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Original to Mr. Bell.

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THE LIBRARY OF CONGRESS
TRUST FUND BOARD

Washington

CHAIRMAN
THE SECRETARY OF THE TREASURY
HENRY MORGENTHAU, JR.
SECRETARY
THE LIBRARIAN OF CONGRESS
ARCHIBALD MACLEISH

January 21, 1943

Dear Henry:

I enclose a copy of the minutes of the meeting of the Library of Congress Trust Fund Board held in your office at 10 a.m., on June 5, 1941.

I apologize for the delay in submitting these minutes. It will probably be necessary to call a meeting of the Board to confirm various poll votes in the near future. If, therefore, you have any comments on the attached minutes, I should be grateful if I might receive them at your convenience.

Enclosure

Faithfully yours,

Archibald MacLeish
Archibald MacLeish

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



THE LIBRARY OF CONGRESS
TRUST FUND BOARD

Washington

CHAIRMAN
THE SECRETARY OF THE TREASURY
DUGLAS MORGENTHAU, JR.

MEMBER
THE LIBRARY OF CONGRESS
ARCHIBALD MACLEISH

A meeting of members of the Library of Congress Trust Fund Board was held in the Office of the Secretary of the Treasury on Thursday morning at 10 o'clock, June 5, 1941. Present were: The Chairman of the Board, Henry Morgenthau, Jr.; the Secretary of the Treasury; Dr. Adolph C. Miller; and the Secretary of the Board, Mr. Archibald MacLeish. The purpose of the meeting was to confirm action taken by numerous poll votes since the last meeting of the Board, and to consider any other business which might come before the meeting.

HUNTINGTON TRUST

In confirmation of the poll vote of June 5, 1940, and the instrument of June 22, 1940, appointing Mrs. Meyer as trustee to succeed Mr. Huntington, the following resolution was adopted:

RESOLVED That the Library of Congress Trust Fund Board hereby confirms the appointment on June 22, 1940, of Mrs. Eugene Meyer, a member of the Board, as individual trustee to succeed Archer Milton Huntington, resigned, under Indenture of Trust dated November 17, 1936, between said Archer Milton Huntington as grantor and Bank of New York and Trust Company (now Bank of New York) and said Archer Milton Huntington as trustees.

Under date of June 7, 1940, the Librarian received from the firm of Cadwalader, Wickersham and Taft a communication informing him of the sale, on May 10, 1940, at a price of 180-1/4 a share, of the 5,000 shares of Newport News Shipbuilding and Drydock Company stock. The suggestion was made by the attorneys named that the expense of a judicial settlement might be saved if the beneficiaries of the trust were satisfied with the price and would express their approval to the trustee. Accordingly, an Account of the Proceedings of the Trustees under Deed of Trust of Archer Milton Huntington, dated November 17, 1936, was submitted for examination and approval by the Board. The account having been

examined and found satisfactory in all respects, the following resolutions were adopted by a poll vote of the Board and are hereby confirmed:

RESOLVED That the Board of the Library of Congress Trust Fund Board hereby approves the accounts of Archer M. Huntington and Bank of New York, as Trustees under Indenture of said Archer M. Huntington dated November 17, 1936, covering the period from November 17, 1936 to and including July 2, 1940, as submitted at this meeting, and the form of release annexed thereto;

FURTHER RESOLVED That Archibald MacLeish, Secretary of the Library of Congress Trust Fund Board, be and he hereby is authorized to execute the said release on its behalf.

The vote of December 17, 1940, approving the payment to the Bank of New York of its principal paying commission, which will amount to \$9022.50, to be charged to principal "in two equal installments every ten years beginning May 10, 1950", was confirmed.

FENNELL ESTATE

The Librarian on June 28, 1940, approved of repairs on the premises 2031 Boston Avenue, Philadelphia, Pennsylvania, to the amount of \$400, upon the statement of the Provident Trust Company that if such repairs were made it was felt it would be possible to rent the property immediately for \$22 per month. Certain of the repairs have now been made and the property has been rented (September 1, 1940) at \$22 per month. The action of the Librarian was approved.

The following poll votes, taken since the meeting of October 31, 1939, were confirmed:

Vote of November 16, 1939, approving acceptance of an offer transmitted by the Provident Trust Company of Philadelphia under date of November 1, 1939, for the property located at 2111 South Street and rear, 2108 Rodman Street, Philadelphia, Pennsylvania.

Vote of February 13, 1940, approving a resolution authorizing the Librarian of Congress to execute "Applications for the

Exemption of Real Estate" for each of the Philadelphia and suburban properties held in the Pennell Fund, and to file the same in the Office of the Board of Revision of Taxes.

Vote of July 8, 1940, approving acceptance of an offer transmitted by the Provident Trust Company of Philadelphia under date of June 24, 1940, for the property located at 1262 North Frasier Street, Philadelphia, Pennsylvania

Vote of July 10, 1940, approving five resolutions relating to the Philadelphia properties. The covering communication to the Members of the Board and the five resolutions are here entered in full:

July 10, 1940

To the Members of the Library of Congress Trust Fund Board:

Last December the Treasury Department wrote to the Librarian of Congress that the Pennell donation properties in Philadelphia appeared to be entitled to exemption from state and city taxes. The Librarian at once wrote to the Provident Trust Company, which manages these properties, asking for a full report, which was duly forthcoming on January 5, 1940, in the form of a letter from the Company's attorneys, MacCoy, Brittain, Evans and Lewis, stating their opinion that the circumstances surrounding the original acquisition seem to disentitle these properties to tax exemption. At the suggestion of the Provident Trust Company, the matter was taken up with the Board of Revision of Taxes in Philadelphia, and subsequently applications for exemption of real estate were executed by the Librarian of Congress, with the approval of the Trust Fund Board, and forwarded to the Board of Revision of Taxes in Philadelphia. These applications were declined as of April 15, 1940.

Preparatory to testing the matter in the Federal Courts, we are advised by the Treasury Department that the present arrangement with the Provident Trust Company should be modified to change it from a trustee and cestui que trust relationship (with record title in the Company) to a principal and

agent relationship (with record title in the United States). This can be accomplished by revoking the Deed of Trust of August 5, 1937, in its entirety, pursuant to clause Seventh thereof, and giving the Provident Trust Company of Philadelphia a power of attorney containing powers of management and sale similar to those in the Deed.

Resolutions authorizing the desired steps are presented herewith for the approval of the Board by poll vote, to be confirmed at the next meeting. Will you please indicate your opinion below on each of the three appended resolutions?

Faithfully yours,

The Acting Librarian of Congress
and Secretary pro tempore,
Library of Congress Trust Fund Board

The resolutions are as follows:

RESOLVED That the Deed of Trust from Herbert Putnam, the Librarian of Congress, to the Provident Trust Company of Philadelphia, as trustee, dated August 5, 1937, and recorded at Philadelphia, Pennsylvania, on October 16, 1937, in Deed Book D. W. H. No. 432, at page 134, be and it hereby is revoked in its entirety, pursuant to the power reserved to this Board in the clause SEVENTH thereof.

RESOLVED That the Librarian of Congress be and he hereby is authorized to execute and deliver to the Provident Trust Company of Philadelphia the necessary deed of revocation with instructions to cause such deed to be recorded, and instructions to cause record title to all the property real and personal which now forms the corpus of the Trust, to be placed in the name of the Library of Congress Trust Fund Board.

RESOLVED That the Librarian of Congress be and he hereby is authorized to execute and grant, on behalf of and in the name of this Board, a revocable power of attorney to the Provident Trust Company of Philadelphia to do all acts necessary or proper to manage and administer all real estate, mortgages, and ground rents now held in the Pennell Fund, and to sell the same in such manner and upon such terms and conditions as may be approved by this Board, for which such Attorney shall

receive as its commission five per centum of all income collected, as and when it is collected, and five per centum of the selling price of all property sold: Provided, however, that where a licensed real-estate broker is retained and paid in connection with any sale, the total combined commission for such sale for Attorney and broker shall not exceed seven and one-half per centum.

RESOLVED That no Philadelphia real estate taxes should be paid upon the properties held in the Pennell Fund pending final determination of the question whether such properties are legally exempt from taxation.

RESOLVED That the Librarian of Congress, as Secretary, be and be hereby is authorized and directed to request the Provident Trust Company of Philadelphia, Trustee, in the name of this Board, to withhold payment of Philadelphia real estate taxes for 1940 and subsequent years on the real estate held in the Pennell Fund until final determination of the question whether such properties are legally exempt from taxation or until otherwise directed by this Board.

WHITTALL FOUNDATION

The Secretary reported additional gifts from Mrs. Gertrude Clarke Whittall, in further augmentation of the Whittall Fund, in the amount of \$10,000 received December 22, 1939, and of \$100,000 received February 21, 1940. These gifts were accepted by the Chairman of the Board, with the approval of the Joint Committee on the Library, under the resolution adopted at the meeting of October 31, 1939, authorizing the Chairman to accept further sums proffered by Mrs. Whittall. The report of the Librarian was accepted.

HEGEMAN ENDOWMENT

The poll vote of June 25, 1940, approving the letter to be sent to the Cosmos Club with reference to the property at Sixteenth and I Streets, N. W., set forth below, was confirmed.

June 25, 1940

Dear Dr. Simon:

I am replying to your letter of June 6 in which you set forth certain proposals for the lease by the Cosmos Club of

the Porter property on the southwest corner of Sixteenth and I Streets.

The terms of your proposal have been considered by the Library of Congress Trust Fund Board. The Board finds the ~~terms~~ terms of your proposal to differ so widely from the terms on which I was authorized to negotiate with you (as set forth in my letter to Dr. L. H. Adams on November 27, 1939) that it cannot accept them. In view, however, of the Board's desire to reach an arrangement with the Cosmos Club, if agreement is possible, the Board has been willing to make certain concessions with regard to the terms set forth in my letter of November 27. It has, therefore, authorized me to inform you of these concessions. The Board wishes me to state that the terms now suggested are the minimum terms which the Board feels it would be justified in accepting. Those terms are as follows:

The valuation of the property for the purposes of the proposed lease will be based upon the assessed valuation and taken at \$375,000. The average rental over the period of the lease will be four percent net upon that valuation, the lessee assuming all charges for repair, upkeep, etc. etc. The period of the lease will be the period suggested by the Cosmos Club, i.e., thirty years. Rentals will begin at \$12,000 for the first five years, rising to \$14,000 for the second five years, to \$15,000 for the next ten years, and to \$17,000 for the next ten years. The lessee will have an option to buy at \$375,000 for the first two years of the lease and thereafter for the next three years \$400,000. Thereafter the option to purchase will expire.

If the Cosmos Club can accept these terms, an early meeting of representatives of the Cosmos Club and the Trust Fund Board should be arranged to prepare a detailed agreement.

I should be glad to have a reply at your earliest convenience.

Dr. Louis A. Simon
Vice President
Cosmos Club, Washington, D.C.

(signed)

Faithfully yours,
Archibald MacLeish
The Librarian of Congress
and Secretary, Library of
Congress Trust Fund Board

The poll vote of December 5, 1940, approving the use of the Hegeman property for the month of December by the District of Columbia Committee of the Council of Social Agencies in connection with its work in the repairing of toys and various other food, toy and clothing operations, was confirmed.

The poll vote of January 30, 1941, approving the acceptance of the offer of the Federal Works Agency, acting in behalf of the government to lease the building and coach house at 1600 I Street, N. W. for the use of the Executive Office of the President, Division of Defense Housing Coordination, was confirmed.

The poll vote of May 6, 1941, authorizing the payment of the insurance premium on 1600 Eye Street in the amount of \$186.26 from rental moneys now in the hands of the Board, was confirmed.

The Secretary reported to the Board that he had received from the President an opinion of the Attorney General rendered upon the question whether or not the Library of Congress Trust Fund Board is empowered to divide between the Library of Congress and the Smithsonian Institution the proceeds of the leasing of the property at 16th and I Streets, given to the Library of Congress Trust Fund Board by Miss Annie May Hegeman on December 20, 1938, Miss Hegeman's gift having provided only for the division of the proceeds in the event of sale and not for the division of moneys received by way of rental. It is the opinion of the Attorney General that under statute U. S. C., title 2, Sec. 156, the Trust Fund Board is not authorized to apply income from donations to any purpose other than for the benefit of the Library, its collections, or its services, except when a proper condition is attached to the donation. In view, however, of the possibility that the property may remain unsold for a considerable period of time, it is the Attorney General's opinion that the safer course would be "for the Library of Congress Trust Fund Board to explain the situation to the donor, seek her approval of a division of the income with the Smithsonian Institution, and then, if such approval is had, recommend the enactment of enabling legislation".

After consideration of the question thus presented, the Board instructed the Secretary to communicate with Miss Hegeman, as suggested by the Attorney General, to ascertain whether now, or after a reasonable period of time, she would wish to approve a division of any income

received from the property by way of lease.

MINUTES

The minutes of the meetings of October 31, 1939 and of November 2, 1939, having been previously communicated to the members of the Board individually, were confirmed without being read.

The minutes of the special meeting of June 21, 1940 were read and confirmed.

The minutes of the present meeting will be communicated to the members of the Board individually, to await confirmation at its next meeting.

CONGRESS OF THE UNITED STATES
 JOINT COMMITTEE ON REDUCTION OF
 NONESSENTIAL FEDERAL EXPENDITURES

There will be a meeting of the Joint Committee in
 Room 314 Senate Office Bldg., on Friday, Jan. 22,
 at 10 a.m., (10-11 executive session)

To hear Dr. Studebaker, Office of Education

1/21/43
 Advised
 DWT Bell 1/22
 Keppel/Inga Attended

HARRY FLOOD BYRD,
 Chairman.

BRITISH MOST SECRETU.S. SECRETOPTEL No. 30

Following is supplementary resume of operational events covering the period 14th - 21st January, 1943.

1. NAVAL

NORTHERN WATERS. Combined effect of Allied Submarine and air attack which has caused heavy casualties in medium-sized ships, of minelaying, of the laying-up of diesel-engined ships owing to shortage of fuel, of the diversion of merchant tonnage for naval purposes and of long delays in repair work has brought about a serious enemy shipping shortage in northern waters, and GERMANY may soon be faced with the need to expand her shipping construction and repair programme.

MEDITERRANEAN. A convoy from MALTA reached ALEXANDRIA without incident. Destroyers operating from BONE and MALTA made successful sweeps off coasts of TUNISIA and TRIPOLITANIA and in Central MEDITERRANEAN. M.T.Bs. raided TRIPOLI Harbour. At least 9 ships, many small craft, and one Italian submarine were sunk by these attacks and by H.M. submarines and naval aircraft. Enemy Mediterranean traffic continues to be concentrated on SOUSSE and BIZERIA and to a less extent on TUNIS.

SUBMARINE WARFARE. Week ending 20th 7 attacks on U-boats by surface craft and 12 by aircraft, 5 considered promising. Belated reports of 5 promising attacks received from U.S. Naval authorities, one of these in S.W. PACIFIC. At present U-boat policy in ATLANTIC seems to be concentration in N.W. Approaches.

SHIPPING CASUALTIES. During the week 16th - 22nd inclusive, 11 ships were reported torpedoed. A large Panamanian oil refinery ship in a homebound convoy S.W. of ICELAND, a British ship in convoy east of DEMERARA, a small British schooner sunk, probably by a submarine, off CURACAO, 2 cases petrol carriers (Greek and Norwegian) off the coast of CYRENAICA and one British ship sunk and one U.S. ship damaged off SYDNEY, N.S.W., one U.S. and 2 British ships were damaged by aircraft off the N. African coast and a Belgian ship was damaged by mine off W. coast of SCOTLAND and beached.

TRADE. Four ocean convoys totalling 86 ships arrived in Home Waters without loss. Imports in convoy into United Kingdom week ending 16th - 515,000 tons of which 244,000 oil.

GERMAN FLEET. SCHARNHORST and PRINZ EUGEN believed returned BALTIC from SKAGERRAK. Reported that HIPPER was damaged in action off North Norway 31st December.

JAPANESE FLEET. Estimated now in southwest Pacific - Battleships 5, converted aircraft carriers 2, 8" cruisers 8, 5'25" cruisers 7.

2. MILITARY

FRENCH NORTH AFRICA. In the Northern Sector rains continued to limit activity to patrolling. Enemy is now strongly entrenched. Operations further south as reported in daily OPTEL. Estimated enemy combatant strength now 40,000 Germans, 10,000 Italians, tanks unaltered.

