.

HMJr: He will. Now the - I like the ads. I was out west in Kansas City and St. Louis. It looked good out there to see them.
E: I was up in - I was up in New York, and, of course, they all had a full-page display, and....

HMJr: I think they....

E: ....it was very simple - I mean a very clear statement. Anybody could understand it.

HMJr: Yeah, I think the Feds. did a - did us a real service on that.

E: Well, I - I - we were glad to do it. We - we (laughs) didn't get much time. It certainly put - it certainly put - after it was decided Buffington called me up and - and I had to get it through the - had to get it through the Board in a big hurry to get them to send that wire out, and, of course, the reserve banks - they all - they all came through all right, but, of course, all they did was put up the money.

HMJr: Now we're not going to - we're not going to say anything today as to how much is in....

E: I wouldn't say anything.

HMJr: No, because I felt it would be a mistake.

E: I - I see no reason....

HMJr: No.

E: ....to say anything about it, because....

HMJr: Be time enough tomorrow night.

E: Well, even then I'd think about it.

HMJr: Yeah, well....

E: Because all - all you've said is you're going to get a - $9 billion dollars.

HMJr: Yes.

E: Isn't that right?

HMJr: That's right.
E: Now I - I think it might be a good time maybe to avoid establishing a precedent and saying just how much you get from the banks.

HMJr: Well, I'd like to talk to you about that after we take a look at it.

E: Yeah.

HMJr: And I will talk to you about it before I say anything.

E: Yeah. Well, okay then.

HMJr: Well, thank you.

E: All right.
H.M.JR: He agrees with me on the publicity.

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

H.M.JR: Now I am going to get hold of Mr. Roy Blough and go to school.
Are you busy right now?

No.

Well, I'd like....

I'm busy but it's just routine stuff.

Well, could you come over, and I tell you what it's about so you can bring over one man with you. I - I want to study, both from the standpoint of the individual and the corporation, what he's got to go through next year to make out his income tax in the way of paper work.

Yeah.

And also if - whatever plan we recommend, what we can do to make it - the minimum effort, you see - additional paper work. Hello? And who would you bring on that? Who's your best man?

Well, I've got....

Besides yourself.

Hmm?

Besides yourself, who's good over there?

Well, this would have to do with the collectors' offices, wouldn't it?

Yeah.

Uh huh.

Who knows that stuff?

You mean the....

Well, I mean the mechanics of what a corporation or an individual has to go through.

Yeah.
Collection of Victory Tax and all that.

Yeah. Well, of course, Mr. Schoeneman is in charge of the collectors' offices.

Yeah.

But there's - George Schoeneman.

Does he know this stuff?

Then the forms - the forms, of course, there's another committee that handles the forms.

Who's that?

Dr. Atkinson.

Never heard of him. He's got forms?

Well, he - he's the man that functions on getting up our forms for any - when we change, which we have to change about fifty-one....

I see.

....for these '42 taxes.

Dr. Atkinson?

Yeah.

Well, bring him along.

Yeah, all right.

Can you get over here by....

Pronto, yeah.

Pronto.

(Laughs) Yeah.

Good.

(Laughs) All right.

All right.
December 2, 1942  
11:00 a.m.

TAXES

Present: Mr. Gaston  
Mr. White  
Mr. Paul  
Mr. Sullivan  
Mr. Haas  
Mr. Blough  
Mr. Helvering  
Mr. Atkeson  
Mr. Schoeneman  
Mr. Mooney  
Mr. Mager  
Mrs. Klotz

H.M.JR: The reason that I asked you people to get together - this is the first time I have had a chance, since I have been back from England, to begin to think about taxes and this whole tax question. I have been doing a lot of thinking about it, but there are two things that have brought this to a head.

One was yesterday when Bell and I went up on the Hill and sat in on the Byrd Committee hearing and saw the various forms which were presented that the businessman has to fill out today, and Harold Smith sat there and did not say that all these forms had to pass through the Central Statistical Board and have his stamp up in the corner. This man sat there representing the drug interests, and he said, "I am just not going to fill them out."

They said to him, "What will happen to you?" He said, "I do not know, and I do not care. I am just not going to fill them out."

He said, "We have tried for two months to get a cost accountant and we cannot get one, and we are just not going to fill them out." They happened to be OPA things.
MR. GASTON: Weren't they WPB?

H.M.JR: No, they were OPA; they were on the question of changing the size of a bottle of drugs, and the ingredients. They asked this question: Of a certain ingredient, how many of these things does your competitor sell? The fellow says, "How do I know?"

Well, of course, they have got to get certain information. Where I think OPA made the mistake, they never sat down with the drug industry and asked, "Can you, as an industry, tell us how to get it?" - and so forth.

The point that was impressed on me, and I happened to say the same thing out at Kansas City, is that it gets to the point where the businessman will say, just like these fellows said, flatly, "I am not going to fill out these things; throw me in jail - go ahead and put me in jail." As the private said to the sergeant, "This is the Army, go on and break me, I am a private." (Laughter) It is the same thing. "Go on, put me in jail."

Now, I do not want the Treasury to take this thing on the nose if we can help it. Approaching whatever we are going to do next year in taxes, I certainly want to study the thing. What does this do to the individual? After all, I am the hired man of the taxpayer. It is not for me to sit here and say, "We need so many more billions in taxes and to hell with the taxpayer; he can find a way to make them out." The answer to the whole thing is, they are not going to make them out, and they may not pay their taxes if the thing gets too complicated.

There was not a single Senator there who - I was the only person who spoke up. I said, "After all, Mr. Chairman, surely you are going to ask somebody from OPA to come up and tell his side of the story. There are always two sides to everything." He said, "Yes, yes, but we have first got to hear the complaint."
He makes the front page, and then, by the time that Henderson's people catch up to them and get a chance, the damage is done in the minds of the public. But there was not a man there but what was with industry.

I had an hour with Blough, and, as I understand it, there is nothing particularly new that anybody in the Treasury has in mind as to how to raise these taxes. It is a question of taking any one of four devices - the thing that we took over across the street to Mr. Byrnes' committee. But in starting this program I want these people here to study the thing first. We are the hired men. How can we get this money with a minimum of disturbance? That is the first thing.

Now, in going over this thing from the standpoint of the individual - what we have done - our record is not too hot. Now, Roy gave me the whole business, going back to when I first recommended fifteen percent withholding, and I want that thing restudied from the standpoint of what is going to happen to the individual this coming year. I told Roy, when it comes to the company making out the Victory Tax - I don't know whether you people made any studies the way you did originally - how many hours is it going to take for a company employing a hundred men, or five hundred men, to do this thing. The drug industry made studies of how many hours it takes to fill out these things.

MR. PAUL: The Victory Tax is not our tax.

H.M. JR: Yes, but we are here - what I am trying to do is, Paul, I am trying to do a job for the taxpayer, and not just to drain the last drop of blood out of him, and if Helvering's people tell me this means so many additional hours for the businessman, and so forth, and I have that, why can't I say, just the way the drug man said - why can't I come out as a champion of the businessman and say that this is impossible?
MR. PAUL: Our record is that we opposed it largely on that ground.

MR. GASTON: But we have to collect it.

H.M.JR: But we have got to collect it. Schoeneman, here, is in charge of the offices, and Sullivan is responsible to me to keep these fellows happy. I am putting myself on record that I want to know which of these things are an undue burden.

But when you come in to me and say, "Well, Mr. Morgenthau, this thing is an undue hardship in the way of taking so many hours," and so forth; you have got to make an alternative suggestion. You cannot just knock off a couple of billion dollars and say, "This is no good." See?

Now, before I leave this standpoint, instead of just going out and collecting the taxes, let's think about the factor a little bit, and put ourselves in the frame of mind that we are the servant of the taxpayer, not his leech.

MR. PAUL: We have been talking along this line - Mr. Gaston and Mr. Blough and I - for several weeks, and that is one of the reasons why we have been re-studying the Rumr plan, and various things like that.

H.M.JR: Fine. I am just getting in on it. I have been spending three weeks making plans to raise nine billion dollars. The thing is in the works, now, and the rest is up to the American public. Now I am going to get in on the taxes.

MR. HELVERING: You understand that we send out no questionnaires except to keep control of sugar rationing and things like that, to certain people who handle that. We send out no questionnaires to fill out other than the tax return.
H.M.JR: I am not thinking of questionnaires. Look, what I would like to have is Atkeson or somebody bring me in a set of books, or take me to the factory, and as I understand it, Atkeson passes on the form. Is that right?

MR. ATKESON: I developed them, Mr. Morgenthau.

H.M.JR: Take me to the factory, to a department store, or anywhere, and let me sit down, and I would like to know what this man has to do, as far as the Treasury is concerned, to pay his taxes. I mean, I want to go through the operations myself. What has he got to do? What does his Victory Tax mean? How is the individual going to fare next year? What about the working man who has got an income of fifteen hundred to two thousand dollars - what is he going to do? How much does he realize? My boy, Henry, said, "Why don't you use this man in OWI that you used before to make this survey?" What is his name?

MR. HAAS: Likert.

H.M.JR: He said, "Why don't you use Likert?" I was talking about this thing. How do these families - how conscious are they of this thing, and what is the typical American - you fellows have been talking day and night about having to get the group from two thousand to three thousand to stop spending.

All right, you all sit here - including myself - in a swivel chair, now, what is this family who has got this thing right on him, what are they doing and how conscious are they of this thing, outside of the circular which you have sent them? We are going to find ourselves the butt of this whole thing, and I am not going to be the butt - or the goat.

MR. HELVERING: Well, if it is a matter of the various questionnaires that are sent to businessmen, you are not guilty, as far as I know.
H.M.JR: That isn't it. I mean, they spoke about one thing, the alcohol tax, to get money back on alcohol. They described what they had to do and I interrupted the fellow. I said, "It seems very reasonable to me in view of the unfortunate instances we have had with McKesson Robbins and a few other people in your industry." I said, "That is the minimum we have got to do and we are going to continue to do it as long as there are crooked people in your industry."

I said, "It is too bad, but there are crooked people in the drug industry, and the questions that we are asking about you people using alcohol and so forth, are the minimum that we have got to ask." Somebody said he got off on the wrong foot and he dropped it.

MR. PAUL: Our record is very good. We opposed that differential on the very ground that you--

H.M.JR: I am going to go through it all once more. I want to approach this thing for the coming year. What is the status of the individual sitting at home who is going to have to pay this tax, how prepared is he, and how conscious of this is he?

Now, what about the businessman - what has he got to do? How many hours is it going to take him to do this thing. We have got people like Likert, who are trained, to go out. Remember when we had this discussion about the effect on the factories of compulsory saving, we sent what's-his-name out, didn't we?

MR. PAUL: Friedman.

MR. BLOUGH: On the collection at the source we had Mr. Atkeson, Friedman, and a bunch of others.

H.M.JR: Well, that kind of thing. Now, have I made this point clear? As we are going into this thing now, you will see more and more of me from now on, as we go along. So much for the approach from the angle of the taxpayer.
Now, the other thing that I want to say is this. I don't know how many of you heard Raymond Gram Swing and listened to this new social security program last night on the radio. Did any of you hear him?

MR. GASTON: I didn't, last night.

H.M.JR: As a result of that, I am just wondering whether we can't take a brand new look at the social security thing. Now, what they are proposing in England is not only good for today, but it is good for the post war, and it has many advantages over straight compulsory savings because nobody has thought out compulsory savings and what it does. Every single person in England is going to be insured. They are going to get unemployment insurance; they are going to get sickness insurance, and the whole business.

Now, the beauty of the study of the social insurance over something else - is that on the books, Guy? You have got your mechanics.

MR. HELVERING: Yes.

H.M.JR: It is there; it wouldn't be an additional burden from the standpoint of machinery, and it has got the-

MR. GASTON: Unless you go to complete coverage.

H.M.JR: We will just extend it.

MR. SULLIVAN: Expansion of already existing machinery.

H.M.JR: The farmers would have to come in. Roy said that you will get opposition. I said, "I don't think, Roy, that you will get opposition on this, if, as an alternative, you said, 'Look, gentlemen, look at the Victory tax; this means to a man who is employing a hundred men, or fifty men, that he has to do so many
hours of bookkeeping, as opposed to this method where he has already got it, and it just means an extension, or any other plan which is new which has been suggested."

Now, as I say, Mr. Swing said he didn't have the whole thing, but to me, thinking now that the war is not going to be a five-year war - I am willing to say that I think we will win it in '44 - I feel quite differently than I did when I used to think it was going to be at least five years.

I would like to say to these people here who are studying this tax thing - and another thing on the social security - I think I am right - I think it would hit the volunteer war bonds much less than any other plan, and has that additional attraction. You just can't brush the volunteer thing aside, and what they are doing on publicity, and so forth and so on.

Incidentally, Harold, you ought to circulate that San Francisco paper.

MR. GRAVES: We are going to do that.

H.M. JR: I mean to your own Treasury crowd.

Now, could I suggest to those people who are studying it - I want you to know how I feel. I would like to find out how much additional money we can get through social security if we do what England has recommended - go from the top to the bottom, and what is the maximum that we could get out of that. I would like to see that first.

MR. PAUL: All right.

H.M. JR: And then say, "All right" after we have done that. - I think if you take people that are working over there - my guess is that this would appeal to Benjamin Cohen, and I think it would appeal to Lauch Currie. Don't you think so, Harry?
MR. WHITE: Certain parts of it. I am not sure that I—

H.M.JR: I mean the social security.

MR. WHITE: The principle of old-age pensions is not an insurance principle. That is why I am not certain that we are talking about the same thing.

H.M.JR: He said that twenty-five percent was contributed.

MR. WHITE: But there are possibilities in that direction.

H.M.JR: I will put it this way. If we used as a possibility the social security thing as a keystone, sick benefits, unemployment, old age, and all the other things, what would be the very maximum that we could get out of the thing?

MR. WHITE: I think it is a very good idea to explore the possibilities.

H.M.JR: Then, when we are through with that, how much more do we need, and where can we get it, with the minimum of irritation to the taxpayer?

MR. SULLIVAN: You also have the possibility that you may be able to absorb the Victory Tax and cross that one off the books.

H.M.JR: Yes, I said that to Roy. Roy said, "What about the Victory?" I said, "If we make the study there is no reason why we could not recommend that that thing be crossed off the books."

MR. WHITE: Saving with a social purpose is what you are after.

H.M.JR: Yes, because, Harry, the trouble with the compulsory thing is that nobody I have met - most likely
somebody has the answer - but from my standpoint, nobody has come in and said, "This is compulsory savings and this is the way we help the fellow, as to how he should receive it." It is just a straight hand-out sometime after the war is over, and you can be sure, just as sure as I am sitting here - and I am saying this only in the room, because when I get on my feet I deny it before an audience - that this compulsory savings - it has already been asked - will be frozen when the war is over and they won't get it. But if it is social security, and you have got this vast number of old people or sick people, Congress is going to have an awfully hard time saying that those people should not be paid.

It is very easy if the then Secretary of the Treasury says that it means additional taxes and this, that, and the other thing, and somebody says, "Let's freeze it for five years. We won't pay anybody on compulsory savings."

MR. SULLIVAN: I have been saying that all along, Mr. Secretary.

MR. WHITE: Only if there is prosperity.

H.M.JR: The argument, Harry, is that if this thing is broken down in six or eight different benefits, it is very much harder to freeze that than it is the other thing.

MR. WHITE: This is a superior objective for saving. I quite agree. If you can find something that would call forth various savings and would be the instrument of an extension of social security along all the lines that you have spoken, I think it is preferable to outright saving, and a return of the funds in the post-war period. I think so.

H.M.JR: I just wanted to throw it at the people. I wanted Mr. Helvering and his people to have it. I want you to think about it, talk with each other, and then in a couple of days I want to talk with you again.
MR. WHITE: But the magnitude, Mr. Secretary - let's bear that in mind - my horseback opinion is that the magnitude of any scheme of social security extension which you can have is far smaller than the magnitude of the compulsory saving which we all feel would be necessary if you adopted any scheme.

H.M. JR: I was talking with Roy. We were talking about - well, it gets down to how much you can get, you see, and all the rest of the thing, but this is just the opening gun, that is all. I think I am throwing - at least I am giving my own feelings as of this morning; and I didn't want to meet with you in a week and find that we were way, way apart. There are two things which have happened to me. One was the reaction of the Congress to a businessman who says, "To hell with the Government; I am not going to make out the forms; throw me in jail," and the leading Senators of both parties sitting there and saying, "Wonderful, wonderful." When you get to that point a fellow has to sit up and listen.

MR. SULLIVAN: I wanted to inform you on that very point. There was a bill that went through the Senate requiring all forms to go through the Director of the Budget. A particular exemption was made for the Treasury, and in the report some very flattering comments were made on the way in which the Treasury had handled confidential information that it received from the taxpayers. The exemption in favor of the Treasury was stricken out in the House, and the bill was to have gone through Monday, but I stopped it.

Now, under the bill as it now stands the Director of the Budget can say to Mr. Helvering, "Your corporation income tax return will have to include twelve questions that WPB wants answered and fifteen questions that OPA wants answered," and we think it is ruinous. I am seeing Senator Murray this afternoon, with a memorandum on keeping in our exemption.

H.M. JR: After what George listened to yesterday, I would go up there and tell George about it, because he
sat there yesterday at this hearing.

MR. SULLIVAN: I will be glad to.

H.M. JR: I would go and see Byrd and George.

MR. SULLIVAN: I will.

H.M. JR: You should see those two people, because they were both there.

MR. SULLIVAN: I will be very glad to. There are three parts of Treasury affected; first, the Bureau of Internal Revenue, the Comptroller--

H.M. JR: I would have felt sick at the stomach if I had been Harold Smith and had all this stuff laid out there. He admitted that he didn't know about half of it. He was in a - I mean, you have a central statistical organization, and this stuff - he grabs all this stuff - the Director of the Budget wants all this power. He has so much that he can't administer it. That is his trouble; he can't administer it.

MR. SULLIVAN: He would have virtual control of Mr. Helvering's operation if this bill went through this way.

H.M. JR: After this lengthy speech on my part, does anybody want to make any comments?

MR. HELVERING: Mr. Secretary, the only thing that we do on all our tax forms is to get information that is absolutely essential, in our opinion, to administer the particular tax.

Now, take the Victory Tax - of course, for the employer it means on his machine an extra column to put on or take off the five percent. With us, though, it means a larger job, because we have to figure all the credits.

MR. PAUL: And you have so many more million taxpayers, twenty-seven up to forty-six million.
H.M.JR: Now, Guy, to what business house around here can Blough and I go, sit down with the fellow, see their books, and go over this? Could you arrange it?

MR. BLOUGH: You had a couple of interesting concerns here in town that you were out on.

MR. ATKESON: The Washington Gas Light Company. They seem to be pretty well staffed, and they have some very capable men there who would be most helpful.

H.M.JR: What company?


H.M.JR: That is one.

MR. BLOUGH: That is a public utility and a well-organized one. You would not get a typical picture there. You would get a picture of what a well-organized company would do.

MR. ATKESON: I think the revenue agent could point out one or two.

MR. MOONEY: I think so. I have this in mind. We had a letter from the comptroller of Woodward and Lothrop, President of the Association of Comptrollers. He asked representatives of the Bureau to be present at their meeting, to be held the other evening, so they could discuss the Victory Tax and the work they would have to do, what plans they would have to make in order to pay this tax, and what bookkeeping records they would have to keep. We did send a representative to attend that meeting. Now, I think that Woodward and Lothrop would be an excellent organization.

H.M.JR: He is the head of the Comptrollers' organization?

MR. MOONEY: Yes.
H.M.JR: All right, we will go to the Light Company and to Woodward and Lothrop's. I want to go to the company. Got another suggestion? Give me three.

MR. MOONEY: Here in Washington?

H.M.JR: It is easier. It does not have to be.

MR. BLOUGH: A factory would be good.

MR. MOONEY: I would like a little more time on that.

H.M.JR: Give me a factory that is working on war work.

MR. GASTON: Glenn Martin in Baltimore.

H.M.JR: We could go over to Glenn Martin.

MR. ATKESON: Mr. Secretary, might I inject this here. You made a reference to these people with from two to three thousand dollar incomes, and I think you were concerned with the record work there. You will recall, of course, our simplified form that we developed a couple of years ago. Practically all of the salaried people from whom these people receive their compensation will receive a duplicate of an information return at the beginning of the year, after the close of the tax year; and that is practically all the information that that type of taxpayer is required to keep or have to make out his tax return.

In other words, the company keeps the records for the employee and will hand him at the end of the year a statement showing his total salaries and wages, and he can enter that right on his little 1040 and the rest of it is fairly simple. I just mention that to relieve your mind, if you are worried about this two to three thousand dollar class.
MR. WHITE: Mr. Secretary, I wonder, in view of the reactions against filling in questionnaires and other papers, which I guess I am more in sympathy with this morning than any other time because I have to fill in what I think is a completely useless thing, as far as I can understand - tire regulations. I don't see much sense in it. (Laughter)

H.M., JR: I know. What started the thing with me was when I filled out my draft one. Have you filled that out?

MR. WHITE: Some time ago.

H.M., JR: I asked somebody last night, "Did you fill it out?" He says, "Yes." I said, "What did you do?" He said, "I thought I would answer every question." But that had about eighty questions.

MR. WHITE: And despite all the questionnaires, the Army cannot find - I don't know whether you told me this, or somebody else - several thousand former employees of the various telephone companies throughout the country that they badly need for signal work. There are all these comprehensive forms, which should give, first of all, the information as to what you are capable of doing, and they are unable to locate them. They have only located about fifteen percent of them and are badly in need of them.

H.M., JR: May I tell you a story. I have a very good friend who has a secretary. He has had her now for some time. Today is the second of December. This girl left her previous employer in July, who marked her the lowest rating, unsatisfactory - what is the very lowest out of five, is that unsatisfactory?

MR. HELVERING: Unsatisfactory.

H.M., JR: And the rating--

MR. WHITE: We do not have any in the Treasury so we don't know. (Laughter)
H.M.JR: And that rating which she got from a previous employer, over in OWI, just reached them now on the first of December, that on the last job this girl had she was marked as unsatisfactory. On the first of December it catches up with her. (Laughter)

MR. WHITE: I was wondering whether this thing couldn't be approached along the lines which you suggested some time ago, which needs to be a drastic reorientation from the point of view of the taxpayer, purely from the point of view of education of the taxpayer.

There are going to be all these new taxpayers. Why wouldn't it be possible to develop a corps of ten or twenty thousand teachers in the United States who will study how these forms will be filled out and who will be in a position to give aid in their neighboring localities, in their schoolrooms, and who at the same time will provide an excellent medium for the Treasury to get across to them the idea as to why these taxes, why we are trying to simplify them. In other words, make them at the same time agents to interpret the Treasury's attitude toward the taxpayer, Treasury needs, and they will be in a position to help all these small people with their tax blanks.

I don't know how many teachers there are. I have forgotten. But certainly it is quite possible to select fifty thousand teachers in the United States, and that would be their contribution toward the war effort in addition to whatever they are doing now. It needs to be started. It is a big program, but I see no reason why it cannot be done.

H.M.JR: To go back, did you get the tire?

MR. WHITE: I may have to give up a tire, that is the thing. (Laughter)
MR. SULLIVAN: I hope they are the same size as mine. I need four. (Laughter)

MR. WHITE: Give me your car. (Laughter)

H.M. JR: We have to do a lot of work on education.

MR. WHITE: They have to fill these out in March. It will take at least several months to get an organization of that kind started.

H.M. JR: Professor Sullivan is supposed to be the professor in charge of this, so you had better find out what he has been doing.

MR. GASTON: There was a woman in to see me the other day. She was sent in by Randolph Paul - a Miss Hartshorne. She had an idea for organizing education of taxpayers and encouraging home budgeting and thrift, and that sort of thing. It occurred to me that we might organize something of that kind through the War Savings Staff as a means of decentralization to educate people on the burdens they have to meet and how to prepare for them. It goes back to that same idea of thrift education as a part of the savings program, and we need it as a part of the tax program. I think we might be able to organize something of that kind through the War Savings Staff.

H.M. JR: The main thing I had you people - I want you to know how I feel as of this morning. My mind is entirely open. I am very conscious, just the way Mr. White is, that all of these questionnaires - I haven't gotten to the point yet that I refuse to answer them, but I think that in this town you at least get three warnings. I got one yesterday, and I don't mean the questionnaires. But you get a point where you make it so difficult for the man to make out his taxes that he is not going to pay them, particularly the corporation. I mean, when a man sits there before the Joint Committee on Taxation and says, "I don't care what the penalty is, I am not going to make it out and I am not going to sign it, I am not going to do it," that is a danger signal. I
am warning you all that I am going to be here this week end, and I may ask you to meet with me some time that would be most convenient to you over the week end.

MR. HELVERING: To clarify the thing, Mr. Secretary, have you in mind that we make a restudy of all our tax forms to see if they can be simplified?

H.M.JR: No, what I would like you to do is this: I would like you to tell me in some way how long it takes - the kind of study that we made in connection with putting in compulsory savings, wasn't it?

MR. BLOUGH: Collection at the source.

H.M.JR: All right, let's start in. How much additional burden is on a business man to comply with the Victory Tax? Let's start with that.

MR. SULLIVAN: How much additional equipment, how much additional personnel.

H.M.JR: Yes, the same kind of study as we did on the other. Let's do that first. Then the purpose of this meeting is this: Paul will come along, you see, with some scheme and say, "Now, this is the way to get another fifty billion dollars." I will say, "Fine, but let's see what it does to the taxpayer." So I turn it over to you fellows. I mean, is this a scheme which he can comply with, or is he simply going to say, "It is so difficult that I am not going to do it"? In other words, I am going to be the advocate from now on for simplicity, and so forth, and so on, and just to raise the money is not going to satisfy me. It is going to have to be workable; it has to be workable.

MR. PAUL: We approach things from that standpoint. We constantly get in touch with Mr. Helvering on that basis.

H.M.JR: Then what I am talking about ought to be all the easier.
MR. PAUL: One thing I do think you have to keep in mind - my sympathy is not all with the two or three-thousand-dollar man who has a tough job making out a return, and that sort of thing, but I have had a little experience with the way businessmen can magnify their problems and misrepresent the job that they have to do. For instance, that is what they did with collection at the source. When we got all through we found that they did not have such an insuperable job. We have got to watch for that tendency in the businessman. I don't want him to have any more job than is necessary, of course.

H.M.JR: Well, Randolph, as your representative Mr. Blough will be at my elbow at all times, and he is no businessman, any more than-- (Laughter)

MR. BLOUGH: Right you are.

H.M.JR: ...any more than Graves - not Graves but some of the people working with him who were so afraid that the bad banker was going to gobble me up all of a sudden after ten years and that I was going to sell out the bankers and the Victory Fund. I mean, I have got a record here of ten years, and I haven't done it yet, and I am not going to do it in the last two years that I have to go.

So you will be getting - what I will be looking for over the week end, most likely from Paul, will be recommendations on how to do this, how to raise this money, and when I get these recommendations you fellows will sit in and you will hear them.

MR. HELVERING: There is only one thing I would like to suggest, Mr. Secretary, and, Mr. Paul, and that is that the administrative problems in these proposals for taxation ought to be submitted to us before they are taken up on the Hill and presented as a tax feature.

MR. PAUL: I quite agree with that. It has only failed to happen once or twice when we have been in a
terrible jam of some sort. I quite agree with you. In fact, I think anything should be submitted to you before we have a meeting so you are able to have a considered reaction.

H.M.JR: The purpose of this, Guy, was to have you sit in from the inception so you can run up a red flag at any time.

O.K.
Grace: Mr. Secretary, how are you?

HMJr.: I hear we’re doing good business with the grandchildren.

T: Oh, wonderful.

HMJr.: What?

T: Yes, sir. Wasn’t that a surprise? (Laughs)

HMJr.: Wonderful.

T: Yeah. I’ll let Danny Bell know about whether they’re to be sent over or whether they’re to hold them. We may just write them a letter, you see, and leave them there for safekeeping.

HMJr.: Okay.

T: I haven’t been able to take it up with the President yet to find out what he wants done. Mr. Secretary, an appointment tomorrow morning at ten?

HMJr.: Wonderful.

T: Uh huh.

HMJr.: Ten o’clock.

T: All right, sir.

HMJr.: Ever so much obliged.

T: Fine, Mr. Secretary. Goodbye.
December 2, 1942
12:16 p.m.

Grace: Mr. Secretary, how are you?
Tully: I hear we're doing good business with the grandchildren.
T: Oh, wonderful.
HMJr: What?
T: Yes, sir. Wasn't that a surprise? (Laughs)
HMJr: Wonderful.
T: Yeah. I'll let Danny Bell know about whether they're to be sent over or whether they're to hold them. We may just write them a letter, you see, and leave them there for safekeeping.
HMJr: Okay.
T: I haven't been able to take it up with the President yet to find out what he wants done. Mr. Secretary, an appointment tomorrow morning at ten?
HMJr: Wonderful.
T: Uh huh.
HMJr: Ten o'clock.
T: All right, sir.
HMJr: Ever so much obliged.
T: Fine, Mr. Secretary. Goodbye.
Operator: ....on the line. Is that all right?
HMJr: Yes.
Operator: All right. Go ahead.
HMJr: Hello.
Cong. Robert Doughton: Is that you, Henry?
HMJr: In - yes, Bob.
D: Bob Doughton.
HMJr: Yes.
D: This morning we've been fussin' around and workin' around and arguing around about this - President's deal about - giving him broader powers about this war matter, you know.
HMJr: Yeah.
D: You've seen a good deal about it in the paper....
HMJr: Yeah.
D: ....and I was directed this morning by the full committee to introduce a subcommittee bill, the bill the subcommittee has agreed on, as the basis of the hearings....
HMJr: Yeah.
D: ....and the hearings are to begin tomorrow at ten o'clock. I want one - our luncheon's at one o'clock.
HMJr: Yeah.
D: I want to ask you this....
HMJr: Yeah.
D: ....if it would suit you at all -- how would it suit you -- I'd just reverse this matter and you come up and lunch with me in the committee room up here privately at one o'clock.

HMJr: Well, I'd love to do that.

D: Well, now that's just -- you see, it will save me a little time coming and going.

HMJr: I'd love to do it.

D: Well, that'll be fine and we'll just meet up here in the committee -- you know where the committee room in the Capitol is?

HMJr: Well, I can find out.

D: Well, it's right here next -- on the second floor ....

HMJr: Oh, yes.

D: ....right here in the Capitol.

HMJr: Fine.

D: At one o'clock.

HMJr: Fine.

D: And we'll sit down and there won't be a soul about us.

HMJr: Fine.

D: Fine. All right, thank you.

HMJr: Thank you.

D: You're welcome.
December 2, 1942
3:13 p.m.

WMJr: Hello.
Operator: Go ahead.
WMJr: Hello.
Frank: Hello, Henry.
Knox: In person.
WMJr: Frank Knox talking.
WMJr: Yes.
K: I have a letter from you, Henry, about the possibility of using some of the men who have come to us from the Treasury and now are commissioned....
WMJr: Yes.
K: ....on some work for you abroad.
WMJr: Well....
K: It's against the orders of the Boss to return them to an inactive status, as you suggest....
WMJr: Yeah.
K: ....but we can turn them over to you in - as active naval officers assigned to you, and we can do that if you want us to in this case of Lieutenant Frank A. Southard....
WMJr: Yes.
K: ....Jr.
WMJr: Well, that would help. We're sending him over on - he's an economist, you see, one of the best we had and the State Department - and have asked us to send - lend them certain men over there.
K: Well, all right then. Admiral Jacobs will get out orders at once then directing him to report to you.

HMJr: Well....

K: But he'll come in the status of an active officer of the Navy....

HMJr: Well....

K: ....and wear his uniform. Will that be objectionable?

HMJr: I don't see why. I think we'll - we'll try it anyway.

K: All right. Well, I'll have those orders issued right away then.

HMJr: What we want is his brains.

K: Yeah. (Laughs)

HMJr: What?

K: Yeah, well, I suppose, as a matter of fact, on a detail like this he could take his uniform off as far as that's concerned. But he will be in the active status of a....

HMJr: Could he....

K: ....of an active officer.

HMJr: Yeah, but could he take his uniform off?

K: Yes, yes.

HMJr: Could he be told that?

K: Yes.

HMJr: What?

K: Yup.

HMJr: Well, I think....
K: A good many of our officers in Intelligence don't wear the uniform.

HMJr: Well, I think if he could be told that, that would be perfect.

K: All right. We'll do that. Then I'll have him ordered right over to you.

HMJr: It was very kind of you to call me.

K: All right, Henry.

HMJr: Thank you.
Frank Knox: How are you otherwise?
HMJr: I'm fine.
K: That's good.
HMJr: When - these little squabbles around town, I look at the war map and I say, "What the hell."
K: Yeah. (Laughs) Well, they haven't cost me any sleep.
HMJr: That's right.
K: What do you hear about this shake-up business? Is anything going to happen or is it all a flash in the pan.
HMJr: No, I - I don't know much except that I gather that Harold Ickes is very loath to do it.
K: Yeah.
HMJr: He's very loath to do it, and I - I haven't heard - the President hasn't mentioned it but I think - I think the papers had it about right because Harold talked pretty freely.
K: Uh huh.
HMJr: Do you mean on Manpower, I take it?
K: Yeah, yeah. He wants to take -- according to the newspapers, I haven't talked to Harold lately....
HMJr: No.
K: He wants to take the Manpower and stay where he is.
HMJr: Well, that I don't know. Is that what he wants to do?
K: Yeah, that's what the newspaper said. I haven't talked....
December 2, 1942
3:13 p.m.

Frank
Knox:

How are you otherwise?

HMJr:

I'm fine.

K:

That's good.

HMJr:

When - these little squabbles around town, I look at the war map and I say, "What the hell."

K:

Yeah. (laughs) Well, they haven't cost me any sleep.

HMJr:

That's right.

K:

What do you hear about this shake-up business? Is anything going to happen or is it all a flash in the pan.

HMJr:

No, I - I don't know much except that I gather that Harold Ickes is very loath to do it.

K:

Yeah.

HMJr:

He's very loath to do it, and I - I haven't heard - the President hasn't mentioned it but I think - I think the papers had it about right because Harold talked pretty freely.

K:

Uh huh.

HMJr:

Do you mean on Manpower, I take it?

K:

Yeah, yeah. He wants to take -- according to the newspapers, I haven't talked to Harold lately....

HMJr:

No.

K:

He wants to take the Manpower and stay where he is.

HMJr:

Well, that I don't know. Is that what he wants to do?

K:

Yeah, that's what the newspaper said. I haven't talked....
HMJr: Well, he's very loath. I guess that's about right, I would guess.

K: Uh huh.

HMJr: But he's - he's - he's awful blue, Harold is. I don't know why.

K: Is he?

HMJr: Yeah, he's awful - don't say I said so, but he needs a little bucking up, I think.

K: Well, I'll give him a call.

HMJr: I gave him a call and tried to buck him up a little bit.

K: Uh huh.

HMJr: I never heard him talk so low.

K: Is that so?

HMJr: That's just between us.

K: Yeah. Well, thanks for tipping me off. I'll call him.

HMJr: Right.

K: All right, Henry.

HMJr: Goodbye.

K: Goodbye.
December 2, 1942
5:30 p.m.

HMJr: Hello.

Allan Sproul: Hello, Mr. Secretary.

Robert Rouse: Hello.

HMJr: I thought I might get in on some of these words of wisdom.

R: (Laughs)

S: (Laughs) Well, we were just deciding that everything was all right.

HMJr: Oh, you were.

S: Yeah.

HMJr: I see. Bell's coming in. How good all right does it look?

S: Well, it looks like just a close shave for the two billion, which, as I said to Dan, I think can be turned to advantage; that we - the rest of the drive is going so well that we - all we wanted is the minimum from the banks.

HMJr: I see. But you think the two billion is in the bag?

S: I think so from what we have and from what Dan has heard from the other districts.

HMJr: Oh, yes. Well, just a minute. He's coming in here now.

S: Right.

HMJr: (Talks aside: How does it look, Dan? Oh. May I have your sheet? I see.) How much do you think your mail will be?

S: Well, Mr. Rouse doesn't think our mail will be so very heavy because we have all of our big banks in and we have 775 out of 1000 banks outside in (cont.)
S: already so that we're not counting for more than $25 million, say, in our mail.

HMJr: I see.

R: We went after the banks on - on Monday.

HMJr: Oh, yes.

R: Allan sent a wire to all of them....

HMJr: Yeah.

R: ....then again went after them yesterday.

S: Saw the Victory Fund Committee yesterday and....

HMJr: I see.

S: ....most of them are in.

HMJr: Well, but I - I should think we'd easily get the two billion.

S: Yes.

R: Oh, I don't think there's any question about it.

HMJr: Okay.

R: Okay.

HMJr: (Talks aside: Well - do you want to say anything, Dan?) He - he says he doesn't want to say anything.

S: All right, fine.

HMJr: Thank you.

S: Goodbye.

R: Goodbye.
The Secretary would like to discuss this with Roy Blough.
I listened last night to Raymond Gram Swing explain the new English social security proposal, and I wondered if we extended our own social security, wouldn't that be just as good or better than a new withholding tax? -- first, because we have machinery all set up and it would be no additional work for the employers; second, we have had this experience now for years in social security and we could extend the benefits just the way they are in England; and, last and most important, if we did widen social security wouldn't that be as good a damper on inflationary tendencies as any device that we could use?
The Problem of Individual Income Tax Payment

I. Past experience.

The pre-war losses to the Federal Government from uncollectible personal income taxes of small taxpayers were negligible. No figures are available indicating temporary delinquency or the difficulties to taxpayers, or what the final losses to the Federal Government will be under recent revenue acts. It is relevant, however, that more than half the individual taxpayers did not avail themselves of the installment payment option but paid in full in one payment in fiscal 1942. No information is available on postponements allowed or taken under relief provisions for soldiers and sailors. More detailed facts are contained in the following paragraphs:

1. Over the past 22 years (fiscal years 1921-1942) the amounts of individual income tax assessments abated as uncollectible have totalled 1.3 percent of the amounts collected. In the lowest year (1921) the abatements were 0.2 percent of collections, in the highest year (1932) 4.7 percent, and in the latest year (1942) 0.3 percent. The significance of any year's figures is diminished by the fact that abatements in any year usually cover several years' taxes.
The number of items abated as uncollectible over the same 22 years has averaged 0.5 percent of the returns filed and has varied between 2.4 percent (1926) and 0.1 percent (1942). The latter figure is not representative since the abatements relate to earlier years and the number of returns was twice as great in 1942 as in 1941 and over four times as great as in 1939.

The principal losses in terms of money were for larger taxpayers. For example, the combined figures for four years (1926, 1928, 1940, 1941) showed only 4 percent of the loss in the form of uncollectible amounts of less than $100, although nearly five-sixths of the uncollectible items were less than $100.

The above figures reflect only the final loss to the Government on taxes often assessed several years earlier. The practice followed in making abatements varies among collectors' offices but in general the 1942 abatements do not substantially reflect 1942 delinquencies and perhaps not even 1941 delinquencies. Moreover, the figures do not indicate the amount of temporary delinquency and do not show the extent of difficulties and inconvenience to taxpayers. No figures reflecting the extent of these conditions are available.
5. The use of partial (installment) payments is increasing, but persons using installments still constitute a minority. In 1939 partial payments were made by 28.8 percent of return filers; in 1941 by 27.7 percent, and in 1942 (through September 30) by 40.0 percent. Over half (56.3 percent) of persons with over $3,000 of income used partial payments in 1942, while over one-third (36.5 percent) of persons with under $3,000 of income did so.

6. No figures are available on the postponements allowed under soldiers' and sailors' relief provisions of the law. Figures on the number of postponements applied for are probably on record in the collectors' offices, but the automatic postponements for soldiers and sailors who are overseas cannot be ascertained, at least until attempts are made to collect the taxes.

II. Circumstances affecting the difficulty of tax payment in 1943 and subsequent years.

While the information on past experience is instructive and encouraging as far as it goes, a number of factors must be considered in judging the probable difficulties facing taxpayers in 1943 and subsequent years. Among them are the following:
1. The number of low income taxpayers will be greatly increased. This has a bearing on payment problems since the lower the income subject to tax, the less the expectation that the taxpayer will have knowledge of the tax and ability and foresight to save to pay it. Returns have increased in recent years from 4.0 million filed in fiscal year 1940, 7.6 million in 1941, and 14.6 million in 1942, and there are expected to be 27 million in 1943. The increase is largely due to lowering personal exemptions and credits for dependents and thus bringing in taxpayers with smaller incomes. In 1943 it is estimated that there will be nearly 17 million taxpayers with net income of less than $2,000 and 23 million with less than $3,000, a ten-fold increase over 1940.

2. The effective rate of income tax on low brackets will be much higher. This obviously has a bearing on payment because a small tax can be met more easily than a large one. Exclusive of Victory tax, which is to be collected at source, the tax to be paid by a single person having a net income of $1,000, for example, will be $39 in 1943 compared to $21 in 1942, $4 in 1941, and 0 in 1940. The tax to be paid by a married couple having a net income of $2,000 with no dependents will be $140 in 1943, compared
with $42 in 1942, and $0 in 1941. The tax to be paid by a married couple with two dependents, having a net income of $2,500, will be $99 in 1943 as compared with $12 in 1942, and $0 in 1941. The effective income tax rate under the 1942 Act for a married person with no dependents is 7 percent at $2,000; under the 1941 revenue act this effective rate was not reached until almost $5,000, and under the 1940 revenue act until about $13,000.

3. The ability of people to meet their higher taxes will depend on the following factors, among others:

(a) Some incomes will be higher in 1943 than in 1942. The bearing of this fact on tax payment is that the tax paid in 1943 will in most cases be paid out of 1943 income and if the income is higher in 1943 than in 1942 the difficulties of paying the 1942 tax will constitute less of a burden than the tax tables show. The total income paid out for 1942 for the country as a whole is estimated at $115 billion, while for 1943 rough estimates place income paid out at approximately $125 billion.

(b) However, millions of persons will receive less or no more income in 1943 than in 1942. A minor factor is that the Victory tax will be
deducted from the paycheck. Many people have fixed incomes which cannot be enlarged. Numerous businesses are expected to close. The armed forces will be increased by numbers estimated up to 4 million. These must either pay their taxes out of generally reduced incomes or have a burden of postponed tax to pay after the war.

(c) Subsequent years may show much smaller incomes than 1942 for persons generally. Decreases in incomes or the absence of income will make more difficult, perhaps impossible, the collection of income taxes at present levels under existing payment methods.

(d) Any increase in the cost of living affects ability to meet tax payments. The Bureau of Labor Statistics index of cost of living increased from 108 to 118 between September 1941 and September 1942 and this did not take account of substantial concealed increases not affecting the index.

(e) Inability to buy some kinds of goods, such as automobiles, will release money for tax payments. In effect this operates as an offset against increases in living costs. Short-term consumer debt decreased about $3 billion in the first nine months of 1942.
(f) Existence of large fixed commitments makes tax increases particularly difficult to meet since the increased tax must come out of the surplus above the commitment.

(g) Accumulated savings will be available to pay some of the tax increases. Series E War Savings Bonds are being sold at a current monthly rate of three-fourths the monthly rate at which income tax is accruing for payment in 1943. On February 28, 1943, there will probably be about $8 billions Series E bonds outstanding, or about the same amount as the individual income tax liability expected to be due in 1943. Other sources are savings accounts, insurance policies, etc. Accumulated savings would not last long for most people if used to pay taxes and large numbers in the lower income groups do not have substantial savings. Moreover, payment of income taxes out of accumulated savings would not produce the desired anti-inflationary effects and payment out of E bonds would not even improve the Treasury's cash position.

(h) Saving by voluntary action is much more difficult than by automatic deduction. A single person with $21 a week left after deduction of
Victory tax would have to save a week's wages for taxes each quarter-year, no easy problem considering living expenses.

III. Steps taken or recommended by the Treasury to ease payment.

A. Tax anticipation notes.

Since August 1941, the Treasury has offered for sale tax anticipation notes designed to give the taxpayer some interest on funds set aside for payment of tax. Two series have been issued. Series A, with an interest rate of about 1.92 percent, is presumably designed for taxpayers in the medium and low income classes. The amount of Series A notes that could be turned in during any one year for payment of income tax was limited to $1,200 until September 1942, when the limit was raised to $5,000. Series B, which have not been sold since September 12, 1942, and Series C, sale of which began September 14, 1942, were designed primarily for corporations and persons with relatively large incomes. The rate of interest on Series B is about 0.48 percent; interest on Series C accrues monthly on a graduated scale and equals about 1.07 percent if the note is held to maturity. Series A notes are sold in denominations of $25, $50, $100, $500, $1,000, and $5,000. These notes were widely publicized by the Treasury and by banks. Sales of Series A notes from August 1, 1941, through September 30, 1942, totalled $116 million, of which $92.2 million were purchased by individuals.
partnerships, and fiduciaries. These notes have probably not been well adapted to the needs of the small taxpayer. Only 2.6 percent of the total sold have been of the $25 denomination. The majority of taxpayers, if laying aside money for taxes regularly, would have to save from four to ten or more weeks before accumulating enough to purchase one $25 note. Moreover, the rate of interest, which is much below what persons in the lower income classes are accustomed to pay on their own borrowing, has probably not been a significant inducement.