FAR EAST. BURMA. ARKAN. Japanese resistance continues on line DUMBAIK (MAYU Peninsula) - BATHWAUNG. Advance restricted by difficult country, where thick bamboo groves provide concealment for Japanese snipers and ambushes.

GENERAL. One Japanese Division has left Central CHINA believed for NEW BRITAIN via CAROLINE ISLANDS.

FRANCE. Various reports indicate transfer German formations almost certainly to RUSSIA. Move of 7th Panzer Division confirmed but number of other Divisions which have moved or may be moving not yet known.

3. AIR OPERATIONS

WESTERN FRONT. 2 heavy night raids on BERLIN caused the Germans to react on a heavier scale than for some time. Features of the German raid on LONDON 17th/18th were the large number of different units, represented each by a few aircraft, from which the attacking force was drawn and that at least half the total force came from about 6 different Reserve Training Units, of about 70 aircraft despatched about 50 reached the outskirts of Greater LONDON and 25 of them penetrated to within a 10 mile radius from the centre.

MEDITERRANEAN. About 20,000 tons of enemy shipping were sunk by our aircraft during the week, other promising attacks on ships were made whose results could not be conclusively estimated. At least 15 enemy transport aircraft between SICILY and TUNISIA were destroyed.

RUSSIA. An indication that the Russian Air Force is keeping well up behind its advancing armies is given by the location on 15th of some 230 Russian aircraft in an area on the STALINGRAD-KRASNODAR railway about 60 miles behind their forward troops.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

BOMILLY-SUR-SEINE. U.S. attack 20th December. Reported considerable casualties among German personnel especially in A.A. gun positions. Direct hit on Officers' Mess. Morale of French in neighbourhood raised by attack.

DUISBURG. Attack 6th/7th December. Eye witness states tramway depot almost totally destroyed (statement confirmed by photographic reconnaissance). This was main depot for whole town and was nearly full, adjacent tram repair depot also almost totally destroyed. Considerable traffic dislocation for 4 days resulting in much absenteeism and late arrivals in factories. Relief trams from neighbouring towns impracticable since gauge non-standard. Skeleton bus service eventually organized was insufficient and lateness of workers persisted for some time.

5. HOME SECURITY

No damage of military importance. Estimated civilian casualties week ending 20th (not including fighter bomber raid south LONDON midday 20th) - killed 99, seriously wounded 264 of which 78 and 221 in London.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

MOST SECRET

OPTEL No. 24

Information received up to 7 A.M., 21st January, 1943.

1. NAVAL

Two of H.M. Destroyers sank a 3,000 ton ship off SOUTH SARDINIA on 18th. Two other Destroyers in operations off TRIPOLITANIA on 19/20 sank one small merchant ship and ten other small vessels. One of H.M. Submarines torpedoed and probably sank a 5,000 ton ship off East TUNISIA on 19th.

2. MILITARY

LIBYA. 19th. The enemy continued his withdrawal westward from TARHUNA and also ZAULA west of TRIPOLI. Contact with his rearguard was made south east of TARHUNA in the evening. 7th Armoured Division and 2nd New Zealand Division continued advance in parallel columns meeting practically no opposition but slowed up by difficult ground and mines. 51st Division continuing advance along coast road entered ZLITEN morning and continued towards HOMS.

RUSSIA. The Russians have captured PROLET ARSKAYA about 20 miles northeast of SALSK. In the northern CAUCASUS they are pursuing the retreating German forces northwestward astride the BAKU-ROSTOV railway.

3. AIR OPERATIONS

WESTERN FRONT. 20th. Mosquitos obtained a number of direct hits on the Hengelo diesel engine works. Fighters over FRANCE damaged 6 locomotives and destroyed one F.W. 190 and damaged 2. About 60 enemy aircraft flew over southeast ENGLAND, 30 of them (F.W. 190's) flying low operated over KENT, SUSSEX and SURREY. 12 penetrated the LONDON Area. Enemy casualties 13, 3, 9. Curs 2 Spitfires, one pilot safe. 20th/21st. 8 aircraft went sea mining. 10 enemy aircraft operated over southeast ENGLAND. Enemy casualties 2, nil, nil. Curs one Mosquito.

LIBYA. 19th. Fighter bombers continued throughout the day to attack enemy M.T. in the TARHUNA area. U.S. LIBYA-based Liberators bombed TRIPOLI Harbour. At night Malta Wellingtons patrolled off FRENCH NORTH AFRICA.

18th/19th. Bisleys attacked objectives between TUNIS and SOUSSE and blew up a train believed carrying petrol. Wellingtons dropped 26 tons of bombs on BIZERTE starting large fires. 19th. 56 U.S. Fortresses bombed railway centres and other objectives south of TUNIS. SOUSSE was attacked by U.S. Liberators and a small ship was hit. Successful attacks were made on MEDENINE and on M.T. in the DJERBA-MARETH area.

MEDITERRANEAN. 18th/19th. MALTA aircraft torpedoed a 9,000 ton ship which was left sinking. Two others of 4,000 tons were probably hit. 19th/20th. Albacores off DJERBA sank one ship of 6,000 tons and another of 2,000 tons.

4. HOME SECURITY

20th. LONDON. Shortly after midday bombs were scattered in South Eastern districts accompanied by machine gun fire. A direct hit on a London County Council School at LEWISHAM caused several casualties amongst children. Elsewhere damage not extensive although one large fire in SURREY Docks. In LONDON area 53 killed reported so far. About the same time bombs were dropped at many places in SUSSEX, SURREY and ISLE OF WIGHT without serious damage. Also considerable machine gun fire.

January 22, 1943

MEMORANDUM FOR THE SECRETARY:

We had a preliminary meeting in Chairman Doughton's office this morning, attended by the Chairman, Jere Cooper, Wes Disney, and Robertson of Virginia. Stam also attended. We discussed the Rural situation at some length and the withholding problem for 1943. No specific conclusions were reached and it was decided to have another meeting Monday evening, January 25th, at 7:30. In the meantime, I am to furnish those attending the meeting with short statements of various methods for preventing undue doubling-up under withholding.

It was also suggested by Robertson that the Treasury get out some statement on the Rural plan. I said we would draft a statement for the Monday meeting for the ideas of the Committee members. I gathered the general impression that all those attending the meeting were against the Rural plan. The Chairman suggested that collection at the source could not be well started before July 1st, but everybody agreed that it should begin at some high rate then -- the rate to be determined must depend upon what is done about the doubling-up problem. I outlined to the meeting four plans for treating the doubling-up situation:

1. No forgiveness, but amortization of the unforgiven tax over a reasonable period.
2. No forgiveness, but collection of the unforgiven tax by additional collection at the source.
3. No forgiveness, but application of the unforgiven tax against compulsory lending requirements if compulsory lending should be in the bill.
4. The 10% forgiveness idea. It was implicit that forgiveness should be applicable for only one-half

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of the year; then later we talked at some length whether there should be more than one-half a year's forgiveness if collection at the source was not to be done until July 1.

Stam suggested some additional plans, notably the 1941 or 1942 (whichever is lower) plan, and his \$5000-\$30,000 earned income plan. He also suggested the idea of forgiveness of the two top brackets.

So far as I could gather, the 19% forgiveness idea seemed to be the most acceptable, but no one has apparently closed his mind.

(Initialed) R.E.P.

RSP/kfa

MINUTES OF BOARD MEETING

January 22, 1943, 11:00 A. M.

East Wing, White House

Present: The Director (Presiding)

Mr. Vickers

Mr. Jones

Miss Perkins

Mr. Bell (Acting Secretary of the Treasury)

Mr. Smith

Mr. Soles

Mr. Kefauver

Mr. Davis

Mr. Brown

Mr. Flinders

Mr. Johnston

Mr. Kefauver read a memorandum on the relationship between agricultural wages and the supply of farm labor. He pointed out that the wages received by farm labor are still, for the most part, sub-standard. The average hourly wage is still less than 30 cents, and the average daily wage is \$2.80 without board. These wages, Mr. Kefauver stated, are substantially less than those paid in even the lowest paid industrial occupations.

This disparity, according to reports received from the field by the Employment Service, is one of the principal factors which make it difficult to recruit agricultural labor.

The situation is especially acute with respect to workers engaged in the production of dairy products, poultry and livestock, which are year-around occupations. The situation is aggravated by the fact that workers in these activities are generally the most skilled of all farm laborers, and by the further fact that many dairies are located in industrial areas, where the demand for labor at higher wages is strongest. This situation will grow worse in 1943, stated Mr. Kefauver. Dairy and livestock production are already beginning to show the effect of this shortage. Milk wages cannot be rolled upon as the sole or even the principal method of securing additional labor for these activities, it will be necessary to increase wage rates if production is to be maintained.

Furthermore, Mr. Kefauver indicated that wide wage disparities exist within agriculture itself, thus placing farmers in the position of bidding wages up by planting from each other.

The remedy will be difficult to work out, said Mr. Kefauver, but a number of alternative approaches are available. He stated that in England the same situation was met by the imposition of a national minimum wage for agriculture, with additional local minimum wages set by wage boards in the various agricultural areas. Another possibility, he stated, would be to stabilize agricultural wage rates at the entering rate for unskilled industrial labor in the particular area.

Miss Perkins pointed out that the average straight time daily wage for common labor in industry is \$5.06. Mr. Davis expressed the opinion that it would be impossible to raise farm wages to the level prevailing in industry. Evidently, he said, the farmer believes that he is unable to pay higher wages, and to double his wage bill would not solve the problem.

Mr. McHitt agreed that wage increases alone would not solve the problem, but contended that such increases were indispensable to a solution.

Mr. Richard pointed out that, while farm wages are still low, they have increased substantially since 1936. Mr. McHitt admitted that this is true but also pointed out that farm income has increased far more than farm wages, the gap between the two having widened steadily since 1939.

Mr. Richard stated that we are running short of manpower, and that agriculture has always constituted a residual supply of surplus labor, but that these reserves have now been exhausted.

The Director inquired whether the importation of Mexican labor had been considered. Mr. McHitt stated in reply that substantial numbers of Mexicans would be imported, with a guaranteed wage of 30 cents per hour, or the prevailing rate, whichever is higher. These guarantees were insisted upon by the Mexican government.

Mr. Richard also stated that the importation of Bahaman labor into Florida is being considered, but that Florida growers are refusing to sign contracts with the Department of Agriculture to obtain domestic workers unless assured that Bahaman labor will also be brought in. Mr. Richard expressed the opinion that the reason for this was that the growers believed Bahaman labor would be more docile.

The Director expressed the opinion that we must use all available sources of supply, and that the importation of Bahaman labor would free manpower for other necessary purposes.

Mr. McHitt stated that he and Secretary Richard had prepared a program for submission to the Congress, calling for the recruitment and transportation of a land Army of about 3,500,000 migratory farm workers. In this connection, the Director suggested that the American Legion in every locality be enlisted to cooperate in this recruitment program. Mr. Richard stated that it was planned to use the Office of Civilian Defense, the American Legion, service clubs, and other community organizations. However, he expressed the opinion that it would be impossible to rely exclusively upon this voluntary type of local labor. Regular migratory workers must also be recruited to travel for considerable distances as part of a land Army. In order to afford sufficient security and incentive to attract individuals into such an Army, it will be necessary to assure them in advance of certain stated wages and working conditions. The Director agreed.

Mr. Bodles stated that wages are not the only incentive applicable to agriculture and to farm labor. He pointed out that the farmer is now more precarious than ever before in our history, and yet we face a shortage of essential foods and fibers. The real threat is a sense of future insecurity, based upon a

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threatened shortage of labor regardless of wages, upon the shortage of machinery and the rationing of certain essential supplies.

Mr. Flanders stated that a Land Army would not solve the problem of year-around agricultural labor for dairy and livestock production. He suggested that it might be possible in many localities to recruit and train women for this work.

The Director and Mr. Rickard also stated that a program of incentive payments to induce increased agricultural production was being drafted for presentation to the Congress. Mr. Jones inquired whether this was a subsidy. The Director replied that it was not a subsidy, but an incentive payment designed to compensate the farmer for producing more instead of less. Mr. Eccles pointed to the difficulty caused by these incentive payments when other essential crops were in competition with the crops for which such payments were offered.

Mr. Brown expressed the opinion that the Congress would not be so much opposed to incentive payments as to out-right subsidies.

The Director also read a telegram from Mr. Patton stating that wages and prices were not the crux of the feed problem; and that the most important contribution to increase production would be the provision of credit and supervision designed to increase the production of more than 1,000,000 family type farmers whose manpower is not now fully utilized.

The Board adjourned at 12:45 to meet again on February 5, 1943 at 11:00 A. M.

* * * * *

RELATION BETWEEN AGRICULTURAL PRICES AND INCREASED PRODUCTION
OF FOODSTUFFS

Assuming normal weather conditions, the total output of farm products in 1943 can be increased in only two ways:

- (1) By getting more production from the land now in cultivation
- (2) By bringing in new land

There is a small amount of additional land that can be brought in, but the bulk of the increase must come from higher yields per acre and more live-stock production from the land now in use. That means greater effort on existing farms and higher costs incurred for the additional product. These costs must be compensated for in the form of higher prices or by other means of increasing farmers' returns.

In 1942 our total output of agricultural products was 27 percent above the average for 1935-39. In the last year, production increased only 8 percent from the average of 1910-14 to the years 1918-19. Although there are very definite limits to increasing the total output of farm products, the more essential products can be increased both by obtaining a higher yield per acre or per animal and by shifting from one crop to the other, such as from oats to soybeans and from short-staple cotton to peanuts. The increase that can be obtained from shifting production into the more essential products is by far the most important. For instance, the acreage of soybeans harvested for beans was increased from 5,881,000 acres in 1941 to 10,762,000 acres in 1942, and the acreage of peanuts picked and threshed was increased from 1,914,000 acres in 1941 to 3,690,000 acres in 1942. Acreage shifts of this kind are made by farmers who have been producing the crop in the old producing areas and by new growers in the old producing areas, as well as by new growers in new producing areas. The tremendous

increase in peanut acreage in 1942 involved establishment of many new producing areas. The increase in dry bean acreage which we are attempting to get for 1943 will require establishment of new producing areas in the Eastern Plains States where beans will be substituted for wheat.

Prices received for farm products serve as the income inducements for production increases and for shifts of the type just mentioned. They therefore affect increased output in four different ways, as outlined below.

1. Adequate Income Incentives for High Output

Prices for the products produced on any one farm or group of farms must be sufficiently high to cover expenses and to leave a satisfactory income to the farmer and his family. The prospect of considerably higher returns for the increased effort that is necessary for a high level of output is a powerful incentive to induce the farm family to work harder and to take the additional risks involved in increased production. Necessity for an income incentive to increased effort is recognized in the war contracts of other industries and in wage agreements with war workers. Farm incomes must also be sufficiently high to hold farm families in agriculture in competition with other work opportunities. Cash income from farm marketings in 1942 are estimated at about 15.8 billion dollars, or 37 percent higher than in 1941. Thus farm incomes are satisfactory in most areas and on most sizes and types of farms. But if farm output is to be increased in 1943 it will be necessary to obtain maximum production on all farms that have sufficient land and equipment to make a significant contribution. Some adjustments in income incentives will be needed, especially in some areas, to get maximum output.

2. Larger Output Costs More Per Unit of Product

If production of a product such as milk is increased greatly on any one farm or a group of farms, the expenses usually rise faster than the output and therefore the additional product costs more to produce than the normal volume of production. For instance, if milk production is to be increased considerably on a farm where as many cows are now being kept as there is barn room for and the present labor force can handle and if little more home-grown feed can be produced, the cost per 100 pounds of the additional milk will be much higher than for the normal output. If the cows on hand are already fed to capacity, more cows would have to be kept, and perhaps new shelter would have to be provided for them. Purchased feed is usually more expensive than home-grown foods. An extra milker might have to be hired or a new milking machine purchased (if one could be had). To get increased output under such circumstances, it is necessary to provide either higher prices for the entire production or a return for the additional product that more than covers the increased expense. Otherwise the farmer will have no larger income for himself than if he had not increased production, and he will have carried all the burden and risk involved in increasing output.

3. Production in New Areas More Expensive

If increased production of a crop, such as beans, necessitates growing them in a new producing area, or at least on farms where beans have not previously been produced, some special problems are met and higher costs are incurred. Farmers must learn how to grow beans. Their yields are likely to be low for the first year or two even if the area is adapted

for bean growing, because the farmers have not developed sufficient skill in handling them. (This was true of peanuts in 1942.) The new growers must have an inducement to shift out of the crops they have been growing and to make the new investment necessary for equipment, seed, and other supplies for a crop in which they have not had experience. This requires compensation for the additional risk involved in shifting to the new crop. It is comparable to conversion from automobile manufacture to tanks or airplanes.

4. Income from Products Most Needed Must Be High Enough to Get Required Increase in Output

Since increased in the essential products must come either from higher yields per acre and per animal or from shifting away from other crops, it is necessary to adjust prices or other income incentives of these products so that land and labor can be drawn into their production to whatever extent is necessary to get the desired output.

The price increases or income incentives that are needed to induce the amount of shifting that is required to meet the needs for essential products must be measured against the net returns that can be obtained from alternative uses of land and labor. For instance, with present prices for cotton, farmers will need to get about \$125 a ton for peanuts in order to shift land and labor from short staple cotton to peanuts. In 1942 the increase in peanut acreage came largely out of corn and idle land.

A wide margin between returns for the product of which an increase is desired and the closely competing products usually brings prompt production response. For instance, production of soybeans in 1942 was nearly double that of 1941, and most of the increase resulted from larger plantings.

The price in December 1941 was 82 percent above the price in December 1940. Production in 1942 was increased in response to favorable returns from soybeans, and because corn allotments restricted corn acreage in 1942. Thus the alternative crop was oats in most areas, and the income margin between oats and soybeans was rather wide. Soybean prices in December 1942 were only 8 percent higher than they were a year earlier. To insure a continued high level of production soybean prices will be supported at \$1.60 to \$1.75 depending on oil content.

Table 1 shows the recent price and production changes for some of the farm products important in the war effort. While price increases alone do not account for the differences in production response it is fairly evident that increased prices have exerted an important influence. For instance, among the crops soybeans head the list of price increases from December 1940 to December 1941 and they also have the largest increase in production. Similarly, hog prices have increased most in the livestock group, and hogs also show the largest increase in production. A discussion of the price and production changes in some of the other commodities follows.

Dry Beans

With a price of \$5.12 per bag as of December 15, 1942, and a pre-planting season price of roughly \$4.60, farms last year planted only 95 percent as many dry edible beans as they did in 1941 when the December 15 price was \$4.93 and the pre-planting season price was \$3.68. This indicates that the farm price required to obtain the present goal of 3.3 million acres -- a 43 percent increase over 1941 planted acreage -- would be considerably above \$4.60 at planting time. The average price to farmers

at harvest time in 1942 was \$4.69. With two-thirds of the bean crop in 1942 grown in the States of Michigan, California and Idaho, where beets, potatoes and soybeans compete with edible beans, it appears impossible to get the increase of beans asked for in old areas. New areas will have to be established and a program organized from the ground up. New areas in the Plains States might produce the beans at present prices after they are once established, but further incentives seem necessary to induce shifting into the new enterprise.

Hogs

The recent pig crop report indicates that farmers plan to increase the number of sows farrowed this spring by 24 percent compared with the number farrowed a year ago. This is welcome information. Such an increase, if also continued for fall farrowings, would exceed the 1943 goal for hog production.

Farmers have increased hog production by such a proportion because of the very favorable relationship between the costs and returns involved. During the September-December period just ended, the period when farmers were making their plans for spring farrow of sows, the average hog-corn price ratio, based on prices received by farmers, was 18.4 for the United States. Farmers' response to this ratio is in accord with past reactions to changes in the relationship between hog prices and feed costs.

So long as the hog-corn price ratio stands at about 15, it may be expected that farmers will tend to maintain the level of hog production anticipated this year. Prospective prices for grain in 1943 make it

necessary that hogs sell at about maximum prices permitted under price ceilings, if the hog-corn price ratio is to be held near 15.0. If production of hogs is to be expanded still further in 1944, a ratio more favorable than 15 may be required during the last four months of 1943. Inasmuch as farmers are near their capacity for producing hogs without seriously curtailing production of other things, future price policy with respect to hogs must be governed by the need for other types of production.

Milk

The butterfat-feed ratio for the United States was 26.4 in December -- 7 percent above the average 1922-41 butterfat-feed price ratio of 24.6, but a ratio of 29.0 is considered necessary to encourage farmers to produce the goal of 122 billion pounds of milk in 1943. The present ratio of 26.4 is too low to reach the goal. Another aspect that needs to be considered is the level of whole milk prices. The average price received by farmers for milk sold in December was \$3.01 per 100 pounds. The December milk-feed price ratio was 1.44. This ratio was at a level comparable to that needed to reach the milk goal in 1943. However, because of recent increases in feed prices, the ratio likely to prevail during the year will be less than required to assure achievement of the goal. To obtain butterfat-feed and milk-feed price ratios in 1943 sufficiently high to reach the milk goal returns received by farmers for butterfat would need to be 8 cents per pound higher than prospective prices, and for whole milk about 50 cents per hundredweight higher.

With the prospective quantities of milk to be sold in 1943 as whole milk and as butterfat in cream, farmers would need to receive in increased prices about 400 million dollars above what would be received from present prices of dairy products in order to reach the goal for milk production. However, if an incentive payment program were inaugurated under which individual farmers would be given a relatively large payment for additional milk production instead of a smaller increase in price for total milk, the increases in total returns needed to reach the goal would be reduced to about 250 million dollars.

Eggs

The average price received by farmers for eggs in the United States in 1942 was 30 cents per dozen. The average 1942 egg-feed price ratio was 19.0. It is believed that a ratio of this level is necessary during 1943 to encourage production of the 4,780 million dozen eggs called for by the 1943 goal. The Department's program to encourage production of eggs assures an average farm price for eggs in the United States during the spring months, when production is seasonally large, of not less than 30 cents per dozen, and an annual average price of not less than 34 cents. Prices received by farmers for eggs in 1943 are likely to average at least 15 percent higher than in 1942, and in the spring months of flush production the increase will be relatively greater than for the year as a whole. Although feed prices may average somewhat higher in 1943 than in 1942, the situation with respect to production of eggs is expected to be sufficiently favorable to encourage the 1943 goal level of production.

TABLE I

Farm price of some products on December 15, 1942,
 Percent increase in price from December 1940 to December 1941,
 Percent increase in production 1942 over 1941, price increase 1942,
 and direction of goal for 1943

Product	: Unit :	: Price	: Price Dec.	: Production	: Price Dec.	: Desired
		: Dec. :	: 1941 as :	: in 1942 :	: 1942 as :	: direction
		: 1942	: percent of:	: as percent :	: percent of :	: in 1943
		: :	: 1940	: of 1941	: 1941	:
		Dollars	Percent	Percent	Percent	
Soybeans	bu.	1.59	182	198	108	Same
Beans, dry edible	bu.	5.12	176	105	104	up
Potatoes	bags	1.12	151	105	135	up
Peanuts for oil	lbs.	.0397	130	170 1/	99	up
Flaxseed	bu.	2.36	126	129	132	up
Hogs	cwt.	13.27	175	124 2/	129	up
Butterfat	lbs.	.421	105	103)	138	up
Milk, wholesale	cwt.	3.01	128	103)	113	up
Eggs	doz.	.397	127	118	116	up

1/ All peanuts for nuts

2/ Pigs raised

1/22/43

The Relation of Agricultural Wage Rates
to the Supply of Farm Labor

The relation of agricultural wage rates to the supply of farm labor is a question which was discussed at some length at the meeting of the Economic Stabilization Board on last October 30. You will recollect that on that occasion I voiced the opinion that unless rapid and effective action were taken to stabilize farm wage rates at substantially higher levels than then prevailed, little else that the War Manpower Commission or other governmental agencies could do would be effective in preventing a farm labor crisis, and serious curtailment in the volume of agricultural production in 1943.

On that same occasion, Secretary Richard indicated the need for seeing that workers in agriculture are paid better wages in order to provide an adequate labor supply to keep up agricultural production. He compared the average earnings of farm workers of less than 30¢ per hour with average earnings in manufacturing industries of over 80¢ per hour. He characterized this disparity as a gross inequity to farm workers, and said that they could not be expected to stay on farms if this disparity continued as wide as it is.

Two weeks later, the Economic Stabilization Director, on November 13, lifted temporarily the ceiling on agricultural wages, recognizing in taking this action that agricultural wages in general are substandard.

Because the problem of farm wage rates in relation to labor supply has already been outlined before this Board, I do not wish to do more than to summarize this problem in the light of the experience of the War Manpower Commission. During the past year, the greatest single obstacle encountered by the employment offices of the War Manpower Commission in recruiting agricultural labor has been the relatively low wages offered for farm work. During the past year there has been no shortage of potential agricultural workers. But the

availability of these workers has been seriously curtailed by the level of wages prevailing for farm work. In many instances farm labor shortages have occurred during the past year which it has been impossible to alleviate by extraordinary recruiting efforts. Where wage rates have been adjusted, however, our experience in a majority of cases has been that workers were available to harvest the crops.

During the months of October and November, the War Manpower Commission worked out in cooperation with the Department of Agriculture an employment stabilization program for dairy, livestock and poultry farms. An integral part of this program, which was recognized as essential to its effectuation, was action by the Secretary of Agriculture to effect adjustments in wage rates on dairy, poultry and livestock farms to assist in securing and holding an adequate supply of hired labor. This program is in partial operation now, although one aspect of it relating to the deferment and transfer of workers has been superseded by a recent amendment to the Selective Training and Service Act. Special training and recruiting programs are being pushed vigorously, and transportation is being provided by the government to bring workers to farming areas where these types of farms need workers. But the ultimate success or failure of the program will depend upon the action which is yet to be taken with respect to adjusting the wage rates of workers on dairy, livestock and poultry farms.

At the time this program was being developed, I requested information from the Regional Offices of the War Manpower Commission concerning the causes of the labor shortage on these types of farms. Nearly every regional office reported that it could recruit milkers, feeders, husbandmen and poultrymen, provided employers were willing to pay adequate wages. They reported also that they were encountering the greatest difficulty in filling orders for workers at the low wage rates offered by many employers. Although other factors, such as poor housing and discrimination against certain types of workers, were also

reported as obstacles to recruiting, low wages was the outstanding problem. The location of much of the dairy industry in areas of industrial activity has made dairy farm wages extremely unattractive in comparison with other wage rates. In Massachusetts, 100 unfilled orders for dairy hands were reported, at wages ranging from \$30 to \$80 per month with room and board. In Pennsylvania, the employment offices reported offers of employment at from \$20 to \$70 per month for experienced farm hands. In Illinois, farmers were reported to be generally offering \$55 to \$65 per month, and in Wisconsin, from \$50 to \$70 per month for experienced general farm and dairy hands. It has been almost impossible to recruit experienced, qualified workers at these wage rates. The prevalence of these rates has been the most important single factor in the movement of workers away from farms to better paying jobs in war industries.

The wage rates I have quoted illustrate another troublesome aspect of the farm wage problem. There is wide variation in the wage rates offered, even for similar work on farms in the same locality. The lack of reasonably uniform wage rates leads to heavy turnover in employment, and the shifting of workers from farm to farm. Often the local employment offices can place workers at the higher rates offered, but not at the lower rates. In Palm Beach County, Florida, workers today are receiving \$7 and \$8 per day for picking beans, and as low as \$2.25 per day for work in potatoes and sugar cane. As a consequence, workers are flocking to the bean fields, while sugar and potato work is neglected. Our biggest problem in Florida today is not the lack of enough workers, but our inability to get workers to perform some of the lower paid jobs. The War Manpower Commission has asked the Department of Agriculture to take action within its power to narrow this disparity in wage rates, and to raise substandard rates to a fair level. Upon such action as much as upon the importation of additional workers for work depends a reasonable solution of the Florida

farm labor problem.

Serious as our difficulties have been during the past year, the largest crop in history has been successfully harvested. There are signs, however, that we cannot look for a repetition of this achievement in 1943, unless coordinated measures are undertaken to provide an adequate supply of labor. Sheep and cattle ranchers in the west are sharply reducing the size of their flocks and herds. Dairy production during the fall and winter months has fallen off more rapidly than is normal at this time of year. Farmers are hesitating to maintain or expand their crop acreages because of uncertainty as to the availability of labor.

The War Manpower Commission and the Department of Agriculture will take every possible measure to mobilize the army of farm workers which will be needed this year. Thousands of new workers will be trained, whole communities will be mobilized for emergencies, Mexican and other foreign workers will be recruited, young people, women, and other sources of labor will be drawn upon. Every possible consideration is being given to agriculture in the administration of the Selective Training and Service Act. Workers of military age are not now permitted to leave agricultural employment without the consent of their local draft boards. I must emphasize again, however, that the success of these measures will depend upon whether prompt and positive action is taken to narrow the present disparity between wage rates in agriculture and in alternative employment. Workers are continuing to move from the farms to the still expanding employment opportunities in the shipyards, the munitions, ordnance, and aircraft plants, to war plants of every kind. Among them are many of the highly skilled and experienced farm hands who cannot be replaced by new recruits, fresh from a short training course in farming. Conditions must be improved on farms, so that this movement can be slowed, and so that qualified replacements can be found who are willing to step into the jobs that now are vacant.

In my opinion, it will not be enough merely to remove ceilings on farm wage rates in order to permit them to rise to levels which will hold labor on the farms and attract qualified new workers. There have been no restraints imposed by the government on the wages that farmers could pay to their hired men. What has happened during the last few years? Wages paid to farm workers have advanced, it is true. But on the first of this month, the Department of Agriculture reports that for the country as a whole average farm wages by the day were \$2.83 without board, and \$62.43 by the month, without board. This is still an average of less than 30¢ per hour for the country as a whole. In comparison with increases in farmer's gross and net incomes, the wages paid to farm workers have lagged behind. In each successive year since 1938, the total amount paid out in farm wages has been a smaller percentage of the total gross income and the total net income of farm operators. The total net farm income received by farm operators in 1942, as reported by the Bureau of Agricultural Economics, was 105 percent greater than the average net income received in the years 1936-1940. The total wages paid out to farm workers in 1942, on the other hand, was only 53 percent larger than the average wage payment in 1936-1940. If farmers had paid twice as much for labor in 1942 as actually was paid, they still would have received the highest net incomes since 1918 and 1919. While the War Manpower Commission, of course, has made no detailed investigation of the ability of farmers to pay higher wage rates, these figures would seem to suggest that they can afford to pay higher wage rates without the need for raising existing price ceilings on farm products.

The record seems to show conclusively that farmers are slow to increase wage rates in accordance with their ability to do so. It seems essential that prompt action be taken by the Department of Agriculture to bring about the adjustments which are needed in view of the emergency situation now facing agriculture. The Department of Agriculture has been given the authority to take such action, and it will have to take such action if the objectives of this grant of authority are to be fully achieved. This has been the experience in Great Britain, which, when faced with a similar crisis, acted promptly to stabilize farm wage rates at levels which were adequate to maintain the supply of hired labor.

I do not believe it will be necessary to raise farm wage rates to the level of wages in manufacturing industries. Every allowance should be made for lower living costs in rural areas, for the perquisites furnished to farm workers, and for the natural preference of many persons for farm work. In a summary statement entitled "Regulation of Farm Wages" issued by the Farm Security Administration of the Department of Agriculture last November after authority over farm wage rates was delegated to the Department, the suggestion is made that the parity concept be applied to farm wages as is now the case with farm prices. Under this formula farm wage rates would be established which would bring them to the same ratio with common labor rates in industry as prevailed in 1929, or in the years 1910 to 1914. Another approach would be to set farm wage rates at the equivalent of entrance rates for common industrial labor, with due allowance for differences in costs of living, and board and lodging when furnished by the farmer. I cannot undertake to advise this Board as to whether either of these approaches, or any other would be best. But I can and do say that unless some action is taken soon to stabilize farm wage rates at levels which are fair both to worker

As employer, we can have no confidence that the labor which will be available this year to agriculture will be adequate to meet the critical food production problem with which each of us, in his way, is concerned.

In summary, allow me to list the conclusions which may be drawn from our experience and observation of the farm wage problem.