B. Collection at source.

1. Withholding tax proposed in 1941.

In November 1941, the Treasury in executive session of the Committee on Ways and Means proposed that an additional "withholding" income tax of 15 percent above exemptions be imposed beginning January 1, 1942. "Withholding" liability would have been collected at source. At that time it was estimated that the tax would have yielded $2.8 billion.


On March 3, 1942, the Treasury proposed that the Secretary be allowed to institute collection at source at a rate not to exceed 10 percent when in his
judgment such action was necessary as a measure for checking inflation. For most taxpayers the result would have been to collect at source about half of their tax payable on 1942 income. One of the objections to this proposal was that in the early stages it would force taxpayers to pay more than one full year's tax in a given year.

3. **Provision of the House Bill.**

As it passed the House, the Revenue Bill of 1942 provided that, in 1943, 5 percent of the regular income tax be collected at source and that in 1944 and thereafter 10 percent be so collected. The doubling up of payment was spread over two years under this plan. When in full operation in 1945, this plan would have collected at source more than half of the tax due under the proposed rates from about 90 percent of all taxpayers.

4. **September 1942 Plan.**

On September 9, 1942, the Treasury presented a plan to the Senate Finance Committee, under which the liability on 1942 income would have been 10 percentage points below the House Bill or for most taxpayers approximately the same as the amounts paid in 1942 on 1941 income. Beginning in 1943, however, rates were to be 5 percentage points higher than provided in the House Bill and collection
at source was to be at the rate of 15 percent beginning January 1, 1943. This plan would have involved no doubling up. Under it more than three-quarters of all taxpayers would have had two-thirds or more of all tax liability collected at source.

C. Delinquent installment plan.

Recently Assistant Secretary Sullivan at a press conference suggested that individuals who are unable to meet their income tax installments when due request their Collector of Internal Revenue for the privilege of making payments on a weekly, semi-monthly, or monthly basis. Taxpayers would be required to pay 6 percent interest on amounts overdue, but would not need to borrow from loan companies, presumably at higher rates of interest. This plan would help solve one of the major problems, namely, that of timing the payments with receipt of income. However, it would not meet the problem that would arise when incomes began to decline. Moreover, unless made an optional tax payment method by law, it would tend to remove the fear of punishment for delinquency in payment of Federal tax, a fear which has been one of the most important reasons for the excellent collection record in the past.
D. Indirect aid.

Some indirect aids to tax payment have been given. The simplified return eases the problem of compliance, and the elimination of the oath makes it easier and cheaper for the taxpayer to file his return. Although these changes do not increase the financial ability of the taxpayer to pay, they tend to reduce his inertia and resistance to preparing and filing his return promptly.
INDIVIDUAL INCOME TAX
Effective Rates for Married Person without Dependents
1918 and Selected Taxable Years

PERCENT

Gross Liability
Post-War Credit
Net Liability

NET INCOME IN THOUSANDS OF DOLLARS

PERCENT

1918
1929
1930-31
1936-39
1934-35
1940
1941
1942
INDIVIDUAL INCOME TAX
UNITED STATES, UNITED KINGDOM AND CANADA
Effective Rates for Married Person without Dependents

**UNITED STATES**
- Including Victory Tax

**UNITED KINGDOM**
- Non-

**CANADA**
- Including NY State

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**PERCENT**

---

**NET INCOME IN THOUSANDS OF DOLLARS**

---

Post-war credit may be taken currently in:

1. United States: to the extent of life insurance premiums paid, net repayments of debt and net purchases of war bonds;
2. Canada: to the extent of life insurance premium payments, repayments of mortgage debt, and pension contributions;
3. United Kingdom: None.
You may be interested to know that a dinner has been arranged, Monday, December 7th, for the purpose of discussing the relationship of taxes and charities. Those present on behalf of the charities will be:

Arthur Ballantine
Roy Larson ..................Publisher of Life and Time
John Coleman ................Catholic charities
Monsignor Keegan ..........Catholic charities
Norman Goetz ..............Federation for the Support of Jewish Philanthropic Societies of New York City.

George Medalie ..........."  
Michael Appel ............."  
Joseph Willen ............."  

Mr. Sullivan and I will attend for the Treasury, and possibly one or two others. Mr. Ben Cohen will also attend.

P.S. I am attaching a letter from the President of the Federation which indicates points to be discussed.
Hon. Randolph E. Paul  
General Counsel to the  
Secretary of the Treasury  
Treasury Department  
Washington, D. C.

My dear Mr. Paul:

My colleagues of the Catholic Charities, the Greater New York Fund, the United Hospital Fund, Community Service Organizations who will join with me in our visit with you and your associates on Monday, December 7th, at the Mayflower Hotel in Washington, fully realize the grave and complex problems that are immediately before you. We would not take this evening away from you did we not believe that the problems which concern us are matters of vital importance to the community.

We are faced, as all responsible American citizens must be, with the full realization that the war effort must fall heavily on every section and element of our community, and know that those who have the responsibility for developing these programs face a task that leaves them little choice but to ask the utmost sacrifice from every group in the community.

We are fully aware that the Byrnes Agency created by the President to stabilize our economy also faces extreme social and economic problems and you may be certain that we would not come to discuss with you any aspects of their decisions in this matter. These are larger matters of national policy and not questions in which we, representing philanthropies, would presume in that capacity to make recommendations.

We come to you because one aspect of your recent ruling may have implications of deep concern to the religious, philanthropic and educational life of America. And, in turn, of course,
the whole morale and strength of our national life are directly or indirectly involved in these regulations and the implications which we ask you again to consider.

They have, however, deeply disturbed many of the finest men and women in our community and it is because of this that we come to you. By and large, the United States Federal and State Governments have always had, through acts of Congress, through rulings of the Executive, through rulings of the Treasury Department, and through executive branches of the Government, always been most generous in the regulations and interpretations that have been embodied in our Law to encourage and safeguard these functions of our community.

The President and his predecessor have from time to time, again and again, encouraged in written and in spoken word these endeavors as a characteristic and essential part of our traditional American way of life.

There is no doubt that we shall all be faced with emergency measures in our economic, political and social life in the interests of a final victory for which we all strive. To this extent, the philanthropies, the educational institutions and the religious life of America are, of course, deeply concerned and have proven themselves ready to dedicate their full efforts.

We are disturbed by some possible implications of the recent rulings that not only involve a temporary set-back for philanthropy but may indeed jeopardize their very existence and make their continuation almost impossible. These voluntary welfare, religious and educational expressions of our life have certainly benefited a great deal by the encouragement given to them through the 15% exemption in the income tax laws. As the tax burdens have increased, men and women have, of course, found in the encouragement given them by the law of the land an incentive to continue and even increase their gifts to these philanthropies.

We realize fully that there is no change contemplated in this ruling, but there are implications in the regulations as announced that are disturbing.

May we also at this time take the opportunity to express more fully many of the problems of private philanthropy in whose behalf we write and in whose behalf we shall meet you next week.

In some quarters there is apparent a misconception as to the nature of our work. Since so much of the problem of material relief to the unemployed and needy has been taken care of by the Government, there has arisen in some people's minds the misconception that there is a diminishing need for the services of private philanthropy. Quite the contrary is true. Voluntary supported priv-
The hospitals, clinics, health agencies have never been in greater demand. Our own city alone has over 90 voluntary hospitals and hundreds of clinics and health centers vital and necessary to the health protection and morale building of men, women, and children in the community.

The increased cost of living, the shortage of labor, the armed services’ call for nurses, the shortage of doctors -- all this has led to an acute problem. These institutions face mounting deficits not only from their own operations but for the services they are called upon to render to the Civilian Defense Office and to the Army Emergency Medical Service, and the need for generous giving on the part of the community is more vital than ever.

With millions of men in the service and millions of women in the industrial war effort, the need for nurseries, child-care, health and welfare agencies, recreation and character-building centers has mounted drastically and all of us live in the dread fear of a mounting crime wave among adolescents.

In our own city there are hundreds of agencies that deal with one phase or another of this work and play an important role in the prevention of juvenile delinquency and in dealing with it when it does occur. The whole program of religious education, the YMCAs, the YWCA’s, the Knights of Columbus, center groups, etc., each deal with the great problems of the youth of our country -- problems never more serious than now, when adult life is so deeply engaged in the war effort, when we must be eternally watchful of the possibilities of much confusion, the destruction and falling away from the fundamental moorings of home and church and the essentials of the American way of life.

All these problems and a hundred more are the tasks of our vast fabric of private social work. Temporary legislation will have permanent effects on them. These are functions of society that will be easy to close and exceedingly difficult to reopen.

We believe, therefore, that we have every right to ask you to consider the memorandum we have attached to this letter indicating interpretations and rulings that might enable people affected by the Barnes’ ruling dealing with the $25,000 to be willing to continue with their philanthropies without in any way adding to their own personal incomes.

These men not only give generously in many instances, but their gifts represent the backbone of public solicitation. Curtailment on their part would be serious for the direct loss and doubly serious for the effect on the community, since curtailment of gifts by these leaders must inevitably affect all giving.
We are told by many who have studied this situation that the Government would lose very little through enabling these men to be a conduit, as it were, if they might continue to give to their philanthropies. We are also deeply concerned by the concept of the "customary" gift. In a large measure this would mean the freezing of giving if this is interpreted to mean that there can be no increased giving to philanthropy. This, as you can readily understand, would have disastrous effects since these social agencies would be precluded from any possibility of making necessary replacements in their giving structure as former supporters pass away.

We look forward to our meeting with you and your associates next Monday, for we are confident that all of us are seeking one object - while doing everything to insure victory, at the same time to safeguard, sustain and continue these social agencies which mean so much to the religious, educational and social life of the community in peacetime and play no less a role in this time of war.

Sincerely,

[Signature]
1. Charitable contributions should be permitted as a deduction in computing income subject to the Victory Tax, provided, however, that the amount of said deductible contributions shall not exceed 15% of the Victory Tax Net Income. This requires legislation.

2. Customary contributions of an individual shall be defined only as the aggregate amount of his contribution taken into consideration and not the particular charities to which such contributions were given. In other words, if an individual contributed previously only to the Red Cross, United Hospital Fund, he may now contribute to other charities also or any substitutions thereof.

3. The amount of customary contributions shall be deemed to be 15% of the salary and other income of the individual for 1942 regardless of whether or not the individual had previously given 15% of such amount to charity.

4. The amount which an employee shall be entitled to receive in excess of the fixed salary of $67,200 shall be that proportion of the amount by which his salary prior to the effective date of the $25,000 salary limitation exceeds $67,200, which the contributions to charitable organizations made by him during the taxable year bears to $67,200, plus his income from sources other than salary.

For example, if an employee is receiving a salary of $150,000 prior to the effective date of the $25,000 salary limitation and in the year 1943 he receives $50,000 of taxable income apart from salary, plus his maximum salary receivable of $67,200, and makes contributions to charitable organizations of $11,720, his employer will be permitted to match his contribution by the sum of $8,280. That is, the employer is permitted to match his contribution to the extent of $11,720/$117,200 X ($150,000 minus $67,200) = $8,280.

The amount paid by the employer to the individual in excess of $67,200 for the purpose of enabling him to make his customary charitable contributions shall not be treated as taxable income of the individual, but shall be regarded as a conduit between the employer and the charity with the result that said amount does not enter into the computation of his taxable income.

However, the employer making the payment shall be permitted to deduct such payment as compensation paid.
## Federal Reserve Operations in Government Securities

Column A shows Federal Reserve operations in millions of dollars as follows:

<table>
<thead>
<tr>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
<th>Saturday</th>
<th>Full Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>B</td>
<td>A B</td>
<td>A B</td>
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<tr>
<td>$15.6</td>
<td>$27.7</td>
<td>$31.2</td>
<td>$35.7</td>
<td>$37.5</td>
<td>$139.0</td>
<td>$139.0</td>
</tr>
</tbody>
</table>

### Market Purchases
- Direct purchases from Treasury: +$139.0
- Market sales: -$139.0

### Summary
- Total net increase or decrease (-): -$32.7
- Wednesday report of total portfolio: +$15.6

### Strictly Confidential

The table above shows market purchases and sales, direct purchases from Treasury, and total net increase or decrease for the week.

**Note:** Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 PM are included in the next day. The issue and redemption of special one-day certificates are treated separately. Only the change from the day before is considered as an issue or redemption. Transactions are entered as of the day following that to which they apply. Data are not available until the following morning.

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

Original figures revised.

1/ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 PM are included in the next day.

2/ The issue and redemption of special one-day certificates are treated separately; i.e., only the change from the day before is considered as an issue or redemption. Transactions are entered as of the day following that to which they apply, since data are not available until the following morning.

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Regraded Unclassified
**FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES**

Column A shows Federal Reserve operations in millions of dollars as follows:

<table>
<thead>
<tr>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
<th>Saturday</th>
<th>Full Week</th>
</tr>
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<td>+5.5</td>
<td>+4.0</td>
<td>+3.2</td>
<td>+2.0</td>
<td>+1.3</td>
<td>+1.1</td>
<td>+1.5</td>
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</tr>
<tr>
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<td>+0.6</td>
<td>+1.0</td>
</tr>
<tr>
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<td>+2.0</td>
<td>+1.3</td>
<td>+1.1</td>
<td>+1.5</td>
</tr>
</tbody>
</table>

**Market purchases**

1. **Summary**
   - Market purchases: +63.0
   - Market sales: -63.0
   - Direct purchases from Treasury: +419.0
   - Maturities: -419.0
   - Total net increase or decrease (-): +176.0
   - Wednesday report of total portfolio: +184.0

2. **Bills - All issues combined**
   - Market purchases: +63.0
   - Market sales: -63.0
   - Maturities: -419.0
   - Total net increase or decrease (-): +419.0

**Certificates**

- 5/26 A - 3-31 42
- 5/26 B - 3-31 43
- 5/26 C - 3-31 44

**Treasury notes**

- 3/26 D - 3-31 45
- 3/26 E - 3-31 46
- 3/26 F - 3-31 47

**Treasury bonds**

- 3/26 G - 3-31 48
- 3/26 H - 3-31 49
- 3/26 I - 3-31 50

**Guaranteed securities**

- 3/26 J - 3-31 51
- 3/26 K - 3-31 52

**All Maturities**

- Market purchases: +63.0
- Market sales: -63.0
- Direct purchases from Treasury: +419.0
- Maturities: -419.0
- Total net increase or decrease (-): +176.0

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

* Original figures revised.

1/ Purchases and sales recorded as of day of transaction and not as day of delivery. Transactions after 4 p.m. are included in the next day.

2/ The issues and redemption of special one-day certificates are treated as of the day of issue, not on the day before, as an issue or redemption. Transactions are entered as of the day following that to which they apply.
<table>
<thead>
<tr>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
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<th>Full Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>B</td>
<td>A</td>
<td>B</td>
<td>B</td>
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<tr>
<td>-1</td>
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<tr>
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**III. Tax-exempt securities**

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<th>Monday</th>
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<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
<th>Saturday</th>
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<td>+0.2</td>
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**Guaranteed securities**

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**All tax-exempt securities**

<table>
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<th>Tuesday</th>
<th>Wednesday</th>
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<th>Friday</th>
<th>Saturday</th>
<th>Full Week</th>
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<td>Market purchases</td>
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<td>+17.7</td>
<td>+17.7</td>
<td>+17.7</td>
<td>+17.7</td>
<td>+17.7</td>
</tr>
<tr>
<td>Direct purchases from Treasury</td>
<td>+0.6</td>
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<td>+0.6</td>
<td>+0.6</td>
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<tr>
<td>Maturities</td>
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<td>-26.8</td>
<td>-26.8</td>
<td>-26.8</td>
<td>-26.8</td>
<td>-26.8</td>
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<tr>
<td>Total net increase or decrease</td>
<td>+11.7</td>
<td>+11.7</td>
<td>+11.7</td>
<td>+11.7</td>
<td>+11.7</td>
<td>+11.7</td>
<td>+11.7</td>
</tr>
</tbody>
</table>
December 2, 1942.

Dear Henry:

I have your letter of November 30, 1942, regarding the phrase "borrowing nine billion dollars from accumulated savings and idle funds" which has worried the savings banks of the country.

I was sorry that we could not change this when it was called to our attention, but it was too late to make it apply uniformly throughout the country and we thought it would do more harm to change it in one section of the country than to let it stand. We are, however, willing to change the phrase along the line suggested by you or some other phrase which will eliminate the words "accumulated savings".

I appreciate your writing me about this matter. I also appreciate the work that savings banks of the State of New York have done on the F and G Bonds and the generous subscription of the Bowery Savings Bank to the Victory 2-1/2's.

With best wishes, I am

Sincerely yours,

(Signed) Henry

Mr. Henry Brueis
President
The Bowery Savings Bank
110 East 42nd Street
New York, New York.
November 30, 1942

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

Dear Henry:

I hesitate to thrust our problems on your attention, but I venture to do so in this case because I believe you would care to know that there is some anxiety in our group lest a phrase in the advertisements in support of the Victory Loan drive may cause heavy withdrawals from the savings banks. We are not certain that this would be the case but if it should happen it would mean, of course, that we would have to sell government bonds to pay off our depositors.

The phrase we are worrying about is "borrowing nine billion dollars from accumulated savings and idle funds". Could you not have the advertisements read: "borrowing nine billion dollars from uninvested and idle funds"?

This would omit reference to savings bank deposits, life insurance funds, thrift accounts, etc., so largely invested in our best security.

Incidentally, I am proud to tell you that the savings banks of the State of New York have purchased $8,700,000 "P" and "G" bonds (nearly all "G"s) during the year, and in response to a recent appeal I made as a preliminary to the proposed Special "G" Bond Campaign they increased their holdings of these bonds by $2,000,000.

For a final cheering note— The Bowery Savings Bank today has subscribed to $40,000,000 of the "tap" issue. I assume the savings banks generally will subscribe in like manner proportionately unless they fear heavy withdrawals.

With all good wishes,

I remain

Faithfully yours,

[Signature]

President
Schedule of Appearances of
THE BOWERY SAVINGS BANK
NE SPAPER ADVERTISEMENT
Take A Look at Your Taxes

<table>
<thead>
<tr>
<th>Day</th>
<th>Times</th>
<th>Mirror</th>
<th>Sun</th>
<th>News</th>
<th>Journal-American</th>
<th>Herald Tribune</th>
<th>Post</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 25</td>
<td>27</td>
<td>30</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dear Mr. Secretary:

This is the first of a series of advertisements scheduled to appear in all d.p. papers between now and March 1943.

Respectfully,

Bob Sparks

11/30  

Regarded Unclassified
What Taxes Will Cost You In 1943

<table>
<thead>
<tr>
<th>Net Income before Personal Exemption</th>
<th>FEDERAL INCOME AND VICTORY TAXES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single Person No Dependents</td>
</tr>
<tr>
<td>$1200</td>
<td>$ 153</td>
</tr>
<tr>
<td>1800</td>
<td>288</td>
</tr>
<tr>
<td>2500</td>
<td>446</td>
</tr>
<tr>
<td>3000</td>
<td>574</td>
</tr>
<tr>
<td>4000</td>
<td>829</td>
</tr>
<tr>
<td>5000</td>
<td>1105</td>
</tr>
</tbody>
</table>

This chart combines Federal income and Victory taxes. Starting January 1, Victory taxes will be deducted from your salary—5 cents on each dollar in excess of $12 a week. Later on, part of the Victory tax will be returned to you. The chart includes only that part of the tax which will not be returned.

Look above and you get a pretty fair idea of the combined Federal income and Victory taxes which must be paid by you in 1943.

Because of the Victory tax, your pay envelope will contain less. From this "less," you must meet an income tax which will be far higher.

Paying that tax will be a privilege...a patriotic duty! But face facts. Paying it without bringing sudden hardships to yourself and family will require planning in advance...saving in advance. No longer can you wait till March to think about taxes.

The Bowery, with a 108-year background in family money management, earnestly urges you to start saving for taxes. Realize what you are up against. Then save. Come to The Bowery and save. And save steadily. Unless you do save, you may be swamped with serious financial difficulties when tax payment time comes.

**BOWERY SAVINGS BANK**

110 East 42nd Street

130 Bowery

Fifth Avenue at 34th Street

Save for Taxes
December 2, 1942.

Dear Mr. Ambassador:

I think you will enjoy hearing this record of a song that was written for us by two Army boys who were detailed to the Treasury for a time in connection with the War Bond campaign. The authors, Sergeant Richard Uhl and Corporal Tom Adair, have now gone back to military duty.

I feel that their song will be a great help to us in our drive to get thirty million Americans to set aside at least ten percent of their pay in War Bonds every pay day.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

His Excellency,
The Right Honorable
the Viscount Halifax,
British Ambassador,
Washington, D.C.

P.S. I would appreciate it if you would forward the attached letter and record to Prime Minister Churchill.

FK: eg

(Song - "Ev'rybody Ev'ry Payday")

Taken to Embassy by Chauffeur Branch 1:15 12/4/42.

Copies in Diary
December 2, 1942.

Dear Mr. Prime Minister:

I think you will enjoy hearing this record of a song that was written for us by two Army boys who were detailed to the Treasury for a time in connection with the War Bond campaign. The authors, Sergeant Richard Uhl and Corporal Tom Adair, have now gone back to military duty.

I feel that their song will be a great help to us in our drive to get thirty million Americans to set aside at least ten percent of their pay in War Bonds every pay day.

With best wishes,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Right Honorable
Winston Churchill,
Prime Minister,

(Song - "Ev'rybody Ev'ry Payday")
Taken to Embassy by Chauffeur Branch
1:15 12/4/42

Copies in Diary
December 2, 1942.

Dear Harold:

I think you will enjoy hearing this record of a song that was written for us by two Army boys who were detailed to the Treasury for a time in connection with the War Bond campaign. The authors, Sergeant Richard Uhl and Corporal Tom Adair, have now gone back to military duty.

I feel that their song will be a great help to us in our drive to get thirty million Americans to set aside at least ten percent of their pay in War Bonds every pay day.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Hon. Harold D. Smith,
Director, Bureau of Budget,
Washington, D. C.

FK:eg

(Song: "Ev'rybody Ev'ry Payday")

Copy in Diary
Copies to Thompson
(Del. by Schey 4:40 12/3/42)
December 2, 1942.

Dear Harry:

I think you will enjoy hearing this record of a song that was written for us by two Army boys who were detailed to the Treasury for a time in connection with the War Bond campaign. The authors, Sergeant Richard Uhl and Corporal Tom Adair, have now gone back to military duty.

I feel that their song will be a great help to us in our drive to get thirty million Americans to set aside at least ten percent of their pay in War Bonds every pay day.

Sincerely yours,

(Signed) Henry

Hon. Harry L. Hopkins,

The White House.

FK:eg

(Song: "Ev'rybody Ev'ry Payday")
Copy in Diary
Copies to Thompson
(Del. by Schey 4:40 12/3/42)
The Honorable 
The Secretary of the Treasury

Dear Mr. Secretary:

At the present time the Secretary is out-of-town attending the Department's Regional Goals Meetings, so I wish to thank you for sending him the record of the song written by Sergeant Richard Uhl and Corporal Tom Adair. I know that he will appreciate receiving the song and will feel as you do that it will be a great help in your War Bond Drive.

Sincerely yours,

[Signature]
Assistant to the Secretary
December 2, 1942

Dear Henry:

Thanks so much for the record you sent. It will undoubtedly promote the sale of war bonds.

Sincerely yours,

[Signature]

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

FROM
Harold Mager

Here, as you requested, are two brief summaries of Mr. Paul's speeches in Philadelphia and New York.
FISCAL POLICY AND INFLATION

The battle against inflation will not be won without the enactment of measures more fundamental than any yet adopted. To safeguard against the chaos of inflation, consumers must be induced to refrain from spending some $40 billion, the difference between disposable incomes remaining after payment of all personal taxes and the available supply of goods at current prices -- in short, $4 out of every $11 of income at their disposal.

Price control in itself is ineffective in closing the inflationary gap, because while wage rates and farm prices may be held constant, the total volume of purchasing power that will be created will not remain constant. In other words, the amount of disposable income depends upon the volume of business and volume of employment which will increase even though wage rates and farm prices remain fixed.

In waging fiscal war on inflation, additional taxes can and must play a prominent part. The advantages of taxation over alternative measures: 1, it reduces the need for costly administrative controls; 2, it restricts accumulation of public debt; 3, it strikes at the roots of potential post-war inflation.

It is unrealistic, however, to rely on taxation along traditional lines to absorb the entire excess of civilian spending. Mr. Paul then discussed and explained a whole series of fiscal tools that might be employed: compulsory saving, compulsory lending, expenditure rationing, expenditure taxation. (The same material was covered in the letter to Mr. Byrnes.) Newspapers probably took their lead from this sentence: "In principle, then, compulsory saving could provide a comprehensive solution to problem of inflation." In using the phrase "compulsory saving" as contrasted with "compulsory lending" Mr. Paul explained that he meant post-war tax credits which would give an incentive to all forms of saving and put a penalty on spending.
THE EFFECT OF THE WAR ON TAX ADMINISTRATION

Mr. Paul attempted to make clear that the Treasury and the Bureau of Internal Revenue are confronted with unprecedented problems. Tax administration problems are of two types: 1. Field problems of the 43 offices of the Bureau -- such as the paper work and physical labor involved in handling and reviewing tax returns; 2. Home Office problems -- such as determining the manner in which the provisions of tax statutes shall be interpreted and then applied by the field offices.

Taking the field problems first, he outlined the effects of the war upon the Bureau's operations as follows:

(a) Increased number of returns due to reductions in exemptions and dependency credit, Victory tax, etc.
(b) Delinquencies -- aggravated by failure to follow out Secretary's recommendation for collection-at-source.
(c) Loopholes -- the vast task of scrutinizing returns, especially when every deduction will involve more than the pre-war tax benefit.
(d) Retroactive legislation -- Extension of retroactive relief under the 1942 Revenue Act will involve adjustment of thousands of previously filed returns.
(e) Suspension of Statute of Limitations -- Suspension of time limitations running against the Government and taxpayers, where war makes impossible the timely performance of required acts, will increase administrative burdens.
Next he dealt with the effect of the war on home office problems of the Bureau, as follows:

(a) Advertising -- problems in treating it.
(b) Depreciation allowances.
(c) New types of Contracts.
(d) Frozen Inventories.
(e) Preparation of Regulations.
(f) Interpretation of Wartime Provisions.
   (1) War losses.
   (2) Excess Profits tax.
   (3) Amortization of Emergency Facilities.
   (4) Cooperation with other departments, especially in renegotiation of contracts.

Over and above these problems is a problem common to field offices and the home office alike: the manpower shortage created by military needs.

Mr. Paul concluded with a plea for the cooperation of taxpayers and their counsel; the need to adopt every possible labor-saving device; the need for mutual trust and confidence; concise memoranda, prompt compliance, and frank disclosures.
TREASURY DEPARTMENT
Washington

(The following address by Randolph E. Paul, General Counsel of the Treasury, before the American Academy of Political and Social Science, Philadelphia, is scheduled for delivery at 8:15 P.M. Eastern War Time, Monday, November 30, 1942, and is for release at that time.)

FISCAL POLICY AND INFLATION

Stabilization of prices is essential to the efficient working of a war economy. The rising cost of living, which is a sign of instability, has been a source of major concern for many months. Congress has had the problem under consideration almost continuously since the end of 1941. Its first direct action took the form of the First Price Control Act, under which the Office of Price Administration established general price ceilings. The problem of inflation was constantly in the background while the Revenue Act of 1942 was taking form. Another frontal attack on inflation was made two months ago by Congress in its passage of the Second Price Control Act and by the President in creating the Office of Economic Stabilization.

But the battle against inflation will not be won without the enactment of measures more fundamental than any yet adopted. It will not be won without heavy reliance on fiscal weapons. Price ceilings and wage controls, by themselves, will check, but not halt, the upward course of prices. Price and wage controls will be successful only if they are buttressed by fiscal measures designed to restrict civilian spending and thereby to relieve the tremendous pressure of consumer purchasing power on prices. Such measures are an essential part of a comprehensive anti-inflation program.

That specific measures should be adopted is no longer a hypothetical question to be faced in the dim future. It is an urgent problem which is fully upon us. The vast volume of actual and potential spending being generated by our total war effort threatens to play havoc with price ceilings and economic stability. One of the most pressing problems confronting the new Congress when it convenes a month hence will be that of drafting a fiscal program to meet the needs of war. The problem before Congress will not be merely how to finance the war, but how to do it in an equitable and anti-inflationary way. There is no question but what the war will be financed. The all-important issue is the ways and means of financing.

Tonight, then, I address my remarks primarily to the fiscal ways and means of coping with inflation. But to set the stage for that discussion, I should like to say a few things about inflation itself. An analysis of the inflation problem requires consideration of the process that produces inflation, of the evils that attend it, of the evidence that inflation exists or threatens, and, finally, of the steps that must be taken to prevent it.
I need not detail the evils of inflation to this audience. Its inequity, its costliness both in conventional monetary and in actual economic terms, and its disorganizing effect on our economy during and after the war, are undoubtedl
to all of you. The nature of the inflationary process is equally clear. Then an excessive and growing supply of consumer purchasing power rushes to a market having available a shrinking supply of consumer goods and services; inflation is in the making. It may be useful, however, to cite the evidence of that process in order to clarify the nature of the measures that must be adopted to cope with inflation.

The Threat of Inflation

The magnitude of the inflationary threat for the future is evidenced not so much by the percent rise in the cost of living that has already taken place during the past two years as it is by the relationship between the flow of purchasing power and the supply of available consumer goods. The most optimistic estimates indicate that not more than $70 billion, at present prices, of consumers' goods and services will be available for purchase in the calendar year 1943. In the same period, consumers will receive incomes totalling $125 billion. Personal taxes of Federal, State and local Governments, including the taxes levied under the Revenue Act of 1942, will take away not more than $15 billion of this amount. Therefore individuals will have about $110 billion at their disposal, or at present prices about $40 billion over and above the supply of goods and services available to meet civilian demands.

That $40 billion is the inflation potential from 1943 income. Unless much of it is withdrawn or immobilized, the rush of spending power to the market will break through price ceilings on a broad front. Black markets will mushroom; evasion and dealer favoritism will become commonplace; and empty shelves and illegitimate profits will become the order of the day. In such a situation distribution of the short supply of the necessities of life will be wasteful and inequitable. Competition to buy the means of living will be reduced to a disorderly, time-consuming scramble, and goods will go not to those who need them most but to those who are least bound by limits of time, money, and scruples. Severe hardships will be suffered, especially by families in the low income groups.

To safeguard against the chance of inflation, consumers must be induced, whether by additional taxation or by other measures, to refrain from spending some $40 billion, or $4 out of every $11 of income at their disposal after payment of existing taxes.

Fiscal measures are indispensable in meeting the threat of inflation, partly because they perform certain functions better than other measures, but, more important, because they do a job that other controls cannot do. Taxes and other fiscal instruments which are tax-like in their degree of compulsion strike at the purchasing power root of inflation. The establishment of price ceilings resists the upward pressure of prices by pushing down on them from above. Relief of the upward pressure itself is a vital part of the anti-inflation program. Wage controls and fixed farm prices offer partial relief by preventing the creation of some purchasing power.
But constant wage rates and constant farm prices are not the same thing as constant incomes. Farm income is a function not only of farm prices, but also of the volume of farm goods marketed. Wage income is a function not only of wage rates, but also of the total volume of employment and of the volume at each wage level. As the volume of farm output responds to military demands, farm income will grow apace regardless of price controls. And the lengthening of working hours, the up-grading of workers into higher-wage jobs, and the employment of more women in industry, will spawn greater total wage payments even in the face of rigid wage rate controls. Direct control of farm prices and wage rates does not prevent the creation of an overflow of purchasing power. Taxation and related fiscal measures must step in to impound such spending power before it flows to the market.

The role of voluntary saving

Voluntary savings will do part of the job that confronts fiscal policy. Such savings are now being made at an unprecedented rate. During the second quarter of this year they were running at an estimated annual rate of $24 billion, or approximately twice the rate for the same quarter of 1941. This rapid acceleration of savings cannot be attributed solely to the large increase in individual incomes. In considerable part, it is due to maximum price regulations and to the inability to buy automobiles, refrigerators, and certain other consumer goods. The hard facts of war which put many goods out of the reach of civilians provide an almost automatic stimulus to savings. The campaign for reduced spending carried on in connection with the sale of war bonds has been another potent inducement to greater savings.

Increased savings have been expressed in a growing volume of government bond purchases, insurance premium payments, currency and deposits, debt repayments, and the like. Whether this volume can continue to grow during 1943 in the face of heavier taxes and the higher living costs is open to question. Without strong governmental action it is doubtful that the rate of saving in 1943 can be maintained, let alone, increased. Yet, if consumer savings are to be brought into line with the value of supplies available at present prices, government action must immobilize $15 billion of consumer income in 1943 over and above the $24 billion annual rate of saving. Our fiscal policy must be framed with that end in view.

Gross savings of $40 billion out of next year's incomes will, of course, not suffice. Those consumer savings must be net, that is, they must total $40 billion after taking account of the fact that some people will eat into their savings to maintain current consumption. If, for example, some persons draw down their savings to the extent of $10 billion, others will have to save $50 billion to give us net individual savings for the economy as a whole, of $40 billion.

Although a high rate of saving is an effective deterrent to inflation, savings are not an unmixed blessing. The fund of capital assets which represent accumulated savings in itself a dangerous pool of potential consumer purchasing power. The $13 billion of United States Savings Bonds could be presented for redemption on short notice. Billions of dollars of other securities in the
hands of individuals might be sold to banks, to business firms, or to other individuals. Bank balances and currency in circulation exceed previous year’s holdings by many billions. Additional billions could be borrowed on insurance policies. If consumers undertook a sudden and widespread conversion of their huge fund of capital assets into a flow of purchasing power, the resulting flash flood of spending would quickly demolish the dam of price controls.

Actually, the backlog of savings is not likely to be converted into spendings in so dramatic a fashion. Rather, as more and more income is taken away by taxes or immobilized by forced lending to the Government, the reserves of purchasing power will be increasingly tapped by persons resisting a reduction in their standard of living. As the protective covering of bulging inventories is removed, the shortage of consumer goods which war makes inevitable will become fully apparent. A growing number of consumers will be moved to supplement their current income by drawing on assets in order to get a larger share of the short supply of civilian goods. Price stability will be threatened if capital assets are used to raise consumer spending to a level exceeding the available supply of goods at present prices.

Fiscal measures must be drafted with an eye not only to inducing saving but also to discouraging dissaving. The net effect of each proposal must be carefully weighed. The goal for 1943 is to prevent $40 billion of excess purchasing power from reaching the market for consumer goods. Some of the $40 billion will probably be removed by tax increases during 1943. The balance must be added to our accumulated individual savings. Although voluntary saving will do a substantial part of the job, we cannot expect it to do the whole job. Some other measure, or measures, such as compulsory saving, compulsory lending, expenditure rationing, and expenditure taxation will be necessary. In using them we must be on guard, however, against deluding ourselves. It will do no good merely to shift savings already being made from a voluntary to an enforced status. Nor will compulsory lending that comes out of accumulated savings contribute to the solution of the inflation problem. The net effect of such measures would be zero. If we fail to add $40 billion in 1943 to net individual savings and existing taxes, prices will rise in either an open or a concealed way.

The Role of Taxation

Net savings and individual taxes are closely related weapons in the battle against inflation. The more taxes we obtain, the less net savings it is necessary to induce or compel. And, in general, the higher the volume of voluntary savings, the smaller the task that confronts taxation and other compulsory measures.

Of course, the size of the problem that taxes and related fiscal measures must solve is not measured simply by the difference between the $40 billion of excessive purchasing power and the $24 billion of individual net saving. Part of any increase in taxes will merely replace savings. There are a number of reasons why taxes are desirable, even as a mere supplementation of savings. But we must avoid weighing the merits of alternative measures in a vacuum. Each must be surveyed in full view of its impact on the others and in full view of the $40 billion goal.
In waging fiscal war on inflation, additional taxes can and must play a prominent part. We can hardly have begun to reach the economic limits of taxation and it would be sheer folly to abandon taxes in favor of its alternatives. In the withdrawal of excessive purchasing power, taxes have three important advantages over alternative measures.

First, taxation reduces the need for costly administrative controls. It is excessive money in people's hands that occasions many of these controls. Taxes thus reduce the overhead of wartime government and increase the freedom of individuals.

Second, taxes restrict the accumulation of public debt, and thus ease the problem of post-war debt management. By reducing the interest burden, taxes give the Government greater fiscal freedom to cope with the economic problems that will arise in the post-war period.

Third, at the same time that they aid in preventing wartime inflation, taxes strike at the roots of potential post-war inflation. If consumers, especially those in the middle and lower income groups, accumulate great quantities of war bonds and other forms of savings, there may be a dangerous surge of purchasing power immediately after the war. People may redeem their bonds and express their postponed demands in such volume that the rigid controls of wartime may have to be extended into peacetime. Insofar as taxes facilitate the removal of price and rationing controls at the end of the war, they help restore the free economy we are fighting to retain.

Notwithstanding these telling advantages, it would be highly unrealistic to rely on taxation along traditional lines to absorb the entire excess of civilian spending which threatens runaway inflation. Even a doubling of the present $15 billion of personal taxes would fall far short of the goal, for if anything like $15 billion of new personal taxes were enacted, the level of voluntary savings would surely fall below the current level of $24 billion annually. Unaided by other fiscal measures, personal taxes would have to be increased by more than $20 billion to complete the absorption of $40 billion of excess spending power. Such a volume of taxes appears not to be politically feasible and may not be economically desirable. Other measures must be adopted to restrict spending.

The restriction of spending, of course, a by-product of price control and specific commodity rationing. But, as we have noted, price controls cannot operate successfully without a diversion of purchasing power from consumer markets. Although eventual adoption of specific rationing on a wide scale may be necessary, the extension of such rationing sufficiently to cover the bulk of consumer spending would be costly and impractical. We must look to other measures to achieve the necessary curtailment of consumer spending.

The Treasury has examined four general measures, any of which would contribute substantially to price stabilization and to an equitable distribution of the short supply of civilian goods. Each would also give substantial direct or indirect assistance to financing the war. These four measures are compulsory lending, compulsory saving, expenditure rationing, and expenditure taxation.
which I should like to discuss with you tonight in that order.

Compulsory Lending and Compulsory Saving

There is a marked tendency in current discussion to use the terms "compulsory lending", "compulsory saving", "forced loans", and "minimum savings" as if they were interchangeable. Actually, compulsory lending is quite different from compulsory saving, both in nature and in effect. The legal obligation to lend to the Government an amount equaling a specified fraction of income, expenditure, or other base is quite different from the legal obligation to save a specified fraction of income. By drawing on previously accumulated assets, an individual can lend to the Government and yet not save. Or, he might save and yet lend nothing to the Government.

A small-scale example of compulsory lending is the post-war credit under the Victory tax. However, the offsets against such lending for various forms of saving such as the payment of insurance premiums, the repayment of debt, and the voluntary purchase of eligible war bonds convert the Victory tax credits very largely into an example of compulsory saving. One should note, perhaps, in citing this example that compulsory saving on so modest a scale is unlikely to do more than replace a part of voluntary saving. Both compulsory lending and compulsory saving can be made progressive in their incidence through the use of exemptions and graduated rates. Assuming that income should be used as the base for either measure, one might, for instance, set up a schedule requiring no lending or, alternatively, no saving, for the first $1,000 of income received by a married person without dependents; an amount equal to 20 percent of the next $1,000, and perhaps 40 percent of the third $1,000, and so on, might be required either as a compulsory loan to the Government, or as some type of savings if compulsory saving were adopted. Special provision for fixed commitments or extraordinary expenses could be made under either measure by allowing offsets for such things as personal taxes, rents, medical expenses, debt repayments, and the like.

Both plans contribute to the control of inflation in much the same way as taxation, namely, by immobilizing the spending power at the disposal of consumers. Compulsory saving is a more effective immobilizer than compulsory lending, as we shall see in a moment, but the two instruments enjoy certain common advantages over taxation.

The advantage most urgently claimed for both compulsory lending and compulsory saving is that, as compared with taxation, it preserves the incentive to work. Workers will be more willing to work harder and longer if they feel that they are only temporarily deprived of the fruits of their labor, and that they may enjoy those fruits after the war when goods are once more abundant. Similarly, the premise of future rewards inherent in compulsory lending or compulsory saving justifies a greater restriction of consumption among the lower income groups than would be justified under outright taxation. A third advantage follows from the first two, namely, that larger total levies on all income groups become more acceptable when a promissory note is substituted for a tax receipt. Finally, the compulsory lending-and saving schemes would create a
reserve of individual purchasing power for the post-war period.

In the immediate job of reducing civilian spending, compulsory lending is likely to be considerably less effective than compulsory saving. This is true because it is directed to only one segment of saving while compulsory saving comprehends all forms of saving. To a considerable extent, especially among upper income groups, the compulsory lending obligation would be met out of accumulated savings or out of current income that would have been saved anyway. Only those persons who did not normally save anything, did not have capital, and could not obtain credit, would be compelled to reduce spending by an amount corresponding to their lending. Since, in general, it is the lowest income groups who save little, have few assets, and have limited credit, it is among those groups that the real impact on consumption would be concentrated. It follows that any compulsory lending schedule would in practice be less progressive in its incidence on consumption than would appear at first glance.

Compulsory saving is more direct and positive in controlling consumer spending than either taxation or compulsory lending. It in effect tells people outright how much they can spend out of a given income, and can even be predicated to a point where the spending of further increments of income would be prohibited. We have noted that compulsory lending requirements can be met by liquidating capital assets or drawing upon normal savings. Taxes can similarly be paid from these sources; however, taxes, unlike forced loans, are not a substitute for other forms of saving; if people want to maintain their customary rate of saving in the face of taxes, they must cut their spending. So taxes will more effectively cut consumer spending than compulsory loans.

Compulsory saving, however, is not subject to the loopholes of liquidation and substitution. It fixes a net savings requirement for each income recipient, that requirement can be met only out of income, not out of the sale or conversion of assets. The form in which the savings are held is immaterial so long as no form can be converted into current spending. The vital point is that the saved dollars would not be competing for goods in the market. The Government could without fear of inflation spend an amount equal to the income immobilized by compulsory saving. Nor finance would be automatically simplified, since investment in war bonds would be stimulated, and the margin of taxable capacity would be extended.

In principle, then compulsory saving could provide a comprehensive solution to the problem of inflation. The total amount of consumer spending could be pitched to the available supply of consumer goods and services. This would be done by requiring that the difference between total individual income and the value of available supplies be saved in one form or another.

However, compulsory saving is beset with administrative difficulties. Merely to legislate that each person with a given income shall save a specified amount is not sufficient. Nor is a knowledge of each person’s income any guarantee of success. It is absolutely crucial to this plan to obtain in addition a snapshot of each individual’s capital position at the beginning and at the end of the period in which he was obligated to save. Such balance sheets for that is what the snapshots would amount to — would be the only means of
protecting the compulsory saving plan from being undermined by the use of existing balances and credits. The compulsory savings requirement must be in terms of net savings, and net savings can be determined only by subtracting sales of assets, declines in deposits, and so forth from the gross savings represented by savings credits and purchases of assets. To obtain a picture of changes in capital position would be a new and difficult, though not an impossible, administrative task.

Another complicating factor is that compulsory saving requires a certain amount to be saved out of income concurrently with the receipt of that income. It would not, like present income taxes, be a liability that falls due in the year following the receipt of income. Quarterly returns would probably be necessary to keep individuals posted on their savings liabilities. Even then, unanticipated fluctuations in income or in expenditure needs might upset people's calculations. In any case, they would not know for sure that they had complied exactly with the savings requirement until after the event.

One method of enforcing the savings requirement would be to issue each consumer a license to spend only a specified amount on consumer goods and services; in this event, compulsory saving would become expenditure rationing. Or, if a graduated schedule of penalties for expenditures above an exempt minimum were utilized, compulsory saving would become a type of expenditure taxation.

**Expenditure Rationing**

Expenditure rationing limits total consumer spendings by fixing the maximum amount that every family or single individual is allowed to spend on rationed goods. It may quite properly be thought of as the reciprocal of compulsory saving, which specifies the amount which people must save. If the amount of spending on rationed goods is fixed, saving, in effect, becomes compulsory.

The spendings allotment, like the savings requirement, would be fixed on the basis of family status and current income. Rationed goods would include almost all consumers' goods and services that have any current cost in labor, materials, or facilities. Rents, tuition, medical care, and a few other selected items might well be placed beyond the pale of the expenditure ration. Except for those items, however, consumers' goods could be bought only with one's ration allowance. Within the allowance the consumer would be free to allocate his expenditures as he pleased. And, of course, people would be free to use income without restriction to make gifts, pay taxes, pay insurance premiums, buy real estate or securities, or to save in other ways. In fact, the very essence of expenditure rationing is to force diversion of income into such non-inflationary channels.

The over-all ration allowance for the entire economy during any given period would be determined by the demands of price stability. The object would be to limit the amount of rationed expenditure to the estimated value of the supply of rationed goods available during that period. In estimating that value, one would apply whatever price level it was desired to maintain. Flexibility would
be a cardinal feature of the plan, for it would be relatively easy to change the total expenditure ration as more accurate data became available or as the expected supply position changed.

By its direct attack on the problem of excessive consumer purchasing power through the limitation of expenditure itself, this plan is capable not only of dealing inflation a body blow, but also of allocating the economic sacrifices of war in a fair and precise manner. The allotment of spending power to individuals or income classes cannot be very precise under a program of taxation or compulsory lending. Taking away income by taxes or enforcing loans to the Government does not necessarily force a reduction in consumption expenditure throughout the income scale. But direct limitation of spending facilitates both the over-all reduction in spending that is needed and the distribution of the reduction in the manner that is desired.

Those of us who have examined this instrument of control realize that the plan would require elaborate administrative machinery. The ration limit could be enforced only through the use of a license to purchase, in either coupon or other form. The coupons would represent that part of income which was expendable on ration goods, and might even be identified with money. Coupon distribution would be an enormous task, but it could probably be accomplished through the active cooperation of employers, ration boards, banks, and other institutions. This brief mention of administration is not intended to do more than indicate that the problem has been under consideration.

If Congress wished to adopt a plan for expenditure rationing and the American people were willing to accept it, a tolerable scheme of administration could surely be developed.

Expenditure Taxation

A plan which minimizes the administrative problems of direct control by relying largely on inducement rather than on compulsion has been drafted and recommended to the Congress by the Treasury. I refer to the spendings tax which the Treasury submitted to the Senate Finance Committee during consideration of the Revenue Bill of 1943.

The spendings tax base is consumption rather than income. As its name indicates, this tax would be imposed on expenditures for consumer goods and services. It is not imposed on income received, and it specifically exempts income saved. The spendings tax, in fact, looks to the difference between income received and income saved. Its base is arrived at by subtracting from each person's income his net savings as evidenced by additions to his capital assets and reduction of his debts. Further deduction, such as rent, medical expenses, and tuition can be allowed if desired, and the regular income tax would, of course, be deductible.

Except for the difference in base, the spendings tax structure strongly resembles that of the income tax and has much in common with that of the compulsory lending and compulsory savings devices we were considering a few minutes ago. Exemptions according to family status would be provided, and
steeply graduated rates would be applied. For example, the first $1,000 spent on goods and services by a married man without dependents might be exempt. A tax penalty of 20 percent might be placed on the second $1,000 of consumption expenditure, 30 percent on the third $1,000, and successively steeper taxes on additional increments of spending. Rates might rise to 100 percent or more, depending on the desired restriction of spending. Part of the tax could be treated as a post-war rebate, if it were desired to combine compulsory lending with the tax on spending.

The spendings tax would reduce spending not only by directly withdrawing income in the form of taxes, but also by powerfully stimulating saving through its drastic penalty on spending. This penalty would not be levied indiscriminately on all spenders, but rather on those spenders that could best afford to pay and on that segment of spending which could best be reduced or eliminated. The differentiated exemption would enable persons with small incomes to obtain basic subsistence needs free of tax, while steep graduation would bring the full weight of the tax to bear on comforts and luxuries rather than on necessities. The highest penalty rates would apply to those who were trying to obtain a disproportionate share of the short supply of civilian goods. The spendings tax serves the interests of equity as it goes about its task of preventing inflation.

At the same time, the spendings tax provides revenue for war finance both by the revenue it collects and by the saving it stimulates. Although the savings induced by the spendings tax would not necessarily be paid over to the Treasury, they nonetheless would be removed from the spending stream and would be added to the pool of unspent income available, directly or indirectly, to finance the war.

The spendings tax would be administered within the framework that exists for the income tax. The taxpayer would fill out a combined income and spendings tax form and would pay the two taxes together. Detailed records of expenditures would not be needed to enforce the tax. The total spendings figure on which the tax is based would be derived indirectly by deducting from the total amount of available funds, the amounts devoted to purposes other than personal consumption. To the data already required under the income tax would have to be added enough information to determine what changes in capital position take place during the period to which the tax applies. Immediate impact on spending could be assured by collection at source or a substantial part of the tax.

Expenditure taxation is particularly well adapted to the job of coping with inflation. Without imposing income administrative controls, and without itself requiring elaborate administrative machinery, it can drastically cut spending and can distribute that cut equitably.
Conclusion

I have outlined this evening a broad complex of fiscal tools with which a forceful anti-inflation program may be fashioned. Each has its shortcomings, but each is vastly superior to inaction. The important issue at stake is to make a choice and to make it now. Swift action is needed to put into effect that measure or that combination of measures which will meet the problem of inflation four-square. "Too late" can be just as disastrous as "too little,"
TO COLLECTORS OF INTERNAL REVENUE
AND OTHERS CONCERNED:

On October 27, 1942, the President approved regulations relating to wages and salaries prescribed by the Economic Stabilization Director (7 F.R. 8748) under the Act of October 2, 1942, entitled "AN ACT to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes" (Public No. 729, 77th Congress, 2d Session) and Executive Order No. 9250, dated October 3, 1942 (7 F.R. 7871). These regulations conferred on the Commissioner of Internal Revenue authority to administer the provisions thereof relating to the stabilization and limitation of certain salaries. In the exercise of the authority so conferred on the Commissioner of Internal Revenue, the following regulations relating to salaries are hereby promulgated.

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AUTHORITY: Secs. 1002.1 to 1002.34, inclusive, issued under Pub. Law 729, 77th Cong., 2d Sess.; E.O. 9250, 7 F.R. 7871; Regs. of Economic Stabilization Director, dated October 27, 1942, 7 F.R. 8748.

SUBPART A. -- DEFINITIONS

Sec. 1002.1. General terms. -- When used in these regulations, unless otherwise distinctly expressed or manifestly incompatible with the intent thereof --

(a) The term "Act" means the Act of October 2, 1942, (Public No. 729, 77th Congress) entitled "AN ACT to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes".

(b) The term "Board" means the National War Labor Board created by Executive Order No. 9017, dated January 12, 1942 (7 F.R. 237).

(c) The term "Commissioner" means the Commissioner of Internal Revenue.
(a) The term "Code" means the Internal Revenue Code, as amended and supplemented.

(b) The term "person" has the same meaning as when used in the Code.

(f) The term "General Regulations" means regulations (relating to wages and salaries) issued by the Economic Stabilization Director, approved by the President on October 27, 1942 (7 F.R. 8746), and as amended or supplemented by subsequent regulations issued by the Economic Stabilization Director relating to wages and salaries.

(g) The term "in contravention of the Act" means in contravention of the Act of October 2, 1942 (referred to in paragraph (a) above), Executive Order No. 9250 of October 3, 1942 (7 F.R. 7871), the General Regulations, these regulations and other rulings and regulations promulgated under such Act.

Sec. 1002.2. Employee and Employer. — An employee, for the purposes of these regulations, is an individual who performs services for compensation where the relationship between him and the person for whom he performs the services is the legal relationship of employee and employer. An employer is any person for whom an individual performs any services, of whatever nature, as the employee of such person. The term "employer" is not limited to private persons engaged in trade or business, but includes organizations which, under section 101 of the Code, are exempt from income taxation, and also government departments and agencies. The existence of the legal relationship of employer and employee is to be ascertained in the light of the general purposes of the Act and the General Regulations.

Generally, the legal relationship of employer and employee exists when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work done, but also as to the details and means by which that result is accomplished. An employee is generally subject to the will and control of the employer not only as to what shall be done but how it shall be done. In this connection it is unnecessary that the employer actually direct or control the precise manner in which the services are performed; it is sufficient that he has the right to do so. The right to discharge is also an important factor indicating that the person possessing that right is an employer.

Other factors characteristic of an employer, but not necessarily present in every case, are the furnishing of tools and the furnishing of a place to work to the individual who performs the services. In general, if an individual is subject to the control or direction of another merely as to the result to be accomplished by the work and not as to the means and methods for accomplishing the result, he is an independent contractor. An individual performing services as an independent contractor is not an employee as to such services. Physicians, lawyers, architects, contractors and others who follow an independent trade, business or profession in which they offer their services to the public are generally independent contractors and not employees. Whether the relationship of employer-employee exists will be determined upon an examination of the particular facts of each case.

(over)
If the relationship of employer and employee exists, the designation or description of the relationship by the parties as anything other than that of employer and employee is immaterial. If such relationship exists, it is of no consequence that the employee is designated as a partner, co-adventurer, agent or independent contractor. The measurement, method, or designation of compensation is immaterial if the relationship of employer and employee thus in fact exists.

An officer of a corporation is an employee of the corporation but a director as such is not. A director may be an employee of the corporation, however, if he performs services for the corporation other than those required by attendance at and participation in meetings of the board of directors.

Sec. 1002.3. Executive employees. — An individual "employed in a bona fide executive capacity" means any employee —

(a) whose primary duty consists of the management of the establishment in which he is employed or of a customarily recognized department or subdivision thereof, and

(b) who customarily and regularly directs the work of other employees, and

(c) who has the authority to hire or fire other employees or whose suggestions and recommendations as to the hiring or firing and as to the advancement and promotion or any change of status of other employees will be given particular weight, and

(d) who customarily and regularly exercises discretionary powers, and

(e) who is compensated for his services on a salary basis at not less than $30 per week (exclusive of board, lodging, or other facilities), and

(f) whose hours of work of the same nature as that performed by employees not employed in an executive, administrative or professional capacity do not exceed 20 percent of the total number of hours worked in the workweek by the employees under his direction; provided that this subsection (f) shall not apply in the case of an employee who is in sole charge of an independent establishment or a physically separated branch establishment.

Sec. 1002.4. Administrative employees. — An individual "employed in a bona fide administrative capacity" means any employee —

(a) who is compensated for his services on a salary or fee basis at a rate of not less than $800 per month (exclusive of board, lodging, or other facilities), and

(b)(1) who regularly and directly assists an employee in a bona fide executive or administrative capacity (as such terms are defined in these regulations), where such assistance is nonmanual in nature and requires the exercise of discretion and independent judgment; or
(2) who performs under only general supervision, responsible nonmanual office or field work, directly related to management policies or general business operations, along specialized or technical lines requiring special training, experience, or knowledge, and which requires the exercise of discretion and independent judgment; or

(3) whose work involves the execution under only general supervision of special nonmanual assignments and tasks directly related to management policies or general business operations, involving the exercise of discretion and independent judgment; or

(4) who is engaged in transporting goods or passengers for hire and who performs, under only general supervision, responsible outside work of a specialized or technical nature requiring special training, experience, or knowledge, and whose duties require the exercise of discretion and independent judgment.

Sec. 1003.5. Professional employees.—Any individual "employed in a bona fide professional capacity" means any employee who is —

(a) engaged in work

(1) predominantly intellectual and varied in character as opposed to routine mental, manual, mechanical, or physical work, and

(2) requiring the consistent exercise of discretion and judgment in its performance, and

(3) of such a character that the output produced or the result accomplished cannot be standardized in relation to a given period of time, and

(4) whose hours of work of the same nature as that performed by employees not employed in an executive, administrative, or professional capacity do not exceed 20 percent of the hours worked in the workweek by such employees; provided that where such non-professional work is an essential part of and necessarily incident to work of a professional nature, this subsection (4) shall not apply, and

(5) (A) requiring knowledge of an advanced type in a field of science or learning customarily acquired by a prolonged course of specialized intellectual instruction and study, as distinguished from a general academic education and from an apprenticeship, and from training in the performance of routine mental, manual, or physical processes; or

(B) predominantly original and creative in character in a recognized field of artistic endeavor as opposed to work which can be produced by a person endowed with general manual or intellectual ability and training, and the result of which depends primarily on the invention, imagination, or talent of the employee, and

(over)
If the relationship of employer and employee exists the designation or description of the relationship by the parties as anything other than that of employer and employee is immaterial. If such relationship exists, it is of no consequence that the employee is designated as a partner, co-adventurer, agent or independent contractor. The measurement, method, or designation of compensation is immaterial if the relationship of employer and employee thus in fact exists.

An officer of a corporation is an employee of the corporation but a director as such is not. A director may be an employee of the corporation, however, if he performs services for the corporation other than those required by attendance at and participation in meetings of the board of directors.

Sec. 1002.3. Executive employees. — An individual "employed in a bona fide executive capacity" means any employee —

(a) whose primary duty consists of the management of the establishment in which he is employed or of a customarily recognized department or subdivision thereof, and

(b) who customarily and regularly directs the work of other employees, and

(c) who has the authority to hire or fire other employees or whose suggestions and recommendations as to the hiring or firing and as to the advancement and promotion or any change of status of other employees will be given particular weight, and

(d) who customarily and regularly exercises discretionary powers, and

(e) who is compensated for his services on a salary basis at not less than $30 per week (exclusive of board, lodging, or other facilities), and

(f) whose hours of work of the same nature as that performed by employees not employed in an executive, administrative or professional capacity do not exceed 20 percent of the total number of hours worked in the workweek by the employees under his direction, provided that this subsection (f) shall not apply in the case of an employee who is in sole charge of an independent establishment or a physically separated branch establishment.

Sec. 1002.4. Administrative employees. — An individual "employed in a bona fide administrative capacity" means any employee —

(a) who is compensated for his services on a salary or fee basis at a rate of not less than $200 per month (exclusive of board, lodging, or other facilities), and

(b)(1) who regularly and directly assists an employee in a bona fide executive or administrative capacity (as such terms are defined in these regulations), where such assistance is nonmanual in nature and requires the exercise of discretion and independent judgment; or
(2) who performs under only general supervision, responsible nonmanual office or field work, directly related to management policies or general business operations; along specialized or technical lines requiring special training, experience, or knowledge, and which requires the exercise of discretion and independent judgment; or

(3) whose work involves the execution under only general supervision of special nonmanual assignments and tasks directly related to management policies or general business operations involving the exercise of discretion and independent judgment; or

(4) who is engaged in transporting goods or passengers for hire and who performs, under only general supervision, responsible outside work of a specialized or technical nature requiring special training, experience, or knowledge, and whose duties require the exercise of discretion and independent judgment.

Sec. 1002.5. Professional employees.—Any individual "employed in a bona fide professional capacity" means any employee who is—

(a) engaged in work

(1) predominantly intellectual and varied in character as opposed to routine mental, manual, mechanical, or physical work, and

(2) requiring the consistent exercise of discretion and judgment in its performance, and

(3) of such a character that the output produced or the result accomplished cannot be standardized in relation to a given period of time, and

(4) whose hours of work of the same nature as that performed by employees not employed in an executive, administrative, or professional capacity do not exceed 20 percent of the hours worked in the workweek by such employees; provided that where such non-professional work is an essential part of and necessarily incident to work of a professional nature, this subsection (4) shall not apply, and

(5) (A) requiring knowledge of an advanced type in a field of science or learning customarily acquired by a prolonged course of specialized intellectual instruction and study, as distinguished from a general academic education and from an apprenticeship, and from training in the performance of routine mental, manual, or physical processes; or

(B) predominantly original and creative in character in a recognized field of artistic endeavor as opposed to work which can be produced by a person endowed with general manual or intellectual ability and training, and the result of which depends primarily on the invention, imagination, or talent of the employee, and

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(b) compensated for his services on a salary or fee basis at a rate of not less than $200 per month (exclusive of board, lodging, or other facilities); provided that this subsection (b) shall not apply in the case of an employee who is the holder of a valid license or certificate permitting the practice of law or medicine or any of their branches and who is actually engaged in the practice thereof.

Sec. 1002.6. Salary payments. — The terms "salary" and "salary payment" mean only such salaries over which the Commissioner has jurisdiction. (See section 1002.10 of these regulations.) These terms are not used in any restricted, narrow or technical sense, but encompass all forms of direct or indirect compensation for personal services of an employee which is computed on a weekly, monthly, annual or other basis, other than wages (as defined in the General Regulations and in orders or rulings of the Board). Bonuses, gifts, loans, commissions, fees, additional compensation and any other remuneration in any form or medium whatsoever are considered as falling within the concept of "salary" or "salary payment". Any compensation which is not regarded as wages in the commonly accepted sense of the term is salary notwithstanding that it may be computed on an hourly, daily or piece-work basis.

Retainer fees paid to an individual, not otherwise an employee, are not to be considered as salary. Insurance and pension benefits in a reasonable amount (see section 1002.8) are likewise excluded from the terms "salary" and "salary payment".

Although the terms "salary" and "salary payment" do not include any compensation other than for personal services of an employee, the Commissioner is not precluded from determining, after investigation, that amounts denominated, for example, as rents or royalties are in fact salary payments subject to the controls set forth in these regulations.

All amounts paid to, authorized to be paid to, or accrued to the account of any employee during a calendar year for services rendered or to be rendered are to be included as salary for such year.

Sec. 1002.7. Salary rate. — The term "salary rate" means the rate or aggregate of rates or other basis at which the salary for any particular
work or service is computed, either under the terms of a contract or agree-
ment, express or implied, or in conformity with custom or usage existing
in the employer's business establishment. For treatment of commissions
and bonuses on a percentage basis see section 1002.14.

Sec. 1002.9. Insurance and pension benefits. — Compensation may
include insurance and pension benefits. In determining the amount
of salary of an employee, the insurance or pension benefit inuring to such
employee is not measured by what he will be entitled to receive after the
happening of certain contingencies, but rather in terms of the amount
of contributions or premiums paid by the employer. To the extent that
an insurance and pension benefit inuring to an employee is reasonable in
amount, such benefit is not considered as salary as defined in section
1002.6.

Section 165(a) of the Code sets forth the conditions under which a
trust forming part of a stock bonus, pension or profit-sharing plan of
an employer for the exclusive benefit of his employees or their benefi-
ciaries shall not be taxable for Federal income tax purposes. Contributions
by an employer to an employees' trust or under an annuity plan, which trust
or plan meets the exemption requirements of such section 165(a) (as of the
date the contributions are made), shall be considered as reasonable, re-
gardless of the amount of such contributions. On the other hand, contri-
butions by an employer to an employees' trust which is subject to
Federal income taxation because it does not meet the requirements of such
section 165(a) shall be treated, for purposes of these regulations, as
salary.

To the extent amounts paid by an employer on account of insurance
premiums on a policy on the life of an employee are deductible by the
employer in computing net income under the conditions set forth in sec-
tion 23 (a) of the Code (relating to deductions for ordinary and neces-
sary business expenses), such amounts are not considered as salary. The
amount of insurance premiums that will be considered as falling outside
the concept of salary cannot exceed the amount of such premiums deductible
by the employer for Federal income tax purposes. If, however, such in-
surance premiums are includible in the gross income of the employee (for
whose benefit the insurance has been taken out), as well as deductible by
the employer, the amount which shall not be considered as salary in respect
of such employee may not exceed 5 percent of the employee's annual salary
determined without the inclusion of insurance and pension benefits.

The application of the preceding paragraph may be illustrated by the
following examples. An employer having 20 salaried employees takes out
life insurance policies on each of such employees in favor of beneficiaries
designated by them. The premiums paid for 10 of the employees are in each

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instance 7 percent of the employee's annual salary (exclusive of insurance and pension benefits). As to the remaining 10 employees the premiums in each instance are 5 percent of the employee's annual salary (exclusive of insurance and pension benefits). It is assumed that with respect to each employee the premium paid would be includible in his gross income under the Code and would be deductible by the employer under section 23(a) of the Code. As to the first 10 employees 2 percent of the premiums in each instance will be considered as salary, whereas no part of the premiums will be considered as salary in the case of the second group of employees. If, however, none of the premiums were deductible in computing the net income of the employer, then the entire amount of the premium in each instance would be considered as salary to the employee involved.

Premiums paid by an employer on policies of group life insurance without cash surrender value covering the lives of his employees, or on policies of group health or accident insurance, the beneficiaries of which are designated by such employees do not constitute salary (regardless of the amount of salary otherwise received annually by such employees) if such premiums are deductible by the employer under section 23(a) of the Code.

Sec. 1002.9. Approval by Commissioner. -- Wherever the terms "approval by the Commissioner" and "determination by the Commissioner" are used in these regulations they shall, except as otherwise provided, include an approval or determination by a regional officer of the Salary Stabilization Unit established by the Commissioner under Treasury Decision 5178, which officer is authorized to make such determination. If an approval or determination made by such regional officer is subsequently modified or reversed by the Commissioner, such approval or determination shall be deemed to have been continuously in effect from its original date until the first day of the payroll period following reversal or modification, or until such later date as the Commissioner may provide in his ruling.

To illustrate, an employer obtains the approval of a regional officer of the Salary Stabilization Unit that a proposed increase in certain salaries is permissible. The approval is given on January 2, 1943, and the salary increase is to become effective January 15, 1943. On March 15, 1943, the Commissioner determines that the salary increase was not proper and reverses the approval given by the regional officer. The Commissioner provides in his ruling that the increase in salary shall be discontinued after March 31, 1943.
For purposes of these regulations, no part of the salary for the period between January 15 and March 31 shall be considered to have been in contravention of the Act.

SUBPART B — JURISDICTION OF COMMISSIONER

Sec. 1002.10. Amount of Salary Payment. — The General Regulations provide that the Commissioner shall have authority to determine, under regulations to be prescribed by the Commissioner with the approval of the Secretary of the Treasury, whether salary payments are made in contravention of the Act. The Commissioner's jurisdiction is confined to —

(1) salary payments in excess of $5,000 per annum, in the case of individuals employed in any capacity whatsoever; and

(2) salary payments of $5,000 or less per annum, in the case of individuals (i) who are employed in bona fide executive, administrative or professional capacities, and (ii) who, in their relations with their employer, are not represented by duly recognized or certified labor organizations, and (iii) whose services are not within the meaning of "agricultural labor" as defined in paragraph (1) of section 4001.1 of the General Regulations.

Other salary payments are subject either to the jurisdiction of the Board or the Secretary of Agriculture, as prescribed in the General Regulations. If, for example, a salary is to be increased from $4500 per annum to $5200 per annum (and subdivision (2) is inapplicable), approval of such increase, if required, must be obtained from the Board.

Sec. 1002.11. Conclusiveness of Determination. — (a) Any determination by the Commissioner that a salary payment is in contravention of the Act is conclusive in every respect upon all executive departments and agencies of the Federal Government for the following purposes —

(1) determining costs or expenses of any employer for the purpose of any law or regulation, either heretofore or hereafter enacted or promulgated, including the Emergency Price Control Act of 1942, or any maximum price regulation thereunder;

(2) calculating deductions under the revenue laws of the United States; or

(3) determining costs or expenses under any contract made by or on behalf of the United States.

(b) Any such determination of the Commissioner is final and not subject to review by The Tax Court of the United States or by any court in any civil proceedings. Nothing herein is intended, however, to deny the right of any employer or employee to contest in The Tax Court of the United States or in any court of competent jurisdiction the validity of —

(1) any provision of these regulations, on the ground such provision is not authorized by law, or

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(2) any action taken or determination made under these regulations, on the ground that such action or determination is not authorized, or has not been taken or made in a manner required, by law.

(c) No increase in salary rate shall result in any substantial increase of the level of costs or furnish the basis either to increase price ceilings of the commodity or service involved or to resist otherwise justifiable reductions in such price ceilings.

Sec. 1002.12. Geographical Scope. -- The provisions of these regulations shall not apply to salaries in any Territory or possession of the United States, except Alaska and Hawaii.

SUBPART C -- SALARY INCREASES

Sec. 1002.13. Commissioner's approval required. -- Section 1 of the Act provides in effect that salaries, so far as practicable, shall be stabilized at the levels which existed on September 15, 1942. In the case of a salary rate of $5,000 or less per annum existing on October 27, 1942, or established thereafter in compliance with these regulations, and in the case of a salary rate of more than $5,000 per annum existing on October 3, 1942, or established thereafter in compliance with these regulations, no increase shall be made by the employer, except as provided in section 1002.14, without prior approval of such increase by the Commissioner. Any salary increase made before the required approval of the Commissioner is obtained is from the date of such increase in contravention of the Act. (See sections 1002.28 and 1002.29 for the consequences of a salary payment made in contravention of the Act.) The Commissioner may, however, approve an increase in salary rate to be effective as of the date of the application for approval.

The burden of justifying an increase in salary rate shall in every instance be upon the employer seeking to make such increase. Increases in salary rates will not be approved unless necessary to correct maladjustments or inequalities, or to aid in the effective prosecution of the war. A promise made by an employer to his employees prior to October 3, 1942 that salaries would be increased in the future is generally to be ignored in determining whether an increase after that date should be approved. The same rule is applicable with respect to a promise made by an employer prior to October 27, 1942, in the case of employees whose salary rates are $5,000 or less per annum. A salary increase, however, may be approved, as to salaries below $5,000 per annum, if to deny such increase would be to force the continuation of a salary which is below the general level existing for the same or comparable work in the local area on September 15, 1942.

An employer who has established a new job classification, or who has begun business, after October 3, 1942, must obtain approval of the Commissioner for the payment of salaries for such job classification or in such new business; provided, however, that if the salary rates in question are not in excess of those prevailing for similar job classifications within the local area, the approval of the Commissioner is not required. An increase in a salary rate for a job classification established after October 3, 1942, shall be subject to the limitations provided in this Subpart.
A mere change in the name, organization, or financial structure of an employer, whether such employer be an individual, partnership or corporation, will not in itself be sufficient for a finding that, for the purposes of these regulations, a new business has been begun or new job classification established after such change.

Any change in a salary rate, regardless of its effective date, which results from an award or decision of an arbitrator or referee made after October 3, 1942, in the case of salaries of more than $5,000 per annum, and after October 27, 1942 in the case of salaries of $5,000 or less per annum, is subject to the provisions of these regulations notwithstanding that the agreement or order for arbitration or reference was made on or before October 3, 1942 or October 27, 1942, as the case may be.

Unless otherwise expressly exempted, any change in a salary rate, provided for in any agreement existing as of October 3, 1942 in the case of salaries of more than $5,000 per annum, or as of October 27, 1942 in the case of salaries of $5,000 or less per annum, which is to take effect at some future date or on the happening of some future event, is subject to the provisions of these regulations regardless of when the agreement was made.

Payment for overtime will constitute an increase in salary rate, and thus will require the approval of the Commissioner, unless the customary practice of the employer has been to pay for overtime, and the rate has not been changed.

Except as may be otherwise provided from time to time by the Commissioner, an application for the approval of a salary increase shall be filed by the employer with the regional office of the Salary Stabilization Unit of the Bureau of Internal Revenue in whose territorial jurisdiction the main office or principal place of business of the employer is located. Such application shall be filed on forms prescribed by the Commissioner and shall contain such information as may be required by the Commissioner.

Sec. 1002.14. Commissioner's approval not required. -- The Commissioner's approval is not required where an increase in salary rate is made in accordance with the terms of a salary agreement or salary rate schedule in effect on October 3, 1942, or approved thereafter by the Commissioner, and is a result of—

1. Individual promotions or reclassifications,
2. Individual merit increases within established salary rate ranges,
3. Operation of an established plan of salary increases based on length of service,
4. Increased productivity under incentive plans,
5. Operation of a trainee system, or
6. Such other reasons or circumstances as may be prescribed in rulings or regulations promulgated by the Commissioner from time to time.
For purposes of this section, the term "salary agreement" or "salary rate schedule" may include a salary policy in effect on October 3, 1942, even though not evidenced by written contracts or written rate schedules. For example, a salary policy may be determined from previous payroll records or other payroll data. The existence of such policy, however, must be established to the satisfaction of the Commissioner, and the burden of proof rests upon the employer. In such cases, the employer in advance of making an increase in salary rate may reduce the salary policy to writing and secure approval thereof by the Commissioner.

A bonus or other form of additional compensation which does not exceed in amount the bonus or other additional compensation to such employee for the last bonus year ending before October 3, 1942 does not require approval by the Commissioner. In addition a bonus based upon a fixed percentage of salary where the percentage has not been changed, does not require approval by the Commissioner even though the amount may be increased due to an authorized increase in salary. Any other bonus or other form of additional compensation, requires approval by the Commissioner. Where the compensation, or part thereof, is paid on a commission basis and is based upon a fixed percentage (which has not been changed) of sales made by the employee, a payment does not require approval by the Commissioner even though the amount may represent an increase due to increased sales by the employee. See, however, Subpart F of these regulations.

The provisions of this section may be illustrated as follows:

(1) The X Corporation began business in 1940. As of July 1, 1942, pursuant to a corporate resolution duly passed in January 1942, all of its salaried employees received more than $5,000 per annum. No approval of the Commissioner is required to increase the salary of an employee who is promoted in November 1942 from a salesman to general manager and who receives a salary within the salary range paid previously to individuals occupying the position of general manager.

(2) The X Corporation in December 1942 wishes to establish a new salary rate schedule raising the level of compensation of all its salaried employees. Approval by the Commissioner of such schedule is required. Assuming that such approval has been obtained, further approval by the Commissioner of any adjustment under such schedule coming within this section is not required.

(3) The Y Corporation begins business on November 1, 1942. The salaries paid by it to its employees are commensurate with salaries paid
by other employers in comparable businesses in the same local area. Payment of such salaries does not require the approval of the Commissioner. Any increase in salary rates, however, requires the approval of the Commissioner.

(4) The M Corporation, which has manufactured furniture since 1925, is reorganized in November 1942 and emerges from the reorganization proceedings as the N Corporation. There is no change in the nature of the business although there is a substantial alteration in the financial structure of the company. The N Corporation is not to be treated as a new employer beginning business after October 27, 1942. Consequently, any general increase in salaries over and above those paid by the N Corporation requires the prior approval of the Commissioner.

(5) Employees of the M Corporation have customarily received a bonus of 5 percent of their annual salary at the end of each calendar year. If, for example, one of the employees received $6,000 in 1941 but received salary of $7,000 in 1942 due to a salary increase on July 1, 1942, a bonus of $350 may be paid to him for 1942 without prior approval of the Commissioner, notwithstanding that his bonus for 1941 was only $300.

SUBPART D — SALARY DECREASES

Sec. 1002.15. Salaries under $5,000. — In the case of a salary rate existing as of the close of October 3, 1942, or established thereafter in compliance with these regulations, under which an employee is paid a salary of less than $5,000 per annum for any particular work, the general rule is that no decrease can be made by the employer in such salary rate below the highest salary rate paid for such work in the local area between January 1, 1942 and September 15, 1942. A decrease is permitted, however, with the approval of the Commissioner, in order to correct a gross inequity in any case or to aid in the effective prosecution of the war. Where such decrease is permitted the salary rate may be reduced below the highest salary rate paid for the work in question between January 1, 1942 and September 15, 1942. Except as otherwise provided in this section, any decrease in such salary rate after October 3, 1942 shall be considered in contravention of the Act if it is made prior to the approval thereof by the Commissioner.

Except as may be otherwise provided from time to time by the Commissioner, an application for approval of any salary decrease shall be filed in the same manner as in the case of an application for approval of a salary increase. See section 1002.13 of these regulations.

The Commissioner's approval is not required, for example, in the following cases where salary decreases are made after October 3, 1942:

(1) The new salary rate does not fall below the highest salary rate existing between January 1, 1942 and September 15, 1942 for the particular work in question or for the same or comparable work in the local area.

(2) An employee has been demoted to a lower position than that filled by him between January 1, 1942 and September 15, 1942 and the salary rate for such lower position is not less than the highest salary rate existing for that position during the same period.

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(3) An employee has been relieved of substantial duties and responsibilities.

A disparity between salaries paid by a particular employer and those paid by employers generally in the local area does not necessarily constitute justification for decrease in salary rates paid by such employer.

Sec. 1002.16. Salaries over $5,000. -- In the case of a salary rate existing as of the close of October 3, 1942, or established thereafter in compliance with these regulations, under which an employee is paid a salary of more than $5,000 per annum, the employer is permitted to make, without approval by the Commissioner, a decrease to a rate not less than $5,000 per annum. If, however, by virtue of a decrease the new salary paid to the employee is less than $5,000 per annum, then the decrease below $5,000 per annum is subject to the limitations of section 1002.15 of these regulations. To the extent that prior approval by the Commissioner of a decrease is not required under section 1002.15 or this section, such decrease shall not be considered as being in contravention of the Act.

SUBPART E -- GOVERNMENTAL EMPLOYEES

Sec. 1002.17. State and local employees. -- An adjustment in salaries (not fixed by statute, see section 1002.32) may be made by a State, or any political subdivision thereof, the District of Columbia, or any agency or instrumentality of any of the foregoing, on certification to the Commissioner that such adjustment is necessary to correct maladjustments, or to correct inequalities or gross inequities. The certification procedure shall not apply to any adjustment which would not otherwise require the Commissioner's approval or which would raise salaries beyond the prevailing level of compensation for similar services in the area or community. A certificate by the official or agency authorizing the adjustment stating the nature and amount of such adjustment, and briefly setting forth the facts meeting the foregoing requirement, will be accepted by the Commissioner as sufficient evidence of the propriety of the adjustment, subject to review by the Commissioner. Modification by the Commissioner of adjustments made by a governmental official or agency acting pursuant hereto shall not be retroactive.

In exceptional cases where such an adjustment is sought, and in all cases where the agency seeks an adjustment other than by the certification procedure, application for approval shall be filed with the appropriate regional office of the Salary Stabilization Unit.

SUBPART F -- LIMITATIONS ON CERTAIN SALARIES

Sec. 1002.18. Basic allowance. -- In addition to setting forth limitations on increases and decreases in salary rates, the General Regulations provide a ceiling on the amount of salary which may be paid to any employee during a calendar year. The general rule is that no amount of salary may be paid or authorized to be paid to or accrued to the account of any employee or received by him during the calendar year 1943, and in each succeeding calendar year, which, after reduction by the Federal income taxes on the amount of such salary, computed as below without regard to other income and without regard to deductions or credits, would exceed $5,000. Additional allowances of salary which may be permitted in certain circumstances are described in sections 1002.19 to 1002.22, inclusive.
The amount of Federal income taxes referred to in the preceding paragraph shall be determined —

(1) by applying to the total amount of salary (but not including any amounts allowable under sections 1002.19 to 1002.22, inclusive, of these regulations) paid or accrued during the calendar year in question, undiminished by any deductions, the rates of taxes imposed by Chapter I of the Code (except section 466 thereof relating to withholding) as if such total amount of salary were the net income (after the allowance of the appropriate credits), the surtax net income, and the Victory tax net income, respectively; and

(2) without further allowance of any other credits against any of such taxes.

Assume that the rates imposed under Chapter I of the Code, as amended by the Revenue Act of 1942, are applicable with respect to the calendar year 1943. Under the formula described in the preceding paragraph, the basic allowance of salary for 1943 (which after reduction by the Federal income taxes would yield $25,000) is $87,200. This latter amount is the maximum amount of salary which an employee would be permitted to receive for 1943, provided he is not entitled to further allowances under sections 1002.19 to 1002.22, inclusive. If the rates of Federal income tax applicable for 1943 should be increased above those now existing in the Code for 1943, the basic allowance of salary will be an amount greater than $87,200.

The basic allowance of salary as described in this section represents an amount against which the appropriate tax rates are applied and remains the same regardless of whether the employee is married or single or of the number of his dependents, if any. It is likewise unaffected by the nature or amount of his other income (taxable or exempt) or by the extent of his deductions allowable for tax purposes generally.

For purposes of this Subpart an amount of salary, in addition to the basic allowance of salary, will be permitted for any expenses paid or incurred by an employee which are ordinary and necessary for the performance of the services for which the employee is compensated. No such additional amount, however, shall be permitted for expenses which would not be deductible in computing individual Federal income taxes.

Sec. 1002.19. Charitable contributions. — An amount of salary, in addition to the basic allowance of salary described in section 1002.19, will be permitted in certain circumstances to allow an employee to maintain his customary contributions to charitable, educational or other organizations described in section 23(c) of the Code. Such additional amount of salary will be permitted if the employee establishes to the satisfaction of the Commissioner that after resorting to his other income from all sources he would suffer undue hardship in maintaining his customary contributions out of the basic allowance of salary described in the preceding section.

For purposes of this section and sections 1002.20, 1002.21, and 1002.22, "income from all sources" includes income which is exempt under the Federal income tax laws.

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What constitutes "undue hardship" for purposes of this section and sections 1002.20, 1002.21, and 1002.22, is dependent upon all the circumstances in each case.

Contributions may be customary within the meaning of this section even though in the particular year in question the organizations to which the contributions are made are different from those to whom contributions were made in previous years.

Sec. 1002.20. Insurance premiums. — An amount of salary, in addition to the basic allowance under section 1002.18 may be permitted to an employee under this section to meet certain payments during the employee's taxable year for insurance premiums. To be entitled to such extra allowance of salary the employee must establish to the satisfaction of the Commissioner that after resorting to other income from all sources (see section 1002.19) he is unable, without disposing of assets at a substantial financial loss resulting in undue hardship, to meet premium payments on policies of life insurance in force and effect on October 3, 1942 on his life.

The premiums payments referred to in the preceding paragraph are those which are required to be met during the calendar year in question. No allowance for salary is permissible for payments of premiums which are due in future calendar years.

If any insurance has been permitted by an employee to lapse after October 3, 1942, no allowance for salary is permissible for payments of premiums on policies taken out after such date, even though the total annual premiums on the new policies are not in excess of the total annual premiums due on policies in effect on October 3, 1942. Renewal of policies in effect on October 3, 1942 (even though new premiums are higher) will not preclude applicability of this section to premium payments on the renewed policies. Generally, in the case of a conversion of a policy in effect on October 3, 1942 to a new policy requiring payment of higher premiums, this section is inapplicable to the annual amount by which the new premiums exceed the premiums in effect on October 3, 1942.

Sec. 1002.21. Fixed obligations. — An amount of salary in addition to the basic allowance under section 1002.18 may be permitted to an employee under this section to make required payments during the employee's taxable year on fixed obligations. Before any amount will be allowed under this section, the employee must establish to the satisfaction of the Commissioner that after resorting to his income from all sources (see section 1002.19), he is unable, without the necessity of disposing of assets at a substantial financial loss resulting in undue hardship, to meet required payments of fixed obligations for which he was obligated on October 3, 1942. See section 1002.20.
The term "fixed obligations" as used in this section means any enforceable liability of the employee the amount of which liability was fixed and determined on October 3, 1942. In no event is an allowance for salary permissible under this section for the payment of any amount due in future years.

Sec. 1002.22. Federal taxes. — An amount of salary in addition to the basic allowance under section 1002.18 may be permitted to an employee, under this section, to meet payments during the employee’s taxable year of certain Federal income taxes. To be entitled to such an additional allowance of salary the employee must establish to the satisfaction of the Commissioner that after resorting to his income from all sources (see section 1002.19), he is unable, without disposing of assets at a substantial financial loss resulting in undue hardship, to meet payments of certain Federal income taxes, more fully described below. See section 1002.20.

An allowance for additional salary is permissible in order to pay Federal income taxes owed by the employee himself for any prior taxable year, but is not permissible in order to pay any Federal income tax due on the basic allowance of salary under section 1002.18, except as this allowance is applicable for 1942. See section 1002.24. Thus, an amount for additional salary might be allowable in 1943 to meet the payment of the entire Federal income tax due on a salary received in 1942. In 1944 an amount for additional salary might be allowable to meet the payment of Federal income tax due on additional salary allowances permitted for 1943 under sections 1002.19, 1002.20, 1002.21 and this section for 1943; but no amount, however, would be allowable to meet the payment of the Federal income tax due on the basic allowance under section 1002.18 for 1943.

Sec. 1002.23. Multiple employers. — Salaries payable to an employee from more than one employer may, for purposes of Subpart F, be treated as if all such salaries were payable by a single employer, regardless of the financial or other relationship of the several employers. For example, individual A received a salary as an employee of the X Corporation and also as an employee of its subsidiary, the Y Corporation. Both the X Corporation and the Y Corporation are required to adjust their salary arrangements with such employee to conform with the provisions of these regulations. If individual B is employed by the M Corporation and the N Corporation, both of whom are owned, directly or indirectly, by the same person or persons, the M Corporation and the N Corporation must adjust their salary arrangements with B to conform with the provisions of these regulations. If individual C is employed by the R Corporation and the S Corporation and both corporations have knowledge of that fact, they must adjust their salary arrangements with C to conform with the provisions of these regulations.

Where an individual is employed by two or more employers who, under these regulations, are required to make salary arrangements in order to conform with the provisions of Subpart F, such individual and employers will be deemed to be acting in contravention of the Act and these regulations if proper salary arrangements are not made. In any event, no employee may receive any salary in excess of that allowed under Subpart F. See section 1002.30.

Sec. 1002.24. Limitation on 1942 salaries. — Unless payment thereof is required under a bona fide contract in effect on October 3, 1942, no amount of salary shall be paid or authorized to be paid to or accrued to the account
of any employee or received by him after October 27, 1942 and before January 1, 1943, if the total salary paid, authorized, accrued or received for the calendar year 1942 exceeds the amount of salary which would otherwise be allowable under section 1002.18 (but not under sections 1002.19 to 1002.20, inclusive) and also exceeds the total salary paid, authorized, accrued or received for the calendar year 1941. For purposes of this section, the term "bona fide contract" means a longally enforceable agreement, written or oral. Such an agreement may be evidenced by a bona fide resolution of a board of directors of a corporate employer passed on or before October 3, 1942. The amount allowable under section 1002.18 for 1942 (before reduction by any Federal income taxes) is $54,428.57.

Sec. 1002.25. Community property. — The limitations on salaries provided for in sections 1002.18 to 1002.24, inclusive, shall in no wise be affected by any community property law. For example, an employee resident in the State of R receives a salary in 1943 of $100,000. Under the laws of that State, $50,000 of that salary is deemed to be the property of the employee's wife. For purposes of these regulations, the employee's salary is $100,000, not $50,000.

Sec. 1002.26. Taxable year. — For purposes of Subparts F and G of these regulations, the term "taxable year" of an employee shall mean the calendar year during which the salary in question is paid or authorized to be paid to or accrued to the account of such employee or received by him. This rule is applicable regardless of whether the employer or employee, or both, file Federal income tax returns for a fiscal year or report income, for Federal income tax purposes, on an accrual basis or on the cash receipts and disbursements basis.

Sec. 1002.27. Effective date. — The provisions of this Subpart, except as provided in section 1002.24, shall be applicable to all salaries paid or accrued after December 31, 1942, irrespective of when payment or accrual of such salary was authorized and irrespective, also, of any contract or agreement made prior to or after such date.

SUBPART G — EFFECT OF UNLAWFUL PAYMENTS

Sec. 1002.28. Amounts disregarded. — (a) Section 5 (a) of the Act provides in effect that the President shall prescribe the extent to which any salary payment made in contravention of regulations promulgated under the Act shall be disregarded by executive departments and other governmental agencies in determining the costs or expenses of any employer for the purposes of any other law or regulation. In any case where a salary payment is determined by the Commissioner to have been made in contravention of the Act, the entire amount of such payment is to be disregarded by all executive departments and all other agencies of the Federal Government for the purposes of —

(1) determining costs or expenses of any employer for the purpose of any law or regulation, either heretofore or hereafter enacted or promulgated, including the Emergency Price Control Act of 1942, or any maximum price regulation thereof;

(2) calculating deductions under the revenue laws of the United States; or
(3) determining costs or expenses under any contract made by or on behalf of the United States.

A payment in contravention of the Act may be disregarded for more than one of the foregoing purposes.

(b) In the case of salaries decreased in contravention of the Act, the amount to be disregarded, as required by paragraph (a) of this section, is the amount of the salary actually paid or accrued by the employer at the reduced rate. Thus, if, for example, on November 1, 1942, a weekly salary rate of $100 has been unjustifiably reduced to $50 for the remainder of the calendar year 1942, the amount to be disregarded under paragraph (a) of this section is the total amount of salary paid at the weekly rate of $50.