1. The level of farm wage rates is among the most important, and in my judgment the most important single factor affecting the adequacy, in terms of numbers and in terms of quality, of the farm labor supply.
2. Wage rates must be raised to narrow the present inequality between farm and non-farm wage rates.
3. Wide differentials between wage rates on different farms for the same kind of work, and between different types of farm work must be narrowed.
4. Mere lifting of wage ceilings will not achieve these purposes. Farmers are slow to raise wages in accordance with their ability to do so, and wages on different farms, or in different occupations do not stay in proper relationship to each other.
5. A reasonable formula for adjusting farm wage rates, with due allowance for regional variations and differences in various types of farm work should be worked out.
6. In line with these suggestions ~~in~~ the Department of Agriculture should, without further delay, take the action with respect to farm wage rates which will be essential to the achievement of the 1943 food production program.

Analysis of Exposure to Payroll Savings Plans

January 16, 1943

Classification	Number of firms exposed to payroll savings plans	Total number of firms in the country (estimated)	Percent of total exposed	Number of employees exposed to payroll savings plans	Total number of employees in the country (estimated)	Percent of total exposed
I. Business organizations						
(1) Firms with 5,000 employees or more	470	473	99	8,645,091	*	*
(2) Firms with 500 to 4,999 employees	5,710	5,844	98	7,989,062	*	*
(3) Firms with 100 to 499 employees	<u>25,662</u>	<u>29,146</u>	<u>88</u>	<u>5,793,554</u>	*	*
(4) Subtotal - large firms	31,842	35,463	90	22,427,707	*	*
(5) Firms with less than 100 employees	<u>138,645</u>	*	*	<u>3,325,799</u>	*	*
(6) Total Business organizations	<u>170,487</u>	*	*	<u>25,753,506</u>	<u>32,700,000</u> 1/	<u>79</u>
II. Governmental organizations						
(1) Federal Government	*	*	*	2,376,067	2,800,000 1/	85
(2) State and local governments	*	*	*	<u>1,427,347</u>	<u>2,900,000</u>	<u>49</u>
(3) Total governmental organizations	*	*	*	<u>3,803,414</u>	<u>5,700,000</u>	<u>67</u>
III. Grand total	<u>170,487</u>	*	*	<u>29,556,920</u>	<u>38,400,000</u> 1/	<u>77</u>

Treasury Department

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

* Data not available

January 22, 1943

Firms Employing 100 Persons or More Participating in Payroll Savings Plans

(As reported by the War Savings Staff's State Administrators)

January 16, 1943

State	Firms employing 100 - 499 persons			Firms employing 500 persons or more		
	Total number of firms (estimated)	Number of firms with payroll savings plans	Percent of total with payroll savings plans	Total number of firms (estimated)	Number of firms with payroll savings plans	Percent of total with payroll savings plans
Alabama.....	332	258	78	68	67	99
Arizona.....	72	72	100	14	14	100
Arkansas.....	131	101	77	17	17	100
Northern California.....	795	728	92	134	133	99
Southern California *.....	1,254	1,133	90	159	156	98
Colorado.....	142	137	96	31	31	100
Connecticut.....	692	582	84	165	155	94
Delaware *.....	63	59	94	23	23	100
District of Columbia.....	190	177	93	52	52	100
Florida.....	356	219	62	50	45	90
Georgia.....	419	393	94	127	126	99
Idaho.....	33	33	100	10	10	100
Illinois.....	2,190	2,109	96	503	498	99
Indiana.....	812	737	91	169	150	89
Iowa.....	214	178	83	46	39	85
Kansas *.....	300	290	97	25	25	100
Kentucky *.....	293	242	83	52	50	96
Louisiana.....	332	302	91	55	55	100
Maine.....	168	160	95	55	55	100
Maryland.....	405	354	87	111	111	100
Massachusetts.....	1,378	1,215	88	336	328	98
Michigan.....	1,318	1,022	78	287	287	100
Minnesota *.....	444	440	99	81	81	100
Mississippi.....	119	107	90	37	37	100
Missouri.....	976	737	76	143	141	99
Montana.....	49	49	100	4	4	100
Nebraska.....	144	139	97	29	29	100
Nevada.....	27	21	78	5	5	100
New Hampshire.....	170	149	88	32	32	100
New Jersey.....	1,180	999	85	200	199	99
New Mexico.....	42	41	98	5	5	100
New York.....	4,275	3,985	93	933	913	98
North Carolina.....	554	491	89	141	138	98
North Dakota.....	20	20	100	0	0	-
Ohio.....	1,916	1,775	93	504	486	96
Oklahoma.....	325	303	93	56	56	100
Oregon.....	310	296	95	55	55	100
Pennsylvania.....	2,708	2,321	86	638	625	98
Rhode Island.....	352	307	87	85	78	92
South Carolina.....	166	159	96	99	99	100
South Dakota.....	26	26	100	5	5	100
Tennessee *.....	517	432	84	92	88	96
Texas.....	1,010	736	73	125	124	99
Utah.....	44	44	100	10	10	100
Vermont.....	74	70	95	12	12	100
Virginia.....	359	349	97	111	111	100
Washington.....	399	370	93	73	73	100
West Virginia *.....	292	220	75	77	77	100
Wisconsin.....	680	501	74	154	154	100
Wyoming.....	25	25	100	4	4	100
Alaska *.....	2	2	100	3	3	100
Railroads.....	52	49	94	115	109	95
Total.....	<u>29,146</u>	<u>25,662</u>	<u>88</u>	<u>6,317</u>	<u>6,180</u>	<u>98</u>

Treasury Department

January 22, 1943

* Data are for January 9, inasmuch as no January 16 report was received.

MEMORANDUM FOR THE SECRETARY.

January 22, 1943.

Mail Report

Though somewhat lighter in volume, the mail follows last week's receipts in subjects mentioned, and proportion of complaints to praise.

Taxes are uppermost in the public mind. There are fewer complaints about the Victory Tax, but many more endorsements of some sort of "pay-as-you-go" plan. Out of 60 letters favoring such a scheme, one-fourth praised the Ruml Plan by name. There were 2 letters of outright opposition, and 17 letters condemned the idea of forgiving a year's taxes.

There continue to be many letters asking specific questions about the new income tax measures, and complaints of nonreceipt of reply are beginning to appear. Many of those who are worried by rumors of heavier taxes still to come, state that they will cash their Bonds if rates are raised.

Four correspondents report a rumor that the Car Use Stamp for the coming year will be \$25, and all vigorously protest this.

On the Bond front, innumerable telegrams and letters have replied to the widely distributed appeal not to permit reduction in payroll pledges because of the Victory Tax. Only a small percent of these replies were antagonistic or discouraging. In most cases, the report came in that no reductions were being requested, and some letters spoke of increased pledges. Many letters combine Bonds and taxes by saying that uncertainty of future income taxes is either causing cancellation of Bond pledges or preventing an increase in such pledges for fear they cannot be met.

MEMORANDUM FOR THE SECRETARY.

January 22, 1943.

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Memorandum for the Secretary.

January 22, 1943.

Five would-be purchasers were unable to secure Stamps and Bonds from local Post Offices. There were 36 Bonds submitted for redemption, and individual complaints reached 52 -- half of these, as usual, being from employees of the War Department.

Toward the end of the week a few letters, 3 of them from Congressmen, questioned the legality of a recent issue of \$660,000,000 in Federal Reserve Bank notes.

There was an unusually large group of requests for the Annual Report and for the Bulletin of the Treasury.

Gabriele E. Forbush

General Comments

Scott A. Edwards, Clerk, U. S. District Court, Augusta, Georgia. At the request of Mr. Seraphim Peroulas, a subject of Greece, who has made his declaration of intention to become an American citizen, I am transmitting herewith a Money Order in the sum of \$50, which he desires to contribute to be used for national defense purposes. On January 30, 1942, Mr. Peroulas forwarded to you, through the Clerk of Court at Roanoke, Virginia, a contribution of \$32.50, and he has today exhibited to me a Defense Bond in the sum of \$500 which he has just purchased at Augusta, Georgia.

W. L. Renn, Investments, Norfolk, Va. May I take the liberty or privilege of extending to you my sincere congratulations on your financing policy? The pattern of maturities and the rates of interest thereon are certainly well considered and should easily finance the war in the range specified, eliminating past uncertainty by a definite and comprehensive program. * * *

Charles Friedrich Harris, Woodhaven, L. I., New York. I would like to find out from you in what way would it be best for me to pay my 1942 Federal income tax. Last year I pay the 1941 Federal income tax, on witch it cost me \$113.93 cents. I paid it in 3 instalments. For 1942 - income tax will be more. Ever man in the Navy Yard say the best way to pay the 1942 income tax is to pay it with the United States Savings Bond. * * * I have 9 - \$25 Bonds to my good - and I have two (2) \$50 Bonds. I have one \$50 Bond for Navy Day and the other \$50 Bond for December 7 - and Pearl Harbor Day. The two Bonds I would like to give away. Now when it comes time to pay the income tax what would you doe -- would you help pay the Federal income tax or it best to pay in cash, pay it in Bonds. Mr. H. Morgenthau would you please let me no?

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Favorable Comments on Bonds

A. M. Mengelt, R.R. Carrier, West Salem, Wisconsin. Since a year ago last December I have had a little contest in my 6 rural schools in buying Stamps and Bonds. * * * About 90% of pupils are buying Stamps every week. So far this year the schools have bought around 800. * * * I have bought 6 pictures of the flag which I am going to give them at the end of the year. Since last April 1, I have sold better than \$500 worth of Stamps and Bonds a month on my rural route. So far this month, it is almost \$700 worth. If all the rural carriers would try to do the same, they could do just as well. * * *

S. L. Swartz, Middletown, Pa. I am writing this letter in protest to action taken by the Citizens Bank and Trust Company of Middletown, Pa., when they insisted upon payment of a Promisory Note at the expense of cashing in three War Bonds. This note was but \$75. It was never defaulted, and the endorser was more than willing to have it renewed, and is accepted as a responsible citizen whose credit is unquestionable. I have been willing to pay 6% interest on my obligation at this bank, and at the same time purchase War Bonds at considerable less interest value, because it is my patriotic duty to do so. I was amazed when, on four days' notice, my obligation was called in, and could hardly believe my hearing was correct when they accepted my offer to cash my Bonds to pay this note; as it was the only available method I had on such short notice. As a matter of fact, they offered to send the Bonds to the Federal Reserve Bank for payment, and proceeded to do so. I have received the check for the Bonds and will have paid this obligation when this letter reaches you. * * * It is my firm belief that the banking institutions of this Country should welcome the opportunity to lend money to private citizens for the purpose of purchasing War Bonds, if it is their desire to sacrifice to this extent to perform their duty as a citizen; not to induce people to cash their Bonds in payment of obligations in these institutions when they are secured by willing endorsement or collaterally sound. * * *

Mrs. Julia Sutherland, Grants Pass, Oregon. I have received the letter which you requested Mr. Upham to write me, and I have shed tears of gratitude for the same. I cannot express how happy I am to realize that such a high official of the U. S. Government, at this busy time, would spare time to write me in regard to the small amount of money I have to put in Bonds. I did not expect an answer. However, I bought a Bond yesterday, and will buy at least one more during the year, and possibly more. I find that the Bank pays only one percent, and the Post Office pays two percent, so very likely I may transfer the money to the Post Office.

Dr. A. B. Parmenter, Drake, North Dakota. Your circular letter headed, "A Message to the American Farmer", was received and read. It is a very sensible letter, and I read it and re-read several times and enjoy the way it is brought out. I believe we are doing something and will continue to do more and more. With such a huge scarcity of labor, it is an uphill pull, but not nearly so hard as the dear boys in the lines that are doing our real work. I am running a large farm of 1,820 acres, and at present have only one man on it, and he is apt to be called in the draft any day. We will continue to do more, and win.

John and Katherine Rothenberg, Chicago, Ill. May I offer you my sincere and hearty thanks for the "Citation" presented to my husband and myself on January 7 at Chicago Stadium. We are humbly grateful to you for this high honor and we shall try very hard to live up to the name of "Champion War Bond Buyers". To start the year off, we have decided to do without that rug I had been saving up for. We dropped pennies and dimes into a milk bottle for the past twelve months, but now we realize that such things would be very little comfort to us if anything should happen to change our American way of life. So it is with a happy heart I shall add another \$50 Bond to my collection, and rather than think of it as a sacrifice, we consider it a God given privilege to be able to do our little bit for our country. * * *

Warren J. Snyder, Alhambra, Calif. My father, age 88, and mother, age 80, are buying War Bonds out of an income of \$44 a month. * * * The last few years their only income was the Old Age Pension given by the State of Indiana, which was for mother, \$18 per month, for dad, \$20 a month. From this amount they saved enough to buy two \$25 Bonds. Now here is a quotation from their last letter. "We got our checks yesterday and they gave us a raise of \$3 each -- Ma \$21 and mine is \$23, so you see we now will get \$44 a month, and we will take the \$3 and every three months will buy a \$25 War Bond. We are going to start and get one this month then April 1, July 1 and September 1, and so on as long as we last. We can get along fine and help Uncle Sam that much." My father gives over 40% of his income to his country, knowing that the odds are he will never live to receive anything back during his lifetime. It should put to shame the great number of men and women who are crying over the 5% to 10% the Government asks them to invest for Bonds. * * *

George T. Martin, Brooklyn Trust Co., Brooklyn, N. Y. As I am employed as a head teller in a bank, I have noticed that quite a number of people are redeeming their War Bonds. Now as you know, that does not help the War effort, so with your permission, may I make a suggestion that I believe should help this situation? Why not make it possible for a bank to make loans against War Bonds as collateral, and in the event that a borrower defaulted, then the bank could redeem the Bonds for the amount due, and the proceeds left to be sent to the borrower. The contact could be made when a Bond holder asks the bank to redeem the Bond, then the bank could explain the necessity for the party holding on to the Bond and then could suggest the bank would be willing to loan him money against his Bond as collateral. * * *

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John F. Williams, DuBois, Pa. Our Good Earth, Keep It Ours. As a father of 9 children living on a small farm, having followed events from Munich till now, I feel I have an understanding of the conditions that confront our nation. Well, to sum it up, the B. & O. Railroad, where I work, asked us to invest 10% of our wages in Freedom. I am glad to be able to report the family -- wife and kids -- have seventeen \$25 Bonds and will buy through the B. & O. one \$50 Bond every month. This for not only my own boy who is in the Navy, enlisted December, 1940, but all the other boys from other homes. We in this family will do our best to further the War effort. My wages are from \$140 to \$150 per month. I think the American people will come through when they are all awake. Yours for Victory.

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Unfavorable Comments on Bonds

C. S. Boothby, (Engraving), Chicago, Illinois. * * *
We shall, of course, do everything we can to urge our employees to continue their purchase of War Bonds in spite of the Victory Tax and the extremely heavy income tax. However, the New Deal Administration must eventually learn that "IT'S IMPOSSIBLE TO GET BLOOD OUT OF A TURNIP". The WPB has restricted the use of copper in our photo engraving industry to 60% of our needs and zinc to 50% of our requirements. * * *
Naturally, our men have suffered a heavy reduction in their income during the past year - over 13%. And they still feel obligated to buy food and clothing for their families, even if they are prevented from keeping their houses warm enough to live in because of the stupidity and hindsight of the New Deal Administration. Therefore, from our industry all over the United States I prophesy that with any more burdens and restrictions piling on us, you will necessarily and inevitably face a reduction of the purchases of War Bonds by our employees.

Carl H. Elshoff, President, The Mine "B" Coal Company, Springfield, Illinois. Your letter of January 14, regarding the continuation of our 10% War Bond Payroll plan along with the Victory Tax. We have been advised that because of this Tax, the miners employed by us wish to discontinue this plan to at least April to ascertain what is to be done about the wage scale. I personally am so disgusted with the ramification of the Victory Tax plan that it is difficult to get behind it whole heartedly. The administration of the tax and its collection is so burdensome that in all, it will result in a waste and loss rather than an income. It is the desire of the Company to cooperate and we feel that our miners have done a splendid job during 1942 in buying over \$100,000 worth of Bonds, but we are next to helpless in putting over this job under the conditions.

Senator James J. Davis forwards the following letter he has received from John C. Syling, Superintendent, Lawrence County Public Schools, New Castle, Pa.:

Dear Senator Davis: I feel that I should write to you concerning the amount of advertising material that is coming out of the Treasury Department on the sale of Stamps and Bonds. We are selling both Stamps and Bonds in every school in Lawrence County, and more than that, we are doing an excellent job of it. However, I feel that the expense in connection with the advertising is uncalled for. * * * The amount of paper used so unnecessarily must surely interfere with the production of the paper needed for other purposes. The colored posters certainly are expensive to make, and what is more, in a County the size of Lawrence, even though it is small, it is impossible to get the material all delivered to the schools. * * * I hope that you will be able to help in saving some of the money which is apparently being wasted in excess advertising.