(c) In the case of salaries increased in contravention of the Act, the amount to be disregarded, as required by paragraph (a) of this section, is the amount of the salary actually paid or accrued by the employer at the increased rate and not merely an amount representing an increase in such salary. Thus, if, for example, on November 1, 1942 a weekly salary rate of $100 is unjustifiably increased to $150 for the remainder of 1942, then the amount of salary to be disregarded for purposes of paragraph (a) of this section is the total amount paid at the weekly rate of $150. Also, if, for example, on February 1, 1943 a weekly salary rate of $100 is increased to $150 without prior required approval, but is restored to $100 on June 1, 1943 after formal disapproval by the Commissioner or regional officer, then the amount of salary to be disregarded for purposes of paragraph (a) of this section is the total amount at the weekly rate of $150. Neither in the cases described in this paragraph nor in the case described in paragraph (b) of this section are the total amounts paid at the weekly rate of $100 to be disregarded for purposes of paragraph (a) of this section. (See section 1002.31 relating to salary allowances under section 23 (a) of the Code.)

(d) In the case of a salary in excess of the amount allowable under Subpart F of those regulations which is paid to, authorized to be paid to, or accrued to the account of an employee during his taxable year (as distinguished from the taxable year of the employer) in contravention of the Act, the amount to be disregarded is the full amount of such salary and not merely the amount representing the excess over the amount allowable under such Subpart F of these regulations. Thus, if, for example, under such Subpart F an employee would be entitled to receive a total salary during his taxable year of $7,200 for services rendered in such year, but actually receives $100,000 for such services, then the entire amount of $100,000 is to be disregarded for purposes of paragraph (a) of this section.

Sec. 1002.3. Criminal penalties. — Section 5 (a) of the Act provides in substance that no employer shall pay, and no employee shall receive, any salaries in contravention of the regulations promulgated by the President under the Act. Section 11 of the Act provides that any person, whether an employer or employee, who willfully violates any provision of the Act or of any (over)
regulations promulgated thereunder, shall be subject, upon conviction, to a fine of not more than $1,000, or to imprisonment for not more than one year, or to both such fine and imprisonment.

Sec. 1002.30. Salary allowances under Code. — Under section 23 (a) of the Code reasonable allowances for salaries are allowed as deductions in computing net income. The tests which determine whether an allowance for salaries paid or accrued is reasonable within the meaning of section 23 (a) of the Code are in no wise suspended by any provision of these regulations. An employer may be exempt from the operation of these regulations yet be denied deductions for purposes of section 23 (a) of the Code with respect to the salaries paid or accrued by him. Also, a basic allowance under section 1002.16 and additional allowances under sections 1002.19 to 1002.22, inclusive, may nevertheless be disallowed in whole or in part as deductions under section 23 (a) of the Code.

SUBPART H — EXEMPTIONS

Sec. 1002.31. Exempt employers. — The provisions of these regulations, except those contained in Subparts F and G thereof, shall not apply in the case of an employer who employs eight or less individuals in a single business. An employer is subject to the provisions of these regulations if at the time a salary increase is to take effect he has in his employ more than eight individuals in a single business. It is not necessary that each employee be paid a salary provided all the individuals employed receive compensation for their personal services. If it is subsequently determined that the number of employees has been temporarily reduced by the employer, or that the employer has utilized any other improper device, for the sole purpose of claiming the exemption provided in the General Regulations and these regulations, then such exemption shall be deemed to have been improperly obtained and of no force or effect.

An employer may be exempt under this section notwithstanding that shortly after the effective date of a salary increase he enlarges his personnel in good faith to more than eight employees. Any further adjustment in salary will then be subject to the provisions of these regulations.

Sec. 1002.32. Statutory salaries. — The provisions of these regulations are applicable in every respect to any salary paid by the United States, any State, Territory, or possession or political subdivision thereof, the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, except where the amount of such salary is fixed by statute. The term "statutory" for purposes of this section does not include a municipal ordinance or resolution enacted by a governmental unit inferior to a State, Territory, or possession. Salaries covered by the Federal Classification Act of 1923, as amended, are excluded from the operation of these regulations. Likewise, salaries, for example, of public school teachers which are paid under salary schedules fixed by a state legislature and providing for mandatory increments are excluded from the operation of these regulations. See section 1002.17.

Sec. 1002.33. Services in foreign countries. — The provisions of these regulations shall not be applicable in the case of any individual employer.
resident in the United States or any Territory or possession thereof, or of a corporate employer organized under the laws of the United States or any State, Territory or possession, with respect to salaries paid by such employers to employees for services rendered exclusively in foreign countries.

Sec. 1002.34. Foreign employers. — The provisions of these regulations shall not be applicable in the case of nonresident foreign employers except that if any salary is paid to an employee residing in the United States payment of such salary is subject to all the provisions of these regulations.

GUY T. HELVERING,
Commissioner of Internal Revenue.

APPROVED: December 2, 1942.

JOHN L. SULLIVAN,
Acting Secretary of the Treasury.
My dear Senators:

In keeping with your letter of November 20, 1942, additional data which you have requested with reference to the relationship between the Treasury Department and the problems of small business, is furnished in the order of the points as raised.

1. Directives and general policy memoranda setting forth the plans to be followed in making further use of small plants are attached and identified as Director's Order No. 181 dated March 25, 1942; Supplement to the above Order issued October 30, 1942 instructing that war contracts be placed by negotiation, and Office Memorandum dated September 21, 1942 and Supplement No. 1 dated September 29, 1942 relative to the availability of labor and placement of contracts.

Prior to the dates of the above documents, it was the policy of the Procurement Division to spread business to distressed manufacturers. Purchases were recommended and awards were approved by members of my staff thoroughly familiar with the broad policy.

2. The Treasury Procurement Division's set up to deal with the Smaller War Plants Division of the War Production Board, is outlined in letter of October 20, 1942 addressed to Mr. Civille S. McNerney, Chief, Procurement Contract Branch, War Production Board. A copy of this correspondence is attached.

Under date of January 56, 1943 a section, under the supervision of Thomas C. Stephens, Special Assistant to the Director of Procurement, was created to effectuate the policy of spreading the business. Shortly after the creation of the Smaller War Plants Corporation, Mr. Harvey R. Mallett was designated as liaison officer for the Smaller War Plants Division. Mr. Stephens has been in constant contact with Mr. Mallett on matters pertinent to this relationship.

3. Since January 14, 1943, the date of Executive Order 9025, contracts relating to war procurement have been placed by negotiation. No records as to the actual extent to which we have been successful in furthering the specific objectives of Directive No. 2 and Amendment of October 10, 1942, have been maintained; however, we have cooperated with the Division of Purchases, War Production Board and since its inception, with the Smaller War Plants Division of the War Production Board, and have concluded purchases after proper evaluation under the
provisions of Directive No. 2 Amended. As evidence of our efforts in furthering the objectives of Directive No. 2, there are attached a partial record of purchases made during the period from January 14, 1943 through October 31, 1942, including specific examples of instances of where the policy of spreading the business has been applied, and a copy of a letter dated October 31, 1942, addressed to the Director of Procurement, over the signature of Mr. Lee E. Holland, Deputy Chairman, War Production Board, which indicates the extent of our cooperation. Suggestions have from time to time been made to the War Production Board to develop facilities for the production of items such as metric tools, diesel motors, and types of road construction machinery which have been accepted as army standards.

4. In view of the varying problems in connection with individual purchases, no specific formula for the purpose of spreading the business among small plants have been devised. For example, a specific procedure was adopted for recent purchases of equipment totaling approximately $20,000,000 made for the account of Federal Public Housing Authority. Under this procedure and in view of the fact that the time of delivery was the most essential factor for consideration, certain quantities were awarded to those manufacturers who were in a position to produce promptly from materials on hand. For the purpose of distributing contracts further the remaining portion of the total requirement was divided among numerous contractors who had capacity for production during the latter part of the program.

The Procurement Division of the Treasury purchases, for the most part, finished and products ready for use, which products off-times involve operations all of which cannot be accomplished in the normal small plant. We are without funds or authority to develop or coordinate the facilities of small plants to place them in a position to completely manufacture an item which may require a multiplicity of operations. We have been able, for the most part, to place only contracts involving less difficult production problems with smaller plants. We have, however, encouraged subcontracting, whenever practicable, as illustrated by the following example which concerns the purchase of a rolling mill without electric drive, weighing approximately 7,576,000 pounds, from the Lewis Foundry and Machine Company, Division of Bliss-Enco, Pittsburgh, Pennsylvania, at a cost of $2,500,000. At the direction of the Procurement Division, the prime contractor entered into subcontracting as listed below.

Connellsville Mfg. & Mine Supply Co., Connellsville, Pa.
Patterson Foundry & Machine Co., East Liverpool, Ohio.
Etna Standard Engineering Co., East Liverpool, Ohio.
Difficulties have been experienced in obtaining delivery within the time required from some small plants under contracts for items outside the scope of their normal activity. This is a natural reaction and the difficulties have not been too objectionable.

In order to assist in the preservation of productive capacities of plants and to expedite deliveries we have entered into definite quantity contracts for electric fans, wood office desks and files, in advance of known requirements.

5. The total of quantities of desks and files cited above were purchased without priority assistance. Such assistance was not readily obtainable inasmuch as the specific using department or agency was not known at the time of purchase. For this reason some small plants, having no furniture needs on hand nor access to supplies without priority assistance, were unable to participate in the program. A similar situation may be encountered under General Schedule of Supplies contracts. As a general rule the major portion of our purchasing is accomplished after receipt of a requisition for a specific item, material, or supplies for which the applicable priority assistance has been predetermined and under which raw materials are equally accessible to all classes of suppliers. Without question the shortage of raw materials impedes the full utilization of small plants.
6. A primary consideration in war procurement is speed in the placing of orders to meet specified deliveries, consequently it is essential that the closest collaboration be maintained between the Smaller War Plants Corporation and the war procurement agencies to develop the utmost spreading of business consistent with required deliveries. Insofar as the Procurement Division of the Treasury Department is concerned, the major part of the purchasing is of end products and spreading of the business is, to some extent, but temporary relief depending upon the size of the order.

It is believed there is an opportunity for an extension of the program to spread business through the cooperation of prime contractors, particularly in those areas where there are labor shortages. Development of subcontracting against prime orders involving production for extended periods would be a real benefit to the small plants in need of business. To obtain the maximum advantages requires adequate provisions in contracts with prime contractors to require subcontracting, also complete cooperation of all concerned.

7. At the direction of the Office of Lend-Lease Administration, and after clearance by the War Production Board, the Procurement Division purchases under Lend-Lease all the raw materials, semifinished products, and manufactured items which are required to fulfill the various Lend-Lease commitments, except (1) foodstuffs, which are purchased by the Department of Agriculture, (2) ships and fittings, which are purchased by the Maritime Commission, and (3) items of military equipment and supply, which are purchased by the Army and Navy. The items purchased cover an extremely wide range of industrial commodities. Broadly they may be classified under the following general commodity classes:

(a) Ferrous and non-ferrous metals.
(b) Textiles.
(c) Abrasives.
(d) Chemicals and drugs.
(e) Heavy machinery.
(f) Hides.
(g) Lumber.
(h) Petroleum and petroleum products.
(i) Miscellaneous items.

I am in accord with the efforts of your committee to utilize the productive capacities of smaller plants and to achieve the widest practicable spread of business. You may expect the complete support of the Treasury Department and the facilities of the Procurement Division in accomplishing your purpose.

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

Secretary of the Treasury

Honorable James N. Murray
United States Senate
November 24, 1942

My dear Senator:

For the Secretary, I wish to acknowledge receipt of your letter of November 20th, with reference to the procurement aspects of our communication concerning the relationship between the Treasury Department and the problems of small business.

This matter will receive prompt attention and you will be further advised.

Very truly yours,

[Signature]

Administrative Assistant to the Secretary.

Honorable James E. Murray,
United States Senate.
United States Senate
Special Committee to Study Problems of American Small Business

November 29, 1942

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

Dear Mr. Secretary:

Thank you for your letter of November 9, in response to our inquiry concerning the relationship between the Treasury Department and the problems of small business.

With regard to the procurement aspects of your communication, the Committee would deeply appreciate your submitting a further statement to include the following points:

1. All directives and general policy memoranda of the Procurement Division of the Treasury setting forth the plans to be followed in making further use of smaller plants.

2. An explanation of the Treasury Procurement Division's set-up to deal with the Smaller War Plants Division of the War Production Board, together with an organization chart and the names of the top personnel.

3. A report on the extent to which the Procurement Division of the Treasury has been able to carry out the specific plans set forth in the original directive #2 of Donald Nelson, Chairman, War Production Board, and of the directive as amended on October 10, 1942.

4. A brief summary of your experience in spreading war work among smaller plants, with particular attention to the type of work that you have been most successful in giving to smaller plants.

5. The extent to which, in the opinion of the Procurement Division of the Treasury, the shortage of raw materials impedes the further utilization of smaller plants.

6. Your analysis of other obstacles in the path of further utilization of smaller plants.

7. The role of the Treasury Department in lend-lease purchases and whether or not the Treasury Department should not take a much more active role in lend-lease procurement.
The Committee has been informed by many sources that your Procurement Division is doing an outstanding job. Some small businessmen have also suggested that your Procurement Division should be given much greater responsibility with regard to the handling of war procurement. On this account, and for other reasons, we should appreciate having the above material as soon as possible—preferably by December 1.

Sincerely yours,

[Signature]

Chairman
The Chairman of the War Production Board has issued a Directive in connection with the placing of supply contracts relating to war procurement. There is quoted following the provisions of such Directive:

"Pursuant to the authority vested in me by Executive Order No. 9040 of January 16, 1942, and Executive Order No. 9040 of January 24, 1942, the following policy is prescribed for all Departments and Agencies now or hereafter authorized by the President to exercise the powers set forth in Title II, section 201 of the First War Powers Act, 1941 (Public No. 354, 77th Congress):

"§ 904.1 Placing supply contracts. (a) Except as hereinafter provided, all such Departments and Agencies shall place all supply contracts relating to war procurement by negotiation: Provided, That where consistent with the required speed of war procurement, notification of the proposed procurement shall be given to qualified possible contractors and quotations secured from them. The procedure provided by section 3709 of the Revised Statutes (41 U.S.C. section 6) shall be used only upon the specific authorization of the Director of Purchases of the War Production Board, or of such person or persons as he may designate.

"(b) (1) In placing such contracts, particular regard shall be paid to the following considerations:

"(1) Primary emphasis shall be upon securing delivery in the time required by the war program.

"(ii) In so far as it will effectuate the policy set forth in subparagraph (i) above, such contracts shall be placed so as to conserve, for the more difficult war production problems, the facilities of concerns best able, by reason of engineering, managerial, and physical resources, to handle them. Accordingly, contracts for standard or other items which involve relatively simple production problems shall be placed with concerns, normally the smaller ones, which are less able to handle the more difficult war production problems."
"(iii) Subject to the considerations stated in subparagraphs (1) and (ii), such contracts shall be placed with concerns needing to acquire the least amounts of additional machinery and equipment for performance of the contracts. Accordingly, as an essential part of each negotiation, procurement officials shall secure from prospective contractors statements listing all additional machinery and equipment which will be needed for performance of the contract.

"(2) Authority to depart from this policy may, upon specific request, be granted by the Director of Purchases of the War Production Board, or by such person or persons as he may designate for this purpose."

In accordance with such Directive, effective immediately, all contracts for the Procurement Division shall be placed as provided for in such Directive, except as follows:

1. All Field Offices of the Procurement Division shall continue to place contracts in accordance with existing procedure and the terms of the Directive shall not apply to such contracts, until such time as further instructions are issued.

2. All General Schedule contracts, until further notice, shall be placed in accordance with existing procedure in view of the scope of such contracts and the administrative difficulties involved in changing over to the method provided for in such Directive. However, compliance with such Directive as soon as possible is contemplated, and when the plans for including such contracts in the new procedure are completed a further order will be issued in connection therewith.

(Signed) CLIFTON E. MACK
Director of Procurement

Authority is hereby granted to the Director of Procurement to depart from the policy established by Directive No. 2 of the Chairman of the War Production Board, dated March 3, 1942, to the extent provided for in the above Order.

Dated: March 25, 1942

James MacPherson
DIRECTOR'S ORDER NO. 121, SUPPLEMENT NO. 1

TO: Chiefs of Branches and Divisions,
Regional and Deputy Procurement Officers.

SUBJECT: Placing War Contracts by Negotiation.

Under date of March 3, 1942 Mr. Donald M. Nelson, Chairman, War Production Board, issued Directive No. 2 directing the manner of placing supply contracts relating to war procurement. The policies outlined by the above Directive were made the subject of Director's Order No. 121 issued March 25, 1942. At the time of issuance, purchases by Field Offices of the Procurement Division were exempt from the provisions of the Directive, therefore, Director's Order No. 121 was not circulated to Regional and Deputy Procurement Officers.

Directive No. 2 was amended October 10, 1942 by the Chairman of the War Production Board and now applies to all departments and agencies placing contracts relative to war procurement. There is quoted below the essential provisions of the amended Directive.

"Pursuant to the authority vested in me by Executive Order No. 9024 of January 15, 1942, and Executive Order No. 9040 of January 24, 1942, the following policies and procedures are prescribed for all departments and agencies now or hereafter authorized by the President to exercise the powers set forth in Title II, Section 201 of the First War Powers Act, 1942 (Pub. Law 254, 77th Congress).

"(a) Except as hereinafter provided, all such departments and agencies shall place contracts relating to war procurement by negotiation. Negotiation as used in this directive may include not only face-to-face dealings, but also purchasing by securing informal written bids or telephone quotations. Where consistent with the required speed of war procurement, notification of the proposed procurement shall be given to a reasonable number of qualified contractors and quotations secured from them.

"(b) In negotiating contracts relating to war procurement the following considerations shall govern.

(over)
"(i) Primary emphasis shall be upon securing deliveries or performance at the times required by the war program.

"(ii) Subject to the considerations stated in subdivision (i) contracts shall be placed with concerns needing to acquire the least amounts of additional new machinery, equipment, or facilities for performance of the contracts.

"(iii) Subject to the considerations stated in subdivisions (i) and (ii), it shall be the policy of all war procurement departments and agencies to avoid contracting for the production of items or materials in communities or areas in which acute labor shortages are known to exist whenever it is practical to procure the needed items or materials elsewhere. The War Manpower Commission shall be relied upon to certify to the war procurement agencies, communities and areas in which acute labor shortages exist to such a degree that the policy stated in this subdivision is applicable.

"(iv) Subject to the considerations stated in subdivision (i), (ii), and (iii), such contracts shall be placed so as to conserve, for the more difficult war production problems, the resources of concerns best able by reason of engineering, managerial, and physical resources, to handle them. Accordingly, contracts for items which involve relatively simple production problems shall be placed with concerns, normally the smaller ones, which are less able to handle the more difficult war production problems.

"(v) Subject to the considerations stated in subdivisions (i), (ii), (iii), and (iv), and also subject to the provisions of the Production Concentration Programs, which have been or may in the future be instituted by the War Production Board, such contracts shall be placed so as to spread production among as many firms as is reasonable and feasible.

"(c) War procurement departments and agencies are hereby authorized and directed to pay higher prices than would otherwise be required if such action is necessary to put into effect the policies stated in subdivisions (i) through (v), inclusive. If all the considerations set forth in subdivisions (i) through (v) have been met and there is still need for selection among contractors, contracts shall be so placed as to obtain the lowest price for the Government."

There is attached a list of labor markets supplied by the War Manpower Commission in which labor shortages exist. As labor market conditions change, supplements to this order will be issued.

Immediate steps shall be taken to effectuate the provisions of Directive No. 2, Amended.

(signed) CLIFTON E. MACK

Director of Procurement

(continued)
### Areas Experiencing Acute Labor Shortages, September 28, 1942

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**NOTE:** It is intended to include not only the corporate limits of the communities themselves, but also the surrounding territory within feasible commuting distance.
### AREAS EXPERIENCING ACUTE LABOR SHORTAGES, SEPTEMBER 28, 1942

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**NOTE:** It is intended to include not only the corporate limits of the communities themselves, but also the surrounding territory within feasible commuting distance.

(36632)
OFFICE MEMORANDUM.

TO: ALL GROUP CHIEFS AND ASSISTANT GROUP CHIEFS.

SUBJECT: Availability of Labor and the Placement of Contracts.

The growing number of communities in which shortages are at present apparent, show that labor is becoming an increasingly scarce resource.

Consideration of labor supply in all decisions affecting war production has become essential. For effective utilization of the national manpower, additional war work should be directed towards areas with adequate labor supply and away from areas with acute labor shortages.

Further labor demand in the shortage areas would cause excessive migration, aggravate housing problems, increase pressure on overcrowded transportation and other community facilities, and perhaps inability to meet delivery dates.

Labor scarcity in many communities, despite continuing unemployment in other communities, require steps be taken to effect better distribution of labor demand such as transfers of civilian production from labor shortage areas and greater attention paid to labor supply in awarding contracts.

There is attached a list of labor markets, supplied by the War Manpower Commission, in which there exists a shortage of workers. This list will be kept current as labor market conditions change.

The Procurement Division will endeavor to issue contracts to employers located elsewhere then in these labor market areas. It is recognized it will be occasionally necessary to locate contracts in some one of the tight labor markets due to a lack of facilities elsewhere than in these communities where those manufacturers in these communities can guarantee much greater speed in delivery than can manufacturers elsewhere. There might be other binding reasons that dictate the locations of contracts in one of these communities.

(over)
Office Memo, 9-31-42

It is understood the availability of labor is not to be considered the sole determining factor, but a very important one in placing contracts which involve manufacture subsequent to award. Whenever, in the opinion of Commodity Group Chiefs or Assistant Group Chiefs, the placement of a contract for manufacture in a congested labor area would have a disturbing effect, the transaction should be discussed with either the Chief of the Purchase Division or the Chief of the Contract and Purchase Section, prior to recommendation of award.

(signed) A. J. WALSH

Deputy Director of Procurement
### AREAS EXPERIENCING ACUTE LABOR SHORTAGES, SEPTEMBER 9, 1942

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(Regraded Unclassified)
SUPPLEMENT NO. 1 TO OFFICE MEMORANDUM DATED SEPT. 21, 1942

TO: All Group Chiefs and Assistant Group Chiefs.

SUBJECT: Availability of Labor and the Placement of Contracts.

In order to keep current, as nearly as possible, the list of AREAS EXPERIENCING ACUTE LABOR SHORTAGES, the following changes should be made:

ADD to the list:
- Holyoke, Massachusetts
- Kings Mills, Ohio
- La Porte, Indiana
- Middletown, Ohio
- Pittsfield, Massachusetts
- Spokane, Washington

DELETE from the list:
- Decatur, Illinois
- Springfield, Illinois
- Marion, Ohio

NOTE: It is intended to include not only the corporate limits of the communities themselves, but also the surrounding territory within feasible commuting distance.

(signed) A. J. WALSH

Deputy Director of Procurement
Mr. Orville S. McPherson, Chief
Procurement Contact Branch
War Production Board
Washington, D. C.

Dear Sir:

Receipt is acknowledged of your letter dated October 20, 1942, outlining agreements reached in preliminary discussions regarding the matter of policy governing the activity of the Smaller War Plants Division of the War Production Board, in connection with contracts awarded by the Procurement Division of the Treasury Department.

It is understood the Smaller War Plants Corporation will be apprised of purchase requirements through access to a copy of incoming requisitions now being received by the Purchase Division of the War Production Board. The following general outline will be pursued:

1. SWPD will recommend sources of supply to be included in negotiations along with other sources known to this Division.

2. SWPD will recommend the placement of contracts to one or more sources with the understanding that contracts will be made with such designated facilities provided price and delivery dates are acceptable.

3. SWPD will request that procurements be made by Smaller War Plant Corporation functioning as prime contractor.

It is my understanding the last method will be adopted in only those instances where the SWPD brings into being new facilities for production. Provided existing facilities are to be utilized, the objective may be accomplished by following method No. 2.

Very truly yours

A. J. Walsh
Deputy Director of Procurement
COPY

WAR PRODUCTION BOARD
Washington, D.C.

October 31, 1942

In reply refer to:

Dear Mr. Mack:

Thank you very much for your letter of October 31, sending me a copy of the report prepared for you by Mr. Stephens, Special Assistant, with further specific examples of spreading the business. I think this is very good and take this opportunity of expressing my appreciation for the fine cooperation we are getting from the Treasury Department.

I am determined that our program shall go forward in an orderly way with the least amount of friction.

We are experiencing some difficulty in securing the services of highly qualified men to contact the various departments of the Government. For this reason, it may be necessary from time to time to make some changes in personnel. If at any time you feel that our contact man is not the proper person for the job, I would appreciate hearing from you.

With best wishes, I remain

Cordially yours,

/s/ Lou E. Holland, Deputy Chairman
War Production Board

Mr. Clifton B. Haak
Treasury Department
Procurement Division
Washington, D.C.
ILLUSTRATIVE EXAMPLES OF PURCHASES MADE DURING THE PERIOD JANUARY 14 THROUGH OCTOBER 31, 1942
(SEE PAR. 3 OF COVERING LETTER)

MOTOR VEHICLES

During the period involved, the Procurement Division has purchased all motor vehicles required by the Executive Departments and Independent Establishments of the Government and the District of Columbia, except War, Navy, and Maritime Commission. Every attempt has been made to place these contracts in the localities in which the vehicles are to be used.

OFFICE DESKS AND FILE CABINETS

In anticipation of sizable requirements for office desks and file cabinets, the Procurement Division designed and made definite quantity contracts for conservative models of these items. The desks are referred to as "Victory" models and utilise a minimum amount of critical materials. The over-all dimension is smaller than the conventional style desk although adequate for the purpose intended. This desk requires less office space, less transportation space and cost and was obtained at a cost of approximately one-third that of the conventional style. It is believed this production will not create serious post war competition for the business as usual product. Since April 1, 1942, 124,900 "Victory" desks have been purchased from 26 manufacturers at a total cost of $1,816,980.00. Purchases of 203,800 conventional type office desks were made from 80 sources of supply, utilising raw materials on hand and without priority assistance, at a total cost of $7,122,900.00. During the same period a total of 67,900 conservative type wood file cabinets have been purchased from 11 manufacturers, other than those referred to above, at an approximate cost of $2,086,900.00.

LUMBER, PLYWOOD, AND VENEERS

(approx) $25,000,000.00

These purchases have concluded with approximately 316 suppliers.

COPPER TUBING

$ 2,695,686.00

Manufacturing facilities were developed by a single purchase of 1400 gross tons of copper tubing from 9 contractors.

HAND TOOLS, REAMERS, AND DRILLS

$ 6,144,324.79

Contracts for the above were executed with 125 suppliers.

BLANKETS

1,982,468.00

This total business was spread among 19 contractors.
BOLTS, NUTS, SCREWS, RIVETS, AND WASHERS  $2,395,180.50

Awards were made favoring 36 sources of supply.

ABRASIVES  $6,871,096.82

These materials were obtained from 58 suppliers.

CABLE  $8,875,050.19

Awards favoring 42 companies were made.

HANDLE BLANKS  $292,589.22

These purchases were secured from 9 different contractors.

RAZOR BLADES  $220,085.00

Awards were divided among 12 manufacturers.

More detailed analysis of additional purchases follow:

HOT WATER HEATERS AND WATER STORAGE TANKS  $1,695,793.55

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<th>Contractor</th>
<th>Amount</th>
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<tbody>
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<td>American Boiler Foundry Co.</td>
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<td>Amer. Gas Machine Co.</td>
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<td>Bastian Morey Co.</td>
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<td>Dowagiac Steel Furnace Co.</td>
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<td>Duo-Therm Div. of Motor Wheel Corp.</td>
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<td>Dupage Boiler Works</td>
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Regraded Unclassified
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<th>Contractor</th>
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<td>Edmar Footwear Co.</td>
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<td>Empire Shoe Co.</td>
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Textiles

| American Bleached Goods Co. | 6,810.00 |
| Atlas Wiping Cloth Co.     | 2,100.00 |
| Bailey, Joshua L., & Co.   | 26,500.00|
| Batavia Mills Inc.         | 56,922.70|
| Brand & Oppenheimer        | 9,098.75 |
| Callaway Mills             | 67,800.00|

(continued on next page)
### Commodity

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### Textiles

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<td>Coolerator Co.</td>
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<td>Electric Mfg. Co.</td>
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<td>Solar Light Co.</td>
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<td>Star Lighting Fix. Co.</td>
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Regraded Unclassified


Carpenter Steel Corp.
Compressed Steel Shafting Co.
Cleveland Graphite Bronze Co.
Carnegie-Illinois Steel Corp.
Copperweld Steel Co.
Cold Metal Products Co.
Colorado Fuel & Iron Corp.
Detroit Seamless Steel Tubes Co.
Davey, W. H. Steel Co.
Dresser Mfg. Co.
Diastone, Henry & Sons
Empire Sheet & Template Co.
Gifford Ross Steel Co.
Fellman Bros. Co.
Globe Steel Tube Co.
Granite City Steel Co.
Great Lakes Steel Corp.
Harry Harris & Co.
Inland Steel Co.
James & Laughlin Steel Corp.
J. H. Johnson & Co., Ltd.
Jessop Steel Co.
Keystone Steel & Wire Co.
Lack Steel Co.
Lincoln Electric Co., The
LaSalle Steel Co.
Lockhart Iron & Steel Co.
Leaded Steel Co.
Moltrup Steel Frels. Co.
Michigan Seamless Tube Co.
Morgan Tube & Mfg. Co.
Mahoning Valley Steel Co., The
Mechanical Mould Machine Co.
McLouth Steel Corp.
Newport Rolling Mill Co.
Northwestern Steel & Wire Co.
Niles Rolling Mill Co.
North East Dearm Steel Co.
National Supply Co.
National Tube Co.
Otis Steel Co.
Oil Well Supply Co.
Pittsburgh Steel Co.
Plymouth Tube Co.
Parkersburgh Iron & Steel Co.
Pittsburgh Crushed Steel Co.
Phoenix Iron Co., The
Ryerson, Jos. T.
Reeseling, John A., & Sons, Co.
Republic Steel Corp.
Reeves Steel & Mfg. Co.

Regraded Unclassified
Rockwood Spindler Co.  
Spang Chalfant Inc.  
Sheffield Steel Corp.  
Scully Steel Products Co.  
Singer Mfg. Co., The  
Sharon Steel Corp.  
Summersill Tubing Co.  
Stanley G. Flagg & Co., Inc.  
South Chester Tube Co.  
Superior Steel Co.  
The Timken Roller Bearing Co.  
Thomas Steel Co.  
Vistaufic Co. of America  
Worth Steel Co.  
Wisconsin Steel Co.  
Wheeling Steel Corp.  
Wallingford Steel Co.  
Wheatland Tube Co.  
Weirton Steel Co.  
Walworth International Co.  
Wuchoff Drawn Steel Co.  
Youngstown Sheet & Tube Co.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE
DEC 8 - 1942

TO Secretary Morgenthau
FROM Randolph Paul

On May 6, 1942, a contract was entered into by you, as Secretary of the Treasury, with the defense Plant Corporation for making available approximately 40,000 tons of free silver to the Defense Plant Corporation for non-consumptive use in war production. Under the provisions of that contract, the Defense Plant Corporation now proposes to supply 2,500 tons of silver for non-consumptive uses as bus bars by the Aluminum Company of Canada in Canada.

There is nothing in the contract of May 6, 1942, or in the statutes on which such contract is based which indicates that your authority or that of the Defense Plant Corporation is limited to supplying this silver for use within the United States. On the contrary, the language of the contract and the language of the statutes is sufficiently broad to permit such non-consumptive use anywhere in the world so long as the use contributes to the war effort. All the available statements of Treasury representatives made to the Senate Special Silver Committee have been examined and there is none which restricts the plan to use of the silver within the United States.

It is clear that the use of free silver in the production of aluminum in Canada is just as important to the war effort as its use for the production of aluminum in the United States. I believe, therefore, that the Defense Plant Corporation should be informed that the Treasury Department does not object to such use pursuant to the terms and provisions of the contract of May 6, 1942.

If you approve such action, will you please indicate your approval by signing the notation at the foot hereof.

Approved:

[Signature]
Secretary of the Treasury.

[Signature]
1. Historical Sequence: Hamilton must protect a peace.

2. Historical Sequence: Gallitan must protect a war effort.

3. Historical Sequence: McCulloch must pay for a disaster.

4. The Golden Years: Treasury as handy-man to the people of the U. S.

5. The End of the Golden Years of plenty:
   (a) 1929
   (b) The Bank Holiday

6. The Six Years of New Labors: Pathfinding

7. Munich to Pearl Harbor: Era of desperate measures

8. Victory in Africa:
   Brief Historical Episode
   Solomons
   Lend Lease becomes clear in result.
   (Emotional Climax)

9. The Issue Today: True Climax of Picture
Information received up to 7 A.M., 2nd December, 1942.

1. MILITARY

ITALY. The Russians have tightened the ring round the Germans in the STALINGRAD area. In the central sector, operations continue.

2. MILITARY

LIBYA. Patrol activity along the enemy positions by our forward forces continues. Our main forces are moving south towards the IL AGHELLA position but are not yet in contact with the enemy.

3. MILITARY

CONFUSIA. British parachute troops dropped at PONT DUHOMS on 23th November are operating offensively together with strong reconnaissance elements in a wide area some 15 miles southwest of TUNIS. On the northern coastal road, our advance has been temporarily held up by the enemy strong-point commanding the road to MILDAH.

4. MILITARY

RUSSIA. British parachute troops dropped at PONT DUHOMS on 23th November are operating offensively together with strong reconnaissance elements in a wide area some 15 miles southwest of TUNIS. On the northern coastal road, our advance has been temporarily held up by the enemy strong-point commanding the road to MILDAH.

5. AIR OPERATIONS

WESTERN FRONT. 1st. Fighters carried out offensive sweeps over Northern France. Others attacked barges off the Dutch Coast. Enemy casualties 2, nil, 4. Ours, one missing. 5 Beaufighters are missing from patrols west of the MANCHESTER.

6. AIR OPERATIONS

FRENCH NORTH AFRICA. 28th/29th. 8 Junkers 88 attacked BONE airfield, destroying 5 aircraft on the ground. 5 of them were shot down. 29th. 15 Bissies successfully bombed BIZERTA airfield 30th/31st.

MALTA. Wellingtons bombed BIZERTA docks, hitting railways, workshops and barracks.

7. AIR OPERATIONS

SICILY. Airfields on SICILY were bombed by Wellingtons 30th/31st.

8. AIR OPERATIONS

MEDITERRANEAN. 1st. 2 Beaufighters off the Tunisian Coast attacked a southbound ship, which was set on fire and blew up.
December 3, 1942
11:40 a.m.

Operator: Chairman Eccles.

Marriner: Marriner? Marriner?

Eccles: Hello, Henry.

HMJr: Good morning.

E: How are you this morning?

HMJr: I'm fine. I think you did a fine job for us yesterday.

E: What was the final result?

HMJr: Well, as of last night, $2,073,000,000.

E: Yeah, I got last night, but I just wondered if we had anything later.

HMJr: No, no - ah...

E: I think it'll - I think you'll get around -- I told Dan I thought two billion four to from two billion three to five anyway, which is really all we want.

HMJr: Now - that's right. Now, Marriner, I'd like to have a little talk with you about the next one and the quotas and all that sort of thing.

E: You mean on the sixteenth?

HMJr: Yes.

E: You mean - you mean the - the certificates.

HMJr: Yeah, but I wanted - I mean, yes. Would ten-thirty tomorrow be at all convenient?

E: Yeah, I think so.

HMJr: Is that a bad time?
E: Well, it's - we have our regular meeting every Friday.

HMJr: What time do you have it?

E: At ten-thirty.

HMJr: Oh-oh. Well, I've got....

E: Board meeting. Would the afternoon be - be all right with you or would that - or this afternoon some time?

HMJr: Well, this - this - this afternoon at three-thirty would be all right.

E: I - well, I have an appointment....

HMJr: Well....

E: ....at two-thirty. Three-thirty would be all right.

HMJr: Want to make it a little later?

E: Three-thirty is okay. Three-thirty or four.

HMJr: Three-four-five.

E: Well, let's make it three-thirty.

HMJr: All right.

E: Three-thirty this afternoon.

HMJr: Do you want to bring anybody with you?

E: Well, not - I don't - not necessarily because....

HMJr: Oh.

E: ....it's a question, as I understand it - it....

HMJr: Where do we go from here on the next one?

E: Yeah, that's right. I'd - I'd....

HMJr: I'd like to read a telegram which we propose to send if you think it's all right. This is to the Chairman of the Victory Fund Committee: "We realize that in

(cont.)
order to stimulate sales and maintain the present enthusiasm, it is important to make public the results of the Victory Fund Drive in each district. In view of the lag in the Treasury figures, we now feel that it would be better not to release results by districts from Washington on December 7 as previously planned. You are, therefore, authorized to issue statements in your district from time to time of results both by districts and regions. You may include in your publicity the names of individual subscribers where you have the authority from such subscribers.

E: Yeah. That's to go to the chairmen?

HMJr: Chairmen.

E: And you're going to sign that?

HMJr: Yes, sir.

E: Do you mind reading it just once more so I can....

HMJr: Not a - not a bit - not... - you stop me if you want to - and then "We realize in order to stimulate sales and maintain the present enthusiasm, it is important to make public the results of the Victory Fund Drive in each district. In view of the lag in Treasury figures, we now feel it would be better not to release results by districts from Washington on December 7 as previously planned. You are, therefore, authorized to issue statements in your district from time to time of results both by districts and regions. You may include in your publicity the names of individual subscribers where you have the authority from such subscribers."

E: Yeah, I - I think that's a good decision. I think....

HMJr: All right.

E: .... that - I think it's best to - to do it in the districts in any case.
HMJr: Yes. Well, you see what they're doing - they're doing it, and if we gave it out we'd be in constant conflict with them.

E: Yeah, because you get your figures....

HMJr: Late.

E: ....you figures wouldn't always jibe.

HMJr: But - but did....

E: Well, I think that the fact that they can do that gives them a - gives them a - a springboard too. After all, it's - it's a matter of the local interest....

HMJr: That's right.

E: ....and it seemed to me that at some point, however, you got to release the combination of figures from here.

HMJr: We will.

E: The - but - but not the individual regional figures but the total figures for the country. That - that's your idea, isn't it?

HMJr: Oh, yes.

E: Yeah.

HMJr: But - but if - supposing we let out something today not - the figures might vary a half a billion dollars.

E: Yeah, yeah, sure, because there's a lag.

HMJr: Sure, New York claims two-and-a-half billion. Well, they may have pledges but it's not in the till.

E: Uh huh. Well, you see now this - this - I didn't worry about this thing getting over yesterday, but, of course, there wasn't any use of taking any....

HMJr: Chances.
E: ....chance, and so when I got the earlier figures in, those districts that seemed to be behind other districts, there was five of them....

HMJr: Yeah.

E: .....I - I called them up, and....

HMJr: Yeah.

E: .....and I don't know whether it helped, but I know it did San Francisco. I put a bomb under them.

HMJr: Well, that's what I wanted to talk to you about, and I think we ought to have some kind of a quota for these districts.

E: Well, I think that we've almost - I told Dan yesterday that I thought we had to because these fellows are working in the dark....

HMJr: Yeah.

E: .....and the trouble is, they let - they'll sit back, you know, and - and let the other fellow do it....

HMJr: That....

E: .....unless you put 'em on the spot.

HMJr: That's right.

E: And I put San Francisco on the spot on that thing yesterday, and they just simply got out and got their quota. Of course, the quota I give them - I give - give them all a lot of arbitrary quotas in a way. But they didn't question it....

HMJr: Yeah.

E: .....and....

HMJr: Well, I'd like to talk to you, then also about the A.B.A., you see, what they can do if anything.

E: Yeah. Well, I'll be over at three-thirty.

HMJr: Thank you.

E: Okay. Goodbye.
TAXES

Present: Mr. Paul
Mr. Sullivan
Mrs. Klotz

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

December 3, 1942
2:25 p.m.
December 3, 1942
2:25 p.m.

HMJr: Hello.

Robert Doughton: Henry?

HMJr: Yes, Bob.

D: I have just dictated a brief statement here. I'll have my stenographer read it back to you...

HMJr: All right.

D: ...and see what you think of it, and any sug-
ges... suggestions you have to make or changes or write the whole thing over.

HMJr: Yes.

D: I'll have it read to you just - from her notes right now. You ready?

HMJr: Just a second, please.

D: Yeah.

HMJr: Just a second.

D: (Talks aside: If you read slow, they can take it down if they want to.)

HMJr: Okay.

D: All right.

HMJr: Go ahead, Bob.

Secretary to Doughton: Are you going to try to take this down, Mr. Secretary?

HMJr: Well, no, I'll - I'll listen and if I don't understand it, I'll ask you to repeat it.

Secretary: All right, sir.

HMJr: Go ahead.
Representative Doughton, Chairman of the Committee on Ways and Means, stated this afternoon that upon the request of Secretary Morgenthau he had lunch - they - they had lunch together at the Capitol today. Mr. Doughton further stated that the matter of future legislation relating to tax matters was discussed in a general way. He also stated that Secretary Morgenthau had said that no definite tax plan or program had been worked out or agreed upon by the Treasury, but that he was anxious to cooperate with the responsible committee or committees of the Congress in the most helpful way possible in working out a satisfactory tax program. The Secretary made it very plain, so Mr. Doughton said, that he was most anxious to work in harmony with the committee in whatever manner it was deemed would produce the best results with respect to tax legislation in the new Congress.

Well, let me just think a minute.

All right, sir.

Do you mind doing it once more? It's kind of hard to get it on the phone.

No, sir, I'll be very glad to. Do I read too fast?

Well, I'm not taking it down. I just - I just had to get it in my head.

All right, sir. I'll begin again.

Yes.

"Representative Doughton, Chairman of the Committee on Ways and Means, stated this afternoon that upon the request of Secretary Morgenthau they had lunch together...."

Well, do you mind instead of saying "request" you say "at the suggestion"?

Yes, sir. Be very glad to change that.
HMr: Yes.
Secretary: "...at the suggestion...."
HMr: Yes.
Secretary: "...of Secretary Morgenthau they had lunch together in the Capitol today. Mr. Doughton further stated that the matter of future legislation relating to tax matters was discussed in a general way. He also stated that Secretary Morgenthau had said that no definite tax plan or program had been worked out or agreed upon by the Treasury, but that he was anxious to cooperate with the responsible committee or committees of the Congress in the most helpful way possible in working out a satisfactory tax program. The Secretary made it very plain, so Mr. Doughton said, that he was most anxious to work in harmony with the committee in whatever manner it was deemed would produce the best results with respect to tax legislation in the new Congress."
HMr: Instead of saying - where you say "work in harmony" I'd suggest "to continue to work in harmony."
Secretary: To continue to work in harmony. All right, sir.
HMr: Just ask Mr. Doughton if those couple little suggestions of mine - whether they meet with his approval.
Secretary: All right, sir. He wants to speak to you anyway in just a moment. Will you hold on? (Talks aside: He suggests that we say instead of that you had lunch together "at the request of Secretary Morgenthau", say that you had lunch together "at the suggestion of Secretary Morgenthau." That's all right with you? Then he suggests instead of saying that "the Secretary made it very plain, so Mr. Doughton said, that he was most anxious to work in harmony," say "he was most anxious to continue to work in harmony.") He thinks that's fine, but he wants to speak to you anyway.
HMJr: Okay.

D: As amended by your very pertinent suggestion, is that satisfactory now?

HMJr: Yeah, I think that's fine.

D: All right. I'll just have copies made then and give to the press this afternoon.

HMJr: Thank you.

D: Thank you.

HMJr: All right.

D: Goodbye.
MR. SULLIVAN: That is good.

H.M.JR: I mean, it looks as though I said, "From now on, I am going to be a good boy, and continue to work in harmony."

MR. SULLIVAN: Generally, I think it is a good statement, anyway.

H.M.JR: I didn't know he was calling when I sent for you. What I was calling you for was to tell you about my talk with Doughton. The old boy seemed very cool to me the last couple of times.

We had a very nice talk and what I said was that I wanted to sit down - the Treasury wanted to sit down with him this time and come to as near an agreement beforehand as we could, and that the country knew what I wanted - tax exempts, depletion, joint returns, and all the rest of that, and if we could not agree on it, I was not going to go up and bat my head against the wall again.

I told him that we had a political situation to deal with, and that '45 was not so far around the corner; that I wanted to try to go just as far as we could to work this thing out, and that I was going to do as much as I could to get an agreement with the present committee this time.

He said, "Now you are talking my language." He mentioned only once, towards the very end, the thing that I had been harping on. He said, "If we can't do this, Henry, it would be better that you just say your piece and then withdraw and let the Congress go ahead and write the bill."

He said, "But if we approach it in this manner, I think it would be fine. Of course, I don't want to make any suggestions, but if I could suggest, I think
the Speaker should sit in on this conference and Senator Barkley should sit in on this conference."

He said, "Let’s do it first with the Democrats and agree amongst ourselves, and then pull in the Republicans afterwards."

"But," he said, "we have got to be careful this time. The tide is running against us."

Then, as I said, he only once, very briefly, said the thing he has been saying over and over again publicly, that the Treasury has been trying to write the tax bill. He said, "Of course, you don’t want to do it this time."

He got on to Stam, and said that Stam is losing the people. He says that Stam is a great white-haired boy. He said, "He is a very poor executive; he isn’t like your people. Paul comes up here with a half a dozen able assistants to help him out. Stam does not have them."

I said, "If we are going to get together, maybe we can all pool our staffs. You don’t have to worry so much about your staff." He liked that.

MR. PAUL: He has been wanting me to come up and have a love feast with Stam, but I have stayed away, so far.

H.M.JR: He had been reading "PM" on social security, and he said, "I hope the President isn’t going to make social security come first. If you do, you are not going to have a bill until July."

I said, "Well, Bob, I don’t know." He kept going back to that three or four times because that is always his story.

I said, "I will tell you this, Bob: I can promise
you that before the President does anything on social security, he will talk to you first."

Then I had this message from the President to him, which I gave him the first thing. I said, "The President told me to tell you this morning, Bob, that what you people up here on the Hill are doing is electing a Republican President."

He took that. He said, "The President is right; the President is right."

So he told us that Disney is very, very bitter, for some reason. He doesn't understand why Disney is so bitter.

MR. PAUL: Bitter against the Treasury?

H.M.JR: The administration. He is very, very bitter.

Then he went on to say, and this is the thing - he said, "There is something about some kind of a thing - a questionnaire - the Budget, or something. Stam was trying to tell me about it this morning and I do not understand it."

So I said, "Well, that is something that Sullivan is worrying about. You don't want the Bureau of the Budget fixing it up and adding a lot of questions on OPA, do you?"

"My Gawd, no," he said, "I don't want that."

So I said, "John will come up to see you."

He said, "Have him come up. I have been too busy; I don't know what it is."

MR. SULLIVAN: I postponed seeing him, Mr. Secretary, because I had sensed this coolness between you and him that you just referred to.
H.M.JR: It is all over now; we are buddies. (Laughter) And see Vandenberg, too, because Vandenberg was very friendly to me day before yesterday. He came up and said, "Now, Henry, don't mind what I say; it is nothing personal." He has been all right.

Anyway, I am moving a little fast because we have these films - they are borrowed.

Now the other thing that will interest you, which is quite important - and it shows that if the days were only long enough I could do all of this - is that he said, "Henry, I want to talk to you about this fellow Ruml. Walter George had me come over there the other day at two o'clock. Ruml sat around for an hour and a half." He said, "He is a slick talker. I listened to that fellow for about an hour and a half and I never said a word. When he got all through do you know what I said to myself?" I said, "No." He said, "That is nothing but another tax avoidance scheme; I am against it." Then he said, "That is for the fellows that have been defeated and are worrying about how they are going to pay the taxes on the ten thousand dollars they earned in '42." I said, "We have got a way of taking care of eighty-five percent of the people."

MR. PAUL: There was a letter to the Post on that. I would like to send it in.

H.M.JR: He said, "I just sensed that this is another tax avoidance." I said, "If we are going to help anybody out, let's help the boys in the Army." "That is right; this is helping the fellows who need it the least," he said, "I am not for it, and I am not going to change."

MR. SULLIVAN: I might bring that into the discussion when I see him this afternoon.

MR. PAUL: Emphasize a little bit the other part, that we did offer a substitute for eighty-five percent because we have got to take that plan that way.
H.M. JR: I told him the eighty-five - it was one of the best meetings I ever had. He did not resent the message from the President, but he does not want social security.

MR. SULLIVAN: None of them do on either side.

H.M. JR: He doesn't want it brought up. I know when I leave Bob Doughton in a good humor and when I don't.

The other thing he said was, "You know, I think Walter George is one of the finest men and he is close to me, but he gets his name in the papers too much."

(Laughter)

MR. SULLIVAN: They keep score. When George gets in the papers in the morning, Doughton looks for something to get his in in the evening. (Laughter)

H.M. JR: "You know, a couple of men came to me in the committee," he said, "and asked, 'Mr. Chairman, where did the tax bill originate anyway, in the Senate or the House?' By the looks of it I would think it originated with Walter George; what do you think?" I said, "In November or December you shouldn't be saying too much about it, I don't think." He says, "Walter George gets his name in the papers too much." That was marvelous, the two of them going against each other. And last, but not least, I said this: "By the way, have any of these self-appointed ambassadors from the White House been up here to tell you what to do?" He said, "No, I have had a couple of letters from the President on amendments to child welfare or something, but outside of that I have nothing," and he says, "I don't want it. I want them to keep away from me."

In other words, I saw the President this morning to reaffirm what he wants us to do - to reaffirm the whole thing. This afternoon I saw Bob Doughton, and he has not heard - I didn't mention Jimmy Byrnes.
MR. SULLIVAN: That is what you mean when you say reaffirm the whole thing?

H.M.JR: The President said we should go on just as we always have. I didn’t say, "Has Jimmy Byrnes been up here?" I said, "Have you heard of any of these White House ambassadors?" He said, "No, I have had two letters from the President."

I feel we have gained a little ground.

MR. SULLIVAN: That sounds very good.

Yesterday I saw Barkley, George, and Byrd, and today Pepper and Murray on that, and they are going to insist on what we want.
Harold Graves

Secretary Morgenthau

December 3, 1942

Please get on this right away, and let me know tomorrow what you can do to help this community so that we can let the Congressman know without fail.

See Chris's memo of 12/4/42
Operator: Go ahead.
HMr: Hello.
Cong. E. C. Gathings: Hello. Hello, Mr. Secretary?
HMr: Speaking.
G: This is E. C. Gathings, Representative, First District, Arkansas.
HMr: Yes, Mr. Gathings.
G: I - I received a telephone call a few moments ago from a city in my district, Jonesboro.
HMr: Yes.
G: Now here is the situation.
HMr: Please.
G: The - the different consumers of power in that city are going to get the month of November to December 1 bill refunded to them in War Stamps and Bonds.
HMr: Yes.
G: Now the total amount will be $30,000 for this place of 16,000 population. Now they want to have a celebration there on December the 15th and want - they want to get the cooperation of the Treasury Department.
HMr: That ought to be....
G: Of course, this is one of the first - first times that a matter of this kind has been effectuated, I und... - as I understand it....
HMr: Yes.
G: ....and they - they understood that your department had asked that something like that be worked out, and they have already arranged to - to make these payments to these consumers in War Stamps and Bonds and urge them to make up the difference - to purchase a larger denomination.

HMJr: Well, it sounds very interesting.

G: Yes, now on December the 15th these bills will fall due....

HMJr: Yeah.

G: ....and at that time they've planned, if possible, to have a little celebration there in the city of Jonesboro, and, by the way, Senator Caraway comes from that town.

HMJr: Oh, does she?

G: Yes, sir. Now they are quite anxious to have someone from your department - a - some notable appear there to be on the program, and....

HMJr: Well, I can....

G: ....help them put it over.

HMJr: ....promise you that we'll have somebody there and assist and - and show our appreciation....

G: Well....

HMJr: ....and I'll - I'll let you know or have some- body let you know not later than tomorrow just what we'll do.

G: Well, I do appreciate that, Mr. Secretary. I surely do, and I appreciate so much the coopera- tion....

HMJr: Well, it's - it's a fine thing they're doing and we'd like to help.

G: Well, that's fine. Thank you so much.
HMJr: Thank you.

G: Goodbye.

HMJr: Goodbye.
A meeting was called at 10:10 A.M., Thursday, December 3, in the Senate Finance Committee Room in the Senate Office Building. There were present:

Senators:
Byrd
Nye
Vandenberg
McKellar
George
Bureau of the Budget;
Mr. Lawton.

The Committee recorder made a stenographic transcript of the meeting.

Senator Byrd opened the meeting at 10:15 and said the Committee would hear testimony in connection with the pending resolution authorizing the Joint Committee to look into the subject of questionnaires required by Government agencies.

Mr. Erik A. Johnson, President of the United States Chamber of Commerce, the first witness, made a short statement in which he said his organization endorsed the action of the Joint Committee in undertaking an investigation into the subject of questionnaires. During his remarks he pointed out that the WPS some months ago organized a Business Advisory Board made up of men from various industries and as a result of the Board’s activities WPS eliminated 70 questionnaires and simplified 160 others used in its operations. He also stated that a move in the right direction was represented by the recent directive by the President whereby all governmental agencies issuing questionnaires after January 1, 1943 must submit them to the Bureau of the Budget for approval.

Senator Nye inquired whether any study had been given to what is done with questionnaires after they are filed. Mr. Johnson said no study had been given to this matter, but that in most cases after the questionnaires are filed nothing further is heard from them.
In reply to an inquiry by Senator Byrd, Mr. Johnson said he did not know what the cost to business generally was in handling Government questionnaires but he estimated in his organization the cost ranged from 2 per cent to 2-1/2 per cent of overhead and also required the attention of the best people in his organization, in addition to requiring legal advice in many instances. Senator Byrd remarked that in the final analysis the overhead cost is paid by the Government.

Senator Nye inquired whether there was any duplication in questionnaires from various Government agencies. Mr. Johnson said he thought there was a great deal of duplication and pointed out as an illustration the fact that the financial report which is required to be filed with the Bureau of Internal Revenue once each year is also required to be filed monthly with the GPA.

Mr. John B. Bosco, representing the Washington Branch of the National Association of Manufacturers, testified and submitted a great deal of information concerning the number of questionnaires and reports from various governmental agencies filed by industrial organizations. He cited the number of man hours of work required to prepare these reports and also the costs involved. He said business firms generally thought that at least 75 per cent of the reports which they are required to file are unnecessary or of doubtful value and that such firms had the following recommendations to make concerning governmental reports:

1. Identity of subject matter should be more specific
2. Make the report form fit the facts
3. Eliminate superfluous requests
4. Avoid peaking reports
5. End duplication in reports.

Mr. Fred A. Baughan, General Manager, Retail Food Dealers Association of California, made a statement and illustrated a number of forms which retail food dealers in California are required to submit in connection with the establishment of ceiling prices under GPA. He said in reply to his inquiry an official of GPA had stated that the purpose of requiring reports from retail food dealers is to prevent an increase in the cost of living and he did not think this could be accomplished by the reports required to be filed with that organization. He also said that from observation there were tons of reports filed with local rationing boards in California which had been stored in warehouses and never used. Mr. Baughan referred to the difficulties facing retail food dealers in connection with ceilings on prices of foodstuffs, which in many
cases were lower than the ceilings under which wholesalers operate. He
pointed out that the increase in labor costs and the inex-
perienced personnel that can now be obtained is having a disas-
trous effect on the small retail dealers.

Mr. H. F. Hall, Assistant Director of Research, Washington
Office, American Farm Bureau Association, testified and voiced
objection to the forms required by ODT to be filled out by farmers
in order to obtain a certificate of war necessity under which they
would be authorized to obtain a gasoline rationing for their farm
trucks and other equipment.

Mr. Fred Brenckmann, Washington representative of
National Grange, also testified at some length, with particular
reference to the forms required to be filled out by farmers to
obtain gasoline rations for their trucks.

In addition to voicing objections to the nature of the
form required to be filled out by farmers, Mr. Brenckmann also
pointed out that the farmers were being allowed insufficient
gasoline to enable them to raise and transport the tremendous
crops which they are required to handle under the new war
program.

The meeting adjourned at 11:45 A.M.
There will be a meeting of the Joint Committee in Room 314, Senate Office Bldg., on Thursday, Dec. 3, at 10 a.m.

To hear testimony on government questionnaires.

HARRY FLOOD BYRD,
Chairman.
TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Honorable John L. Garner,
Uvalde, Texas.

December 1, 1942

IT WOULD BE A GREAT HELP IF YOU WOULD ISSUE EITHER THROUGH THE TREASURY OR DALLAS VICTORY FUND COMMITTEE A PUBLIC STATEMENT SUPPORTING THE VICTORY LOAN DRIVE FOR NINE BILLION DOLLARS OF BORROWED FUNDS. WE ARE TRYING TO RAISE THE GREATEST POSSIBLE PROPORTION OF THIS MONEY FROM INVESTORS OTHER THAN COMMERCIAL BANKS IN ORDER TO MINIMIZE THE INFLATIONARY ASPECTS OF BORROWING FROM BANKS. SENATOR GLASS AND GOVERNOR BRICKER HAVE ISSUED SUCH STATEMENTS, AND OTHERS ARE EXPECTED. I WOULD APPRECIATE DEEPLY YOUR COOPERATION IN THIS ESSENTIAL JOB. BEST REGARDS.

Henry Morgenthau, Jr.
TO: Mr. McHugh

Maintain the present, rather than "create" a change by Secy.

GEORGE BUFFINGTON
Chairmen, Victory Fund Committees,
To Presidents, Federal Reserve Banks:

Boston, Mass.
New York, N.Y.
Cleveland, Ohio
Richmond, Va.
Atlanta, Ga.
Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas
San Francisco, Calif.

We realize in order to stimulate sales and enthusiasm it is important to make public the results of the Victory Fund drive in each district. In view of the lag in Treasury figures, we now feel it would be better not to release results by districts from Washington on December 7, as previously planned. You are therefore authorized to issue statements in your district from time to time of results both by districts and regions. You may include in your publicity the names of individual subscribers where you have authority from such subscribers.

MORGENTHAU

(Initialled by: G. B., D. W. B., G. W.)
December 3, 1942.

Dear Mr. Griffith:

I was glad to have your letter of December 1, enclosing copies of advertising material which was distributed to the State Banks of Kansas. I was also happy to hear that the bankers of the State had taken hold in such a commendable way.

Mrs. Morgenthau and I very much enjoyed our recent visit to Kansas, and I particularly enjoyed the opportunity to become acquainted with you. Thank you for the P.S. to your letter.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Evan Griffith,
State Administrator, War Savings Staff,
Topeka, Kansas.

File in Diary

GEP/dbh
The Honorable Henry Morgenthau
Secretary of the Treasury
Washington, D. C.

Dear Mr. Secretary:

The inclosed "Victory Fund" advertising matter will recall our visit during the Kansas City plane trip. This publicity material reached the State Banks of Kansas on Monday morning, November 30, 1942.

I am glad to report that a very commendable spirit is existing among the Bankers of Kansas upon the eve of the Nine Billion Dollar Drive. The Kansas Bankers realize full well the true importance of the success of this undertaking. They speak very highly of the help and cooperation they are receiving from the Treasury Department in Washington and from the Federal Reserve Bank. Your Kansas City meetings were of inestimable value.

Respectfully yours,

Evan Griffith
State Administrator

P.S. May I say, Mr. Secretary, how much everyone in Kansas enjoyed the visit of Mrs. Morgenthau and yourself. Since your visit, you would be surprised in how many places we hear comment about your son coming up in the Army the "hard way".

I don’t need to tell you that Harry Warsham’s chest has been sticking out an additional twelve inches since your visit.

E. C.
To The Salesmen of the Victory Fund Committees:

I should like to send you a message of cheer and encouragement as you move into the December Victory Fund drive. As you all know by now, we are going to ask the American public to invest $9,000,000,000 in victory and in freedom. This money will be the medium through which the men on the battlefields receive their supplies. I feel that you will be sustained in your campaigning by the knowledge that you are contributing a high service to the war effort.

Beginning November 30, we shall offer three new issues for sale with the principal aim of enlisting accumulated savings and idle funds. The Victory 2 1/2's must be pushed with the utmost diligence outside the commercial banks, and the 1 3/4 percent five and one-half year bonds and 7/8 percent one year certificates must be sold wherever they are suitable. The Victory Loan is a full basket of issues for all purposes, including the A and C tax savings notes, and F & G United States savings bonds.

Your prospects will include all private investors, corporations, associations, societies, institutions, trusts, estates and others who have funds available for investment in the best securities the world affords -- United States Government obligations. Your first assignment will be to familiarize yourself thoroughly with the essential details of each type of obligation. Effective work requires not only that we sell the securities, but also that we place them properly so that the real needs of the investors are satisfied.

This task well done, will bring satisfaction to us all and assurance to those in battle.

Sincerely,

[Signature]

Regraded Unclassified
TO ALL VICTORY FUND COMMITTEEMEN
TENTH FEDERAL RESERVE DISTRICT:

The enclosed letter from the Secretary of the Treasury, Henry Morgenthau, Jr., speaks for itself.

We also quote from a telegram just received from George Buffington, Assistant Secretary of the Treasury:

"In connection with subscriptions for the new 7/8% certificates and 1 3/4% bonds please call to the attention of your organization that official circulars state 'Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon prior to December 3 for 1 3/4% Treasury Bonds, and prior to December 19 for Certificates of Indebtedness, and any subscription blanks you use should contain that stipulation. It is important that all subscribers understand that they agree to be bound by this provision in entering subscriptions.'"

We feel quite sure that the overwhelming majority of purchasers are actuated solely by the desire to make the best investment in the world, plus the fact that they are helping in the financing of the war and are not buying bonds for immediate resale, and that the instructions of the Treasury Department in regard thereto will be carried out.

You are requested to use the regular triplicate purchase agreement blanks for all issues.

The F and G Bonds are now called United States Savings Bonds instead of United States War Savings Bonds, and the Victory Fund Committee is the sole distributing agency for them. They should be sold only where the United States Treasury 2 1/2% 1965-68's do not fit into the purchasers' investment requirements.

Yours very truly,

[signature]

Executive Manager
MOST OF US CAN'T JOIN OUR SONS, BROTHERS, OR FRIENDS IN ACTUAL BATTLE, BUT EVERY ONE OF US CAN FIGHT WITH DOLLARS! EVERY DOLLAR YOU DO NOT URGENTLY NEED FOR FOOD, CLOTHING, SHELTER, AND OTHER ABSOLUTE NECESSITIES SHOULD BE INVESTED IN UNITED STATES SAVINGS BONDS.

THERE ARE TWO FORMS OF UNITED STATES SAVINGS BONDS - SERIES F, ISSUED AT A DISCOUNT, IS COMMONLY KNOWN AS AN "APPRaisal" BOND; SERIES G, ISSUED AT PAR IS KNOWN AS A "CurreNt IncoOME" BOND. YOU MAY NOW OWN UP TO $100,000 (COST PRICE) OF SERIES F OR SERIES G, OR F AND G COMBINED, ISSUED IN YOUR NAME IN EACH CALENDAR YEAR, INCLUDING BOTH THOSE IN YOUR NAME ALONE AND THOSE IN YOUR NAME AS CO-OWNER. THE PRINCIPAL FEATURES OF THESE BONDS ARE OUTLINED BELOW:

SERIES F

DATE AND MATURITY: DATED THE FIRST DAY OF THE MONTH IN WHICH PAYMENT IS RECEIVED BY ISSUING AGENT; DUE 12 YEARS FROM ISSUE DATE.

INTEREST RATE: INTEREST RETURN IS EQUIVALENT TO APPROXIMATELY 2.53% COMPOUNDED SEMI-ANNUALLY IF HELD TO MATURITY; LESSER YIELD IF REDEEMED AT EARLIER DATES.

ISSUE PRICE: ISSUE OR COST PRICE, 74% OF MATURITY VALUE. EXAMPLE, A $1,000 BOND COSTS $740; A $100 BOND $74.

DENOMINATIONS: DENOMINATIONS (MATURE VALUE) $25, $100, $500, $1,000, $5,000 AND $10,000.

FORM: REGISTERED ONLY.

REDEMPTION: ON FIRST OF ANY MONTH, SIX MONTHS AFTER ISSUE DATE, UPON ONE MONTH'S WRITTEN NOTICE, AT REDEMPTION VALUES STATED ON EACH BOND.

COLLATERAL: NOT ELIGIBLE AS COLLATERAL FOR LOANS.

SERIES G

DATE AND MATURITY: DATED THE FIRST DAY OF THE MONTH IN WHICH PAYMENT IS RECEIVED BY ISSUING AGENT; DUE 12 YEARS FROM ISSUE DATE.

INTEREST RATE: INTEREST RETURN 2.50% IF HELD TO MATURITY. IF REDEEMED PRIOR TO MATURITY INTEREST RETURN IS SMALLER.

ISSUE PRICE: 100%

DENOMINATIONS: DENOMINATIONS (MATURE VALUE) $100, $500, $1,000, $5,000 AND $10,000.

FORM: REGISTERED ONLY.

REDEMPTION: ON FIRST OF ANY MONTH, SIX MONTHS AFTER ISSUE DATE, UPON ONE MONTH'S WRITTEN NOTICE, AT REDEMPTION VALUES STATED ON EACH BOND.

COLLATERAL: NOT ELIGIBLE AS COLLATERAL FOR LOANS.
TAX STATUS: Income is taxable under Federal tax laws the same as that on any other United States Government bond issued on or after March 1, 1941.

Taxpayer has election of paying his tax on the annual increase in Series F bonds in the year it occurs, or of having the full appreciation taxable to him in the year the bond matures.

SPECIAL FEATURES: You may now own up to $100,000 (cost price) of Series F or Series G, or F and G combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner.

No interest, as such, is payable on Series F bonds. Interest accrues by virtue of increases in redemption value after the first year and at the end of each half-year period thereafter until redemption or maturity.

Cash or redemption value prior to maturity is somewhat less than par, but the cash value at any time, plus interest payments received, always totals more than purchase price.

WHO MAY BUY: Bonds may be bought in the name of one person; in the names of two persons (but not more than two) as co-owners; in the name of one person with one other person designated as beneficiary; in the name of a fiduciary; in the name of a custodian of public funds, or in the name of an unincorporated or incorporated body, other than commercial banks.

WHERE TO BUY: Order through your Victory Fund Committeemen, bank, securities dealer, broker or savings and loan association. Or buy direct from any Federal Reserve Bank or branch, or by mail from the Treasurer of the United States, Washington, D. C.

Additional copies may be had from: VICTORY FUND COMMITTEE TENTH FEDERAL RESERVE DISTRICT 1614 FEDERAL RESERVE BANK BUILDING KANSAS CITY, MISSOURI
MOST of us can't join our sons, brothers, or friends in actual battle, but every one of us can fight with dollars! Every dollar you do not urgently need for food, clothing, shelter, and other absolute necessities should be invested in United States Savings Bonds.

There are two forms of United States Savings Bonds - Series F, issued at a discount, is commonly known as an "appreciation" bond; Series G, issued at par is known as a "current income" bond. You may now own up to $100,000 (cost price) of Series F or Series G, or F and G combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner. The principal features of these Bonds are outlined below:

<table>
<thead>
<tr>
<th><strong>SERIES F</strong></th>
<th><strong>SERIES G</strong></th>
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<tr>
<td><strong>DATE AND MATURITY:</strong> Dated the first day of the month in which payment is received by issuing agent; due 12 years from issue date.</td>
<td>Dated the first day of the month in which payment is received by issuing agent; due 12 years from issue date.</td>
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<td><strong>INTEREST RATE:</strong> Interest return is equivalent to approximately 2.53% compounded semi-annually if held to maturity; lesser yield if redeemed at earlier dates.</td>
<td>Interest return 2.50% if held to maturity. If redeemed prior to maturity interest return is smaller.</td>
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<td><strong>ISSUE PRICE:</strong> Issue or cost price, 74% of maturity value. Example, a $1,000 bond costs $740; a $100 bond $74.</td>
<td>100%</td>
</tr>
<tr>
<td><strong>DENOMINATIONS:</strong> Denominations (maturity value) $25, $100, $500, $1,000, $5,000 and $10,000.</td>
<td>Denominations (maturity value) $100, $500, $1,000, $5,000 and $10,000.</td>
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<tr>
<td><strong>FORM:</strong> Registered only.</td>
<td>Registered only.</td>
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<tr>
<td><strong>REDEMPTION:</strong> On first of any month, six months after issue date, upon one month's written notice, at redemption values stated on each bond.</td>
<td>On first of any month, six months after issue date, upon one month's written notice, at redemption values stated on each bond.</td>
</tr>
<tr>
<td><strong>COLLATERAL:</strong> Not eligible as collateral for loans.</td>
<td>Not eligible as collateral for loans.</td>
</tr>
</tbody>
</table>
TAX STATUS: Income is taxable under Federal tax laws the same as that on any other United States Government bond issued on or after March 1, 1941.

Taxpayer has election of paying his tax on the annual increase in Series F bonds in the year it occurs, or of having the full appreciation taxable to him in the year the bond matures.

SPECIAL FEATURES: You may now own up to $100,000 (cost price) of Series F or Series G, or F and G combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner.

No interest, as such, is payable on Series F bonds. Cash or redemption value prior to maturity is somewhat less than par, but interest accrues by virtue of increases in redemption value after the first year and at the end of each half-year period thereafter until redemption or maturity.

WHO MAY BUY: Bonds may be bought in the name of one person; in the names of two persons (but not more than two) as co-owners; in the name of one person with one other person designated as beneficiary; in the name of a fiduciary; in the name of a custodian of public funds, or in the name of an unincorporated or incorporated body, other than commercial banks.

WHERE TO BUY: Order through your Victory Fund Committeemen, bank, securities dealer, broker or savings and loan association. Or buy direct from any Federal Reserve Bank or branch, or by mail from the Treasurer of the United States, Washington, D.C.

Additional copies may be had from: VICTORY FUND COMMITTEE
TENTH FEDERAL RESERVE DISTRICT
1614 FEDERAL RESERVE BANK BUILDING
KANSAS CITY, MISSOURI
MOST of us can't join our sons, brothers, or friends in actual battle, but every one of us can fight with dollars! Every dollar you do not urgently need for food, clothing, shelter, and other absolute necessities should be invested in United States Savings Bonds.

There are two forms of United States Savings Bonds - Series F, issued at a discount, is commonly known as an "appreciation" bond; Series G, issued at par is known as a "current income" bond. You may now own up to $100,000 (cost price) of Series F or Series G, or F and G combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner. The principal features of these Bonds are outlined below:

<table>
<thead>
<tr>
<th>SERIES F</th>
<th>SERIES G</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DATE AND MATURITY:</strong> Dated the first day of the month in which payment is received by issuing agent; due 12 years from issue date.</td>
<td>Dated the first day of the month in which payment is received by issuing agent; due 12 years from issue date.</td>
</tr>
<tr>
<td><strong>INTEREST RATE:</strong> Interest return is equivalent to approximately 2.53% compounded semi-annually if held to maturity; lesser yield if redeemed at earlier dates.</td>
<td>Interest return 2.50% if held to maturity. If redeemed prior to maturity interest return is smaller.</td>
</tr>
<tr>
<td><strong>ISSUE PRICE:</strong> Issue or cost price, 74% of maturity value. Example, a $1,000 bond costs $740; a $100 bond $74.</td>
<td>100%</td>
</tr>
<tr>
<td><strong>DENOMINATIONS:</strong> Denominations (maturity value) $25, $100, $500, $1,000, $5,000 and $10,000.</td>
<td>Denominations (maturity value) $100, $500, $1,000, $5,000 and $10,000.</td>
</tr>
<tr>
<td><strong>FORM:</strong> Registered only.</td>
<td>Registered only.</td>
</tr>
<tr>
<td><strong>REDEMPTION:</strong> On first of any month, six months after issue date, upon one month's written notice, at redemption values stated on each bond.</td>
<td>On first of any month, six months after issue date, upon one month's written notice, at redemption values stated on each bond.</td>
</tr>
<tr>
<td><strong>COLLATERAL:</strong> Not eligible as collateral for loans.</td>
<td>Not eligible as collateral for loans.</td>
</tr>
</tbody>
</table>
TAX STATUS: Income is taxable under Federal tax laws the same as that on any other United States Government bond issued on or after March 1, 1941.

Taxpayer has election of paying his tax on the annual increase in Series F bonds in the year it occurs, or of having the full appreciation taxable to him in the year the bond matures.

SPECIAL FEATURES: You may now own up to $100,000 (cost price) of Series F or Series G, or F and G combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner.

No interest, as such, is payable on Series F bonds. Interest accrues by virtue of increases in redemption value after the first year and at the end of each half-year period thereafter until redemption or maturity.

Cash or redemption value prior to maturity is somewhat less than par, but the cash value at any time, plus interest payments received, always totals more than purchase price.

WHO MAY BUY: Bonds may be bought in the name of one person; in the names of two persons (but not more than two) as co-owners; in the name of one person with one other person designated as beneficiary; in the name of a fiduciary; in the name of a custodian of public funds, or in the name of an unincorporated or incorporated body, other than commercial banks.

WHERE TO BUY: Order through your Victory Fund Committee, bank, securities dealer, broker or savings and loan association. Or buy direct from any Federal Reserve Bank or branch, or by mail from the Treasurer of the United States, Washington, D. C.

* * * * * * * *

Additional copies may be had from: VICTORY FUND COMMITTEE TENTH FEDERAL RESERVE DISTRICT 1614 FEDERAL RESERVE BANK BUILDING KANSAS CITY, MISSOURI
MOST of us can't join our sons, brothers, or friends in actual battle, but every one of us can fight with dollars! Every dollar you do not urgently need for food, clothing, shelter, and other absolute necessities should be invested in United States Savings Bonds.

There are two forms of United States Savings Bonds - Series F, issued at a discount, is commonly known as an "appreciation" bond; Series G, issued at par is known as a "current income" bond. You may now own up to $100,000 (cost price) of Series F or Series G, or F and G combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner. The principal features of these Bonds are outlined below:

**SERIES F**

**DATE AND MATURITY:** Dated the first day of the month in which payment is received by issuing agent; due 12 years from issue date.

**INTEREST RATE:** Interest return is equivalent to approximately 2.53% compounded semi-annually if held to maturity; lesser yield if redeemed at earlier dates.

**ISSUE PRICE:** Issue or cost price, 74% of maturity value. Example, a $1,000 bond costs $740; a $100 bond $74.

**DENOMINATIONS:** Denominations (maturity value) $25, $100, $500, $1,000, $5,000 and $10,000.

**FORM:** Registered only.

**REDEMPTION:** On first of any month, six months after issue date, upon one month's written notice, at redemption values stated on each bond.

**COLLATERAL:** Not eligible as collateral for loans.

**SERIES G**

**DATE AND MATURITY:** Dated the first day of the month in which payment is received by issuing agent; due 12 years from issue date.

**INTEREST RATE:** Interest return 2.50% if held to maturity. If redeemed prior to maturity interest return is smaller.

**ISSUE PRICE:** 100%

**DENOMINATIONS:** Denominations (maturity value) $100, $500, $1,000, $5,000 and $10,000.

**FORM:** Registered only.

**REDEMPTION:** On first of any month, six months after issue date, upon one month's written notice, at redemption values stated on each bond.

**COLLATERAL:** Not eligible as collateral for loans.
TAX STATUS: Income is taxable under Federal tax laws the same as that on any other United States Government bond issued on or after March 1, 1941.

Taxpayer has election of paying his tax on the annual increase in Series F bonds in the year it occurs, or of having the full appreciation taxable to him in the year the bond matures.

SPECIAL FEATURES: You may now own up to $100,000 (cost price) of Series F or Series G, or F and G combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner.

No interest, as such, is payable on Series F bonds.

Interest accrues by virtue of increases in redemption value after the first year and at the end of each half-year period thereafter until redemption or maturity.

Cash or redemption value prior to maturity is somewhat less than par, but the cash value at any time, plus interest payments received, always totals more than purchase price.

WHO MAY BUY: Bonds may be bought in the name of one person; in the names of two persons (but not more than two) as co-owners; in the name of one person with one other person designated as beneficiary; in the name of a fiduciary; in the name of a custodian of public funds, or in the name of an unincorporated or incorporated body, other than commercial banks.

WHERE TO BUY: Order through your Victory Fund Committeemen, bank, securities dealer, broker or savings and loan association. Or buy direct from any Federal Reserve Bank or branch, or by mail from the Treasurer of the United States, Washington, D. C.

*** *** *** *** ***

Additional copies may be had from: VICTORY FUND COMMITTEE TENTH FEDERAL RESERVE DISTRICT 1614 FEDERAL RESERVE BANK BUILDING KANSAS CITY, MISSOURI
**United States Treasury**

**Victory Fund Committee**

**Tenth Federal Reserve District**

**Federal Reserve Bank Building**

**Kansas City, Missouri**

H. G. Leedy, Chairman

Sigmund Stern, Executive Manager

---

**United States Savings Bonds - Series F and G**

(for larger investors)

Most of us can't join our sons, brothers, or friends in actual battle, but every one of us can fight with dollars! Every dollar you do not urgently need for food, clothing, shelter, and other absolute necessities should be invested in United States Savings Bonds.

There are two forms of United States Savings Bonds - Series F, issued at a discount, is commonly known as an "appreciation" bond; Series G, issued at par is known as a "current income" bond. You may now own up to $100,000 (cost price) of Series F or Series G, or F and G combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner. The principal features of these Bonds are outlined below:

<table>
<thead>
<tr>
<th><strong>Series F</strong></th>
<th><strong>Series G</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Date and Maturity:</strong> Dated the first day of the month in which payment is received by issuing agent; due 12 years from issue date.</td>
<td>Dated the first day of the month in which payment is received by issuing agent; due 12 years from issue date.</td>
</tr>
<tr>
<td><strong>Interest Rate:</strong> Interest return is equivalent to approximately 2.55% compounded semi-annually if held to maturity; lesser yield if redeemed at earlier dates.</td>
<td>Interest return 2.50% if held to maturity. If redeemed prior to maturity interest return is smaller.</td>
</tr>
<tr>
<td><strong>Issue Price:</strong> Issue or cost price, 74% of maturity value. Example, a $1,000 bond costs $740; a $100 bond $7.40.</td>
<td>100% Denominations (maturity value) $100, $500, $1,000, $5,000 and $10,000.</td>
</tr>
<tr>
<td><strong>Denominations:</strong> Denominations (maturity value) $25, $100, $500, $1,000, $5,000 and $10,000.</td>
<td>Registered only.</td>
</tr>
<tr>
<td><strong>Form:</strong> Registered only.</td>
<td>On first of any month, six months after issue date, upon one month's written notice, at redemption values stated on each bond.</td>
</tr>
<tr>
<td><strong>Redemption:</strong> On first of any month, six months after issue date, upon one month's written notice, at redemption values stated on each bond.</td>
<td>Not eligible as collateral for loans.</td>
</tr>
</tbody>
</table>
| **Collateral:** Not eligible as collateral for loans. | }
TAX STATUS: Income is taxable under Federal tax laws the same as that on any other United States Government bond issued on or after March 1, 1941.

Taxpayer has election of paying his tax on the annual increase in Series F bonds in the year it occurs, or of having the full appreciation taxable to him in the year the bond matures.

SPECIAL FEATURES: You may now own up to $100,000 (cost price) of Series F or Series G, or F and G combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner.

No interest, as such, is payable on Series F bonds. Interest accrues by virtue of increases in redemption value after the first year and at the end of each half-year period thereafter until redemption or maturity.

Cash or redemption value prior to maturity is somewhat less than par, but the cash value at any time, plus interest payments received, always totals more than purchase price.

WHO MAY BUY: Bonds may be bought in the name of one person; in the names of two persons (but not more than two) as co-owners; in the name of one person with one other person designated as beneficiary; in the name of a fiduciary; in the name of a custodian of public funds, or in the name of an unincorporated or incorporated body, other than commercial banks.

WHERE TO BUY: Order through your Victory Fund Committeemen, bank, securities dealer, broker or savings and loan association. Or buy direct from any Federal Reserve Bank or branch, or by mail from the Treasurer of the United States, Washington, D. C.

* * * * * * * *

Additional copies may be had from: VICTORY FUND COMMITTEE
TENTH FEDERAL RESERVE DISTRICT
1614 FEDERAL RESERVE BANK BUILDING
KANSAS CITY, MISSOURI
CASH SUBSCRIPTION FOR
2½% TREASURY BONDS OF 1963-68

Dated and bearing interest from December 1, 1942
Interest payable June 15 and December 15
Due December 15, 1948

Federal Reserve Bank of Kansas City,
Fiscal Agent of the United States,
Kansas City, Mo.

Gentlemen:
Pursuant to the provisions of Treasury Department Circular No. 701, dated November 30, 1942, the undersigned hereby subscribes for bonds of the above described issue as follows:

<table>
<thead>
<tr>
<th>Par Value</th>
<th>$</th>
<th>Accrued Interest</th>
<th>$</th>
<th>Total remittance</th>
<th>$</th>
</tr>
</thead>
</table>

IMPORTANT—This issue not available to commercial banks for their own account. Subscriptions must be accompanied by payment in full for the amount of bonds applied for and payments after December 1 must include interest ($0.065 per $1,000 per day) to date remittance, in available exchange, reaches this Federal Reserve Bank or a Branch.

METHOD OF PAYMENT

1. By Draft Enclosed (funds available by the issue date) $ 
2. By Charge to our Reserve Account $ 
3. By Credit in War Loan Deposit Account* (Form K2 enclosed) $ 

Total $ 

New Treasury bonds to be issued

<table>
<thead>
<tr>
<th>Coupon</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered</td>
<td>$</td>
</tr>
<tr>
<td>Total</td>
<td>$</td>
</tr>
</tbody>
</table>

*Complete registration instructions given on reverse side hereof.

INSTRUCTIONS FOR NEW COUPON TREASURY BONDS

<table>
<thead>
<tr>
<th>Number of Pieces</th>
<th>Denominations</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>@ 500.00</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>@ 1,000.00</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>@ 5,000.00</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>@ 10,000.00</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>@ 100,000.00</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

It is requested that delivery of the registered bonds allotted be made to

MAIL TO

IMPORTANT

This is [Original □] Subscription

([Confirmaion □])

By                Authorised Official Signature

City:              State:              

*F. R. Registered bonds may not be held to secure the War Loan Deposit account.

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Reprinted Unclassified
TAX STATUS: Income is taxable under Federal tax laws the same as that on any other United States Government bond issued on or after March 1, 1941.

Taxpayer has election of paying his tax on the annual increase in Series F bonds in the year it occurs, or of having the full appreciation taxable to him in the year the bond matures.

SPECIAL FEATURES: You may now own up to $100,000 (cost price) of Series F or Series G, or F and G combined, issued in your name in each calendar year, including both those in your name alone and those in your name as co-owner.

No interest, as such is payable on Series F bonds. Interest accrues by virtue of increases in redemption value after the first year and at the end of each half-year period thereafter until redemption or maturity.

WHO MAY BUY: Bonds may be bought in the name of one person; in the names of two persons (but not more than two) as co-owners; in the name of one person with one other person designated as beneficiary; in the name of a fiduciary; in the name of a custodian of public funds, or in the name of an unincorporated or incorporated body, other than commercial banks.

WHERE TO BUY: Order through your Victory Fund Committeemen, bank, securities dealer, broker or savings and loan association. Or buy direct from any Federal Reserve Bank or branch, or by mail from the Treasurer of the United States, Washington, D. C.

* * * * * * * *

Additional copies may be had from: VICTORY FUND COMMITTEE
TENTH FEDERAL RESERVE DISTRICT
1614 FEDERAL RESERVE BANK BUILDING
KANSAS CITY, MISSOURI
CASH SUBSCRIPTION FOR
2½% TREASURY BONDS OF 1963-68

Dated and bearing interest from December 1, 1942
Interest payable June 15 and December 15

Due December 15, 1968

Federal Reserve Bank of Kansas City,
Fiscal Agent of the United States,
Kansas City, Mo.

Gentlemen:
Pursuant to the provisions of Treasury Department Circular No. 701, dated November 30, 1942, the undersigned hereby subscribes for bonds of the above described issue as follows:

<table>
<thead>
<tr>
<th>Par Value</th>
<th>$</th>
<th>Accrued Interest</th>
<th>$</th>
<th>Total remittance</th>
<th>$</th>
</tr>
</thead>
</table>

IMPORTANT—This issue not available to commercial banks for their own account. Subscriptions must be accompanied by payment in full for the amount of bonds applied for and payments after December 1 must include interest (30.666 per $1,000 per day) to date remittance, in available exchange, reaches this Federal Reserve Bank or a Branch.

METHOD OF PAYMENT

1. By Draft Enclosed (funds available by the issue date) $...
2. By Charge to our Reserve Account $...
3. By Credit in War Loan Deposit Account* (Form K2 enclosed) $...

Total $...

New Treasury bonds to be issued...

*Complete registration instructions given on reverse side hereof.

INSTRUCTIONS FOR NEW COUPON TREASURY BONDS

Number of Pieces | Denominations | Amount | □ MAIL TO...
---|---|---|---
@ | 500.00 | $...
@ | 1,000.00 | $...
@ | 5,000.00 | $...
@ | 10,000.00 | $...
@ | 100,000.00 | $...
Total | $...

It is requested that delivery of the registered bonds allotted be made to...

IMPORTANT

This is [Original □] Subscription [Confirmation □] By Authorized Official Signature

City State

*H. R. Registered bonds may not be held to secure the War Loan Deposit account.
Payment, however, may be made by credit if sufficient collateral is deposited.
If supply of blanks furnished is insufficient, use letter and give complete instructions with the above certificates of subscription and payment.

FEDERAL RESERVE BANK OF KANSAS CITY, Fiscal Agent.

Subscription checked by... Cards checked by... Subscription No.
### SCHEDULE OF CUSTOMERS' SUBSCRIPTIONS

<table>
<thead>
<tr>
<th>NAME</th>
<th>ADDRESS</th>
<th>AMOUNT</th>
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<td>total</td>
<td>Customers' Coupon Bond Subscriptions</td>
<td></td>
</tr>
</tbody>
</table>

(Must agree with amount on face of this application)

### INSTRUCTIONS FOR NEW REGISTERED TREASURY BONDS

<table>
<thead>
<tr>
<th>NAME*</th>
<th>ADDRESS</th>
<th>Denomination</th>
<th>Amount</th>
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<tr>
<td>(If space is insufficient attach typeset schedule)</td>
<td>TOTAL</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Where bonds are being registered in the name of a trustee, the trusteeship should be fully identified, as for example “John R. Jones
Trustee under the will of Mary A. Jones, deceased”, or “John R. Jones, trustee under agreement with ... dated”).**
CASH SUBSCRIPTION FOR
21/2% TREASURY BONDS OF 1963-68

Dated and bearing interest from December 1, 1942
Interest payable June 15 and December 15

Due December 15, 1948

Federal Reserve Bank of Kansas City,
Fiscal Agent of the United States,
Kansas City, Mo.

Gentlemen:

Pursuant to the provisions of Treasury Department Circular No. 701, dated November 30, 1942, the undersigned hereby subscribes for bonds of the above described issue as follows:

Par Value ........................................ $...........................
Accrued Interest .................................. $...........................
Total remittance .................................. $...........................

IMPORTANT—This issue not available to commercial banks for their own account. Subscriptions must be accompanied by payment in full for the amount of bonds applied for and payments after December 1 must include interest ($0.065 per $1,000 per day) to date remittance, in available exchange, reaches this Federal Reserve Bank or a Branch.

METHOD OF PAYMENT

1. By Draft Enclosed (funds available by the issue date) ........................................ $...........................
2. By Charge to our Reserve Account ........................................................................ $...........................
3. By Credit in War Loan Deposit Account* (Form E2 enclosed) .................................. $...........................

Total .................................................................................................................. $...........................

New Treasury bonds to be issued ...........................................................................

*Complete registration instructions given on reverse side hereof.

INSTRUCTIONS FOR NEW COUPON TREASURY BONDS

Number of Pieces Denominations Amount
@ 500.00 $...........................
@ 1,000.00 $...........................
@ 5,000.00 $...........................
@ 10,000.00 $...........................
@ 100,000.00 $...........................
Total $...........................

MAIL TO ..............................................................................................................

It is requested that delivery of the registered bonds allotted be made to

IMPORTANT

This is {Original □} Subscription
{Confirmation □}

By ........................................ Authorized Official Signature

City ........................................ State ........................................

*If the subscription is not to be held in the War Loan Deposit account, payment may be made by credit if sufficient collateral is deposited.