Fitzgerald Hall, President, The Nashville, Chattanooga and St. Louis Railway, Nashville, Tenn. I have your wire of the 14th about urging employees to increase their purchases of War Bonds. * * * Perhaps you do not understand that probably most of these employees have no income, or practically none, except their salary or wages. They do not know what their tax burden this year will be. To make definite and absolute commitments under those circumstances are, from their standpoint, of doubtful wisdom, and until the Government can give them the information so they can definitely know what their tax burden will be, I do not see how we can be expected to insist that they assume more burdens than they are already doing. Probably, also, you may not have in mind that many railroads pay to some employees has not been increased at all during the War period. * * * Practically everything I read in the papers purporting to be statements of public officials seem to assume that the public generally has largely

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increased incomes. That is not true in many cases and presents a very difficult problem. * * * We are just as unselfish and patriotic as anybody else, and we will do all we can within the proprieties, but I do not feel we should try to overpersuade employees to make commitments until they know with some reasonable degree of definiteness whether they can fulfill them or not. * * *

Ella Louise Waterbury, Oriskany, N.Y. May an exasperated citizen suggest that less urging to buy Bonds and more attention to make it easy as possible for the willing public to buy might be conducive to larger sales of War Savings Bonds? On December 30, 1942, with \$40 cash in hand, I made application at our Post Office for a \$37.50 Bond -- only to be told that no Bonds of this denomination were available or would be before the following week. I inquired several times during the following weeks, without success in obtaining a Bond. Finally, on January 11 at about 4:30 p.m., when in the Post Office on other business, I learned on inquiry that the Bonds were then available. I hurried home to pick up the cash and returned to the Post Office about 5:10 to be told that it was too late to make out a Bond that day, as the forms had to be forwarded to Washington on the day the Bond was sold and the last outgoing mail of the day was then made up. Under normal transportation conditions I should, without waiting all this time, have gone into the Bank at Utica to purchase the Bond, but under present conditions, restrictions, etc., such a trip seems scarcely justified. * * *

Clifford E. Paige, President, The Brooklyn Union Gas Company, Brooklyn, N.Y. Telegram regarding employee subscriptions to War Bonds is received. Why this is a telegram instead of a letter, I don't understand. You are right that many doubtless intend to reduce or discontinue their subscriptions. How can they help it with constantly increasing taxes on their incomes? * * * We shall continue doing everything we can to encourage them to keep what they buy and to buy all they can. Your telegram will be posted as a bulletin so that all employees may see it.

Favorable Comments on Taxation

Walter E. Daley, President & Treasurer, The Bridgeport Grinding Machine Co., West Haven, Conn. The collection of the second week's 5% Victory Tax from our employees has presented somewhat of a problem to me as Treasurer of this company. Our weekly deduction amounts to approximately six hundred dollars, and it is the total of 13 weeks' deductions, amounting to nearly eight thousand dollars, that I am concerned about. Our company, like others, is of course acting as a Collector for the Treasury Department, but having this money in our possession is quite a responsibility. It could be a temptation - to put it to temporary use in our business - it could be looked upon by creditors (if we had any) as a nice sum to attach in civil suits, etc., etc., and it is subject to all the vicissitudes of business. * * * Wouldn't the Treasury be benefitted a great deal if the Victory Tax collected by employers was turned over to it as it was collected, in most cases weekly, and a final report and adjustment made on a quarterly basis? In this way the Treasury would have a regular weekly receipt of the taxes and it certainly would be a large sum based on the total payrolls of the country. If and when this Victory Tax is increased, and a withholding tax against the current year's income taxes is put into effect, the weekly receipts would be tremendous and the responsibility of the employer collecting and having such taxes in his possession would also be greatly increased. * * *

M. G. Lawson, Rockford, Illinois. Release forms at once! Permit those who wish, to pay 1942 taxes in cash with some discount allowed.

Charles L. Myers, Baltimore, Md. I am inclosing fifteen cents for the Victory Tax, as I made three dollars by carrying orders at an A & P Store.

Marcus M. Browne, Bethlehem, Pa. Please do not louse up the Ruml income tax pay plan. We little people need it desperately. Call it the Morgenthau-Ruml Plan even, but let us have it.

Julius B. Kuriansky, Stamford, Conn. I have been following with great interest the varied discussions reported in the newspapers and elsewhere, concerning the payment of Federal income taxes on a "pay-as-you-go" basis. Apparently, the Administration is now committed to such a policy, and rightly so. I do not hold myself out as an expert on the question, nor do I feel that I fully appreciate all the ramifications of the problems. Common sense likewise rejects the beguiling Ruml Plan. I am instinctively suspicious of a situation where one receives something for nothing. On the other hand, if we continue under the present set-up, the Government will one day find itself in the not very enviable position of having spent money which it had anticipated it would receive, but actually never would. Certainly this is one instance where anticipation is not greater than realization. * * *

Unfavorable Comment on Taxation

T. F. Flanagan, Harrison, N.Y. I had two young Merchant Marine Officers at my home for dinner a few days ago. They had just returned from a seven months' hazardous trip. They had seen a tanker torpedoed within a few miles of their ship, and two torpedoes had missed their ship by a matter of feet. Yet when they were paid off early in January, the Victory Tax of 5% was deducted from their entire seven months' pay. I am sure this situation has been called to your attention previously. This is obviously a matter of severe injustice, and I hope the Treasury Department will maintain its reputation for integrity by seeing that the situation is corrected.

George P. Orr, Law Offices, Orr, Hall & Williams, Philadelphia, Pa. There is a practice in your Department that is causing universal resentment on the part of attorneys and taxpayers. * * * It is the practice of collecting taxes, which the Circuit Courts have held are not collectible, "because the Treasury does not acquiesce in said decisions" - but no appeal is taken. The taxpayers naturally feel that no appeal is taken because the Treasury Department fears the Supreme Court will affirm the Circuit Courts. In the meantime, the Treasury Department collects millions from taxpayers who do not wish to go to the expense of litigation. A short time ago the Attorney General gave an opinion that even the ruling of the Labor Board was the "LAW" until reversed - even though an appeal was pending. It therefore seems that decisions of our Circuit Courts of Appeal - unappealed from - should have at least equal weight. Here in Philadelphia two estates are confronted with exactly the same tax problem. Estate "A" litigates, and the Circuit Court of Appeals for the Third Circuit affirms the decision of the Court below that there is no tax due. Two other Circuit Courts follow the reasoning which is based upon a recent decision of the Supreme Court. The Department has not taken any of these cases to the Supreme Court,

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yet Estate "B" is now assessed contrary to the decision of the Circuit Court in this District. Thus the ignorant and trusting must pay, while others, with exactly the same problem, are exempt. I have heard the argument that the Department is hoping for a contrary decision in one of the other Circuits, but in the particular case I refer to, years have gone by with not a single decision in favor of the Treasury. * * * I should be glad to have your opinion and explanation. * * *

John C. Beck, Cincinnati, Ohio. Why not mail income tax forms after the first of the year instantly to registered taxpayers? Many could calculate and pay early in these days of urgent tax money. Others could merely calculate, having their figures well in advance to avoid that last-minute rush. * * * Why not insist on employers delivering to their employees their annual wage statements on, say, January 10th of each year (or before)? Most employees do not receive their annual statements until March. What an additional defeat of the time element confronting the Treasury! The annual March rush is a headache to all, including Washington. * * * Cincinnati District has witnessed a scarcity of all forms. Rationing of these forms, designed to provide the very tax money of which we are so short, should not thus informally be in evidence. In all the saving of paper, these should be most plentiful. * * *

Donald F. Walker, Manager, Chamber of Commerce, Pontiac, Mich. I noted over the week-end an appeal from you, addressed to all of us income taxpayers, to file our returns early. This will advise you that I have been trying to file since January 4, and that the Pontiac branch office of the Collector of Internal Revenue in Detroit has not had blanks for that purpose during that period, at least at the times that I called them. Most of us are more than willing to pay the large tax, but it is vitally important that we learn exactly what the tax is so as to make our arrangements accordingly.

C. R. Armstrong, H. R. Terryberry Co., (Manufacturing Jewelers), Grand Rapids, Mich. May we take this opportunity to express our humble opinion regarding the present "feeble fluttering in high places", regarding the payment of income tax. The radio announcers and news analysts of late, have been allowed to inform the public that there was a possibility of their being forgiven the 1942 income tax. A modified, but equally demoralizing version of the income tax question has been the statement that if not cancelled entirely, the 1942 income tax would undoubtedly be declared under moratorium. May we, as a typical manufacturing firm, go on record as being whole-heartedly opposed to any such, let us say, "credi-oidal" action as cancelling an income tax, or declaring a moratorium on it. It has been our practice throughout the past year, while our employees have been earning substantial incomes, to continue to impress upon them the importance of laying aside money for the payment of their income taxes. * * * Only this morning, one employee, while consulting us regarding a matter of his personal finance problems, made the statement when asked about paying income tax, "I can use the money for something else now. You know the Government is going to cancel the income tax for 1942". This badly warped conception of business is shared by many, and from what we have heard, they can't be blamed for it.

Charles A. Bracher, Dayton, Ohio. There is a widespread misunderstanding here in Dayton, among some 75,000 defense workers, as well as business and individual taxpayers, in regard to filing an income tax return for the calendar year of 1942. Many of these folks are under the impression that they will not be required to file an income tax return for 1942 at all. That the tax for 1942 will be withheld in 1943, along with the 5% Victory Tax. For instance, last year at this time, hundreds of income tax returns were filed, while this year there are practically none. Should this situation continue for a number of weeks, it would be impossible to handle the thousands of taxpayers that

would come in at the last minute. In fact, it would swamp the Collectors' offices. I would keenly appreciate it if your office would advise if it will be necessary to file a return for 1942, even in event Congress passes a new tax law before March 15.

Mrs. Harry Selker, Fort Wayne, Ind. * * * We working people are willing to pay our way in this war. We know it is expensive, but at the same time the cost of living has certainly gone up. We didn't kick about 5% Victory Tax. Many of us are already putting 10% in Bonds and I know some who are putting more than that in. We expect high income tax, but why all the other -- Federal Social Security, increasing Victory Tax, etc. That's a little too much. I myself am wearing some 5 and 6 year old dresses and coats and slippers right now. We are not trying to have a lot of luxuries. We're working people and don't expect them, but we would like enough to have the necessities. Perhaps we'll be as bad off as the Germans after all. If so, why go on and fight the War out? Of course, the new Congress won't be thinking of the lower classes, I know, but in the longrun, we're the ones who pay for the Wars, both in money and lives. * * *

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE REPUBLIC 1360



Box 880
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

January 23, 1943

Dear Miss Kistler,

With reference to my letter of January 21, I am writing to say that after all we shall not have any amendments to make to our balance of payments table for the period January 1, 1943 through March 31, 1943, in spite of the three changes of Lend-Lease policy to which Sir Frederick Phillips referred when he saw Mr. White the other day. The reasons are as follows:-

(1) - South Africa

The changes of Lend-Lease policy which were recently proposed by the State Department to the South African Minister are, I understand, still under negotiation between them, and I am told that the figures for the first quarter of this year are unlikely to be materially altered.

(2) - Tobacco

OLLA have informed us that they have decided to fill all our tobacco requisitions that were on file with them on December 31 and will look to us to take care of our subsequent requirements. The requisitions on file will be sufficient, in all probability, to cover the first quarter of this year so that the effect of this change of policy on our cash position will first appear in the second quarter of 1943.

(3) - Icelandic Produce

Though the position is not entirely clear to us yet, we are informed that the British Treasury hopes to be able to obtain necessary supplies for Iceland for some time at least without expenditure of dollars.

I am sorry to have held this matter up so long with the amendments to the note on the assets table which were sent to you in Sir Frederick Phillips letter of January 20 to Mr. White and my letter to you of January 21. I think the tables are now complete and agreed. If you are having them duplicated, I would be grateful if you could send me a half dozen copies of them in their final form.

Miss Kistler
U.S. Treasury
Division of Monetary Research
Washington, D.C.

Yours sincerely,

E.W. Playfair

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE REPUBLIC 7560



Box 660
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

January 21, 1943

IMMEDIATE

Dear Miss Kistler,

I am sorry to keep on pestering you with amendments, but London have telegraphed to say that there was a mistake in the figures on which they founded the note which Sir Frederick Phillips sent to Mr. White on January 20. The actual figure is just over \$2,804 million instead of being over \$3 billion. Would you kindly substitute for the words "over \$3 billion, or seven time as great" the words "nearly \$3 billion, or over six times as great."

I hope to let you have the revision of the balance of payments figures within the next couple of days.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "E.W. Playfair".

E.W. Playfair

Miss Kistler
U.S. Treasury
Division of Monetary Research
Washington, D.C.

C O P Y

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Box 680
Benjamin Franklin Station
Washington, D.C.

January 20, 1943.

IMMEDIATE

Dear Mr. White:

I have received a telegram from London asking me to make an amendment to the table of "British Gold & Dollar Exchange Assets" which you are preparing for use during the hearings on the Appropriation Bill.

The last sentence of the note at the bottom reads as follows:

"Thus the recent increase in our holdings has been accompanied by a very much greater increase in our overseas liabilities".

London would like it instead to read:-

"The growth of \$432 million during 1942 in our gold and official dollar balances must be looked at against the background of a deterioration of over \$3 billion, or seven times as great, in our net overseas capital position in all other respects."

I would be grateful if you could have this amendment made.

Yours sincerely,

/s/ F. Phillips

(F. Phillips)

Dr. Harry White,
Director of Monetary Research,
United States Treasury,
Washington, D.C.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE REPUBLIC 7880



Box 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

January 13, 1943

IMMEDIATE

Dear Miss Kistler,

In view of your statement last night that you might be forced to publish our statements, we have had second thoughts about their presentation. What worries us is the figure of \$1066 millions for total "available gold and dollar assets." They are not all available in any real sense, as the notations show. I therefore enclose a revised lay-out in two alternative forms of "Available gold and dollar assets", disclosing exactly the same information, but meeting this point; I would be glad if you would consider it.

If this lay-out is adopted, the table comparing the data ^{with past years} could remain unchanged, except that a note should be added to the word "gold" to explain that these figures exclude Belgian gold, if lay-out A is adopted; this note would not be necessary if lay-out B were adopted. Personally, I prefer B, since though it is less logical, it keeps uniformity in the basic figure for gold.

Yours sincerely,

E.W. Playfair

Miss Kistler
U.S. Treasury
Division of Monetary Research
Washington, D.C.

Enc.

AVAILABLE GOLD AND DOLLAR ASSETS

1. Gold	793	
<u>Less</u> \$105 million of gold borrowed from Belgium, which involves a definite gold liability of like amount	<u>105</u>	
	688	
<u>Less</u> sterling funds held by foreign countries which carry specific rights of conversion into gold amounting to approximately	<u>190</u>	498
2. Official dollar balances	243	
<u>Less</u> the amount of U.S. registered sterling accounts, which carry the right of conversion into dollars on demand. These amounted at November 30, 1942, the latest available date, to	<u>53</u>	190
3. U.S. Securities	135	
<u>Less</u> securities which the British do not regard as readily marketable, estimated at	<u>55</u>	<u>80</u>
Total - available gold and dollar assets		<u>768</u>

AVAILABLE GOLD AND DOLLAR ASSETS

1. Gold

688

Less sterling funds held by
foreign countries which carry
specific rights of conversion
into gold, amounting to
approximately

190

498

(In addition, the British hold
\$105 million of gold borrowed
from Belgium. This gold is
not included in the British
assets since it involves a
definite gold liability of
like amount)

2.)
3.)

As in lay-out A

NOT TO BE RE-TRANSMITTED

BRITISH MOST SECRET
U.S. SECRETOPTEL NO. 25.

Information received up to 7 A.M. 22nd Jan, 1943.

1. NAVAL.

On 19th/20th three motor torpedo boats carried out a light raid on Tripoli (L) Harbour. A U-boat in tow of three tugs was sunk off the entrance and one tug was set on fire and beached. Shore batteries heavily engaged the motor torpedo boats while subsequently attacking the Mole, all were hit but none seriously damaged, two ratings wounded. Off Bougie on 19th one of H.M. Destroyers shot down a torpedo bomber and one of H.M. Canadian Corvettes escorting a Westbound convoy sank an Italian submarine capturing 23 crew.