FEDERAL RESERVE BANK OF KANSAS CITY, Fiscal Agent.
### SCHEDULE OF CUSTOMERS' SUBSCRIPTIONS

<table>
<thead>
<tr>
<th>NAME</th>
<th>ADDRESS</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Total of Customers' Coupon Bond Subscriptions
(Must agree with amount on face of this application)

Total: $ __________

### INSTRUCTIONS FOR NEW REGISTERED TREASURY BONDS

Give complete name, including middle name or initial, or name as inscribed on other bonds.

<table>
<thead>
<tr>
<th>NAME*</th>
<th>ADDRESS</th>
<th>Denomination</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td>$</td>
</tr>
</tbody>
</table>

If carrier service, include street address

<table>
<thead>
<tr>
<th>Street</th>
<th>City</th>
<th>Street</th>
<th>City</th>
<th>Street</th>
<th>City</th>
<th>Street</th>
<th>City</th>
<th>Street</th>
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</tr>
</tbody>
</table>

Denomination: $ __________

(If space is insufficient, attach typewritten schedule)

*Where bonds are being registered in the name of a trustee, the trusteeship should be fully identified, as for example "John R. Jones, Trustee under the will of Mary A. Jones, deceased", or "John R. Jones, trustee under agreement with "John R. Jones, Trustee for ... under agreement of trust dated ..."
CASH SUBSCRIPTION FOR
2½% TREASURY BONDS OF 1963-68
Dated and bearing interest from December 1, 1942
Interest payable June 15 and December 15
Due December 15, 1948
Federal Reserve Bank of Kansas City,
Fiscal Agent of the United States,
Kansas City, Mo.

Gentlemen:

Pursuant to the provisions of Treasury Department Circular No. 701, dated November 30, 1942, the undersigned hereby subscribes for bonds of the above described issue as follows:

<table>
<thead>
<tr>
<th>Par Value</th>
<th>$..</th>
<th>Accrued Interest</th>
<th>$..</th>
<th>Total remittance</th>
<th>$..</th>
</tr>
</thead>
</table>

IMPORTANT—This issue is not available to commercial banks for their own account. Subscriptions must be accompanied by payment in full for the amount of bonds applied for and payments made after December 1 must include interest ($0.066 per $1,000 per day) to date remittance, in available exchange, reaches this Federal Reserve Bank or a Branch.

METHOD OF PAYMENT

1. By Draft Enclosed (funds available by the issue date) $...
2. By Charge to our Reserve Account $...
3. By Credit in War Loan Deposit Account* (Form K3 enclosed) $...

Total $...

New Treasury bonds to be issued $...

Coupon $...

*Registered $...

Total $...

Instructions for New Coupon Treasury Bonds

<table>
<thead>
<tr>
<th>Number of Pieces</th>
<th>Denominations</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>@</td>
<td>500.00</td>
<td>$..</td>
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<td>1,000.00</td>
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<td>100,000.00</td>
<td>$..</td>
</tr>
<tr>
<td>Total</td>
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</tbody>
</table>

It is requested that delivery of the registered bonds allotted be made to

MAIL TO...


IMPORTANT

This is □ Subscription □ Confirmation

By ...........................................
Authorized Official Signature

City ...........................................
State ...........................................

*K3. Registered bonds may not be held to secure the War Loan Deposit account.
Payment, however, may be made by credit if sufficient collateral is deposited.
If supply of blanks furnished is insufficient, use letter and give complete instructions with the above certificates of subscription and payment.

FEDERAL RESERVE BANK OF KANSAS CITY, Fiscal Agent.

Subscription checked by .................................... Cards checked by .................................... Subscription No. ....................................
# SCHEDULE OF CUSTOMERS' SUBSCRIPTIONS

<table>
<thead>
<tr>
<th>NAME</th>
<th>ADDRESS</th>
<th>AMOUNT</th>
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<tbody>
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</table>

Total of Customers' Coupon Bond Subscriptions
(Must agree with amount on face of this application)

$ |

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## INSTRUCTIONS FOR NEW REGISTERED TREASURY BONDS

Give complete name, including middle name or initial, or name as inscribed on other bonds.

<table>
<thead>
<tr>
<th>ADDRESS</th>
<th>Denomination</th>
<th>Amount</th>
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</table>

(If space is insufficient attach typewritten schedule)

TOTAL $
CASH SUBSCRIPTION FOR  
2 1/2% TREASURY BONDS OF 1963-68  

Dated and bearing interest from December 1, 1942  
Interest payable June 15 and December 15  

Due December 15, 1946  

Federal Reserve Bank of Kansas City,  
Fiscal Agent of the United States,  
Kansas City, Mo.  

Gentlemen:  
Pursuant to the provisions of Treasury Department Circular No. 701, dated November 30, 1942, the undersigned hereby subscribes for bonds of the above described issue as follows:

| Par Value | $ |  
| Accrued Interest | $ |  
| Total remittance | $ |  

IMPORTANT—This issue not available to commercial banks for their own account. Subscriptions must be accompanied by payment in full for the amount of bonds applied for and payments after December 1 must include interest ($0.068 per $1,000 per day) to date remittance, in available exchange, reaches this Federal Reserve Bank or a Branch.

METHOD OF PAYMENT

1. By Draft Enclosed (funds available by the issue date) $  
2. By Charge to our Reserve Account $  
3. By Credit in War Loan Deposit Account* (Form K2 enclosed) $  

Total $  

New Treasury bonds to be issued

| Coupon | $ |  
| Registered | $ |  
| Total | $ |  

*Complete registration instructions given on reverse side hereof.

INSTRUCTIONS FOR NEW COUPON TREASURY BONDS

<table>
<thead>
<tr>
<th>Number of Pieces</th>
<th>Denominations</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>@</td>
<td>500.00</td>
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<td>@</td>
<td>100,000.00</td>
<td>$</td>
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<tr>
<td>Total</td>
<td>$</td>
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</tbody>
</table>

It is requested that delivery of the registered bonds allotted be made to

MAIL TO:

IMPORTANT

This is [Original □] Subscription [Confirimation □]

By ___________________________ Authorized Official Signature  

City ___________________________ State ___________________________  

*H.R. Registered bonds may not be held to secure the War Loan Deposit account.  
Payment, however, may be made by credit if sufficient collateral is deposited.  
If supply of blanks furnished is insufficient, use letter and give complete instructions with the above certificate of subscription and payment.  
FEDERAL RESERVE BANK OF KANSAS CITY, Fiscal Agent.
### SCHEDULE OF CUSTOMERS' SUBSCRIPTIONS

<table>
<thead>
<tr>
<th>NAME</th>
<th>ADDRESS</th>
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</table>

**Total of Customers' Coupon Bond Subscriptions**
(Must agree with amount on face of this application)

### INSTRUCTIONS FOR NEW REGISTERED TREASURY BONDS

**NAME**
Give complete name, including middle name or initial, or name as inscribed on other bonds.

<table>
<thead>
<tr>
<th>ADDRESS</th>
<th>Denomination</th>
<th>Amount</th>
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</tbody>
</table>

**TOTAL** $
CASH SUBSCRIPTION FOR
2 1/2% TREASURY BONDS OF 1963-68
Dated and bearing interest from December 1, 1942
Interest payable June 15 and December 15
Due December 15, 1968
Federal Reserve Bank of Kansas City,
Fiscal Agent of the United States,
Kansas City, Mo.

Gentlemen:
Pursuant to the provisions of Treasury Department Circular No. 701, dated November 30, 1942, the undersigned hereby subscribes for bonds of the above described issue as follows:

Par Value $
Accrued Interest $
Total remittance $

IMPORTANT—This issue is not available to commercial banks for their own account. Subscriptions must be accompanied by payment in full for the amount of bonds applied for and payments after December 1 must include interest ($0.665 per $1,000 per day) to date remittance, in available exchange, reaches this Federal Reserve Bank or a Branch.

METHOD OF PAYMENT

1. By Draft Enclosed (funds available by the issue date) $
2. By Charge to our Reserve Account $
3. By Credit in War Loan Deposit Account* (Form K2 enclosed) $

Total $

New Treasury bonds to be issued:

<table>
<thead>
<tr>
<th>Denominations</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>@ 500.00</td>
<td>$</td>
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<tr>
<td>@ 1,000.00</td>
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<td>@ 100,000.00</td>
<td>$</td>
</tr>
<tr>
<td>Total</td>
<td>$</td>
</tr>
</tbody>
</table>

INSTRUCTIONS FOR NEW COUPON TREASURY BONDS

MAIL TO

It is requested that delivery of the registered bonds allotted be made to

IMPORTANT

This is Original [ ] Subscription [ ]

By [ ]

Authorized Official Signature

City [ ] State [ ]

*K.B. Registered bonds may not be held to secure the War Loan Deposit account.

Payment, however, may be made by credit if sufficient collateral is deposited.

If supply of blanks furnished is insufficient, use letter and give complete instructions with the above certificate of subscription and payment.

FEDERAL RESERVE BANK OF KANSAS CITY, Fiscal Agent.

Subscription checked by [ ] Cards checked by [ ] Subscription No. [ ]

Regarded Unclassified
## SCHEDULE OF CUSTOMERS' SUBSCRIPTIONS

<table>
<thead>
<tr>
<th>NAME</th>
<th>ADDRESS</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

Total of Customers' Coupon Bond Subscriptions
(Must agree with amount on face of this application)

### INSTRUCTIONS FOR NEW REGISTERED TREASURY BONDS

Give complete name, including middle name or initial, or name as inscribed on other bonds.

<table>
<thead>
<tr>
<th>NAME*</th>
<th>ADDRESS</th>
<th>Denomination</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Street</td>
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</table>

(If space is insufficient attach appropriate schedule)

*Where bonds are being registered in the name of a trustee, the trusteeship should be fully identified, as for example “John H. Jones, Trustee under the will of Mary A. Jones, deceased”, or “John R. Jones, trustee under agreement with dated .

TOTAL $
CASH SUBSCRIPTION FOR
13% TREASURY BONDS OF 1948

Dated and bearing interest from December 1, 1942
Interest payable June 15 and December 15

Federal Reserve Bank of Kansas City,
Fiscal Agent of the United States,
Kansas City, Mo.

Gentlemen:

Pursuant to the provisions of Treasury Department Circular No. 702, dated November 30, 1942, the
undersigned hereby subscribes for bonds of the above described issue as follows:

<table>
<thead>
<tr>
<th>Amount of Subscription($)</th>
<th>For allotment use by Federal Reserve Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our own cash Subscription (Books open November 24, December 1 and 2)</td>
<td>$</td>
</tr>
<tr>
<td>Customers' Cash Subscriptions</td>
<td>$</td>
</tr>
<tr>
<td>Each customer's name, address and amount of subscription must be furnished, for which space is provided on the reverse side hereof.</td>
<td></td>
</tr>
<tr>
<td>Total Subscriptions</td>
<td>$</td>
</tr>
</tbody>
</table>

Accrued interest on $ from December 1, 1942, to $(80.846 per $1,000 per day)$

Please note: Subscriptions for amounts up to and including $100,000 from commercial banks and subscriptions in any amount from all other subscribers will be allotted in full.

METHOD OF PAYMENT

1. By Draft Enclosed (Funds available by the issue date)
2. By Charge to our Reserve Account
3. By Credit in War Loan Deposit Account (Will furnish Form X for after allotment is determined)
4. Payment to be made by:
   (Name of bank)

   Payment due December 1, 1942, except for bonds allotted to commercial banks for own account; for this class of subscriptions payment is due December 11 with interest from December 1.

   In the event our subscription is not allotted in full you are authorized to remit or credit the overage in our remittance to:
   (Insert name of bank)

   New Treasury bonds to be issued:
   
   Complete registration instructions given on reverse side hereof.

INSTRUCTIONS FOR NEW COUPON TREASURY BONDS

<table>
<thead>
<tr>
<th>Number of Pears</th>
<th>Denominations</th>
<th>Amount</th>
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<tbody>
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<td>@</td>
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<tr>
<td>@</td>
<td>100,000.00</td>
<td>$</td>
</tr>
</tbody>
</table>

Total coupon bonds desired $.

CERTIFICATE OF SUBSCRIPTION AND PAYMENT

We hereby certify:

That we have received applications from our customers in the amounts set opposite the customers' names on the attached list which is made a part of this subscription; that there has been paid to us by each such customer, net subject to withdrawal until after allotment and payment is in full for securities allotted, two percent of the amount applied for.

We further certify:

That this subscription is for our own account or for the account of the customers specified herein; that no arrangements have been or will be made for the sale or other disposition of our subscription, or of the securities which may be allotted thereon, prior to the closing of the subscription books; and that our customers whose subscriptions are included herein will be requested to confirm to us their agreement to the same conditions with respect to their subscriptions.

We agree:

In consideration of the receipt by you of this subscription, to make payment in full for the entire amount which may be allotted on this subscription, at par on or before the date of issue, and at par and accrued interest if on later allotment. Such payment will be made by the method indicated hereon.

IMPORTANT

This is [ ] Original [ ] Additional [ ] Confirmation [ ] Subscription

By ____________________________ Authorized Official Signatures

City ____________________________ State ____________________________

If supply of blanks furnished is insufficient, use letter and give complete instructions with the above certificate of subscription and payment.

FEDERAL RESERVE BANK OF KANSAS CITY, Fiscal Agent.
**SCHEDULE OF CUSTOMERS' SUBSCRIPTIONS**

<table>
<thead>
<tr>
<th>NAME</th>
<th>ADDRESS</th>
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</table>

**Total of Customers' Coupon Bond Subscriptions**

(Must agree with amount on face of this application)

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**INSTRUCTIONS FOR NEW REGISTERED TREASURY BONDS**

Give complete name, including middle name or initial, or name as inscribed on other bonds.

<table>
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<tr>
<th>NAME</th>
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<th>Denomination</th>
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</table>

*(If space is insufficient attach typewritten schedule)*

*Where bonds are being registered in the name of a trustee, the trusteeship should be fully identified, as for example "John H. Jones, Trustee under the will of Mary A. Jones, deceased", or "John H. Jones, trustee under agreement with ... dated ..." or "John H. Jones, Trustee for ... under agreement of trust dated ....... "*
CASH SUBSCRIPTION FOR
13/4% TREASURY BONDS OF 1948

Dated and bearing interest from December 1, 1942
Interest payable June 15 and December 15

Federal Reserve Bank of Kansas City,
Fiscal Agent of the United States,
Kansas City, Mo.

Gentlemen:

Pursuant to the provisions of Treasury Department Circular No. 702, dated November 30, 1942, the undersigned hereby subscribes for bonds of the above described issue as follows:

<table>
<thead>
<tr>
<th>Amount of Subscription(s)</th>
<th>For allotment use by Federal Reserve Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>$260</td>
<td></td>
</tr>
</tbody>
</table>

Accrued interest on $260 from December 1, 1942, to December 1, 1943: ($0.045 per $1,000 per day) $0.12

Please note: Subscriptions for amounts up to and including $100,000 from commercial banks and subscriptions in any amount from all other subscribers will be allotted in full.

METHOD OF PAYMENT

1. By Draft Enclosed (Funds available by the issue date)

2. By Charge to our Reserve Account

3. By Credit in War Loan Deposit Account (Will furnish Form K2 after allotment is determined)

4. Payment to be made by
   (Name of bank)

Total

In the event our subscription is not allotted in full you are authorized to remit or credit the average in our remittance to

Coupon

*Registered

Total

Complete registration instructions given on reverse side hereof.

INSTRUCTIONS FOR NEW COUPON TREASURY BONDS

<table>
<thead>
<tr>
<th>Number of Denominations</th>
<th>Amount</th>
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<tbody>
<tr>
<td>@ 500.00</td>
<td></td>
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<tr>
<td>@ 1,000.00</td>
<td></td>
</tr>
<tr>
<td>@ 5,000.00</td>
<td></td>
</tr>
<tr>
<td>@ 10,000.00</td>
<td></td>
</tr>
<tr>
<td>@ 100,000.00</td>
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</tr>
</tbody>
</table>

Total coupon bonds desired

CERTIFICATE OF SUBSCRIPTION AND PAYMENT

We hereby certify:

That we have received applications from our customers in the amounts set opposite the customers' names on the attached list which is made a part of this subscription; that there has been paid to us by each such customer, not subject to withdrawal until after allotment and payment in full for securities allotted, two percent of the amount applied for.

We further certify:

That this subscription is solely for our own account or for the account of the customers specified herein; that no arrangements have been or will be made for the sale or other disposition of our subscription, or of the securities which may be allotted thereon, prior to the closing of the subscription books; and that our customers' subscriptions are included herein will be requested to confirm to us their agreement to the same conditions with respect to their subscriptions.

We agree:

In consideration of the receipt by you of this subscription, to make payment in full for the entire amount which may be allotted on this subscription, at par on or before the date of issue, or at par and accrued interest if on later date allotted, such payment will be made by the method indicated hereon.

IMPORTANT

This is [Original ] [Additional ] [Subscription ] [Confirmation ]

By
Authorized Official Signature

City
State

If supply of blanks furnished is insufficient, use letter and give complete instructions with the above certificate of subscription and payment.

FEDERAL RESERVE BANK OF KANSAS CITY, Fiscal Agent.
### SCHEDULE OF CUSTOMERS' SUBSCRIPTIONS

<table>
<thead>
<tr>
<th>NAME</th>
<th>ADDRESS</th>
<th>AMOUNT</th>
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</thead>
<tbody>
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</tbody>
</table>

**Total of Customers' Coupon Bond Subscriptions**
(Must agree with amount on face of this application)

**TOTAL**

### INSTRUCTIONS FOR NEW REGISTERED TREASURY BONDS

Give complete name, including middle name or initial, or name as inscribed on other bonds.

<table>
<thead>
<tr>
<th>NAME*</th>
<th>ADDRESS</th>
<th>Denomination</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>$</td>
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<td></td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

*(If space is insufficient attach extra sheet)*

*Where bonds are being registered in the name of a trustee, the trusteeship should be fully identified, as for example "John R. Trustee under the will of Mary A. Jones, deceased", or "John R. Jones, trustee under agreement with .............. dated .........", or "John R. Jones, Trustee for .............. under agreement of trust dated .........".*
CASH SUBSCRIPTION FOR

TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES E-1943

Dated and bearing interest from December 1, 1942

Federal Reserve Bank of Kansas City,
Fiscal Agent of the United States,

Kansas City, Mo.

Gentlemen:

Pursuant to the provisions of Treasury Department Circular No. 763, dated November 30, 1942, the
undersigned hereby subscribes for certificates of the above described issue as follows:

Our own Cash Subscription (Books open December 16, 17 and 18) $...

Customers' Cash Subscriptions...

Total Subscriptions...

Accrued interest on $...

Subscriptions will be allotted in full excepting those for amounts over $100,000 from commercial banks.

METHOD OF PAYMENT

1. By Draft Enclosed (made available by issue date)...

2. By Charge to our Reserve Account...

3. By credit in War Loan Deposit Account (will furnish Form K2 after allotment is determined)...

4. Payment to be made by...

Payment due December 1, 1942, except for certificates allotted to commercial banks for own account: for this class of subscribers payment due December 11 with interest from December 1.

In the event our subscription is not allotted in full you are authorized to remit or credit the averages in our remittance to...

For our use...

DELIVERY INSTRUCTIONS FOR NEW TREASURY CERTIFICATES

These certificates are issued in groups (bigger form only):

<table>
<thead>
<tr>
<th>Number of Pieces</th>
<th>Denominations</th>
<th>Amount</th>
</tr>
</thead>
</table>
| @ 1,000.00       |               | $...
| @ 5,000.00       |               | $...
| @ 10,000.00      |               | $...
| @ 100,000.00     |               | $...

HOLD—Safekeeping Department.

HOLD-To Secure War Loan Account.

MAIL TO...

CERTIFICATE OF SUBSCRIPTION AND PAYMENT

We hereby certify:

That we have received applications from our customers in the amounts set opposite the customers' names on the attached list which is a part of this subscription; that there has been paid to us by each such customer, not subject to withdrawal, all payment and payment in full for securities allotted, two percent of the amount applied for.

We further certify:

That this subscription is solely for our own account or for the account of the customers specified herein: that no arrangements have been made for the sale or other disposition of our subscription, or of the securities which may be allotted thereon, prior to the closing of the subscription books; and that our customers whose subscriptions are included herein will be requested to confirm to us their agreement to the same conditions with respect to their subscriptions.

We agree:

In consideration of the receipt by you of this subscription, to make payment in full for the entire amount which may be allotted on this subscription, at par on or before the date of issue, or at par and accrued interest if on later allotment. Such payment will be made by the method indicated herein.

IMPORTANT

This is [Original] [Additional] [Confirmation] Subscription

By Authorized Official Signatures

[Signature]

Regraded Unclassified
## SCHEDULE OF CUSTOMERS' SUBSCRIPTIONS

<table>
<thead>
<tr>
<th>NAME</th>
<th>ADDRESS</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

Reserved for use of Federal Reserve Bank

<table>
<thead>
<tr>
<th>%</th>
<th>Ad.</th>
<th>Allotment</th>
</tr>
</thead>
</table>

**Total of Customers' Subscriptions**
(Must agree with amount on face of this application)

$  

The above schedule of subscriptions must be completed to assure correct allotment. If sufficient space is not provided, attach similar supplemental list.
CASH SUBSCRIPTION FOR
7% TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES E-1943

Dated and bearing interest from December 1, 1942

Federal Reserve Bank of Kansas City,
Fiscal Agent of the United States,
Kansas City, Mo.

Gentlemen:

Pursuant to the provisions of Treasury Department Circular No. 703, dated November 30, 1942, the undersigned hereby subscribes for certificates of the above described issue as follows:

<table>
<thead>
<tr>
<th>Amount of Subscription(s)</th>
<th>For allotment use by Federal Reserve Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our own Cash Subscription (Books open December 16, 17 and 18)</td>
<td>$</td>
</tr>
<tr>
<td>Customers' Cash Subscriptions</td>
<td>$</td>
</tr>
<tr>
<td>Total Subscriptions</td>
<td>$</td>
</tr>
</tbody>
</table>

Accrued interest on $ from December 1, 1942, to $(0.024 per $1,000 per day) $.

Subscriptions will be allotted in full excepting those for amounts over $100,000 from commercial banks.

METHOD OF PAYMENT

1. By Draft Enclosed (funds available by issue date) $.

2. By Charge to our Reserve Account $.

3. By credit in War Loan Deposit Account (Will furnish Form K2 after allotment is determined) $.

4. Payment to be made by (Name of bank) $.

Payment due December 1, 1943, except for certificates allotted to commercial banks for own account; for this class of subscriptions payment due December 25 with interest from December 1.

In the event our subscription is not allotted in full you are authorized to remit or credit the overage in our remittance to (Insert name of bank) for our use.

DELIVERY INSTRUCTIONS FOR NEW TREASURY CERTIFICATES

(These certificates are issued in coupon (bearer) form only)

<table>
<thead>
<tr>
<th>Number of Pieces</th>
<th>Denominations</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>@ 1,000.00</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>@ 5,000.00</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>@ 10,000.00</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>@ 100,000.00</td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

Total $.

HOLD—Safekeeping Department.

HOLD—To Secure War Loan Account.

MAIL TO...

CERTIFICATE OF SUBSCRIPTION AND PAYMENT

We hereby certify:

That we have received applications from our customers in the amounts set opposite the customer's names on the attached list which is made a part of this subscription; that there has been paid to us by each such customer, not subject to withdrawal until after allotment and payment in full for securities allotted, two percent of the amount applied for.

We further certify:

That this subscription is solely for our own account or for the account of the customers specified herein; that no arrangements have been or will be made for the sale or other disposition of our subscription, or of the securities which may be allotted thereon, prior to the closing of the subscription books; and that our customers whose subscriptions are included herein will be requested to confirm to us their agreement to the same conditions with respect to their subscriptions.

We agree:

In consideration of the receipt by you of this subscription, to make payment in full for the entire amount which may be allotted on this subscription, at par or at par and accrued interest if on later allotment. Such payment will be made by the method indicated hereon.

IMPORTANT

This is {Original [ ] Additional [ ] Confirmation [ ]} Subscription

By ____________________________ Authorized Official Signature

City ____________________________ State ____________________________

If supply of blanks furnished is insufficient, use letter and give complete instructions with the above certificate of subscription and payment.

FEDERAL RESERVE BANK OF KANSAS CITY, Fiscal Agent.

Subscription checked by ____________________________ Cards checked by ____________________________ Subscription No. ____________________________
SCHEDULE OF CUSTOMERS' SUBSCRIPTIONS

<table>
<thead>
<tr>
<th>NAME</th>
<th>ADDRESS</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

Reserved for use of Federal Reserve Bank

%  | Adj. | Allot. |
---|------|-------|

Total of Customers' Subscriptions
(Must agree with amount on face of this application)

$  

The above schedule of subscriptions must be completed to assure correct allotment. If sufficient space is not provided, attach similar supplemental list.
I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 1 3/4 percent Treasury Bonds of 1948. The amount of the offering is not specifically limited, although allotments to commercial banks, which are defined for this purpose as banks accepting demand deposits, for their own account will be limited to $2,000,000,000, or thereabouts. The books will be opened today and until further notice for the receipt of subscriptions from others than commercial banks for their own account, and today, December 1 and December 2 for the receipt of subscriptions from commercial banks for their own account.

II. DESCRIPTION OF BONDS

1. The bonds will be dated December 1, 1942, and will bear interest from that date at the rate of 1 3/4 percent per annum, payable on a semiannual basis on June 15 and December 15, 1943, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1948, and will not be subject to call for redemption prior to maturity.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached will be issued in denominations of $500, $1,000, $5,000, $10,000 and $100,000. Bonds registered as to principal and interest will be issued in denominations of $500, $1,000, $5,000, $10,000, $100,000 and $1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department in Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to December 3, 1942. Banking institutions and securities dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions and securities dealers will not be permitted to enter subscriptions except for their own account. Subscriptions from commercial banks for their own account will be received without deposit. All other subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, subscriptions for amounts up to and including $100,000 from commercial banks, and subscriptions in any amount from all other subscribers, will be allotted in full; subscriptions for amounts over $100,000 from commercial banks will be allotted on an equal percentage basis, to be publicly announced. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder to or for the account of others than commercial banks must be made on or before December 1, 1942, or on later allotment. Payment at par and accrued interest to December 11, 1942, for bonds allotted hereunder to commercial banks must be made on that date. One day's accrued interest is $0.048 per $1,000. Any qualified depositary will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.
UNITED STATES OF AMERICA

\[\text{\% PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES E-1943} \]

Dated and bearing interest from December 1, 1942

Due December 1, 1943

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, November 30, 1942.

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for certificates of indebtedness of the United States, designated \(\% \text{ percent} \) Treasury Certificates of Indebtedness of Series E-1943. The amount of the offering is not specifically limited, although allotments to commercial banks, which are defined for this purpose as banks accepting demand deposits, are limited to \(2,000,000,000\), or thereabouts. The books will be open today and until further notice for the receipt of subscriptions from others than commercial banks for their own account, and on December 16, December 17 and December 18 for the receipt of subscriptions from commercial banks for their own account.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated December 1, 1942, and will bear interest from that date at the rate of \(\% \text{ percent} \) per annum, payable semiannually on June 1, and December 1, 1943. They will mature December 1, 1943, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes and will not bear the circulation privilege.

4. Bearer certificates with two interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000 and \$100,000. The certificates will not be issued in registered form.

5. The certificates will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States certificates.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to December 19, 1942. Banking institutions and securities dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions and securities dealers will not be permitted to enter subscriptions except for their own account. Subscriptions from commercial banks for their own account will be received without deposit. All other subscriptions must be accompanied by payment in full for the amount of certificates applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, subscriptions for amounts up to and including \$100,000 from commercial banks, and subscriptions in any amount from all other subscribers, will be allotted in full; subscriptions for amounts over \$100,000 from commercial banks will be allotted on an equal percentage basis, to be publicly announced. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted hereunder to or for the account of others than commercial banks must be made on or before December 1, 1942, or on later allotment. Payment at par and accrued interest to December 28, 1942, for certificates allotted hereunder to commercial banks must be made on that date. One day’s accrued interest is \$0.024 per \$1,000. Any qualified depositary will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Bank.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.
NEW TREASURY OFFERING

To All Banks, Trust Companies, and Others Interested,
Federal Reserve District No. 10:

Secretary Morgenthau has issued the following statement in connection with the new Treasury offering:

"In order to finance the war effort, which now is moving into full stride, the United States Treasury will borrow during December the unprecedented sum of approximately $9,000,000,000 from all sources. This sum will be raised partly through the continuing sale of Savings Bonds and Tax Savings Notes, and partly through offerings of a number of new Treasury issues designed for every class and type of investor. Thus every American will have an opportunity to back the armed forces with bonds.

The Victory Fund Committees will launch an intensive sales campaign on November 30 on three series of offerings of new securities. These well organized and expanding groups of 44,000 volunteer workers, drawn largely from the securities and banking fields, will solicit subscriptions from individual investors, corporations, savings and commercial banks, insurance companies, institutions, trusts and estates. The President of the Federal Reserve Bank in each of the twelve districts is Chairman of the Victory Fund Committee in his district.

At the same time the War Savings Staff, with its 300,000 volunteers in every community, will intensify its drive to add at least 7,000,000 more income-earners to the ranks of those already investing regularly in Series E War Savings Bonds through the payroll savings plan.

Almost every citizen has funds in the form of currency or bank deposits which can be enlisted in the war effort in one way or another through the purchase of Government securities.

The special offerings to be sold under the direction of the Victory Fund Committees will consist of:

1. Twenty-six year 2½ percent bonds due December 15, 1968, callable December 15, 1963, to be issued in coupon or registered form, at the option of the buyers. Commercial banks, which are defined for this purpose as banks accepting demand deposits, will not be permitted to hold these bonds until ten years after the date of issue. There will be no limit to the amount of this issue, and no restrictions upon issuance excepting the temporary exclusion of commercial banks from ownership for their own account. Subscriptions books will be open November 30, and will remain open several weeks. The bonds will be sold in denominations from $500 to $100,000.

2. Two series intended for banks as well as other investors:

   (a) 1½ percent bonds due June 15, 1948, and

   (b) % percent certificates of indebtedness due one year after issuance. These securities will be open for subscription by banks, and also by all other classes of investors, whether private, corporate or institutional.

Sales to commercial banks will be limited to $2,000,000,000, or thereabouts, of each series. Applications from commercial banks in amounts up to $100,000 will be allotted in full, and larger subscriptions on an equal percentage basis. All applications from others than commercial banks will be allotted in full. The total of these securities to be issued thus will be the $4,000,000,000 from commercial banks, plus the full amount subscribed by others.

(over)
For all classes of subscribers other than commercial banks, subscription books will be opened November 30 for both series, and will remain open for several weeks. For commercial banks subscription books will be opened November 30 on the 1½ percent bonds and will remain open until the close of business December 2, while books will be opened December 16 on the ¾ percent certificates and will remain open until the close of business December 18. In the case of such bank subscriptions, payment for the bonds must be made on December 11, and for the certificates on December 28.

The 1½ percent bonds will be issued in coupon or registered form, at the option of the buyers. The ¾ percent certificates will be issued in coupon form only. The bonds will be sold in denominations from $500 to $100,000 and the certificates from $1,000 to $100,000.

The 2½ percent bonds, 1½ percent bonds and ¾ percent certificates of indebtedness will be dated December 1, 1942 and will bear interest from that date. Accrued interest will be charged on all subscriptions for which payment at a Federal Reserve Bank or at an authorized depositary is received later than December 1.

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.

All elements of the banking and securities business will conduct a vigorous campaign to assure the widest possible public purchases of all issues of these securities. In conjunction with weekly sales of discount bills, these arrangements will make approximately half of the $9,000,000,000 of Treasury borrowing in December available from non-banking investors, while the other half will be made available by commercial banks. The widest possible public participation is essential in the interest of sound financing out of current income and savings.

After completion of this borrowing the Treasury does not expect to do further major financing until February. For its new money needs in January the Treasury will rely upon further sales of Tax Savings Notes, Savings Bonds, and Treasury Bills."

For further details as to the three issues being offered please refer to the Treasury Department circulars enclosed.

Very truly yours,

[Signature]

PRESIDENT
UNITED STATES OF AMERICA

2½ PERCENT TREASURY BONDS OF 1963-68

Dated and bearing interest from December 1, 1942
Due December 15, 1968

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER DECEMBER 15, 1963

Interest payable June 15 and December 15

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, November 30, 1942.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2½ percent Treasury Bonds of 1963-68. These bonds will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits. The amount of the offering is not specifically limited.

II. DESCRIPTION OF BONDS

1. The bonds will be dated December 1, 1942, and will bear interest from that date at the rate of 2½ percent per annum, payable on a semiannual basis on June 15 and December 15, 1943, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1968, but may be redeemed at the option of the United States on and after December 15, 1963, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will not be acceptable to secure deposits of public moneys before December 1, 1952; they will not bear the circulation privilege, and they will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached will be issued in denominations of $500, $1,000, $5,000, $10,000 and $100,000. Bonds registered as to principal and interest will be issued in denominations of $500, $1,000, $5,000, $10,000, $100,000 and $1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury, except that they may not, before December 1, 1952, be transferred to or be held by commercial banks, which are defined, for this purpose, as banks accepting demand deposits. However, the bonds may be pledged as collateral for loans, including loans by commercial banks, but any such bank acquiring such bonds before December 1, 1952, because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

5. Any bonds issued hereunder which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment. Provided:

(a) that the bonds were actually owned by the decedent at the time of his death; and

(b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .
to the date of payment. In either case checks for the full six months' interest due on the last day of the closed period will be forwarded to the owner in due course. All bonds submitted must be accompanied by Form PD 1782,8 properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than 6 months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

6. Except as provided in the preceding paragraphs, the bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions and securities dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice, and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before December 1, 1942, or on later allotment. One day's accrued interest is $0.068 per $1,000. Any qualified depositary will be permitted to make payment by credit for bonds allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

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8 An exact half-year's interest is computed for each full half-year period irrespective of the actual number of days in the half year. For a fractional part of any half year, computation is on the basis of the actual number of days in such half year.
8 The transfer books are closed from May 16 to June 15, and from November 16 to December 15 (both dates inclusive) in each year.
8 Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.
December 3, 1942.

Dear Mrs. Reid:

This is just to tell you how much I appreciate the wonderful support the Herald Tribune has been giving to the Victory Loan and War Savings campaigns, especially in your news and editorial columns of last Monday.

In addition, Mr. Wanders has been of great help to me and to the Treasury generally, and I am more than grateful to you for having made him available at this time.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. Helen Rogers Reid,
New York Herald Tribune,
230 West 41st Street,
New York, New York.

FK:cgk:eg

Copy in Diary
Copies to Thompson
My dear Mr. Pelley:

This is just to thank you, and through you, the executives of those carriers represented at the Payroll Savings conference with members of my staff on November 19.

The program recommended to the Industry by the conference has the full approval of the Treasury Department. I am confident that this program, if carried out, will increase the rate of savings in War Bonds, by railroad employees, to not less than 10% of their aggregate pay.

The Payroll Savings Plan for the purchase of War Bonds provides a convenient and regular method of investing in the security of our country. Savings of this kind are especially important because they come out of current income and thus help to reduce pressure of excess spending on the price structure. Payroll Savings are also important because they make the purchase of War Bonds a first charge upon the employee’s budget. They are thus to be distinguished from investments out of large accumulated savings for which other Treasury securities have been designed. The Payroll Savings Plan thus permits the Treasury Department to distinguish between the "payroll dollar" and the "investment dollar," which enables us to chart a comprehensive program for raising the large sums of money necessary to bring the war to an early and victorious conclusion.

American railroads are making an outstanding contribution to the winning of the war by handling the heaviest load of transportation in our history. I am sure the Industry with its one and one-half million workers will accept the additional privilege and duty of investing 10% of the payroll in War Savings Bonds.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. John J. Pelley,
President, Association of American Railroads, Copies to Thompson
Transportation Building,
Washington, D. C.
TO Mr. Morgenthau
FROM Mr. Callahan

Attached is our latest newspaper advertisement.
What's Mrs. Petrov got that you haven't got?

Meet Mrs. Petrov, citizen of the Soviet Union. When the Nazi Panzer Divisions approached the small Petrov farm in the Ukraine, she knew what to do.

The wheat, so near to harvest time, went up in flames. The potatoes, stored in the cellar, were soaked with kerosene. The jars of fruits and preserves were smashed, and the cow, which had given her children so many quarts of precious milk, was shot.

After piling her two young children, a few blankets and some food on the farm cart, Mrs. Petrov did one more thing. She went back to the house where she and her husband had been so happy . . . where they had worked so hard to make a home for their family—and applied the torch.

Now, everybody in this country knows that Americans are as patriotic—as capable of sacrifice—as grimly determined to beat Hitler as are the Russians or anybody else on earth.

But—by the Lord Harry—do we have to wait till a Nazi tank comes rolling up the street before we prove it?

We aren't being asked to burn our homes and destroy everything we own. Please God, we never will be.

But we are being asked to join the Payroll Savings Plan and put at least 10% of our earnings into War Bonds! We're being asked—not told—to loan money—not give it! And to loan this money at a good rate of interest and for good reasons! We're being asked to buy War Bonds to help win the war—to provide a nest egg for the future—to provide peacetime jobs and peacetime goods and a generally decent world that the fellows who are doing the fighting can come back to.

That's a job. And it's a job that won't be done until every mother's son of us is buying bonds until it hurts.

There are, right now, still people who ought to be buying War Bonds through the Payroll Savings Plan—and aren't.

Right now, while some of the people in the Payroll Savings Plan are setting aside more than 10%—a lot of others are investing less.

Let's change that situation—quick. If you aren't in the Payroll Savings Plan—sign up tomorrow. If you're already in, but haven't hit 10%—raise your sights. And if you can put in more—do it.

What's Mrs. Petrov got that we haven't? Nothing! Let's prove it!

WHAT YOU SHOULD DO:

If you are . . .
1. Already investing 10% of your pay in War Bonds through the Payroll Savings Plan—boost that 10% if you can.
2. Working in a plant where the Plan is installed, but haven't signed up yet—sign up tomorrow.
3. Working in a plant where the Payroll Savings Plan hasn't been installed, talk to your union head, foreman or plant manager—and see if it can't be installed right away. The local bank will be glad to help.
4. Unable to get in on the Payroll Savings Plan for any reason, go to your local bank or wherever bonds are sold. They will be glad to help you start a Plan of your own.

"TOP THAT 10% BY NEW YEAR'S!"

This advertisement is a contribution to America's all-out war effort by . . . YOUR NAME HERE

BUY U.S. WAR BONDS THROUGH THE PAYROLL SAVINGS PLAN
Dear Henry:

Many thanks for sending me that recording of the song -- EVERYBODY, EVERY PAY DAY -- of which Sergeant Richard Uhl and Corporal Tom Adair are the authors. I am very glad to have it.

With best wishes,

Very sincerely yours,

STEPHEN EARLY
Secretary to the President

Honorable Henry Morgenthau,
The Secretary of the Treasury,
Washington, D. C.
THE SECRETARY OF STATE
WASHINGTON

December 3, 1942

Dear Henry:

Thank you very much for your note of November thirtieth and the recording of "Everybody, Every Pay Day" and "March for the New Infantry" by Sergeant Uhl and Corporal Adair. It was indeed kind of you to send it to me.

Sincerely yours,

[Signature]

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

I do appreciate your kindness in sending over to me the recording that was written for the Treasury by the two Army men in connection with the War Bond Campaign.

I know I will receive much pleasure from hearing it played back.

Sincerely yours,

Frank Knox

The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.
THE SECRETARY OF COMMERCE
WASHINGTON

December 3, 1942

Dear Henry:

I am glad to have the record of "Ev'rybody Ev'ry Payday." Thanks so much for sending it to me.

With best wishes,

Sincerely,

Hon. Henry Morgenthau, Jr.
The Secretary of the Treasury
Washington, D.C.
THE SECRETARY OF THE INTERIOR
WASHINGTON

December 3, 1942.

Dear Henry:

I appreciate your thoughtfulness in sending me the record of the song composed by Sergeant Richard Uhl and Corporal Tom Adair, in connection with the War Bond campaign. I share with you the earnest hope that this song will help the drive.

I am taking the record home and will play it tonight.

Sincerely yours,

[Signature]

Secretary of the Interior.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.
If we want to do something concrete for the business man, I think we should grant an automatic extension for filing 1942 corporation tax returns. The extension can be conditioned on a tentative return with a payment of tax. I think we will lose nothing and will be in effect making a virtue of necessity. The thing may be forced on us any way if we do not agree. If we move voluntarily we will cultivate a great deal of good will among business men and accountants.

For your further information I attach herewith a copy of a memorandum from Mr. Surrey.

Attachment
TO: Mr. Paul
From: Mr. Surrey
Re: Extensions of time for filing 1942 corporation tax returns

December 3, 1942

Judging from discussions I had on my recent trip, the question of extensions of time for filing the 1942 corporation tax returns appears to be a matter of grave concern to corporations and their tax accountants. Their office staffs have been so seriously depleted by the war that they believe it will be impossible in a great many cases to file returns by March 15, 1943. They consequently feel that a restrictive policy on the part of the Treasury would be unfair and undesirable under these unusual conditions. Unless a liberal policy is adopted, they intend to ask the Congress to grant an automatic extension of time early next year.

This question of extensions of time is one of paramount concern to business men. It thus involves a situation in which our cooperation would assist in maintaining desirable relationships between the business world and the Department. It would appear possible to alleviate the difficulties faced by business concerns during this period with respect to the filing of returns and at the same time safeguard the March 15 revenue collections and provide the necessary statistical information. Consequently, it would seem desirable that the question of extensions of time be given serious consideration.
Pursuant to the Secretary's suggestion that we explore the possibilities of combining compulsory lending with expansion of a social security program, the following plan is submitted as a suggested approach to the problem.

It is, of course, to be referred to for discussion only within the Treasury. Needless to say the proposal is submitted only in the briefest outline so as to confine discussion at this stage to essential principle. There will be ample opportunity to formulate the proposal in greater detail if the general principles survive preliminary discussion.

The proposal has the following objectives:

1. To raise roughly $25 billion annually in compulsory lending as a means of reducing excess spending power during the war, and simplifying our program of financing. (This would replace about $8 billion of the $10 billion of present sales of war savings bonds.)

2. To provide security during the post-war period against unemployment, sickness, accident and aid toward exceptional expenditures arising from death of any member of the family.

3. To help prevent a post-war depression during the period of transition from war to peace economy, while retaining adequate control to prevent a post-war inflation.

4. To heighten the morale of the civilian population by giving them the assurance now that the end of war production will not mean insecurity.

5. To reduce the pressure for continued production of armaments after they have ceased to be necessary and to speed up conversion to peace time production.

To accomplish the above aims, the following steps are proposed:

1. The President shall declare that the first 12 months after the cessation of hostilities shall be named the "Year-of-Post-War-Adjustment."

2. There shall be imposed as soon as possible a compulsory lending program designed to yield about $25 billion. This program shall contain appropriate exemptions and graduations and should, so far as feasible, be collectible at the source.
3. During the Year-of-Post-War-Adjustment certain post-war benefits shall be automatically payable as follows:

(These benefit payments are in the main not intended to supplant arrangements now in force.)

a. Persons disemployed during that year shall receive each month 1/12 part of their total contribution made under the above compulsory lending plan, plus a flat sum at the rate of $15 per week; these payments to continue so long as he is unemployed, but not later than the end of the 12-month period. (Measures will have to be taken to eliminate from this benefit those who do not intend to accept a job if offered. Obviously, it will be impossible to secure anything approaching perfect segregation.)

b. Contributors and their dependents who, during the year of post-war adjustments, incur medical (including maternity bills), dental or hospital bills in excess of $25 shall receive 75 percent of the excess but not more than $200.

c. Contributors who are unable to work because of injury or illness longer than two weeks shall receive the unemployment benefit so long as that person is deemed incapacitated.

d. In the event of the death of a contributor during this year, his estate should receive his entire contribution plus $100 to cover funeral expenses.

e. In the event that a dependent of a contributor should die, the contributor should receive $50 from his accumulated contribution, plus $50 from the Fund to help cover the exceptional expenses.

f. In the event a contributor marries during that 12-month period, he shall be permitted to withdraw up to $500 of his contribution and shall receive an additional sum of $50 to help cover wedding expenses.

4. The Secretary of the Treasury, with the approval of the President, shall have the authority to set forth, from time to time, categories of repayments to contributors of their accumulated contributions justified either on the grounds of urgent individual need or on the grounds of the general economic situation.
The Secretary of the Treasury shall have the authority to provide for the return of the contribution at any time in case of special hardship. Appropriate machinery can be set up for the purpose of meeting this requirement.

5. The interest earned on the funds accumulated under this compulsory lending plan shall accrue to the fund and shall be used exclusively in the payment of benefits and not added to the amount of money of individual contribution.

6. The President shall have the power to extend the Post-War-Adjustment Period for an additional year if, in his judgment, the general economic situation renders such action desirable, and during that extension the benefits which are permitted shall be in force during the extended period.

7. Beginning one year after the 12-month period, the remaining contributions shall be returned in quarterly installments. (At that time there would doubtless be provided for reinvestments in Government securities which would have terms and conditions appropriate to the then prevailing circumstances.)

8. The compulsory lending program ceases when the President declares the beginning of the year of Post-War Adjustment, except where liabilities have accrued and have not been collected.

However, if there is no significant disemployment after hostilities have ceased, the President shall have the authority to continue the program of compulsory lending in whole or in part for an additional year.

The period following the cessation of hostilities may be one of considerable industrial boom because of the accumulated purchasing power of the public and of deferred unsatisfied wants. It is quite possible that this period will be one of severe curtailment of employment in particular localities and industries. We should retain the flexibility to handle this apparent paradox of general boom and local disemployment. This could be done by retaining the compulsory lending on a full or fractional scale during the period of post-war adjustment while the payments for post-war Social Security benefit will be in operation.

In view of the fact that the contributions under this compulsory lending yield no interest, the accumulation and distribution of the fund impose only an administrative burden on the Government, (and what an administrative burden!) aside
from the cost of benefits distributed. The value to the contributor who receives no direct benefits rests in the over-all desirability in preventing inflation and of assuring him a reserve of purchasing power when the forces of accumulated unsatisfied demand will have largely or wholly spent themselves.

If the year of post-war adjustment should not begin until one year after the program were to be started, the Fund would have accumulated by the beginning of that year about $25 billion in principal and $375 million in interest (estimating interest at 2 1/2 percent).

It is estimated that during the Post-War Adjustment Year, outpayments totalling $10 billion are not unlikely, probably 1/3 of which would come out of contributions, the remainder representing all interest accumulation plus additional payments from the Government. (This assumes disemployment of 10 million persons for an average of 40 weeks.)

The justification during the post-war adjustment period of outpayments of that magnitude is to prevent the impact of the transition from a post-war economy to fall on the disemployed group and also to avoid mass decrease in purchasing power with its concomitant economic and social consequences.

The adoption of a compulsory lending program of the above magnitude would obviously drastically cut into the voluntary bond purchasing plans. It would virtually cause the voluntary wage savings plan to disappear. However, it would, in my opinion, be a grave error to assume that the adoption of a compulsory lending program means the cessation of voluntary bond selling programs. The scale of the bond sales program would doubtless be cut but it would still leave ample scope for morale building and for explaining the aims of the war and the need for sacrifice, etc.

Insofar as the objective of a voluntary bond sales program is to help finance the war by getting people to buy bonds, then, clearly a compulsory lending plan approaching the magnitude herein suggested is far more effective than is the voluntary savings plan. Insofar as the objective is the building up of morale, etc., then, in my opinion, a voluntary savings plan unencumbered by the necessity to produce results of $15 billion a year or more can do a better job.
Mr. Henry Morgenthau
Secretary of the Treasury
Washington, D. C.

Dear Mr. Morgenthau:

Thank you again for your quick response in the matter of the San Francisco Stage Door Canteen.

I have noted your letter to the Secretary of War, and Mr. Hilton Shubert is at present on his way to California to make the final arrangements.

I am confident that it will be of benefit to everyone concerned.

Sincerely yours,

Melvyn Douglas

Melvyn Douglas
December 3, 1942

Dear Norman:

When I returned from my trip out West, I found your letter of November 21st. I was very glad to receive it and have read it carefully.

Yours sincerely,

(Signed) Henry

Honorable Norman Davis, Chairman, American Red Cross, National Headquarters, Washington, D.C.

File in Diary
My dear Henry:

I was very much interested in having your impressions concerning the Red Cross activities which you saw while you were in Great Britain and I understood from you that you had not had an opportunity to see a great deal of the Red Cross activities. In view of the fact that all of the reports which have come to me from such people as Mrs. Roosevelt, who saw a great deal of our activities, and from Arthur Sulzberger, who made a complete and thorough survey for me during August and September, and that your report is the first unfavorable one which has come to my attention, I am exceedingly anxious that you should not form unfavorable impressions on what you told me was a very superficial inspection of a limited number of our Red Cross clubs.

All of us who are interested in providing welfare and recreation activities for the United States Forces abroad recognize the fact that it will take time to perfect these activities. There are many difficulties inherent in the problems which we are attempting to solve since shipping space from the United States for equipment and transportation facilities for personnel have been so limited. Last March (1942) General Chaney, then in command of the United States Forces, asked the Red Cross to establish a very limited number of club and recreation centers, particularly in the larger cities in Great Britain, in order that the men coming to those cities on leave would have a place to sleep, eat and enjoy some American atmosphere. At a later date when General Eisenhower arrived in Great Britain he asked that we embark on a considerably more ambitious program and considering the limited facilities, including the great shortage of buildings and the great problem of shipping from the United States, everyone including General Eisenhower has been favorably impressed with the results which we have achieved. We now have approximately forty clubs operating in Great Britain. A few of these do not have as yet all of the equipment which they should have and will have. We also have in operation several clubmobiles which are visiting the small camps in the more remote places and have established a canteen service on the docks when troops arrive and are establishing certain facilities at certain key railway points. By March 1 we will have 120 clubs in operation.

We have gotten these results because of a close cooperative
relationship with the United States Army and with the British Government. The British have been most generous and appreciative of our problems and have rendered us great assistance in the matter of locating buildings in the areas where there have been great demands for the very limited space which was not already taken for important activities. About the first of September we reached complete agreements with the Minister of Information, Mr. Brendan Bracken, who has been designated by the British Government to act in the matter of hospitality to United States troops. These agreements included not only facilities which the American Red Cross would set up but facilities which the British were operating. We stated that it was not only desirable but essential that British organizations should continue to render services to our forces and that in many instances they should expand their existing facilities and in other instances create new facilities. Attached you will find a copy of the statement of agreement between the Ministry of Information and the American Red Cross dated September 8, 1942. We are in constant contact with the Ministry of Information with reference to the carrying out of these agreements.

We are working closely with the United States authorities in locating new facilities and are following their advice on the order of urgency of location of our club and recreation centers. General Eisenhower has approved a plan agreed upon between his staff officers and the American Red Cross and he is kept fully informed with reference to plans for the creation of new facilities either by the American Red Cross or by British agencies. I attach for your confidential information a statement which we have recently received from General Eisenhower which you will note indicates his approval of the work we are doing and expresses appreciation to the American people for their generous support which has made possible this work of the American Red Cross.

No one who is familiar with the work which we are doing in Great Britain would say that it is perfect and all of us are conscious of the fact that improvements can be made and improvements are in fact planned and will be put into effect as soon as shipping facilities are available and as soon as the British Government authorities can make more buildings available to us. All of us working with these problems are impatient to overcome the difficulties and are cooperating to do so.

I was quite surprised on my return to my office yesterday afternoon after my conversation with you to hear that at a luncheon meeting of the Overseas Club you made uncomplimentary reference to the work of the Red Cross in Great Britain. I hope the above information will at least help to make you feel better satisfied about the work of the Red Cross in Great Britain.

Sincerely,

Chairman

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury
Department of the Treasury
Washington, D. C.
The American Red Cross is the one agency of its kind to serve our Armed Forces overseas. The services rendered in the European Theater have been invaluable.

At the scores of American Red Cross Service Clubs established throughout Great Britain our Forces, while on leave, are able to obtain meals, lodgings, information and recreation; all with an American home atmosphere.

The Red Cross serves our Forces while on duty, and is of even greater value when men are hospitalized.

I cannot speak too highly of the benefits which have resulted from the unselfish efforts of those engaged in the work here. On behalf of our Forces in the European Theater I desire to express appreciation to the American people for their generous support which has made possible the operations of this great organization.
The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Enclosed are the minutes of the meetings of the Board of Economic Warfare which were held on October 29 and November 12, 1942.

If there are any corrections which you care to suggest, please let me know.

Sincerely yours,

Enclosures

[Signature]

Milo Perkins
Executive Director
Minutes of the Meeting of the Board of Economic Warfare
Held October 29, 1942 at 10:00 a.m.

A meeting of the Board of Economic Warfare was held in the Vice
President's office in the Capitol Building at 10:00 a.m. on October 29,
1942.

Those present:

The Vice President, Chairman of the Board
Mr. Dean Acheson, representing the Secretary of State
Mr. E. M. Bernstain, representing the Secretary of the Treasury
Mr. John L. McIff, representing the Secretary of War
Mr. Charles Fahey, representing the Attorney General
The Secretary of the Navy
Mr. John Lockwood, representing the Coordinator of Inter-American
Affairs
Mr. E. K. Stettinius, Jr., Lend-Lease Administration

In addition, the following persons were present:

Mr. Wayne Taylor, Department of Commerce
Mr. W. L. Clayton, Department of Commerce
Mr. Leslie Wheeler, Department of Agriculture
Mr. Harold H. Hoff, War Department
Mr. Thomas K. Finletter, State Department
Mr. Horber Gaston, Treasury Department
Mr. Horbert Feis, State Department
Mr. Adai Stevenson, Navy Department
Mr. Milo Perkins, Board of Economic Warfare
Mr. Cass Canfield, Board of Economic Warfare
Mr. Hickman Price, Jr., Board of Economic Warfare
Mr. Wm. T. Stone, Board of Economic Warfare
Mr. E. W. Gaumitz, Board of Economic Warfare

Axis Blockade Running.

The Vice President opened the meeting indicating that the first item
on the Agenda was Axis Blockade Running. A statement prepared by the
Board of Economic Warfare was circulated at the meeting.

Mr. Perkins commented briefly on the report, indicating that Germany
and Japan had developed a significant means of interchange of goods by way
of blockade runners, with some twenty-five vessels available for such trade. With the ships available, it is estimated that Germany and Japan can exchange around 225,000 tons of critical material per year in each direction. Evidence indicates that major shortages in both countries have been relieved to some extent. Continuation of the traffic would enable Germany to be furnished with supplies of such important items as natural rubber, tin, tungsten, fats, oils and drugs. It is likely that Japan would receive principally machinery and finished industrial products. Continuation of the traffic would strengthen both enemies and tend to offset the effectiveness of the blockade and proclusive purchasing.

While it was recognized that blockade running was largely a matter for the military authorities, Mr. Perkins indicated that the problem was brought before the Board primarily because of its effect on proclusive buying. If blockade running were to be expanded, the policy with reference to proclusive purchases might have to be revised.

Swedish Trade Policy.

The Vice President read a letter from the President with reference to the question of trade with Sweden. The President indicated his wish that the Board submit its recommendations on the trade policy to be followed. The Vice President stated that a statement of facts on Swedish Trade, "Trade Policy Toward Sweden" had been circulated. Discussion then centered on the facts as to Swedish trade, Swedish imports and exports from outside the blockade area, and within the Axis dominated area. In general there was acceptance of the facts as stated in the report.
It was decided to request the Sub-committee on Swedish Trade to submit its recommendation as to trade policy, and to submit the Swedish Report and the Sub-committee report to the Joint Chiefs of Staff for such comments as that group might wish to make. The entire problem was to be considered further at the next meeting.

The meeting adjourned at 11:15 a. m.
Minutes of the Meeting of the Board of Economic Warfare
Held November 12, 1942 at 10:00 a.m.

A meeting of the Board of Economic Warfare was held in the Vice
President’s office in the Capitol Building at 10:00 a.m. on November 12, 1942.

Those present:

The Vice President, Chairman of the Board
Mr. Dean Acheson, representing the Secretary of State
Mr. Harry White, representing the Secretary of the Treasury
Mr. R. P. Patterson, representing the Secretary of War
Mr. James V. Forrestal, representing the Secretary of the Navy
The Secretary of Agriculture
Mr. Nelson A. Rockefeller, Coordinator of Inter-American Affairs
Mr. William Bett, War Production Board
Mr. E. R. Stettinius, Jr., Lend Lease Administration

In addition, the following persons were present:

Mr. John Lockwood, Coordinator of Inter-American Affairs
Mr. Wayne Taylor, Department of Commerce
Mr. W. L. Clayton, Department of Commerce
Mr. Leslie Wheeler, Department of Agriculture
Mr. Harold H. Neff, War Department
Mr. Thomas K. Finletter, State Department
Mr. Herbert Feis, State Department
Mr. L. W. Douglas, War Shipping Administration
Mr. Milo Perkins, Board of Economic Warfare
Mr. Cass Canfield, Board of Economic Warfare
Mr. Wm. T. Stone, Board of Economic Warfare
Mr. Morris Rosenthal, Board of Economic Warfare
Capt. W. D. Paleston, Board of Economic Warfare
Mr. E. W. Gaumnitz, Board of Economic Warfare

Cryptostegia

The Vice President opened the meeting, indicating that the first sub-
ject for discussion was the report on Cryptostegia, copies of which had been
circulated ("Report to the Board of Economic Warfare on Cryptostegia dated
November 6, 1942."); Mr. Perkins was asked to comment.

Mr. Perkins reviewed briefly the development in cryptostegia, stating
that the plant gave promise of being an important source of rubber—scien-
tists indicating that it had great possibility—but that experiments had
not proceeded far enough to know definitely whether quality would be
acceptable under commercial conditions. Characteristics of the plant itself
from a growing standpoint are not too clear, and tapping or harvesting methods
are still in the experimental stage. At the same time the seed supply is
limited, but sufficient seed is available to allow some expansion in planting. Due to previous experience in Haiti, arrangements have been made for
expansion of acreage in that area with limited expansion elsewhere.

Mossara, Acheson and Rockefeller raised questions as to the desirability
of some cryptostegia plantings in Central America, mainly because of growing
unemployment in that area, while in Haiti the labor supply was less
plentiful. Mr. Perkins stated that the first expansion projects had been
concentrated in Haiti primarily because of some experience with the plant in
that area, because seed was available there, because land was available for
immediate planting and because it was deemed advisable to concentrate the
first planting so that experimental work could be centered. At the end of
another 60 to 90 days, if progress were favorable, Mr. Perkins stated that
consideration would be given to expansion in other areas. Mr. Clayton stated
that he understood labor was plentiful in Haiti.

The Vice President then stated that since the development of cryptostegia
as a source of rubber was highly questionable except under war conditions,
loss repercussion would result if acreages were scattered in several areas.

Swedish Trade Policy

The Vice President then referred to the question of trade policy with
Sweden. Since the last meeting, the sub-committee had made a report con-
taining its recommendations, the report being submitted by the Board of
Economic Warfare, State Department, Navy Department and War Production Board
but with War Department dissenting. Copies of the sub-committee report
and a revised factual statement had been circulated to Board members prior to the meeting.

In conformity with the Board decision at its meeting on October 25, copies of the factual statement on Swedish Trade, "Trade Policy Toward Sweden" BL-10-Rev. 2 and the sub-committee recommendations, "Trade Policy Toward Sweden" BL-10-b were sent to the Joint Chiefs of Staff for comments. No comments had been received from that group as of November 12.

The Vice President asked whether the sub-committee recommendations were agreeable to State. Mr. Acheson indicated that the report was agreeable except the last part paragraph on Page 4 and the first part paragraph on Page 5. It was his thought that petroleum shipment should not be made contingent upon concessions being gained from Sweden.

There was considerable discussion of the recommendations of the sub-committee and particularly of the point raised by Mr. Acheson. The following resolution was passed, with Messrs. Patterson and White reserving the right to dissent:

'RESOLVED THAT over-seas trade with Sweden be continued, including the shipment of petroleum products in exchange for commitments, secret or otherwise, of the types to meet the objectives of this government set forth in paragraphs a. to l. of the recommendations submitted by the staff of the Board of Economic Warfare dated November 5, 1942; and that this policy be carried out in consultation with the interested agencies by the Board of Economic Warfare in collaboration with the Department of State."

It was agreed that in transmitting the Board resolution to the President, it should be pointed out that the Board resolution was passed without having available the comments of the Joint Chiefs of Staff.

The Vice President stated that copies of any letter received from the Joint Chiefs of Staff with reference to the sub-committee report would be sent to Board members.

The meeting adjourned at 11:30 a.m.
The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Mr. Morgenthau:

I have a memorandum from Oscar Cox dated November 23 saying "I think some serious consideration ought to be given to how high the British gold and dollar balances should be allowed to rise, particularly in view of the possible boomerang from the standpoint of Congress' reactions to additional appropriations" for Lend-Lease. I understand that your records show that as of October 31, 1942, the United Kingdom's official dollar balance was $237,000,000, and its so-called "available gold" $468,000,000, with an additional so-called "scattered" gold of $210,000,000, and that the United Kingdom's gold and dollar position is growing increasingly strong.

In the light of these facts I think it might be well for Dean Acheson, Milo Perkins, and me to have a talk with you about this situation and the possible advisability of taking steps through Lend-Lease operations or otherwise to keep the British combined gold and dollar position from rising materially above its present relatively high level.

Sincerely yours,

E. R. Stettinius
Dear Victor:

I have your letter of November 25, 1942, with respect to certain operations in French francs which have come to your attention.

Such transactions can only be effected under license and hence are only permitted when they are in the interests of this Government. Under the circumstances it would be preferable that no further inquiry be made with respect to the transactions which you have noticed.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Victor Roudin,
30 Rockefeller Plaza,
New York, New York.

Photo file in Diary
Original file direct to Paul 12/4/42
Secretary Morgenthau

Randolph Paul

We think the transactions which came to Mr. Roudin's attention were operations on behalf of the Office of Strategic Services.
Dear Henry:

I have not replied to your letter of November 12th before now because I tried to get as much information as I could on the subject of the sale of French francs in French Colonies for dollars. So far, I do not find any indication that there have been unusual transactions. Of course I am somewhat handicapped in my efforts because my inquiries of necessity must be casual. Also, our military success in North Africa has undoubtedly affected this exchange situation.

What has puzzled me particularly is the indication that the purchases of French francs, payable in dollars in the United States, are for the use of our government. The latest rate was seventy-five francs for the dollar. If any agency or Department of our government had made such offers, conditions must now have removed this need. On the other hand if such representation was false, it might be interesting to learn why the story was given that added twist and who was in the market for the francs - the interest was only in large amounts.

If the origin of the offer or any part of the story is of interest to your Department, I shall try to trace it as far as possible.

Sincerely,

Hon. Henry Morgenthau,
Treasury Department,
Washington, D. C.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Algiers, Algeria
DATE: December 3, 1942, 3 p.m.
NO.: 63

This is a message from Mr. Murphy.

Reference is made to telegram no. 444, sent by the Department at 8 p.m. on November 30, 1942.

I have been informally advised by the French authorities that the arrival of a Polish representative mentioned in the telegram under reference would be welcomed. His presence here would be useful from our standpoint as well.

Unofficially I have discovered that all of the gold belonging to Poland referred to has been sent to Europe, the same apparently being true with regard to the Belgian gold which was stored in French Africa at one time. I have also obtained information that most of the French gold is still here but it is not all stored in Kayes any longer. Apparently it has been scattered among several different places.

COLE
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China
DATE: December 3, 1942, 9 a.m.
NO.: 1425

Mr. Hall Patch, the British Financial Attaché, who is shortly departing for London and from there will go to Washington, gave us the following information. For some time now negotiations for the use of the British credit of £50,000,000 have stood still. Several proposals have been made by the Chinese but these were not acceptable to the British because they did not conform to the British requirement that this credit should be utilized for purchases made within and only for the duration of the war. Lately Wellington Koo "personally" approached the British Embassy, with the knowledge of the Minister of Finance. Koo made the following suggestions:

1. That when the war was almost at an end and the British knew that they could spare machinery and ships useful to China, the credit be used to finance transfers thereof, or

2. That the credit be used to take over customs-secured loans to China.

It seems that the British did not wish to accept either of these plans. As yet they have not agreed on a plan to use the loan. The Minister of Foreign Affairs, Mr. Soong, has not been communicative about the matter but there is hope that he may work out some practical proposition when he makes his reported visit to London, after his return to Washington.

GAUSS
By dear Mr. Berle:

This is in reply to your letter of November 21, 1942, concerning the inquiry of the Iranian Government whether this Government is willing to enter into a financial agreement with the Government of Iran whereby our needs for rials may be met directly.

I am designating Mr. H. L. White to represent the Treasury in discussions of the reply to be made to the Iranian Government.

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

Secretary of the Treasury.

Mr. A. A. Berle, Jr.,
Assistant Secretary of State,
Department of State,
Washington, D.C.

(Marked "Confidential")
Photo file in Diary
Orig. file direct to White's office 12/4/42

JNO/grs
12/2/42
In reply refer to

My dear Mr. Secretary:

I enclose copies of a paraphrase of telegram no. 367, dated November 11, 1942, from the American Legation at Teheran, Iran, stating that the Prime Minister of that country has requested the American Minister to ascertain whether the United States Government is willing to enter into a financial agreement with the Government of Iran whereby American needs for rials may be met directly rather than through the British Government. I also enclose copies of a memorandum prepared in this Department summarizing relevant information on this matter,

It is the feeling of this Department that it might be to the advantage of this Government to enter into an arrangement with the Government of Iran which would facilitate the acquisition of rials for meeting American payments in that country particularly since our need for rials appears likely to increase steadily. It will be noted that the Iranian Prime Minister has suggested an agreement patterned after the British-Iranian Agreement of May 26, 1942, a copy of which was transmitted to the Treasury Department on July 9, 1942.

I should appreciate it if Mr. Harry White or such other appropriate officer as you may designate could come to this Department at an early date to discuss the nature of the reply that should be made by this Government to the request of the Iranian Government.

Sincerely yours,

A. A. Berle, Jr.,
Assistant Secretary

Enclosures:

As stated above.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.
The British Minister and I have been informed by the Iranian Prime Minister that the Russian Government has formally requested the Iranian Government to make a financial agreement similar to the British-Iranian agreement of the 28th of May of this year. It has been proposed by the Russians that each party open and draw on a non-interest bearing account, these accounts to be in the state banks of each country. A settlement would be effected at the end of each semester on the basis that balances would be settled 60 per cent in dollars and 40 per cent in gold. We have been advised by the Prime Minister that he objects to the proposed Russian agreement since in effect it would permit the Russians to make purchases in Iran on virtually a credit basis. It may be noted that the Soviets are now seeking to purchase 30 thousand tons of rice, 24 thousand tons of barley and 6 thousand tons of wheat. Another reason that the Prime Minister is opposed to the proposed agreement is that the dollars would be at the mercy of the Soviet Government since they would remain on deposit in Moscow.

We have been advised by the Prime Minister that it is his intention to counter with a proposal that an agreement be made along the lines of that between Iran and the British. I have been requested by the Prime Minister to ascertain whether the United States Government is willing to enter into an agreement similar to that in effect between Iran and the British in order that American needs for rials may be obtained directly from the Iranian Government rather than through British sources.
The United Nations have been pouring considerable amounts of foreign exchange into Iran to cover the expenses of their forces and transport operations in that country. In recent months, these expenditures have been roughly as follows: Great Britain, 300,000,000 rials monthly; Russia, 100,000,000 rials monthly; United States, 10,000,000 rials monthly. (The present rate of exchange is 32 rials to the dollar.) Although the Department's information is incomplete, it seems that, coupled with a generally rising price level and possibly extensive hoarding of currency, these heavy purchases of Iranian funds have brought the rial bank note circulation once more up to the legal limit fixed by the Majlis (parliament). The Majlis has been reluctant to increase the circulation because of fears of inflation and its disapproval at the failure of the United Nations Governments to provide west aid and other materials needed for the maintenance of the Iranian economy.

It will be recalled that a similar situation arose last spring and was settled by the conclusion of the Anglo-Iranian financial agreement of May 26. During October, when the shortage of currency reappeared, the British Government brought pressure to bear to obtain fulfillment of that agreement through authorization by the Majlis of the issuance of additional rials in currency. After much negotiation, the Prime Minister agreed to press for the issuance of 600,000,000 rials in new currency, of which 100,000,000 were to be earmarked for Allied purchases. He also agreed to sponsor the issuance of a further 1,600,000,000 rials, provided the United States and Great Britain would guarantee to make up any deficiency in Iranian grain stocks prior to the gathering of the 1943 harvest.

The 600,000,000 rial issue was, in fact, authorized during the fourth week in October, but it appears that the quantity allocated for the Allies has already been exhausted. The Department of State and the Foreign Office have now agreed upon an undertaking with regard to wheat supply to Iran which it is expected will satisfy the Iranian Government and which will probably be signed and made public within a short time. The Foreign Office has proposed, and the Department has agreed, that a condition precedent to this undertaking shall be the creation of an Iranian commission to control the currency, presumably with full power.
power to increase circulation at will, thus removing the currency question from the hands of the Majlis and giving greater assurance that the undertakings of the Iranian Cabinet with respect to note issue will be fulfilled.

By a telegram dated November 11, 1942, the American Minister at Tehran has reported that the Prime Minister wishes to conclude a financial agreement with the United States along the lines of the Anglo-Iranian agreement of May 26.

Hitherto the principal Allied expenditures in Iran have been British, and the currency problem has, consequently, been of primary concern to the British authorities. However, the United States is undertaking vastly greater responsibilities in Iran, and it seems probable that our expenditures, and consequent need for Iranian currency, will equal or surpass those of the British within a few months.

As background information, it is of interest to note the following figures on Iranian bank note circulation:

June, 1940 --------- 990,540,035 rials
August, 1941
(Just before Anglo-Russian occupation) --------- 1,377,101,565 rials
May, 1942 --------- 1,841,308,575 rials

September, 1942
(authorized) --------- 3,000,000,000 rials
November, 1942
(authorized) --------- 3,500,000,000 rials

Note: It may be assumed that actual circulation is virtually identical with authorized circulation at the present time.

ME: JDE:raegan:RED
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Tehran, Iran
DATE: November 20, 1942, 6 p.m.
No.: 366

A bill was enacted last night by the Majlis under which it surrenders its powers over currency to the currency committee which is already in existence. The delivery of rials to the Allies by the Banque Mellie has been promised by the Prime Minister for tomorrow. There will be an immediate meeting of the currency board to consider additional issue of rials. Inasmuch as the British now feel that they have received satisfaction on the currency question we are proceeding at once with the declaration concerning wheat. The text of the currency bill enacted by the Majlis is as follows:

Article One. From the date of the passing of this law authority for the issue of notes is vested in the Note Reserve Control Committee.

Article Two. The Director General of Finances, Doctor Misalpaugh, will become a member of the Note Reserve Control Committee after his arrival.

Article Three. The conditions for the issue of notes, authority for which is vested by this law in the Note Reserve Control Committee, will be fixed by a decree of the Council of Ministers acting on proposals put forward by the Note Reserve Control Committee.

Article Four. Notes which are issued by virtue of this law must possess the following backing: A. As to 50%: Gold at the official rate ruling in the international market at the present date and/or pounds and dollars convertible into gold. B. As to 40%: Pounds and dollars guaranteed against depreciation in terms of gold at today's rate.

Article Five. The backing for the notes to the value of three thousand five hundred million rials, authority for the issue of which has been given up till this date, will be on a basis of 50% gold and silver, value at the international market rate and the jewels which were handed over to the National Bank in accordance with the law of twenty-five Aban, 1319.
Information received up to 7 A.M., 3rd December, 1942.

1. NAVAL

It is considered that 4 enemy ships (including 2 troop transports) and 3 destroyers were sunk during the engagement off CAPE FON yesterday morning.

2nd. One of H.M. Destroyers was torpedoed and sunk by aircraft off BIZERTA. One of H.M. Submarines shelled and set on fire a small ship off East TUNISIA. 10 German air force personnel were captured. The Greek submarine PAPANICOLIS sunk a 6,000 ton ship in the Aegean. 157 survivors out of a total of 310 have been picked up from the merchant ship reported torpedoed off LOURANCO MARQUES in OPTEL No. 419.

2. MILITARY

LIBYA. Artillery of our advanced armoured formations has been active in the area south of MERSA AL BRIGA.

FRENCH NORTH AFRICA. Our parachute troops who landed at PONT DU FAHS on 29th are reported to have captured OUDNA 15 miles south of TUNIS next day.

RUSSIA. Although the Russians a week to be maintaining their pressure both on the Central and DON Sectors they have failed to make any definite progress. In the South this may be due to a break in the weather reported by the Germans who state that a thaw has set in accompanied by heavy rain in the Don Bend. This would seriously impede operations by both sides.

3. AIR OPERATIONS

WESTERN FRONT. 2nd. In Northern France 7 locomotives were damaged by our fighters, one of which is missing.

2nd/3rd. 112 bombers were sent to FRANKFURT and 4 to drop leaflets. Full listing reports not repetition not yet available but preliminary information indicates attack spoilt by considerable clouds.

MEDITERRANEAN. 1st/2nd. A Naval torpedo bomber torpedoed an escorted 7,000 ton enemy tanker which was later seen stationary off West SICILY.

2nd. MALTA based aircraft attacked a convoy off KORANNA ISLAND. Bursts and fires were seen.

INDO-CHINA. 28th November. Escorted U.S. bombers hit a power station and started fires in coal storage dumps at HOUCHI and PORT CAMPHA 40 miles east of HAIKHO.
Following is a summary of operational events covering the period 26th November to 3rd December, 1942.

1. **NAVAL**

A convoy of 29 ships from RUSSIA has arrived U.K. with loss of one ship torpedoed by U-boat and 1 ship missing. The Italian blockade was actually surrendered but had to be sunk owing to bad weather.

**MEDITERRANEAN.** On the Axis supply routes to TUNISIA and TRIPOLITANIA during the period from 1st to 4th a total of 9 supply ships were sunk and 1 large tanker left heavily on fire as the result of our Naval, Naval Air, and R.A.F. attacks. In addition 3 destroyers and torpedo boats are known to have been sunk while escorting these ships. Other shipping was damaged or diverted. No sign of activity on part of Italian heavy ships or cruisers. There was very little traffic to TRIPOLI (L) during the week. Air photographs of TOULON on 28th November showed all important ships either scuttled or damaged except 2 6th cruisers. Three of the 19 submarines in TOULON on 26th November now in North African ports, 1 interned in SPAIN, 4 are known to be scuttled, 5 are unaccounted for. No evidence from photographs as to damage to Naval dockyard, installations or oil storage at TOULON.

**SUBMARINE WARFARE.** U-boats still quiet both East and West of GIBRALTAR but there are signs of greater activity in Central North Atlantic. Week ending 29th November, 6 ships sunk by U-boat, 2 in Atlantic, 4 in Indian Ocean. 2 ocean convoys, totalling 87 ships, arrived U.K. without loss, 1 outward ocean convoy arrived without loss. Ships were lost in two outward bound convoys. 6 promising attacks on U-boats reported. Shipping losses from enemy action during November provisionally estimated at 631,000 tons.

**TRADE.** Week ending 28th November, imports in convoy into U.K. were 341,194 tons of which 194,953 tons oil.

2. **MILITARY**

**TUNISIA.** The First Army started its eastward advance on 24th/25th November in two columns in the direction of TEBOURBA and MATEUR with a British/U.S. Armoured Force in between. The initial advance was slowed up by demolitions and low flying air attacks but on 26th the right column captured TEBOURBA and the Armoured Force reached a point between TEBOURBA and MATEUR and on the following day occupied TEBOURBA. Meanwhile the Northern column reached JEFNA about 12 miles short of MATEUR and was there held up by an enemy strong point, an attack on the 30th failed to clear this obstruction and the progress of this column is still checked at this point. The Southern column succeeded in capturing part of DJEDDAH by evening 30th November. On 1st, a strong counter attack on the TEBOURBA area was beaten off but the Armoured Force sustained losses in tanks and was later withdrawn and replaced in the forward area by a U.S. Armoured Combat Command. Our forces in this sector have since been withdrawn to positions overlooking the TEBOURBA-CHOUIGUI area. Despite successful attacks on Axis sea and air communications, reinforcements continue to arrive aepamodically. Axis forces in TUNISIA now about 20,000 Germans and 31,500 Italians. 10th Panzer Division believed in transit from Southern France to TUNISIA but probably only first flight yet arrived. Present tank strength after deducting battle casualties about 80–90 German and 25–35 Italian.

**LIBYA.** Build up of our forces in forward area continues though somewhat delayed by rain and heavy going. Railway now working to TEBUK although not yet full capacity. Move forward of pipe water and petrol installations proceeded satisfactorily. Much recaptured British ammunition fit for re-issue. Tank repair greatly helped by use of air transport of spares. Prisoners reached base by 20th November 31,802 including 8,318 Germans. Enemy supply situation still thought precarious owing to our successful attacks on shipping.

3. **AIR OPERATIONS**

**WESTERN FRONT.** One heavy and very successful night bombing raid on TURIN. During coastal operations, 13 attacks were made on enemy ships in the Southern part of BAY OF BISCAY but no definite results claimed. 18 aircraft including 9 Beaufighters from patrols off BREST Peninsula probably shot down in air fighting.
FRENCH NORTH AFRICA. Object of our advance was to develop earliest possible attack against TUNIS and BIZERITA. To this and some risks had to be run in regard to provision of air support. In spite of maximum effort by our air forces, difficulties of supply and maintenance, scarcity of advanced landing grounds and insufficient time to build up adequate A.A. defences and a good warning system have prevented our aircraft from giving sufficient help to our troops in the face of enemy counter attacks supported by bombing. It is likely that a short pause will be necessary to enable a sufficient weight of air support to be built up and maintained. By rapidly seizing the large and better air fields in the BIZERITA and TUNIS areas the enemy has the advantages of greater resources close behind his positions with a simpler and shorter supply system. Although our bombing attacks on Axis airfields and bases have been frequent both by day and night, the weight of these has so far not proved adequate to prevent their regular use.

MEDITERRANEAN. Beaufighters and Naval aircraft from MALTA were active against Axis shipping especially off TUNISIA. Estimated 21,000 tons of enemy shipping sunk or seriously damaged by air attack during period.

RUSSIA. Activity on central front severely restricted by weather.

In DON area, Russian Air Force concentrated on transport aircraft attempting to supply German 6th Army and destroying a large number. Russian aircraft very active in CAUCASUS in spite of bad weather. Indications that German Air Force is inadequate to afford more than absolute minimum support for Army except in relatively narrow sectors.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

GENARBUCK. Photographs 24th November show that attack October 6th caused widespread damage mainly to industrial and railway plant. Factories of following types severely damaged – cotton spinning and weaving, copper, and (?wire) (stated working on submarine parts and armour plate) metal, soap. Sawmills worked and in barracks also heavily damaged.

TURIN. Two direct hits on main block Fiat Works, 3 buildings in railway works burnt, more than half of main buildings in Viscom burnt, 20 factories including 3 Fiat subsidiaries severely damaged. Damage to artillery and cavalry barracks.

ITALY. Reliably reported – air raid situation serious, authorities unable to cope satisfactorily with mass evacuation, people dissatisfied and say so frankly. Almost all principal firms in Northern towns have evacuated their offices. Signs of a run on the banks. People in Northern Italy indifferent about the war, their only concern being to "get away from the R.A.F."

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

<table>
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<tr>
<th>METROPOLITAN AREA</th>
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<tbody>
<tr>
<td><strong>Allied</strong></td>
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<tr>
<td><strong>In the Air</strong></td>
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<tr>
<td>Bombers</td>
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<tr>
<td>Fighters</td>
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<tr>
<td>Coastal</td>
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<tr>
<td>Army Cooperation</td>
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<tr>
<th>NORTH WEST AFRICA</th>
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<tr>
<td><strong>Allied</strong></td>
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<tr>
<td><strong>In the Air</strong></td>
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<tr>
<td>Bombers</td>
</tr>
<tr>
<td>Fighters</td>
</tr>
<tr>
<td>Others</td>
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<tr>
<td><strong>Total</strong></td>
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</table>
MIDDLE EAST (Including MALTA)

Allied

<table>
<thead>
<tr>
<th>In the Air</th>
<th>Enemy</th>
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<tbody>
<tr>
<td>Bombers</td>
<td>Destroyed</td>
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<tr>
<td>Fighters</td>
<td>5</td>
</tr>
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<td>Total</td>
<td>14</td>
</tr>
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</table>

One pilot is safe.

FAR EAST

Allied

<table>
<thead>
<tr>
<th>In the Air</th>
<th>Enemy</th>
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<tbody>
<tr>
<td>Fighters</td>
<td>2</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
</tr>
</tbody>
</table>

Prob. Dest. | Damaged
-------------
1 | 2 | Nil
3 | 3 | Nil

Total | 50 | 4 | 2

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British Naval Aircraft casualties.

6. HOME SECURITY

Estimated casualties week ending 2nd. Killed 3, seriously wounded 15.
THE WAR
THIS WEEK
November 26–December 3, 1942
Office of Strategic Services

THE WAR THIS WEEK

Although the Soviet drive in the south has been slowed and the precise situation in the region of the Don bend is unclear, it appears probable that the Russians will soon relieve Stalingrad. The end of the siege of Stalingrad, one of the most notable defenses in military annals, would free the vital Lower Volga waterway for transport from the Caspian in the spring, and would unquestionably have important repercussions on Russian military morale. Meanwhile the northern Soviet offensive is slowly expanding salients south of Rzhev and in the neighborhood of Velikie Luki, although this drive has yet to develop any of the spectacular characteristics attributed to it in the press.

Against the Tunis-Bizerte bridgehead, the Allies have thrown three columns. Despite strong Axis resistance, it still appears that the enemy is fighting only an important delaying action and that he would have to defend a larger bridgehead if he intended to hold the area indefinitely. In the meantime, Marshal Rommel has dug in about El Agheila; and, with lengthening supply lines, it is assumed that it may be more than a week before the British resume their offensive in this area.

French naval officers have been warmly criticized for shortsightedness in failing to take the Toulon fleet to North Africa. But the scuttling was in any event consonant with a policy pursued ever since the Armistice of 1940—a policy of neutrality and resistance to aggressive acts from whatever source. Although the scuttling was hurried and incomplete and left a few vessels afloat and apparently intact, naval observers point out that it will be anywhere from one to two years before the Germans can repair the ships and train
crews for them. In the interim, the sunken ships will seriously encumber the Toulon harbor, to the disadvantage of its captors.

In North Africa, Darlan, whose recent elevation to power has already occasioned widespread uneasiness, has now assumed the position of Chief of State and "heir of Vichy". This act implies that not only Darlan but the Vichy regime have now been transferred to French Africa.

**Progress of the Soviet Pincers**

Although the progress of the Russian offensive north and south of Stalingrad has slackened somewhat, its southern arm has repelled a German counterattack from Kotelnikovo and has driven almost to the east bank of the Don River—below the great bend—on a broad front from Oblinoye and Nebykov to Romashkin (see map). On the west bank of the river, other Russian units may have cut the Don bend-Stalingrad railway again at Rychkov. To the east and west of the bend, fighting around Bolshoi Donshchinski and Peskovatka indicates the progress of the Soviet mopping-up operation.

Details of the attack are somewhat unclear, and military observers disagree in crediting towns captured to one column or another of the Red Army. It is apparent, however, that with steady Soviet gains in all sectors of the Don bend front, and with both railroads to Stalingrad cut, the chances of escape for the German forces between the Don and the Volga are at least problematical. Some evidence suggests that Nazi units within the bend are withdrawing eastward to join the forces in Stalingrad—a movement that can hardly be interpreted as an effort to break out of a trap. And it seems clear that, despite Soviet gains in the northern industrial suburb of Stalingrad itself, the Germans have slowed the left flank of the Russian drive, which seeks to relieve the city's defenders. This continued resistance between the Volga and the Don has suggested to some military observers that the German position there has not yet deteriorated to such an extent as to warrant a desperate attempt to escape toward the west.

**Significance of the Relief of Stalingrad**

The relief of Stalingrad, which now appears probable, would deliver to the Russians little more than a mass of ruins, whose industrial capacity has been almost entirely destroyed or evacuated. It would be difficult, however, to overestimate the moral importance of a successful defense which has been described as surpassing the epics of Verdun and Sevastopol and which may in a very real sense have been the turning point of the whole war. Furthermore the Russian counteroffensive has already broken the anchor of the German advance to the south, and may even cause the Nazis to withdraw from their whole Caucasus salient—especially if a holding attack now in progress at Voronezh should develop into a full-scale offensive. Such a withdrawal would mean the failure of the German effort to appropriate Russia's oil resources in the North Caucasus. For it would come at a time when the Nazis had not even reached Groznyi or had time to reconstruct the demolished installations in the Maikop area.

Should the Russians recapture Maikop, it would be many months before they could obtain any oil from that region. On the other hand, the relief of Stalingrad would reopen the Volga River next spring as a vital artery for the transport of oil and other strategic commodities from the Transcaucasia. In 1935, the last year for which figures are available, the Lower Volga (from Astrakhan to a little above Stalingrad) carried 10,390,000 tons of freight, of which 6,873,000 were petroleum and petroleum products, and 1,462,000 were salt.
In the same year, Stalingrad handled 4,185,300 tons of freight. At Astrakhan the Volga is closed by ice 100 days in the year, and at Stalingrad for 150 days. By about April 20 the Lower Volga should again be open to traffic.

Furthermore, if the Germans should withdraw from the North Caucasus, the Astrakhan-Kizlyar railway would again be secure. Although it would probably take several months to put the Stalingrad-Tikhoretsk line back into commission, this railway might eventually also be usable. The availability of either or both of these lines would immensely simplify the transport of oil from Baku north, which is now burdening the Central Asiatic railways. These latter lines are in turn already crowded with lend-lease goods from the Persian Gulf, whose delivery would thus be indirectly expedited by the clearing of the North Caucasus.

The Central Offensive

In the Kalinin-Rzhev sector, the second Soviet offensive is concentrating on the capture of the important airfield at Velikie Luki, which the Russians may now have partially surrounded. The attackers have apparently cut the railway line to the west of the town, but the railroad from the south may be still available to the Germans, who are offering a determined resistance. Other Russian units have cut the railway between Vyazma and Rzhev. In this sector, around Leningrad, where Soviet forces have made another effort to cross the Neva, the Russians are evidently capitalizing on the comparatively favorable weather of early winter, prior to the coming of extreme cold.

Elsewhere on the front, action has been indecisive. In the Caucasus, east of Alagir, renewed Soviet attacks are aiming to wipe out the recently established German salient toward the Georgian and Ossetian Military Highways.

Attack on the Tunis-Bizerte Bridgehead

Striking in three principal columns from the area indicated on last week's map, elements of the British First Army, supported by American and French forces, on November 24 began the direct assault on the Axis bridgehead in northeastern Tunisia.

In the north a column advancing along the coastal road forced the enemy to a slow withdrawal to strongly held positions in the Mateur area—a road and railroad junction whose capture is a preliminary to an attack on Bizerte. In the center Allied columns have driven the Germans from Medjez el Bab and Tbourba, and thrust a spearhead between Bizerte and Tunis in the Djedeida area, cutting the railroad and one of the two connecting roads. Here Axis resistance has been intense. Low-flying aircraft have steadily attacked Allied forces, and Axis armored elements are reported to have led the heaviest counterattacks thus far encountered. The Axis has reoccupied Pont du Fahs, a point from which British parachutists had advanced to capture Oudna, 13 miles south of Tunis. Farther to the south the mixed French and American column advancing from Tebessa and Gafsa is reported by the Moroccan radio to be approaching the coast north of Gabès.

Air activity has been heavy and important. After a lull of several days, enemy planes based on Sicily and Tunisia resumed attacks on Allied shipping and harbor facilities, and both sides have continued their unrelenting attacks on the very limited number of available airfields. Large numbers of enemy planes have been destroyed on the ground.

Enemy forces in Tunisia continue to be relatively small, and were believed at the end of November to number slightly more than 20,000 combat troops—over half of them German. The core of this contingent was apparently the German 7th Airborne Division. The rate of reinforcement has been estimated at about 1,000 men daily. Enemy tank strength
was placed at about 50, while Axis plane strength in southern Europe has been increased. The concentration of Axis submarines in the Western Mediterranean and the approaches to Gibraltar has declined considerably.

**Axis Defensive Strategy**

The general Axis strategy in northern Tunisia appears to be to effect extensive demolitions and offer severe resistance before taking final positions in the commanding hills south and west of Bizerte and in a defensive perimeter around Tunis. If the enemy limits his stand to these strongholds—which the Allies will presumably soon isolate from each other, and from reinforcement via Tripolitania—it will suggest again that Axis policy in Tunisia is simply a substantial delaying action. A larger bridgehead would appear essential to any effort to hold the area permanently. In the south, Axis resistance has been passive, and the coastal points occupied are believed lightly held, primarily by Italians. A more determined stand may later be made in the Gabès-border area, to which the Centauro Armored Division might be sent from Tripoli.