2. MILITARY.

Libya. 19th/20th. Enemy vehicles packed the roads from Tarhuna to Castel Benito and the coast road West to Tripoli as well as 100 miles of road Tripoli to Zuara. Leading troops of 51st Division entered Homs during the night and on 20th afternoon were still in contact with enemy rear-guards six miles West of the town. Our mobile troops also in contact at Gussabat. 7th armoured division occupied Tarhunasa.

20th. An enemy rearguard strong in artillery held throughout the day Defile ten miles to the West.

Tunisia. 19th. The enemy advanced South West of Pont du Fahs. One infantry column with tanks reached a point about 18 miles South West of Pont du Fahs during afternoon causing the French forces to withdraw. Another column advanced South West along high ground South East of Pont du Fahs - Siliiana road. On first army Southern flank contact was made with the enemy and the road Pont du Fahs - Siliiana was shelled from East of Bou Arada. British infantry supported by tanks have cleared the enemy from the road Bou Arada - Go Bellat. To conform with the French withdrawal British forces have vacated their most advanced positions South of Bou Arada and El Aroussa but a garrison remains North East of Bou Arada.

Russia. The German withdrawal North Westwards astride the railway Baku - Rostov continues at a rapid pace, the Russians are now within fifty miles of Armavir a railway junction which is indispensable for the Germans to hold if they hope to retain the Maikop oilfields. They have also announced the capture of Voroshilovsk.

3. AIR OPERATIONS. Western Front. 21st.

Our light bombers attacked airfields in Northern France and shipping at Cherbourg and Flushing. Escorts and sweeps involved 33 squadrons of fighters. Enemy casualties 4, 4, 2.

21st/22nd. 169 (aircraft despatched) Essen 82 (4 missing) sea mining 85 (six missing 1 crashed). Intruders 2. 25 enemy aircraft operated off the South coast. About 8 of them made brief landfalls.

French North Africa. 20th. 16 U.S. Fortressés scored hits on barracks at Gabes. Hurricanes successfully bombed road transport and troops.

Mediterranean. 20th/21st. A Naval Albacore from Malta sank a three to four thousand ton ship off Cape Bon. A Beaufighter also hit with torpedo an enemy tanker in the Sicilian Channel.

Sicily. 21st. Malta Spitfires bombed barracks and chemical factory at Licata also hangers on Gela airfield.

Libya. 21st. Liberators dropped about 25 tons of bombs on Tripoli. Light bombers and fighters made 230 sorties against M.T. in the Tripoli - Tarhuna areas.

BRITISH MOST SECRET
U.S. SECRET

CORRECTION TO OPTEL 24 PARAGRAPH 3, AIR OPERATIONS.
LIBYA

Cancel whole paragraph and substitute amended version as follows:

"Libya. 19th. Fighter bombers continued throughout the day to attack enemy M.T. in the Tarhuna area, U.S. Libya-based Liberators bombed Tripoli Harbour. At night Malta Wellingtons effectively attacked M.T. and other objectives in the Tripoli area. Enemy aircraft attacked our forward troops.

French North Africa. 18th/19th. Bisleys attacked objectives between Tunis and Sousse and blew up a train believed carrying petrol. Wellingtons dropped 26 tons of bombs on Bizerta starting large fires. 19th. 56 U.S. Fortresses bombed Railway Centres and other objectives South of Tunis. Sousse was attacked by U.S. Liberators and a small ship was hit. Successful attacks were made on Medenine and on M.T. in the Djerba-Mareth Area.

Mediterranean 18th/19th. Malta Aircraft torpedoed a 9,000 ton ship which was left sinking. Two others of 4,000 tons were probably hit. 19th/20th. Albacores off Djerba sank one ship of 6,000 tons and another of 2,000 tons.

January 23, 1943

TO THE SECRETARY:

Books on two billion dollar certificate offering close at close of business today. Final results will not be known until Monday. Present indications are that issue will be greatly oversubscribed. Subscriptions up to present time total well over three and one-half billion dollars. Nothing unusual happening here. Regards from the bunch.

BELL

Via Coast Guard

DWB:NLE

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

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

Marketable issues:
 Market purchases 1/.....
 Market sales 1/.....
 Direct purchases from Treasury 1/.....
 Maturities.....

Special one-day certificates 2/:
 Net increase.....
 Net decrease.....

Column B shows price changes in 32nds for all securities except certificates. For certificates, Column B shows yield changes in decimals.

STRICTLY CONFIDENTIAL

Week	Last Week						Index	Description	This Week													
	Tuesday		Wednesday		Thursday				Friday		Saturday		Full Week		Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Full Week	
	Jan. 11	12	13	14	15	16			17	18	19	20	21	22	23	24	25	26	27	28	29	30
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
	I. Summary																					
	Marketable issues:																					
	Market purchases.....																					
	Market sales.....																					
	Direct purchases from Treasury.....																					
	Maturities.....																					
	Special one-day certificates:																					
	Net change.....																					
	Total net increase (+) or decrease (-).....																					
	Wednesday report of total portfolio.....																					
	II. Taxable securities																					
	Bills - all issues combined																					
	Market purchases.....																					
	Market sales.....																					
	Maturities.....																					
	Total net increase (+) or decrease (-).....																					
	Certificates																					
	5/28 A - 2-1 43.....																					
	1/25 C - 5-1 43.....																					
	7/8 B - 8-1 43.....																					
	7/8 D - 11-1 43.....																					
	7/8 B - 12-1 43.....																					
	Special one-day certificates																					
	Treasury bills																					
	3/28 D - 3-15 43.....																					
	3/4 D - 9-15 44.....																					
	1-1/4 C - 3-15 45.....																					
	3/4 B - 12-15 45.....																					
	1 A - 3-15 46.....																					
	1-1/2 B - 12-15 46.....																					
	Treasury bonds																					
	28 - 3-15 46-50.....																					
	1-3/4 - 5-15 48.....																					
	2 - 5-15 49-51.....																					
	2 - 9-15 49-51.....																					
	2 - 12-15 49-51.....																					
	2 - 3-15 50-52.....																					
	2 - 12-15 51-52.....																					
	2-1/2 - 3-15 52-54.....																					
	2-1/4 - 5-15 52-55.....																					
	2-1/2 - 3-15 56-58.....																					
	2-1/2 - 5-15 58-61.....																					
	2-1/2 - 12-15 59-62.....																					
	2-1/2 - 9-15 61-72.....																					
	Guaranteed securities																					
	RFC 1-1/8 V - 7-15 43.....																					
	RFC 1 W - 4-15 44.....																					
	ODG 1-1/8 B - 2-15 45.....																					
	All taxable securities																					
	Marketable issues:																					
	Market purchases.....																					
	Market sales.....																					
	Direct purchases from Treasury.....																					
	Maturities.....																					
	Special one-day certificates:																					
	Net change.....																					
	Total net increase (+) or decrease (-).....																					

r Original figures revised.

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

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

* Less than \$50,000.

2/ Transactions are entered as of the day following that to which they apply, since data are not available until the following morning.

Regraded Unclassified

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Page 2

Column 4 shows Federal Reserve operations in millions of dollars as follows:

Market purchases 1/..... +
Market sales 1/..... -
Maturities..... -

Column 5 shows price changes in cents.

STRICTLY CONFIDENTIAL

Last Week										Index	Description	This Week																	
Monday		Tuesday		Wednesday		Thursday		Friday				Saturday		Full Week		Monday		Tuesday		Wednesday		Thursday		Friday		Saturday		Full Week	
Jan. 11	12	13	14	15	16	17	18	19	20			21	22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	
III. Tax-exempt securities																													
Treasury notes																													
				</																									

4211

JAN 23 1943

Dear Mr. Brown:

I have Mr. Henderson's letter of January 5, 1943, addressed to Secretary Hergenthan, with which he enclosed two copies of a plan by Mr. Rolf Hagant for instalment selling for post-war delivery.

The advantages claimed for this plan are that payments under it would be related to the purchase of tangible merchandise, thus making it possible for individuals to get the "feel" of spending out of what is really saving, and so save more; and that it would provide a means for an orderly return to peace-time production and distribution.

It is my opinion that these advantages would not be achieved and that the plan would involve very definite disadvantages:

- (1) The alleged tangibility of the goods offered under the plan would, in fact, be illusory.
- (2) The net increase in personal saving resulting from the plan would not be appreciable.
- (3) The plan would occasion a wholly unwarranted use of manpower and materials.
- (4) The cost of raising money under the plan would be excessive.
- (5) The plan would require those participating in it to make present judgments of their post-war needs and would exclude those "born too late" from any participation whatever.
- (6) The plan would be grossly unfair to members of the armed forces.

- 2 -

(1) Under Mr. Baguet's plan an individual would be led to believe that he was purchasing a tangible commodity, e.g., a refrigerator, an automobile, or some other specific durable good. In reality, he would acquire no more than a certificate entitling him to purchase at an unknown price a non-existent durable good at some indeterminate future date. Its value would be no more than the cash surrender value of the certificate -- no more than what he had paid for it. It is impossible, under this or any other ~~of this~~ many such plans for linking current savings with the sale of merchandise for post-war delivery, to predict or to guarantee the nature, the quality, or the cost of the durable goods which will be available after the war. Changes in technology, which are being accelerated by the war, may well render obsolete some of the goods which would be sold now under the plan.

(2) Mr. Baguet estimates that the adoption of his plan would result in annual savings by individuals of \$6 billions, approximately half of which would represent additions to savings. I doubt, however, that the amount of such net additions, as distinguished from the funds which would be obtained by the substitution of one avenue of saving for another, would be substantial. It is likely that, by diversifying the appeal for small savings, a means might be provided by which individuals could avoid their savings obligations entirely. Individuals might, and many probably would, withdraw from payroll savings plans on the plan that they were enrolling in "post-war delivery certificate" savings plans. Many of them, however, would withdraw from one plan without enrolling another. In order to secure the maximum mobilization of individual savings, it is necessary that patriotic appeals be focused at a single point. Mr. Baguet's plan would make this impossible and, consequently, might well result in a decrease in aggregate individual savings.

(3) I question the desirability of the absorption of manpower, materials, and office equipment which Mr. Baguet's plan would entail. The contention that the people employed would be women, or men above military age without special skills, does not strike me as a valid excuse for this expenditure of manpower, so long as manpower in the aggregate is scarce and there are jobs more essential than selling non-existent durable goods for delivery at indefinite future dates to which individuals not acceptable for military service could devote their energies. Salesmen motivated by generous convictions would be kept out of work vital to the winning of the war. Workers and executives would be harassed by thousands of salesmen competing

- 3 -

with each other and trying to sell their goods for future delivery covering every conceivable need. Undoubtedly, high-pressure tactics would be used to convince prospective customers that, unless they purchased priority certificates, they would not be able to buy the things they need for many years following the war. Such practices would serve little real purpose and would undoubtedly detract from the business of winning the war.

The retailers of durable goods, the finance companies, and the advertising agencies are not the only branches of business enterprise which have had to sacrifice "business as usual", and to curtail their operations as a result of the war; and there seems to be no reason why they should be accorded special treatment in this connection. Other businesses expect to rebuild their organizations after the war, and the agencies which have been attacked to the installment selling business in the past can do likewise.

(4) Mr. Nagant's plan calls for the payment of commissions and expenses of a magnitude which would not be tolerated in connection with the flotation of regular issues of Government securities. These commissions cannot be dismissed as payments in lieu of interest. They do not go to the lenders, but to the dealers. They should be considered, therefore, in the light of an underwriter's spread.

Mr. Nagant's contention, that the commissions to be deducted from the amount received by the Government under his plan would involve less cost to the Treasury than the interest charge on war savings bonds, is based on the assumption that the interest cost on Series H savings bonds is 2.9 percent from the outset. The full 2.9 percent interest is paid, however, only if the bonds are held for the full ten-year period. For example, if the war ends in February 1945, the cost to the Government for the use of funds invested in war bonds redeemed six months after the close of the war (the lag assumed by Mr. Nagant for the delivery of merchandise) would be 1.06 percent per annum; while the cost of \$100, obtained as a post-war delivery payment, would amount to 3.2 percent per annum. Only if the war lasts four more years would the cost for the use of \$100 be approximately the same in both cases. Thus, if the war ends in January 1947, the cost to the Government for the use of funds invested in war bonds would be 1.72 percent per annum; while the cost of \$100, obtained as a post-war delivery payment, would amount to 1.67 percent per annum.

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(5) Mr. Egan acknowledges that his plan could not have any substantial effect upon the total post-war market for the goods covered and that it would not increase the supply of such goods available. The essence of the plan, therefore, so far as the post-war period is concerned, is bound up in the matter of priorities. These priorities would be established on the basis of consumers' present judgments of their post-war needs. There is no warrant for expecting that such judgments will coincide with needs as actually determined after the war.

Mr. Egan's proposal, therefore, amounts to penalizing all those who are not fortunate enough to have guessed correctly their post-war requirements, by depriving them of the discount to which holders of priority certificates are entitled, or by forcing them to purchase the goods actually needed from other individuals, who hold and do not need the appropriate priorities, at a profit to the seller. While attempting, although in my opinion not very successfully, to prevent speculation by a few at the expense of the many, he would, in effect, force every individual to speculate on his own post-war requirements, and to invest in priority certificates for all sorts of commodities, lest at the end of the war he should find himself provided with all of these articles covered by the plan except the one really needed. Of course, the individual would lose his discount on all these certificates on which he chose not to exercise his priority rights; but, in any event, the dealer would have received his commission.

There is, moreover, no necessary relationship between present ability to save and post-war requirements. It is conceivable, if not probable, that many people, whose needs after the war for certain desirable goods covered by the plan would be most urgent, are currently in no position to undertake the necessary purchase of priority certificates. In this group, of course, would be found those now or but recently unemployed, and those who are continually reaching their majority and setting up additional family units. The number of such individuals "born too late" would increase as the war continued.

Mr. Egan recognizes most of these points and suggests making exceptions in such cases. I fear, however, that the exceptions might very well become the rule, especially if the war should be a long one, and that the administrative expense and absorption of manpower involved in the scheme would thus be multiplied enormously. Obviously, to the extent that exceptions are made, the value of

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the plan as a means of providing manufacturers with forecasts of demand on which they could base orderly production schedules, would be seriously diminished.

(6) The provision made for members of the armed forces is more formal than substantial. The concessions proposed in the form of longer payment periods, the waiving of commissions, and the establishment of "A" and "B" priority scales would fall far short of compensating for the differences between civilian incomes and those of men in the armed forces. In such concessions, furthermore, can really attack an equally important problem which faces soldiers, sailors, or marines in active service; namely, the enhanced uncertainty as to the future which militates against their being able to make valid decisions as to their post-war requirements for durable goods. Such decisions would undoubtedly seem of trivial importance to many of these men, particularly those in combat areas. Furthermore, the great bulk of the men in the armed services are unmarried, or, if married, have not actually established homes and cannot do so until after the war. They are unable to anticipate their post-war requirements.

Finally, it seems to me that the purchase of War savings bonds accomplishes everything which would be accomplished by the purchase of the certificate proposed by Mr. Nugent; and accomplishes it better and with fewer complications. Mr. Nugent's certificates can give no guarantee of the price or quality of the goods which would be delivered in the post-war period, but their purchasers are nevertheless tied down to contracts for specific types of goods under penalty of losing all return on their investments if they change their minds. Holders of War savings bonds on the other hand, can purchase whatever they desire in the post-war period or can continue to hold their savings at interest as they please.

Very truly yours,

(Signed DW Bell)

Under Secretary of the Treasury.

Honorable Franklin D. Brown,
Administrator,
Office of Price Administration,
Washington, D. C.

APL/NSA/1-2/ND/NSL-och 1/22/45

OFFICE OF PRICE ADMINISTRATION
Washington, D. C.

January 8, 1943

The Honorable
The Secretary of Treasury

My dear Mr. Secretary:

I am sending you herewith two copies of a plan for instalment selling for post-war delivery which the Office of Price Administration is releasing today for publication on Sunday, January 10, 1943.

The plan is designed primarily as an anti-inflationary weapon. By providing an opportunity for buying goods now for delivery after the war we believe that additional purchasing power can be withdrawn from the market for current goods.

In addition, the plan would produce several important and desirable by-products. It would add to the total volume of purchasing power after the war; it would provide a means of bringing demand into line with the production of automobiles, refrigerators and other goods that might be covered by the plan; and it would provide a measure of relief to many salesman and small businesses that have been hard hit by the stoppage of production of certain consumers' goods.

OPA's interest in the plan lies primarily in its usefulness as an anti-inflationary device. Many other government agencies, however, would be concerned not only with its operation but also with its objectives. The plan proposes administration by the Federal Reserve System. It also calls for the routing of funds received in payment for post-war-delivery goods to the Treasury and a payment by the Treasury for the use of these funds.

I am aware that you have expressed opposition to this idea in a recent press conference. Your comments appear, however, to have been directed toward an incomplete

The Secretary of Treasury

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and not fully accurate press report concerning the plan.
I believe you will find your objections fully met in the
detailed plan.

I hope you will give the plan the careful con-
sideration which I believe it deserves.

Very truly yours,

Leon Henderson
Administrator

Enclosures

A Plan
for
INSTALMENT SELLING FOR POST-WAR DELIVERY

by

Rolf Nugent, Special Advisor
Office of Price Administration

Revised
December, 1942

Note: In the development of the plan presented in this memorandum the writer has had the helpful advice and assistance of Dr. Bonnar Brown, of the Board of Governors of the Federal Reserve System, of Mr. Abraham Friedman of the New York Bar, and of Messrs. Wroe Alderson and F. B. Hubachek of the Office of Price Administration.

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Whatever its advantages or disadvantages in time of peace, the American practice of credit buying has real usefulness in time of war. Consumer credit lends itself readily to service in the progressive battle that must be fought against war-time inflation.

The development of our full military power was bound to produce distortions in our civilian economy. Government expenditures for armaments substantially increase the national income and total consumer purchasing power. On the other hand, the diversion of materials and labor to war production and the recruitment of manpower for the military forces limit the production of goods which consumers want to buy. Three stages in the transition to a war economy can be recognized. At each of these stages, there has been the possibility of using consumer credit as the means of easing the impact on the civilian economy.

The first stage is one in which there are shortages of specific materials, skills and productive equipment, while supplies in other fields remain abundant. At this stage, appropriate action in the consumer credit field would be to tighten credit terms for automobiles, refrigerators, oil burners, washing machines, and similar goods that absorb metals, skills and tools needed for armaments production. The purpose would be to reduce demand for these specific goods without preventing a continuous expansion of the national income that would draw idle productive factors into use. Consequently, an increase in down-payments for selected goods should be the primary restriction.

The second stage occurs when the area of shortages has expanded, when incomes and demand are increasing more rapidly than production, and when the general price level has begun to rise. At this stage more general restraints

upon consumer credit are called for. Stringent down-payment requirements should be applied over the broadest practicable field; the maturity of instalment contracts should be shortened generally; and restraints should be imposed upon charge-account credits, and so far as possible upon accommodation loans. In other words, the general deflationary influence of a rapid liquidation of consumer credit should be brought to bear upon the rising national income.

A third stage can be recognized when important consumers' durable goods industries have been completely converted to armaments production and when the goods formerly produced by these industries are no longer available in the market. Under these circumstances it would be appropriate to throw the instalment credit system into reverse--to sell goods on the instalment plan for post-war delivery. In this way, the deflationary effects of instalment payments could be continued after previous credit commitments have been liquidated.

We entered the first of these three stages in the late fall of 1940. By summer of the following year, the second stage had arrived.

Action on the consumer credit front came belatedly at the beginning of September 1941 with the promulgation of Regulation W by the Federal Reserve Board. Very properly, the initial regulation was directed primarily toward the tightening of down-payments, which would reduce demand for specific goods, and secondarily at the limitation of maturities, which would result in a general liquidation of consumer credit. Subsequent amendments have, with equal propriety, been directed toward broadening the scope of the down-payment restrictions and reducing maturities for instalment and charge account credits on a broad front.

The effects have been substantial, and of tremendous importance to the

Office of Price Administration. Demand for goods which competed with armaments for scarce materials and skills was reduced precipitately. The liquidation of consumer credit, induced in part by restrictions of the regulation and in part by limitations on the supply of goods commonly sold on credit, has provided a new and powerful deflationary force.

We are now well into the third stage. Production of passenger automobiles-- next to residential housing the most important of all consumers' durable goods-- was discontinued in February 1942 and the overwhelming majority of our citizenry has been excluded from the automobile market by selective rationing. Subsequently, civilian production of a large number of other consumers' durables has been stopped. For some of these goods, inventories have been reserved for specific purposes. For others, inventories have already been exhausted or are rapidly approaching exhaustion.

Both from a psychological and from an economic standpoint, the time is ripe for appropriate action on the consumer credit front.

It is the purpose of this memorandum to show how goods could be sold on instalment contracts calling for delivery in the post-war period and how such sales would aid in the fight against inflation.

THE PLAN IN BRIEF

The plan presented here is designed primarily to divert consumers' purchasing power from the market for current goods and thereby to relieve the inflationary pressure on the price level. It would, however, have a number of important by-products: it would provide additional funds for financing the war; it would build up a back-log of purchasing power that would facilitate the transition to a peace-time economy; it would provide the means of bringing post-war demand into line with supply in markets that are certain to be badly out of balance; it would provide some measure of current relief for enterprises that have been or will be hurt by the discontinuance of production of the goods which they sell; and it would preserve at least a rudimentary selling and financing structure as the basis for rapid post-war expansion.

Three cardinal principles have been followed in the development of the plan. First, the customary machinery of instalment selling has been relied upon so far as possible in its operation. This serves the dual purpose of enlisting the drive and ingenuity of private salesmanship in the selling and collection effort and of avoiding expansion of the federal bureaucracy. Second, payments on goods for post-war delivery have been related so far as possible to expenditures for merchandise, and characteristics that would link them to savings have been avoided. This is of prime importance because nothing would be gained on the anti-inflation front if consumers merely shifted their savings from purchases of war bonds or from other savings media

into post-war-delivery purchases. Finally, it has been the policy to avoid distortion of the normal machinery of distribution. The plan contemplates a shift to free market conditions as quickly as possible after the war and it attempts to preserve the position of various competitive elements in the distributive process.

It seems doubtful that many persons would be willing to buy, for deferred delivery, goods that can be bought for current delivery. Hence an essential requirement in the selection of goods to be sold under the plan is their unavailability at present. Many types of consumers' durable goods and even some services meet this requirement and would lend themselves to post-war-delivery sale. However, the plan is most readily adaptable to the sale of relatively high-priced goods that are presently in common use and are produced by comparatively small numbers of substantial manufacturers. For this reason it is proposed that the plan be applied at the outset only to automobiles, refrigerators, pianos, oil burners and automatic stokers. Later, the list should be expanded to cover other goods and services, where careful study and consultation with the trades concerned indicate the adaptability of the plan to their sale.

Because it is impossible to predict accurately the level of production costs after the war, no attempt would be made to establish at the time of the instalment sale the prices at which goods would be delivered. The purchaser would acquire a certificate which would be accepted in payment of the post-war purchase price of a specified article. Certificates would be issued in various denominations, identified with price-classes of goods, and they could be applied toward the purchase of any make or model in the

specified price-class. Manufacturers would probably build their products so far as possible to meet the market established by certificate values. But if post-war prices differed from the value of certificates, differences could be readily adjusted in cash or in finance company credits.

Certificates would be sold only on instalment terms in order to encourage payment out of current income. Payment schedules should be related to certificate values, ranging from 12 monthly payments for \$100 certificates to 25 monthly payments for \$2,000 certificates. In order to equalize the situation of civilians and persons in the armed forces, the latter would be permitted to buy on longer payment schedules.

To prevent speculators from acquiring claims to large quantities of goods for purposes of resale, the number of certificates that may be purchased by any one person would be limited. Prior to the date of their validation for the delivery of goods, certificates would be non-transferable except under a limited number of circumstances such as inheritance or bequest, executions in satisfaction of judgment, and distribution of assets in bankruptcy. Following their validation, certificates would be fully transferable.

Consumers would be offered two incentives for purchasing post-war-delivery certificates: a prior claim to the goods subject to sale, and a discount from the established post-war price.

Priority numbers would be determined by the month in which the purchaser entered his instalment contract, with adjustments for delinquency in making payments. Thus, if the purchaser entered his contract during the first month of operation of the plan and made his payments promptly, he would be assigned priority number 1; if the purchase was initiated during the second month, he would be assigned priority number 2; etc. If he were

delinquent beyond a reasonable grace period, his priority number would be increased in relation to the degree of delinquency.

The price discount would be accomplished by giving the post-war-delivery certificate a "merchandise" value greater than its purchase price. It is proposed that this differential be fixed at 10%. Thus, a certificate for which the purchaser pays \$200 would be worth \$220 in exchange for post-war goods and a certificate costing \$1000 would be worth \$1100 in exchange for goods. The differential would be made up at the time of delivery by the sacrifice of part of the normal gross profit by the dealer who completes the sale and by a rebate to that dealer by the manufacturer whose goods are delivered.

Certificate sales would be made by established dealer organizations -- by automobile sales agencies, by refrigerator and piano dealers and by heating equipment contractors. The purchaser would sign a post-war-delivery contract and make a modest down-payment, varying with the denomination of the certificate, which the dealer would keep as his initial sales commission. The dealer would then send the contract to a sales finance agency that had been authorized by a Federal Reserve Bank to supervise collections and do the bookkeeping.

Upon receipt of the post-war-delivery contract, the sales finance agency would issue a payment book to the purchaser and open a ledger account for him. These agencies would be responsible for recording payments, for transmitting funds to the Federal Reserve Banks, for sending delinquent notices, for referring defaulted contracts back to the dealer, for computing delinquency charges, and for assigning priority numbers.

Instalment payments would be made, however, to a different set of agencies. The agencies that accept payments from purchasers should be

readily available to all purchasers, equipped to accept money payments, financially responsible, and without an interest either in selling the purchaser goods or in lending him money. These local collection agencies might include the telephone, gas and electric companies -- in which case instalments could be paid with bills for services -- the telegraph companies and the Post Office. They would accept and receipt for payments, tear from payment books coupons that identify the purchaser, the sales finance agency, and the amount of the payment, and forward the coupons with remittances to the appropriate sales finance agencies, which would use the coupons to post its ledger accounts.

The sales finance agency would send the funds on to the Federal Reserve Bank or branch of the district in which its office is situated. The Bank would credit its receipts to a special post-war-delivery account in the name of the United States Treasury.

Both the sales finance agency and the local collection agency would receive modest commissions on payments handled by them to compensate them for their work. These commissions would be subtracted from collections in passing on the proceeds. The dealer would also receive a further sales commission upon completion of the purchaser's payments. Sales and collection commissions would be subtracted directly from the payments made by the purchaser; but they would be covered, when the certificate becomes valid for the delivery of goods, by the payment which the Treasury would make for the use of the purchaser's money. In this way each certificate would have three different values: (1) a withdrawal value equal to the amount paid in by the purchaser, less sales and collection commissions and delinquency charges;

(2) a cash value at maturity equal to the amount paid in by the purchaser, exclusive of delinquency charges; and (3) a merchandise value at maturity equal to 110 per cent of the cash value.

In addition to its regular commission on funds collected, the sales finance agency would also receive a more substantial fraction of delinquency charges to compensate for the work of sending delinquent notices and computing charges. The remainder should be divided between the Treasury, to compensate for the loss of the use of funds during the period of delinquency, and the Federal Reserve Bank.

When the purchaser has completed his payments and charges for delinquency have been collected, the sales finance agency would pay the dealer his final commission, assign a priority number to the purchaser's account and send it to the Federal Reserve Bank for audit. The Bank would examine the computation of charges and the assignment of priority and inspect its records to prevent the purchaser from acquiring more certificates than he is entitled to. If the record was satisfactory, it would then issue a registered, paid-up certificate bearing the appropriate priority number and send it to the purchaser.

The calling of priority numbers when production is resumed would be the responsibility of the Federal Reserve Board. As soon as dealers have received satisfactory inventories, priority numbers would be called as rapidly as additional goods are produced, unless there should be a tendency to expand productive capacity beyond the reasonable limits of normal demand. The Board should also have the power to grant special priorities where this was in the public interest.

Paid-up certificates, when countersigned by purchasers and exchanged for goods, would be deposited to dealers' bank accounts at their cash values and they would be honored by the Federal Reserve Banks from funds made available by the Treasury. Control of the distribution of goods would be exercised by the upstream flow of coupons attached to paid-up certificates, which would entitle the dealer both to a rebate from the manufacturer and to the shipment of another article to replace the one delivered to the certificate holder.

OBJECTIVES OF THE PLAN

During the past several years between 10 and 12% of all consumer expenditures have been devoted to the purchase of consumers' durable goods, other than houses.

In 1941 expenditures for such goods approached 10 billion dollars, in spite of shortages of materials and limitations on production, and in spite of credit restrictions and excise taxes imposed during the latter part of the year to dampen demand. Almost three-fifths of this sum was spent for automobiles and for automobile parts and accessories, almost one-fifth was spent for household appliances and fixtures. The remainder went for home furnishings, pleasure boats, watches and jewelry, cameras, etc. Automobiles, refrigerators, pianos and automatic furnaces--the goods which would be most readily adaptable to post-war-delivery sale--accounted for more than 60% of the total volume of expenditures for consumers' durable goods, and perhaps as much as 90% of the total volume of expenditures for goods which have since disappeared, or are currently disappearing, from the open market.

Inflationary Significance of Conversion of Consumers' Goods Industries

War requirements have cut heavily into the industries that supplied these goods. Some of these industries, such as those manufacturing automobiles, refrigerators, washing machines, suction cleaners, and radios have been completely converted to war production. Others are in the process of conversion; and still others have been stopped or substantially curtailed

by the scarcity of essential materials. Of the whole list of consumers' durable goods only wooden furniture and certain types of housefurnishings have been relatively unaffected by the impact of military requirements. The volume of consumers' durable goods currently reaching the market is probably less than one-third the volume that came into the market a year ago. And it can be expected to decline still further in subsequent months.

Under normal circumstances, a decline in production of consumers' durable goods would be accompanied by a decline in the incomes of the factory workers, raw material suppliers, managers, landlords, and stockholders who depend upon such production for their livelihood. Thus, a decline in the supply of consumers' goods would be roughly compensated by a decline in the incomes available for expenditure on such goods. But at present most consumers' goods industries that have discontinued production are engaged in the manufacture of military equipment. Consequently, there has been no decline in incomes to compensate for the decline in the quantity of goods that are available to consumers. In fact, as the national income figures clearly show, money incomes have risen progressively throughout the period when production of many types of consumers' durable goods was being discontinued.

This situation provides one of the essential elements of inflation. Inevitably inflation has its origins either in a restriction of production of consumers' goods relative to the flow of money incomes or in an increase in

the flow of money incomes relative to production of consumers' goods.

But there is another essential ingredient: there must be a capacity and a will to spend the excess income. It is therefore of crucial importance to ask what consumers will do with the part of their incomes which they formerly spent for goods that are now no longer available.

This question brings us at the outset to an observation concerning the nature of expenditures for consumers' durable goods that is of prime importance to an understanding of the current problem.

Consumers' durable goods are family capital goods; and within the limits of the crude bookkeeping systems used by most families, purchases of such goods are treated in much the same way as the capital goods of business and industrial enterprises. And for much the same reasons, because neither the capital outlays of business enterprises nor the capital expenditures of consumers are properly chargeable to the immediate income period in which they are made.

Business enterprises charge their capital expenditures to capital accounts which are gradually reduced by depreciation charges against current income. The great majority of consumers buy their capital goods on the instalment plan, which is merely another way of amortizing an initial capital expenditure by periodic payments out of income. From the standpoint of the market, such purchases take place when the goods are delivered. But from the standpoint of the individual purchaser, the purchase takes place over an extended period of time in the form of a series of payments from income, each of which is looked upon as an expenditure for the use and eventual

ownership of the article.

For this reason part of the current income of the American people is still being diverted to the purchase of consumers' durable goods, the production and sale of which have been stopped. Instalment payments will continue for some time to absorb at least part of the income that would otherwise be available for current purchases. But this drain will gradually dwindle in volume. As individual instalment contracts are completed, additional purchasing power will be freed for other purposes.