**Halt at El Agheila**

As Axis forces dug in around El Agheila, military observers predicted a halt in the rapid movement of the current Libyan campaign. Having advanced 800 miles in less than a month, General Montgomery must doubtless now pause to bring up infantry and artillery, to rest, to establish forward air bases, and especially to organize supply lines and fuel and ammunition dumps. Tobruk and the railhead at El Adam—435 miles from El Agheila—will probably be the principal entrenching points, with Benghazi presumably too vulnerable to enemy attack for any large-scale use. It may be a week or more before the Eighth Army is ready to resume its offensive.

Rommel has a substantial force composed of the depleted three divisions of the Afrika Korps, two fresh Italian infantry divisions, remnants of other units that escaped the Alamein battlefield, and line of supply troops picked up during the retreat. Axis port and transport facilities are believed adequate to sustain the forces at El Agheila, and to form supply dumps at intervals along the Libyan highway. If forced back from their present positions, the Axis should be able to make a series of delaying stands on the narrow coastal strip along which, for more than 200 miles, all communications must go.

**The Scuttling at Toulon**

The destruction of the French fleet at Toulon was the logical result of a consistent policy which French naval officers have pursued ever since the armistice of June 1940—a policy of strict neutrality and resistance to aggression from whichever side it came—a course followed at Oran in July 1940, at Dakar in September 1940, and at Casablanca last month.

There is no conclusive evidence that the fleet at Toulon was planning an escape to join the Allies. More likely, Hitler's swift attack aimed simply to take the ships by surprise before they had an opportunity to do an effective job of scuttling. Some have suggested that the Fuhrer had learned of careful preparations for scuttling which he wished to forestall. In any case, the fleet probably had sufficient oil on hand to make a break for Africa in case of necessity. But the German attack came so suddenly that the greater part of the vessels never had time to get up steam.

As a result, the job was hurried and incomplete. The greater part of the heavier vessels (two battleships, three heavy cruisers, one light cruiser, one seaplane tender) are reported either burned out or resting on the bottom about ten feet below their normal water line. The battleship...
**Secret**

_Dunkerque_ is flooded in drydock. One heavy cruiser, two light cruisers, five destroyer leaders, and two destroyers are "afloat and apparently intact". Six submarines remain in drydock, at least four of them undamaged. Of the 13 other submarines previously at Toulon, one attempting to escape hit a mine and blew up; the _Marsouin_ and _Casabianca_ have reached Algiers; the _Glorieux_, after putting in at Valencia, has arrived in Africa in a damaged state; the _Iris_ is interned at Barcelona; and three more which may have escaped are as yet unheard from. "French naval sources" at Barcelona (presumably the crew of the _Iris_) state that casualties during the scuttling were very slight—mostly on destroyers which the Germans tried to board and on the submarine which blew up. Land installations are evidently almost intact.

The Balance Sheet

The Italian radio has claimed that the fleet "may be salvaged in the future by our admirable naval engineers." For the larger units, however, such an operation would probably consume the better part of a year. Furthermore, naval experts suggest that it would take an additional six months to a year to familiarize German crews with the handling of the French ships, although the submarines in drydock may be an exception. One can conclude that at least a year and perhaps two years will elapse before the Nazis can make effective use of any considerable part of the fleet at Toulon.

The harbor will likewise be greatly encumbered. Toulon harbor is a small bay about 4,000 yards long and 475 yards wide called Little Road (see map). The eastern two-thirds is the fleet anchorage, 35 to 45 feet deep. At the southeast corner of the Bay is the single entrance, a 2,000-foot channel extending approximately a mile south and east to Great Pass. The latter is a 1,700-foot passage, 96 feet deep, protected by batteries on Cepét Peninsula and by a boom extending northeast from the western jetty on the peninsula to a narrow passage in 70 feet of water near the south end of Great Jetty. Along the north and east sides of Little Road are the buildings and docks of the fleet base. When the fleet was in the harbor, 25 to 30 vessels were usually anchored in Little Road, while the remainder were docked. Anchored vessels were ordinarily west of the 40-foot channel between the entrance and the large dry docks at the northeast corner of Little Road. If this was the case at the time of the scuttling, surface or underwater movement in the harbor will prove very difficult during the next few months. Any vessels sunk in the outer bay (Great Road and Toulon Bay), which has minimum depths of 78–150 feet, would not be a serious encumbrance to navigation.
Reactions in Africa

The repercussions of the events at Toulon on units of the French fleet stationed in Africa have been mixed. At Alexandria, French naval personnel is showing an unwonted sympathy for the Allied cause, but Admiral Godefroy is apparently still hesitating. Darlan he regards as a traitor, and he has irritated the British with his continued indecision; the latter may now be considering the cancellation of the original agreement demilitarizing the French Squadron. From Dakar, however, Governor Boisson has apparently flown to North Africa to put at Darlan’s disposal the French naval units under his control.

Confusion in German Propaganda Regarding Toulon

The confusion of Berlin’s propaganda concerning the sinkings at Toulon suggests that the Germans did not expect the French would actually scuttle their ships. The Berliner Boersen-Zeitung comments that the last loophole by which the Allies hoped to sneak into the back door of Europe has now been barred, and gloats over the denial to the Allies of the French naval force at Toulon. Elsewhere, in an apologetic vein, the German radio expressed regret that the treachery of French officers caused the events at Toulon, and emphasized that Germany bears no hatred for the French people. A third reaction was blunt indignation over the fact that France had not “followed the call for the European task”. “Never in history has the vanquished rejected the victor’s hand so clearly, so stupidly, so dishonorably.”

Vichy Disintegrates

With the scuttling of the fleet at Toulon, and the disbanding of the French metropolitan army, the disintegration of the Vichy administration has been proceeding apace. Al-though Pétain nominally remains at his post “in complete harmony” with Laval, press reports tell of minor officials ceasing to perform their functions, and soldiers changing into civilian clothes without the formalities of a discharge. One Foreign Office official who has taken refuge in a neutral country has described the almost complete cessation of activity in that department, with the arrest or flight of many of its members. Reports of arrests include Herriot and General Doyen, former French representative on the Armistice Commission, while Reynaud and Mandel, already under detention by Vichy, may be tried in Germany by a “People’s Court”. In France itself, special courts (not sharing the independence of the regular French judiciary) will sit in summary judgment on “terrorists”. According to advices from Bern, Laval is in Berlin, discussing the reorganization of his ministry. As for the French people, the vast majority of them apparently hope for the organization of a unified government-in-exile.

A French Government-in-Exile

In North Africa Darlan has proceeded with the organization of an old time-server’s version of such a government. As the self-styled heir of Vichy, the Admiral has a strong legal position, which he has strengthened by establishing an imperial advisory council and assuming authority as Chief of State in French Africa. Furthermore, he has not appointed to his council refugee collaborationists and politicians from Vichy like Pucheu and Flandin, but has restricted its membership largely to military figures and colonial administrators (Generals Noguès, Boisson, Bergeret, Giraud, and Governor General Chatel). The last two of these have the reputation of being pro-Allies; Bergeret (formerly Secretary of State for air under Darlan) came over to Africa after having been removed from the government by Laval. To Vichy consular and diplomatic representatives Darlan
has likewise sent instructions to follow orders from Africa rather than from metropolitan France.

Meantime, the British, the Russians, and pro-democratic French have shown signs of concern that Darlan’s “temporary” administration may last as long as the war. The Fighting French and many other emigré groups are apparently convinced that the Admiral’s administration in Africa can not serve as a rallying point for patriotic Frenchmen. In the French community of Ankara current developments have occasioned many conversions to Fighting France—but not to Darlan’s “Vichy-in-exile”. The adherence of Dakar to the Admiral has again aroused the dismay of certain pro-Allied Frenchmen, who had been temporarily reassured by President Roosevelt’s explanation of Darlan’s status. For instance, the De Gaullists of West Africa have rejected all cooperation with the Admiral, whom they regard as even more treacherous than Laval; Governor Boisson, they believe, is little better. In Cairo, Fighting French circles have expressed similar fears. One observer concludes that the original popular enthusiasm over Allied successes in North Africa is now changing to cynicism and disillusionment.

That the British permitted the De Gaullists to occupy the Vichy island of Reunion without Allied help may be a clue to the real feelings of the London government. Furthermore, in a restrained defence of the BBC refusal to let De Gaulle broadcast to the French people, Foreign Secretary Eden has implied that the elevation of Darlan was primarily an American decision, and that the ultimate responsibility for operations in Northwest Africa rested with the United States. His reference to the “extremely tense and serious operations now proceeding in Tunisia” may indicate his feeling that the conclusion of those operations would logically mean the end of Darlan’s usefulness. In Moscow, Stalin has confidentially expressed his anxiety over the deal, and his hope that the
Anglo-Americans in consultation with the Soviet Union would cooperate in the establishment of a satisfactory French administration in North Africa.

The Reinforcement of Southern Europe.

In Italy, punishment from the air has again this week paralleled the arrival of reinforcements from the north. As the RAF twice more raided Turin, Prime Minister Churchill confidently announced that "the centers of war industry in Northern Italy are being subjected to harder treatment than any of our cities experienced in the winter of 1943," and warned that "if the enemy should . . . be blasted from the Tunisian tip . . . the whole of the south of Italy . . . will be brought under prolonged, scientific, and shattering air attack." The Prime Minister's statement appeared to foreshadow a concerted effort to knock Italy out of the war.

Responsible observers warn, however, that press predictions of an Italian collapse in six months are extremely optimistic, and that loyalty to Mussolini (whom many Italians regard as Italy's chief bulwark against the Nazis) is still strong.

While the Duce has reiterated his assurance of an Axis victory, his reply to Churchill was somewhat lame. "Italy," he declared, "is now clearing her cities of women and children . . . A nightly exodus must also be arranged from cities so only fighting personnel remains . . . We have spent hundreds of millions of lire on shelters that can resist the biggest bombs."

Besides sending additional troops into the Balkans, the Nazis have apparently continued the reinforcement of Italy. Unconfirmed reports tell of the arrival of a new Panzer division in Milan, and of German concentrations in Calabria and Sicily (where two Nazi divisions may have arrived from Greece). Similarly, the Italians may be sending the greater part of their units in the Po Valley to the southwestern part
of the peninsula. Current estimates give the Italians 24 divisions in Italy itself, and four more in southeastern France.

**Spanish Activities in Morocco**

The Spanish are regrouping their forces in Morocco, according to scattered reports from the area, and troops have apparently been moved toward the border of French Morocco (see Appendix III). Spanish activities may be intended primarily to demonstrate to the Germans Spain's determination to remain neutral. The Germans, in turn, have moved no troops toward the Pyrenees frontier.

**Supply Purchase Agreement With Portugal**

The conclusion of a general supply purchase agreement with Portugal on November 23, after protracted and at times difficult negotiations, makes possible the continuance of Allied economic warfare policy in that country. When the Portuguese signed the earlier wolfram agreement in August—through which the Allies are able to purchase from Portugal vitallly needed wolfram that might otherwise go to Germany—the Portuguese Government imposed the condition that an agreement must also be reached for a general supply program. Delay in the latter negotiations, undoubtedly complicated by Portugal's fear of offending the Axis, threatened to cause suspension of the wolfram agreement. Under the new arrangement, the continuance of wolfram shipments is ensured and an exchange of needed commodities is provided for.

**Turks Confident Axis Will Not Attack**

Despite persistent rumors in the eastern Mediterranean of Axis designs on Turkey, Turkish officials do not expect any invasion, at least for the winter; and the conviction is spreading that Germany is heading toward defeat. The Turks have no evidence of Nazi preparations against them and regard all troop movements as defense measures to counter the Allied threat from Africa, according to authoritative advices. The reported transfer of German divisions to Bulgaria and Greece is thus interpreted as a move simply to reinforce Greece and its archipelagoes, and to replace Italian troops called home.

**Sapru Summons the Forces of Compromise**

Despite constant checks and disappointments, Indian moderate leaders are still seeking a way out of the present deadlock. The latest effort is that of Sir Tej Bahadur Sapru, an old and respected liberal, who has invited Rajagopalachariar and representatives of the Hindu Mahasabha, the Sikhs, the Depressed Classes, the Indian Christians, and perhaps even the Communists to meet at Allahabad on December 12. If this group can come to some sort of agreement, Sapru proposes to open negotiations with Jinnah and if possible with Gandhi also. But in view of the Viceroy's refusal to permit Rajagopalachariar to see the imprisoned Mahatma, it seems likely that a similar request from Sapru would likewise be rejected (The War This Week, November 12-19, pp. 15-16).

**Japan Seeks To Strengthen The Home Front**

American victories in the Solomons, together with the recent Allied successes in Africa and Russia, have apparently induced the Japanese Government to devote increased attention to the problems of the home front. In an effort to inject a new realism into Japanese thinking, the Government has called for statements by ex-Ambassadors Nomura and Kurusu, whose silence since their return to Japan has indicated that they were being saved for some such major task of internal propaganda. Nomura, in an article in the Yomiuru Hochi of November 22 and a speech of November 25, stresses
American production of ships and planes and the magnitude of the American challenge. Kurusu, in an important speech of November 26, has surveyed the whole history of Japanese-American relations with the obvious purpose of convincing the Japanese people that the war was forced upon Japan and that Japanese existence is at stake.

Simultaneously the Government has launched a concerted campaign to bring home to the Japanese the pressing problems of the economic situation. The emphasis laid on the necessity of increasing industrial production is typified by an address of Premier Tojo's to a Gubernatorial Conference on November 13. Tojo declared that Japan must renew her efforts on the industrial front because Japan's enemies have finally attained the productive capacity necessary to attack Japan. President Suzuki of the Cabinet Planning Board, and Kishi, Minister of Commerce and Industry, echoed Tojo's statements with similar pronouncements before the same conference. On November 15 some 200 representatives of business and industry were called to a Civilian and Government Officials Joint Conference for Increased Production. The Industrial Patriotic Association held a conference on the production problem on November 18. A few days later the Cabinet announced the establishment of a Committee for the Increase and Strengthening of Emergency Production, to be headed by Suzuki. And on November 28 the Government disclosed that it had invited 366 industrial leaders to take part in discussing problems of increasing production.

Japanese Transportation and Food Difficulties

Japanese authorities have also issued blunt statements on the difficulties of transportation. Tojo stated before the Gubernatorial Conference that “the strength to carry out a war is dependent upon the power of transportation,” but that “our first impression that goods can be sent to Japan as a result of our occupation of the various areas in the south is wrong. . . .” Thus the same government which light-heartedlly distributed rubber balls after the fall of Singapore is now telling its people that they cannot obtain the fruit of their conquests until the transportation problem is solved.

Government pronouncements on food likewise bear the mark of sober reality. Statements have been made to discourage the people from expecting an improvement in their rations. Ino, Minister of Agriculture and Forestry, as well as Premier Tojo, have issued warnings on the food situation. As if to cap the whole campaign, the Cabinet announced, November 24, that it has decided upon a program for extensive use of unhulled rice, a most unpopular food.

This entire effort to strengthen the home front becomes most significant in view of the fact that this drive has taken place on the domestic scene with no publicity abroad, indicating that it is not for purposes of external propaganda.

Slow Going in New Guinea

In New Guinea, the slow but intense struggle to eject the Japanese from their Buna-Gona beachhead continues. After repulsing minor counterattacks, our ground forces—closely supported both by artillery and aircraft—have succeeded in entering the outskirts of Buna and in taking the beach beyond Gona. They are now driving along the beach toward the center of the enemy's position at Sanananda. Despite enemy air reinforcements, we still command the air. The Japanese, however, have not been challenged on the sea, and they may have had some success in running our aerial blockade at night with reinforcements or supplies, despite damage inflicted on their destroyers by our aircraft. Our difficult overland supply line to Port Moresby will doubtless prove a handicap in long-extended operations, forcing us to rely chiefly on air transport. Without air superiority, however,
the enemy's position must remain hazardous, and there is no reason to believe that his well-prepared defenses in this area will not soon be overcome.

Elsewhere in the Southwest Pacific, there has been relatively little action. Our planes have attacked enemy shipping in the central Solomons, where the Japanese evidently are attempting to reinforce forward bases from which their troops on Guadalcanal can be supplied or augmented. But both here and in the Buin-Faisi area farther north, enemy shipping has been relatively scant. Military observers believe that another two or three weeks may be required before the Japanese will have regrouped their military and naval units and completed plans for a possible further attempt to reconquer Guadalcanal. Large naval forces still are in the vicinity of Truk and Rabaul, and ground forces available are formidable—perhaps 60,000 in the Buin-Rabaul area and 20,000 still on Guadalcanal. The possibility that further reinforcements are on the way is seen in confirmed reports of Japanese troop movements down the Yangtze toward Shanghai, whence it is believed they will embark for the Southwest Pacific.

Japanese Naval Strength

Japanese warships which are undamaged and still available for operations are now estimated by authoritative naval sources to include 4 aircraft carriers, 7 or 8 battleships, 2 or 3 heavy cruisers, and 9 light cruisers. Ten cruisers, 2 carriers, and 3 battleships are thought to be damaged and therefore temporarily inoperative.

These estimates, which were made as of November 20, take into account losses sustained by the Japanese during the November 12-15 actions in the Solomons. The number of cruisers sunk since the war began now has evidently been scaled down considerably from the total number reported

from time to time, and is conservatively estimated at 17, of which 12 were heavy cruisers and 5 were light cruisers. In addition, 1 light cruiser is listed as possibly sunk. Ten cruisers are thought to be out of action as a result of damage. Estimated sinkings of battleships and aircraft carriers remain at 1 and 6, respectively.

Castillo Intervenes

Irked by the unexpected defeat of his gubernatorial candidate in a provincial election, President Castillo, of Argentina, has ordered federal intervention in the state of Tucumán. Castillo's man, Dr. Alberto Pioseck had been edged out by the margin of one electoral vote by Dr. Campero, who was supported both by pro-Allied General Justo and the Radical Party Candidate. Campero's technical victory, in a province whose politics are traditionally controlled by large sugar interests normally favorable to Castillo, demonstrated convincingly that where the Radicals can be induced to cooperate with other democratic elements, enough anti-Castillo and anti-Axis sentiment can be mobilized to carry the day. On the other hand, the government's alleged intervention indicates equally plainly that the Castillo party is ready to resort to more and more openly dictatorial tactics, if necessary to maintain itself in power.

Uruguay at the Polls

In the first completely free presidential election in many years, the Uruguayan people have given Sr. Juan José Amézaga a thumping plurality over his pro-Axis opponent, Senator Herrera. Moreover, constitutional reforms, abolishing division of the 30 senate seats equally between the majority and leading minority parties, and ending the arbitrary granting of a number of cabinet seats to the minority party,
were also approved by the electorate. Elevation of Amézaga to the presidency should firmly orient Uruguay within the United Nations' orbit; and the accompanying changes in legislative structure should destroy the legal basis for such obstructionism as the Herreristas might otherwise have continued to exert, close observers believe. Moreover, in the new Congress, in which the liberal democratic party will have a large majority, women will hold seats—for the first time in Latin American history.

APPENDIX I

REPERCUSSIONS OF RAF RAIDS ON GERMANY

The increasing magnitude of Allied bombing operations against Germany, and the added emphasis on incendiariism in congested civilian areas—both signalled by the Cologne raid of last May—have caused correspondingly significant changes in the Nazis' Air Raid Precautions system. The most important of these changes—the entrance of the Party into the field of air-raid relief—appears to have had a favorable effect upon civilian morale, counteracting in some measure the psychological impact of the new mass raids.

Pre-Cologne Period

During and after air-raids, responsibility for maintaining order and safety, combating fires, repairing public utilities, clearing streets of debris, and similar tasks is vested in the Security and Auxiliary Service of the First Order (Sicherheits-und Hilfsdienst I. Ordnung). These functions are, in practice, carried out by various civilian defense organizations of a semi-military character. Long before the "thousand plane" attack on Cologne, the Security and Auxiliary Service in any given city, though nominally under Göring's Air Ministry, was subject to the immediate command of the Local Police Administrator, and thus indirectly subject to Himmler and his Order Police (Ordnungs-Polizei).

Backbone of the civil air-raid defense system (at least, numerically) was the mammoth, semi-official Reich ARP association, which in 1939 numbered 13,500,000 members. Often regarded as corrupt and inefficient, the association certainly had as one of its original purposes the collection of funds; nor has it, since its foundation in 1933, neglected the opening of additional sources of revenue.

If, thus far, no major scandal has developed over these financial transactions, it is because the association does render substantial service. From its inception, it has campaigned to make the population aware of the dangers of aerial attack—with such success that in early stages of the war, many Germans expected far heavier raids than actually occurred. As of 1939, the association was maintaining some 3,800 ARP schools, with 28,000 ARP teachers. It had no dearth of pupils, either, since nearly everyone, whether a member of the association or not, was legally obliged to attend.

Another vital unit in the civil defense system has been the fire-fighting force. War preparations made during the Munich crisis in 1938 apparently revealed that this department constituted a weak link, and some weeks later a law was enacted creating a centrally controlled, nationally organized fire-fighting force.

Drawn up according to the Führerprinzip, with Himmler in the role of Führer, the new Fire Protection Police remained largely a paper organization until the outbreak of hostilities in 1939. Then the threat of air-raids made action imperative. The professional fire-fighting forces in about 65 key cities were taken over and incorporated in the Fire Protection Police. Uniform fire-fighting
techniques were established, fire-fighting equipment was standardised, and unity of command under Himmler was assured. Voluntary and Obligatory Fire Brigades, which comprised fire-fighting auxiliaries organised locally, were transformed into an auxiliary fire police troop (the Voluntary Fire Brigade alone had numbered about 2,000,000 in the pre-war period). Despite these organizational achievements, however, the operational strength of the Fire Brigades was at a low point by the time of the Cologne raid—owing to serious personnel losses to the armed forces.

As for the military anti-aircraft defenses, these were always under direct command of Göring's Air Ministry, and although their efficiency does not compare with that of Britain's system, they have by no means crumbled under attack. Confidence in these defenses, up to the era of the Cologne-type raids, was very high among German civilians.

After Cologne

The bombs that rocked Cologne shook the German ARP system almost as heavily. On the day following the attack, Göring hastily transferred titular control of the Security and Auxiliary Service to Himmler—perhaps with the desire of rid of the Air Ministry of a rather embarrassing responsibility, in view of the Luftwaffe's inability either to forestall or to avenge such attacks. Göring's relinquishment of control, on the other hand, was more apparent than real: as indicated previously, the Security and Auxiliary Service had always been under the de facto command of Himmler, and in the post-Cologne merger with Himmler's Order Police, immediate command of the Service was given to Göring's old friend, Kurt Daluge.

The Party Steps In

Other moves of greater significance, however, stemmed from the RAF's intensified bombing. The most important was, undoubtedly, the action taken by the Nazi Party itself, whose prestige prior to this time had not been particularly high. Previously, although it had engaged in air-raid relief along with other governmental agencies, the Party had not wished, through publicity about its activities, to emphasize the whole bombing problem. After Cologne, however, when there was no further possibility of minimizing the seriousness of the situation, the Party changed its tactics. It had learned, before, the political advantages of identifying itself prominently with effective relief measures and implanting in the public's mind the idea that the Party had foreseen and prepared everything down to the smallest detail. Now it moved with dispatch to place itself in the position of a shock-absorber between individual citizens and the German bureaucracy— notorious for its exasperating lack of tact in dealing with the public.

The Party was already in possession of a comprehensive local organization built around blocks (40 to 60 households), cells (4 to 8 blocks), and Local Party Groups. With this advantage, it was soon able to work out an elaborate and generally efficient system for "raid relief".

Operation

The Party Block Leader has been made responsible for informing the households under his charge of the location of the concentration point selected for those bombed out of their homes. Immediately after the "all clear" signal has sounded following a raid, the homeless families gather at this designated point. After reporting to the Party leaders, the victims are provided with facilities for recovering from the shock of the raid. Then, in collaboration with the municipal administration, the Party assigns the homeless to temporary quarters which, prior to the raid, have been selected through questionnaires circulated by the Party Block Leaders.

Food and clothing, moreover, are doled out by the Party, or by the National Socialist Welfare units. In heavier raids, field kitchens are rushed to the scene of disaster. Extra rations of tobacco, cigarettes, coffee, meat, sugar, and sweets are distributed. Offices are set up to give information about the missing as well as about claims for damage (advances up to 1,000 RM for damaged property are made within a week or ten days). In order that bombed-out victims may obtain prompt service in stores, the shops selling textiles, shoes, glass, porcelain, and household articles are instructed to sell exclusively to air-raid victims for fourteen days following the attack. Those who wish to be evacuated are cared for by the Local Party Group, which will in addition take charge of the storing or forwarding of evacuees' household goods.

Cities drastically bombed get more than these material services from the Party: praise and solace are also distributed lavishly. Thus, the people of Cologne were commended for their behavior and told that the Fuhrer was the first to ask for information about the town. The Party Gauleiter in the Rhenish metropolis decorated 1,500 persons. The dead are usually buried publicly under Party auspices, and special transportation is supplied for the bereaved.

Fire-fighting Forces Strengthened

The raids on Cologne and Essen saw bombs dropped on German cities in ratios of between two and three tons of incendiaries for every ton of high explosive. The resulting conflagrations threw into bold relief the necessity of further strengthening fire-fighting facilities. Scarcely 24 hours after the Essen raid, Himmler ordered all Fire Brigades brought up to full strength, and in vulnerable areas to 20 percent above peace-time requirements. Fire-fighting equipment, moreover, was promptly transferred from former Czechoslovakia to the Reich's western areas, according to some reports, and mobile Fire Protection Police regiments were created and appear to have been stationed at strategic points within the Reich for special emergencies. Unconfirmed despatches assert that in recent raids Fire Protection Police units have been rushed to the aid of a bombed community from towns as far distant as 200 miles.

Other reports have indicated that losses of fire-fighting personnel and equipment employed during mass raids were so heavy that orders have gone out to keep both men and equipment under shelter until the "all-clear", despite the headstart thus given to any conflagration. Another consequence of the large-scale RAF raids, which were accompanied inevitably by a certain amount of bombing of country districts, was to induce the Germans to frantic efforts to reinforce their rural ARP system.

Effect on Morale

Insufficient and contradictory information places any conclusions concerning German morale upon a tenuous basis. But it is at least possible to sort out, and
to some extent to weigh, those factors in the civil defense picture detrimental to the home front's morale, and those which tend to strengthen it.

Certainly the RAF raids have confronted German authorities with a series of situations which have had to be managed with the utmost care. The supply of electricity, gas, and water has often been seriously impaired; transportation facilities and food distribution have frequently broken down. Under these conditions, panic is an ever-present threat and criticism of ARP authorities inevitable.

Mass evacuation has in several instances been necessary: after the Rostock raids, 60 percent of the city's population was reported evacuated; after the first big raid on Lubeck; some 42,000 were believed to have been made homeless; and a reliable German source admitted some 60,000 families were without shelter after Cologne's bombing. During the past two years, 1,200,000 children have been evacuated from German territories endangered by air raids. The least that can be said about these movements is that the disruption of the family cannot help but affect the general morale.

The housing shortage, too, will have its influence. Germany entered the war deficient in housing, and since the beginning of the large-scale RAF raids a mass of evidence has accumulated to indicate that the housing situation has now reached an acute stage. One British estimate places the probable damage as a result of 66 major raids on 22 built-up areas (March to August, 1942) at 215,000 dwellings demolished or rendered uninhabitable. Damaged dwellings needing immediate repairs were placed at 107,000—which does not include houses receiving such superficial damage as broken windows and blasted doors.

Two less tangible factors also play their part in adversely affecting German morale. One is the collapse of the Göring-inspired legend that German cities would be relatively immune from serious air attack. Since this belief had been reinforced by nearly three years of comparative security, its sudden demise had an effect all the more serious. The second factor is the knowledge in Party ranks that the problem of air-raid relief may soon be growing beyond their capacity to solve it, and that even partial failure to meet this test may seriously undermine the Party's prestige with the people.

Qualifications

It would be a grave mistake, however, to assume from this enumeration of adverse factors that German civilian morale is in any immediate danger of cracking as a result of Allied bombing raids. On the contrary, there is ample evidence to show that the Party's handling of air-raid relief to date has proved extremely effective in maintaining the spirits of the public. Energetic action in the distribution of food has enabled Party units to save the situation more than once, and the Party's general on-the-spot alertness and thorough organization have shown no deterioration.

The drastic measures that have been taken to cope with the housing situation have also stimulated considerable public confidence. Summary examples have been made of "space-hoarders": one man occupying a 7-room flat in Hamburg, for instance, was sentenced to two years' imprisonment for refusing to shelter a bombed-out family. Office buildings, attics, and huts are being converted into dwellings; large houses are being subdivided; and, with the aid of government loans, temporary buildings are being erected. Moreover, by quartering bombed-out families in the larger dwellings of the more prosperous, the Party has been able to portray itself as the enemy of class distinctions and the friend of the common man.

Again, by encouraging self-help and self-reliance among the people, the Party may succeed both in raising the resourcefulness of the public and in staving off the day when Party and State aid may become inadequate to the demands upon it. Families are requested to make mutual arrangements with friends or relatives, providing shelter in case one family is bombed out. And, to conserve the depleted stocks of clothing, the population is asked to take hats, overcoats, leather shoes, and blankets to the air-raid shelters.

Finally, by actually encouraging civilians within the Reich to write their men at the front in general terms about bomb damage at home, the Party is converting a liability into at least a limited asset: it reasons that one of the most important factors in maintaining morale is the belief that the sacrifices of war are being equally shared by all. So far, the Russian campaign has demanded unprecedented sacrifices of the German Armed Forces. If now the men in the field can be assured that those behind the lines are meeting—and bravely—somewhat comparable dangers, the danger of fissures developing between the home front and the fighting front may be appreciably lessened.
APPENDIX II

FOOD SUPPLIES IN FREE CHINA

Free China, as now constituted, is practically cut off from outside sources of foodstuffs, and must depend on her own resources to supply her needs. Fortunately, although the coastal regions, a large part of north China, and the principal cities have been lost to the Japanese, the Chinese Government still controls the larger portion of the total land area of pre-war China. Still more fortunately, the unconquered regions of China were normally surplus areas with respect to foodstuffs. While the population of what is now Free China was only slightly more than half (51.5 percent) of the population of all China, it normally produced 61 percent of China’s total output of foodstuffs. The percentage of cereal production was slightly higher (62 percent); and, although the percentage for supplementary foodstuffs was somewhat lower (57 percent), unoccupied China produced 80 percent of the rice output of Old China (it should be added that the present unoccupied area contains the bulk of Chinese rice-consuming people).

The war, however, has modified this favorable situation in two respects. In the first place, migration from the occupied areas has raised the population in the present area of Free China by as much as 10 percent, i.e., from 219,000,000 to some 240,000,000. In the second place, in spite of government efforts to maintain or even to increase production, the output of foodstuffs seems actually to have declined. From 1931 to 1937 annual production of cereals and supplementary foodstuffs for Free China amounted, on the average, to 75,000,000 metric tons. For 1941 and 1942, a Chinese Government estimate, presumably covering the same area, placed this output at 72,000,000 and 71,000,000 metric tons respectively. The extent to which the decline may be attributed to shifts in boundaries between free and occupied areas is not known. It is assumed here, however, in the absence of indications to the contrary, that the production data refer to the same area. Accordingly, the decrease should be attributed primarily to a decrease in production under crops (due largely to land fighting and the draining of farm labor into the army), and to unusually bad weather conditions in certain areas.

In spite of these factors, Free China’s over-all food position is still relatively comfortable. After deductions for seed, feed, and the like have been made, total food supplies in Free China in 1941 and 1942 amounted to 65,000,000 and 65,000,000 metric tons, respectively. On the assumption that the maximum increase in population indicated above has taken place, these supplies permit a per capita consumption of 275 kilograms for 1941 and 271 kilograms for 1942. Per capita consumption for China as a whole in the pre-war years was 267 kilograms. In terms of this criterion, therefore, the over-all food situation in Free China must be regarded as still satisfactory.

It must be emphasized, however, that this criterion is a relative one; it constitutes no proof that China’s population is getting the nutrition it needs to resist effectively further Japanese aggression. Furthermore, the conclusion that total food supplies in Free China are sufficient to supply normal food requirements of the population must not obscure the fact that acute shortages do take place in particular areas within Free China because of the difficulties of collecting foodstuffs and distributing them from surplus to deficit regions.

Average production of the principal crops in all China and in Free China (pre-war)

<table>
<thead>
<tr>
<th>Cereals:</th>
<th>All China (1,000 metric tons)</th>
<th>Free China (1,000 metric tons)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>41,556</td>
<td>39,458</td>
<td>95</td>
</tr>
<tr>
<td>Wheat</td>
<td>22,287</td>
<td>8,440</td>
<td>38</td>
</tr>
<tr>
<td>Kaoliang</td>
<td>6,877</td>
<td>1,632</td>
<td>24</td>
</tr>
<tr>
<td>Barley</td>
<td>7,847</td>
<td>4,169</td>
<td>53</td>
</tr>
<tr>
<td>Corn</td>
<td>6,155</td>
<td>2,976</td>
<td>48</td>
</tr>
<tr>
<td>Millet</td>
<td>6,632</td>
<td>1,257</td>
<td>19</td>
</tr>
<tr>
<td>Proso-millet</td>
<td>95</td>
<td>503</td>
<td>33</td>
</tr>
<tr>
<td>Oats</td>
<td>867</td>
<td>148</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>93,768</td>
<td>58,574</td>
<td>62</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supplementary foodstuffs:</th>
<th>All China (1,000 metric tons)</th>
<th>Free China (1,000 metric tons)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweet potatoes</td>
<td>17,724</td>
<td>10,802</td>
<td>61</td>
</tr>
<tr>
<td>Soya beans</td>
<td>6,283</td>
<td>1,976</td>
<td>32</td>
</tr>
<tr>
<td>Field peas</td>
<td>3,165</td>
<td>2,081</td>
<td>65</td>
</tr>
<tr>
<td>Bread beans</td>
<td>2,975</td>
<td>2,201</td>
<td>48</td>
</tr>
<tr>
<td>Total</td>
<td>30,147</td>
<td>17,044</td>
<td>57</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Others:</th>
<th>All China (1,000 metric tons)</th>
<th>Free China (1,000 metric tons)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peanuts</td>
<td>2,807</td>
<td>998</td>
<td>36</td>
</tr>
<tr>
<td>Rapeseed</td>
<td>2,394</td>
<td>1,828</td>
<td>80</td>
</tr>
<tr>
<td>Sesame seed</td>
<td>904</td>
<td>346</td>
<td>38</td>
</tr>
<tr>
<td>Cotton</td>
<td>775</td>
<td>242</td>
<td>31</td>
</tr>
<tr>
<td>Tobacco</td>
<td>615</td>
<td>464</td>
<td>75</td>
</tr>
<tr>
<td>Total</td>
<td>7,395</td>
<td>3,878</td>
<td>52</td>
</tr>
<tr>
<td>Grand total</td>
<td>131,310</td>
<td>79,496</td>
<td>61</td>
</tr>
</tbody>
</table>

1 Average production for 1931-34 for 29 provinces of China, including what is now Free China.

APPENDIX III

SPANISH MOROCCO

A decision by the Axis to move into Spain would call for an immediate “clarification” of the position of Spanish Morocco in the war, for the latter is so placed as to be of great strategic value to either side. To the Axis it would represent an

1 Based on a study prepared in the Research and Analysis Branch of the Office of Strategic Services.
African bridgehead rapidly reinforceable by convoys from southern Spain. To
the United Nations, its occupation would mean the safeguarding of the Gibraltar
Strait's southern shore and the elimination of a possible threat to the main
Moroccan-Algerian-Tunisian supply line.

Axis convoys could make the run from Malaga and other ports on the coast of
southeastern Spain in one night. If a sufficient force could be landed, and Spanish
troops there either proved acquiescent or actually allied themselves with the
invaders, the Germans could strike from the eastern and western ends of Morocco
over good roads, their center being buttressed by the rugged Rif Mountains (see
map at back). At the eastern end, a good road runs toward the border from
Melilla, and an improved road extends south to French Morocco. In the western
sector, a paved road leads south from Tangier, with connections eastward to
Ceuta, and Tetuan; moreover, a standard-gauge railroad connects Tangier with
the French Moroccan system. Morocco's central area, on the other hand,
possesses virtually no direct road connections with French territory: three poor
trails cross the main Rif and Pre-Rif mountains—and snow closes these in the
winter.

A significant strategic fact for both sides would be the nearness to the Spanish
Moroccan frontier of the railroad and highways which run through French
Morocco toward Algeria and Tunisia. At one point, south of Melilla, they come
within ten to twenty miles of the border. Axis forces, accordingly, would need to
strike only a short distance to achieve major results. Allied troops, for their
part, would probably find it necessary, if they wished to defend this vital route
adequately, to penetrate well into the Melilla sector in the east and the Larache-
Tangier sector in the west, in order to establish a mountain battle line easy to
hold.

If the Allied objective were the enforced neutralization or even the complete
conquest of Spanish Morocco, advances from the eastern and western ends of the
colony would be the logical course, for only the east-west highway within Spanish
Morocco gives feasible access to the central zone. Once pushed back into this
mid-sector, where the Rifs might prove unpleasant neighbors, the Axis divisions
would find their own lines of communication or advance very poor, while the
supply routes of the Allies, stretching back into French Morocco, would be fairly
good.

Fortifications

For some time, the Spanish have been concentrating on strengthening their
fixed defenses in Spanish Morocco, particularly against attack by sea. While the
most important coastal points flanking the straits are covered by batteries
of considerable power, the Atlantic littoral and the Mediterranean strip around
Melilla are somewhat sketchily defended. Opposite Gibraltar, the areas best
fortified are believed to be those around Alcazar-Seguir, Punta Cires, Ceuta, and
south of Ceuta near Cap Negro, and Tetuan.

Defenses on the Franco-Spanish Moroccan frontier are not considered very
formidable. Labor battalions have been reported at work in the Larache-
Aréllia-El Ksar el Kebir area, indicating a renewed effort to build up fortifications
and roads. Opposite Xauen, an extensive system of trenches is understood to
have been dug, and along the Franco-Rif frontier a network of light fortifications,

centered upon Tabarrant, runs from Imsil Ifri to east of El Tsemis with the aim
of preventing a bisection of Morocco from the French base at Fes. East of
Melilla, a complete chain of similar fortifications is believed to guard the
approaches from the Moulouya valley in French Morocco.

Air Bases and Planes

Spanish Morocco possesses five first-class airfields, of which the two best-
equipped are those near Melilla and Tetuan; the other three are near Larache,
Tangier and Alhucemas. In addition, many emergency landing fields are reported
to have been laid out, and extensive construction is known to have been undertaken
for a field at Tamarot. Seaplane bases, quite well-equipped, exist at Ceuta and
Melilla, and a seaplane anchorage at Alhucemas. These various air-bases are
clearly designed with a view to plane reinforcements from Spain: the number of
squadrions now in Morocco is believed to be extremely small, and most of the planes
are themselves obsolete.

The Army

The High Commissioner of Morocco, General Orgas, has under his command
some 150,000 troops. What proportion of these are natives is not accurately

known.

The two Army Corps which make up Spanish Morocco's forces—the 9th and
10th—are undoubtedly better-equipped than Franco's battalions in metropolitan
Spain; but they remain a second-rate military aggregation, ill-supplied for any
modern large-scale offensive. There are scarcely 2,000 trucks in the whole sone;
most of these are too old for rough campaigning, but even if they were in better
condition, the shortage of petrol would keep many of them idle. Armored
cars are estimated at 250, and tanks at from 180 to 250; none of these is modern
and the tanks are understood to be mostly light Italian and medium Russian
types dating from the Civil War period.

A reorganization of several years ago was supposed to have given Orgas's Army
a substantial number of 75, 105, and 155 mm. guns. Troops on the Franco-
Spanish frontier are reported to possess some anti-tank guns, mortars and howitzers;
and though a few modern anti-aircraft pieces are known to have been imported and installed, most of the Army's anti-aircraft equipment is believed to be
antiquated. One well-informed military observer has asserted that even the
partially demilitarized French troops in North Africa before the Allied occupation
could have given the Spanish-Moroccan forces a bad drubbing.

Political Complexion

How Spanish Morocco would react to Axis encroachments on metropolitan
Spain would depend primarily on the comparative strength and disposition of the
Allied and Axis forces, and secondarily on the attitude taken by Madrid. As each
week sees the further consolidation of British and American strength in North
Africa, the likelihood of a move by Orgas in the face of Allied tanks and planes
diminishes proportionately.

Orgas himself has made it repeatedly evident that he is by no means eager to
follow blindly the bidding of Madrid. Under last February's law (virtually

Regraded Unclassified
drafted by Orgas), the Moroccan general administration ceased to be dependent, in theory as well as in fact, upon the Ministry of Foreign Affairs.

Orgas has sought to consolidate his proconsular position by building up a strong personal following, and by ingratiating himself with those elements in the government who seem likely in his opinion to stay in the saddle. Though technically the head of the Falange in Morocco, he has been one of those instrumental in bringing about the fall of Sidi al-Badi. He seems to retain the confidence of Franco, and has taken pains to keep on good terms with the monarchist generals—Jordana, Queipo de Llano, Varela, Kindelan, and the rest.

One fact on which the Allies could rely in believing that Orgas will make no move against us is the High Commissioner's lukewarm attitude toward Spanish irredentist claims. Newspaper propaganda in Spain has clamored for the annexation of some or all of French Morocco, and the Falange is committed to this policy. The occupation in 1940 by the Spanish of the international zone of Tangier and its incorporation into Spanish Morocco was one step. Extremists urge further ones, such as the formation of a solid block of Spanish territory from Tangier to Ifni and Rio de Oro. Yet Orgas has been reported as saying that Spain wanted only minor changes, that this was a poor time to bring this question to the fore, and that Spain was as little likely to attack the French in North Africa as in Europe. Giving substance to these expressions, Orgas has maintained friendly relations over the past year with the French General, Noguès, still in power under Darian.

**Axis and Pro-Axis Forces**

Working against the generally dampining "neutral" influence of Orgas have been both German agents and members of the Falange. Nazi penetration in Spanish Morocco has followed the familiar pattern. The German consulate at Tangier has a suspiciously large staff. Gestapo agents abound—with a conveniently closer approachment with the Spanish Securidade. Fifth column activities among dissident elements are generously subsidized and guided.

The Falangistas are present in considerable strength throughout urban Morocco, particularly in Tangier. Here a party card is pre-requisite to a state job or contract. Yet the key posts in the Moroccan government are held largely by Army men who are neither pro-Allied nor pro-Axis, but fundamentally pro-Spanish and anti-Falange.

**Natives and Pro-Allied Elements**

Both Allied and Axis propaganda have been directed in full volume at the natives of Spanish Morocco, with the net effect of stirring up sentiments not so much pro-Allied or pro-Axis as anti-Spanish. There has been discontent among the Moors over Franco's failure to fulfill their nationalistic aspirations and over the continuing food shortage. Though Arab nationalist groups have generally adopted a pro-Axis line, and some of them have not hesitated to accept substantial subsidization from the Nazis, the Rifis are understood not to care at whose side they fight, as long as it is against the Spaniards.

As to the natives within the Moroccan military units, it appears likely that they will obey whatever orders their Spanish officers give them. Franco's prestige as a result of the victory he won in the Civil War, with the assistance of Moroccan natives, is still high—whereas that of France, which backed the losers in Spain and was then defeated itself, has sunk extremely low.

The Allies can count for support on much of the foreign population of Tangier and on all its Jewish refugees. Some of the ex-loyalists are pro-United Nations, and others, trapped in the forced-labor battalions, would welcome any opportunity to strike at Franco, whether it helped the Allies or not.

**Economics**

The economic assets of Spanish Morocco are scarcely apt to invite an Axis or Allied invasion. The area is deficient in flour, sugar, vegetable oils (other than olive oil), textiles, fuel products, cement, fertilizers, and nearly all varieties of metal manufactures. Its surpluses of iron ore, limestone and phosphate rock, and antimony ore would prove no great prize to the United Nations, nor are they likely to influence a German decision either for or against invasion.
SPANISH MOROCCO

- PRIMARY AIRFIELD
- PROBABLE AIRFIELD
- SEAPLANE BASE
- SEAPLANE ANCHORAGE

- PAVED ROAD
- IMPROVED ROAD
- RAILROAD
- INTERNATIONAL BOUNDARY

MAP NO. 1429 DECEMBER 2, 1942
REPRODUCED BY THE O.S.S. REPRO. DIV.
COMPILED AND DRAWN IN THE BRANCH OF RESEARCH AND ANALYSIS, O.S.S.