The deflationary effects of the liquidation of instalment sales contracts have been supplemented and reinforced by restrictions designed to compel partial liquidation of personal loans and charge accounts. However, because of the greater magnitude of instalment sales credits as compared with instalment loan and charge-account credits, the drain upon incomes resulting from the liquidation of consumer credit as a whole will certainly dwindle even if credit restrictions are broadened and intensified to their fullest practicable limit.

Ways of diverting surplus purchasing power

The purchasing power that will be freed by the gradual completion of the liquidation of previous instalment purchases could conceivably be captured and diverted from the market for goods in a variety of ways.

First, it might be taxed out of existence. The Revenue Act which has just been passed by the Congress provides for an impressive increase in taxes, and personal and corporate taxes applicable to 1942 incomes will be

the highest in our history with respect both to rates and to total yield. Yet the increase in tax revenues during the coming year will fall far short of the increase in military expenditures. The Director of the Budget estimated on October 7 that in spite of the increase in taxes, the Federal government deficit will increase from 21.7 billion dollars in the fiscal year ending June 30, 1942, to 63.1 billion dollars for the fiscal year ending June 30, 1943. These rising deficit expenditures will be a force for expanding the national income and increasing the volume of funds available for expenditure by consumers. Consequently the present tax program, however burdensome, cannot be expected to ease the inflationary pressure created by the disappearance of important consumers' durable goods.

Second, this excess purchasing power might be saved. There can be little doubt that the stoppage of production of most consumers' durable goods will give a considerable impetus to saving. Through tradition or trial and error experience, families generally accustom themselves to a crude allocation of their incomes between savings, food, housing, clothing, medical care, recreation, and consumers' durable goods. When funds cannot be spent for the latter goods, there will be resistance to increasing expenditures for other categories of goods. Consequently, savings can be expected to increase.

This resistance to an increase in expenditures for other goods has its limits, however, and it is only in the short run that a considerable part of the funds formerly spent for consumers' durables is likely to be saved. We know that a given savings margin between income and expenditures--a margin

which varies from income class to income class and from family to family--stands very high in the hierarchy of family values. When incomes are reduced, this margin will be preserved at the expense of most other budget items. But at a given income level the subjective value of additions to these established savings margins drops off very fast. Hence, with the passage of time, larger and larger proportions of the funds which can no longer be spent for consumers' durable goods are likely to be spent to satisfy other wants.

Third, we could continue to sell consumers' durable goods for delivery in the post-war period. Because it preserves the existing expenditure pattern, this would be the easiest way of preventing funds customarily spent for consumers' durable goods from being shifted to other markets. Funds that have customarily been spent for purchases of consumers' durable goods would continue to be spent for such goods, but delivery would be postponed. Since these funds would command no goods until the end of the war, they would in reality constitute savings. Yet there is every reason to believe that claims on post-war production could be offered in such a way that payments on them would be treated almost universally as current expenditures.

Expenditure vs. saving for post-war delivery

It is of substantial importance to the usefulness of installment selling for post-war delivery as an anti-inflationary weapon that consumers be encouraged to treat their installment payments as expenditures for goods

rather than as savings. To the extent that this is accomplished, the resistance to an increase in savings will be avoided and the diversion of purchasing power from the market for current goods will be substantially increased.

Instalment selling for post-war delivery will produce deflationary effects only if it decreases the propensity to consume, or, in other words, if it reduces the proportion of the national income that would otherwise be spent for current consumers' goods and services. The flow of incomes is sustained by expenditures that lead to the production of additional goods. When consumers spend their incomes for current goods, their expenditures in turn create incomes for those who sell and deliver the goods and for those who participate in the production and shipment of additional goods to replace the goods that were sold. When consumers withhold part of their incomes from the market for current goods, the transmission of incomes is interrupted and the flow declines.

Even if instalment payments for post-war delivery were treated as savings by all purchasers, some reduction in the total volume of expenditures that would come into the market could be confidently expected. The offer of a new kind of savings with an unusual appeal would, of itself, lead to some expansion of overall savings. In addition, there would be a particularly strong pressure on certain classes of consumers to increase their savings. Many persons whose entire savings take the form of fixed payments to pension

funds, for annuity premiums, for building and loan shares, or for debt retirement, would undoubtedly make instalment payments without reducing the flow of funds into these fixed savings programs. Many others, who are constitutionally incapable of foregoing the expenditure of every cent which comes into their hands, or who lack an incentive for, or an interest in, further saving, would divert part of their incomes to the purchase of post-war-delivery certificates rather than go without new goods when production is resumed. Still others save so little that even though their entire savings were shifted into post-war-delivery certificates they would have to increase their savings to meet the required payments.

The net increase in savings that would result even under these unfavorable circumstances would probably be sufficient to warrant the introduction of a plan for instalment selling for post-war delivery. But the deflationary effect of such sales can be substantially enhanced if consumers treat their post-war-delivery payments as current expenditures. In view of the importance of diverting as much purchasing power as possible from the current market, it is exceedingly worthwhile to do everything possible to produce this result.

Most gainfully-occupied persons who are prospective purchasers of post-war-delivery certificates have, particularly at a time of full employment at high wages, a considerable margin of "free" savings beyond their fixed or scheduled savings commitments. These free savings normally go into savings banks, into the securities markets, and into war bonds and stamps. If post-war-delivery certificates should satisfy all the requirements

of savings and provide an attractive medium for savings, there would be a substantial shift of savings from their normal channels into post-war-delivery certificates. To the extent that this occurred there would be no net gain in the diversion of purchasing power from the current market. But to the extent that post-war-delivery certificates fail to satisfy the requirements of savings and payments on such certificates are therefore treated as current expenditures, the invasion of other forms of savings will be minimized and payments for post-war-delivery certificates will be reflected largely in a decrease in expenditures for current goods and services.

Instalment payments as expenditures

Several circumstances will contribute to the treatment of instalment payments on purchases for post-war delivery as "spendings" rather than savings.

First, there is the established pattern of family expenditures and the resistance to change in that pattern. In part, the pattern is established by existing commitments: by insurance and annuity contracts, by agreements for purchase of building and loan shares, war bonds, etc.; by fixed rentals on houses and apartments; by real estate taxes and mortgage payments; by instalment purchase obligations. In part, it is established by intra-family budget allocations; by the husband's personal allowance; by allowances to the housewife for food, for clothing for herself and her children, and for household supplies and equipment; and by reserves for medical expenses and other emergency needs.

Purchases of goods for post-war delivery can be expected to fit

naturally and easily into this expenditure pattern. Such purchases need not disrupt established obligations nor distort customary budget allocations. On the contrary, they will fill the gap left by the disappearance of important consumers' durable goods from the market. For those who already have instalment commitments, payments on contracts for post-war delivery will merely replace payments on contracts for goods already delivered. For others, the family budget item for household equipment can be diverted, in the absence of current goods, to the purchase of "futures." Because instalment payments for goods for post-war delivery will replace expenditure items in family budgets, there will be a strong tendency to treat them as expenditure items.

Second, instalment payments have been traditionally treated as expenditures and it seems probable that this traditional treatment would carry over naturally into payments on goods for post-war delivery. In the normal instalment sales transaction periodic payments are almost completely disassociated from the delivery of the article subject to purchase and they bear no necessary relationship to its use. Yet each instalment payment represents a charge against current income--a periodic expenditure for the eventual ownership of the article.

The persistence of the treatment of instalment payments as current expenditures is illustrated by the reaction to changes in instalment credit terms. If the credit balance resulting from an instalment sale is paid off more rapidly than the goods depreciate in value, it is obvious that some part of each instalment payment represents a saving. The larger the payments on a given credit balance, the greater is the rate of saving. Yet this fact

appears to be virtually neglected in the budget calculations of consumers. One of the primary assumptions underlying the restriction of instalment credit terms by the Federal Reserve Board is that, when instalment payments are increased through the reduction of maturities, the consumer will continue to treat the increased payment as an expenditure and balance his budget by reducing his spendings rather than his savings. There is every reason to believe that this assumption is realistic.

Third, even if it were not for the traditional treatment of instalment payments as expenditures, it seems unlikely that consumers generally could be brought to look upon them as savings. Families generally save for three primary purposes: (1) to establish a reserve that can be used in emergencies, (2) to provide a competence for the period of retirement, and (3) to create an estate for the protection of wives and children. So long as post-war delivery sales are related to specific goods, instalment payments will fail to serve any of these purposes satisfactorily.

While these circumstances will contribute heavily to the general acceptance of instalment payments for post-war goods as current expenditures, it is nevertheless important to eliminate so far as possible any characteristics which might link these transactions to savings and thereby encourage competition with existing forms of savings.

The proposal to offer a special issue of war bonds that could be redeemed in goods after the war seems objectionable for this reason. Total sales of war bonds would undoubtedly be increased by the offer of a merchandise

bond. But for the most part such bonds would merely compete with other types of war bonds and with other forms of saving for the limited funds which consumers are willing to set aside from their current incomes. Total savings--in the sense of income funds withheld from the current market for goods and services--would probably increase very little.

In order to avoid so far as possible any savings aspect, purchases for post-war delivery should be linked to specific merchandise; liquidations in cash should be penalized prior to the time when priority numbers have been called; transferability of purchase certificates should be limited; and interest accruals should be avoided. The requirement of instalment payments is equally important. To be most effective purchases must be made periodically out of income. To permit purchases by full cash payment would be to encourage a shift of funds from savings banks, securities markets, etc., and to minimize the diversion of incomes from other types of expenditures.

Magnitude of deflationary effects

The potentialities of instalment selling for post-war delivery as an anti-inflationary weapon are tremendous. Yet only the crudest of estimates can be made to indicate the order of magnitude of the deflationary effects of the plan.

At present income levels, we could expect about 12 billion dollars worth of expenditures for consumers' durable goods, exclusive of houses, if materials, labor and productive capacity were available to make the goods. Expenditures for automobiles, refrigerators, and furnaces alone would probably be close to 8 billion dollars. The potential market for post-war-delivery

certificates, however, would be far greater than the potential market for delivered goods if peace and civilian production were suddenly and completely restored tomorrow. Prospective purchasers of actual goods under these circumstances would be confined to those who know they want immediately the goods subject to sale. Prospective purchasers of certificates, on the other hand, would include the far larger number of persons who believe they will want these goods in the indefinite future.

In the light of the strong incentives for post-war delivery purchases, it would not seem overly optimistic to assume that certificate sales could be maintained at an average rate of 6 billion dollars a year for several years, provided that the list of goods and services covered by the plan was progressively expanded. This means that the average annual volume of certificate sales would approximate the dollar volume of sales of automobiles, refrigerators, pianos and automatic furnaces in 1941, when incomes after taxes were substantially below present levels and when moderate restraints on demand for these goods had already been applied.

If certificate sales were distributed evenly at the rate of 500 million dollars a month and instalment payments were extended over the period of 24 months, collections would approximate $1\frac{1}{2}$ billion dollars during the first year, $4\frac{1}{2}$ billion dollars during the second year, and 6 billion dollars during the third year. It seems likely, however, that the rush to get low priority numbers, particularly for automobiles, would concentrate purchases heavily in the initial months of the program. Moreover, the period of payment for many certificates would be much shorter than 24 months. Hence the volume of

instalment payments during the first year would probably be substantially larger and the volume during the third year would probably be lower. The volume of payments might readily be 3 billion dollars during the first year, $4\frac{1}{2}$ billion during the second year, and $4\frac{1}{2}$ billion during the third year.

Not all of these payments would be diverted from the market for current goods and services. Commissions averaging about five percent of the volume of payments would be paid for sales and collections, and a large part of these disbursements would become spendable incomes again. This factor, however, is sufficiently small to be neglected for purposes of our crude calculations. Of substantially greater importance is the fact that in spite of every effort to encourage the treatment of instalment payments as expenditures, there would still be some encroachment upon savings. Many persons whose incomes are little above the subsistence level would be compelled to choose between post-war-delivery purchases and their customary methods of saving, and many others would cut into their savings in order to meet part of their instalment payments. These reductions in savings might, even under the plan presented here, reduce the deflationary effects of instalment payments for post-war-delivery by as much as 30 or 40 percent.

Leakages of this sort are bound to occur, however, no matter what means are used to attack the problem of excess purchasing power. The increased taxes provided for in the recent Revenue Act will bite heavily into the savings of many tax-payers, thereby limiting the impact of tax collections upon the volume of consumer expenditures. Similarly, the deflationary effects of purchases of war savings bonds are reduced substantially by the diversion of

funds from previously accumulated savings and from other forms of current saving. Some students of the question believe that no more than 50 percent of the sales of war savings bonds represent increases in savings. Provided that care is taken to encourage the treatment of payments on post-war-delivery purchases as current expenditures, there is every reason to believe that the leakages in the deflationary effects of these payments would be no greater than the leakages in the deflationary effects of tax payments or of savings bond purchases.

The deflationary effects of a given volume of post-war-delivery payments appear, therefore, to be roughly comparable with the deflationary effects of at least an equivalent volume of tax collections and purchases of war savings bonds. However, since post-war-delivery payments would represent a new and additional deflationary force, it is appropriate to compare the prospective volume of payments with the prospective increment in tax collections and with the prospective increment in sales of war savings bonds. The increase in taxes that is expected to result from the new Revenue Act has been estimated at 7 or 8 billion dollars a year. Consequently, if our assumptions and calculations concerning the volume of post-war-delivery payments are correct, their deflationary effects during the first year would be less than half as great as those of the new Revenue Act, and during the second and third years they would be more than half as great as the effects of that Act. Since the outbreak of war, sales of war savings bonds show only a moderately rising trend, after adjustments are made for the shift of previously accumulated savings. Unless compulsion is used, the increase in such purchases can be expected to provide a much smaller deflationary force than that which would be contributed by payments on post-war-delivery certificates.

III

BY-PRODUCTS

While the creation of an additional deflationary force is the major objective of the plan presented here--and most characteristics have been designed to maximize its anti-inflationary effects--there would be a number of significant and highly desirable by-products. The most important of these appear to be: (1) the stimulation of business activity and employment in the post-war period; (2) the control of demand for consumers' durable goods when production is resumed; and (3) the preservation of selling machinery needed for rapid post-war expansion of civilian goods production.

Stimulation of post-war business activity

Much stress has been laid in the preceding section on the importance of inducing consumers to treat post-war-delivery payments as "spendings" rather than savings. This question of how instalment payments for post-war goods will be treated in consumers' budgets has an equally important bearing upon the stimulating effects of the plan in the post-war period.

There is strong resistance to the expenditure of savings. If payments on post-war-delivery certificates were looked upon exclusively as savings during the period of accumulation, the exchange of certificates for goods when production is resumed would be treated as an expenditure. Consequently, in order to preserve the balance between income and outgo, which is still just as essential to family well-being as it was in Poor Richard's day,

the purchaser would tend to cut other expenditures substantially. Under these circumstances, the call of priority numbers in the post-war period would be likely to result in a relatively minor and short-lived expansion of consumer demand and the resulting stimulus to employment and business activity would be minimized.

The situation changes, however, when instalment payments for post-war goods are treated as current expenditures. If each such payment is looked upon as money spent, the final exchange of the certificate for goods will represent merely the postponed delivery of something already fully paid for out of previous income and there will be no budgetary readjustments to compensate for the "spending" of the certificate. Under these circumstances the calling of priority numbers in the post-war period will pour out additional purchasing power into the markets for consumers' goods and services.

The effort to divorce certificate purchases so far as possible from savings is therefore directed at the maximization not only of the deflationary effects of instalment payments but also of the stimulating effects of post-war deliveries. The stimulating effects of the plan during the post-war period are controlled, and in large degree measured, by its deflationary effects during the war period. To the extent that instalment payments are met by reducing other forms of saving both the deflationary effects during the war period and the stimulating effects during the post-war period will be partially neutralized. To the extent that instalment payments are added to normal savings, purchasing power will be effectively skimmed

off the current market and added to the post-war market.

The release in the post-war period of purchasing power stored up in the form of post-war-delivery certificates would have economic effects similar to those of an equivalent deficit expenditure by the Federal government. Suppose the total amount of prepaid instalment sales should amount to 18 billion dollars at the close of the war and that priority numbers were called over a period of two years. Even if the net addition to total purchasing power were only two-thirds of the face value of certificates called, this would represent an injection of 6 billion dollars a year into the income stream. In view of the accumulating requirements for new industrial equipment, an additional stimulant of this magnitude might prove to be sufficient to keep the national income at a high level without recourse to government deficit spending.

The ability to avoid entirely, or to minimize, or even to delay the necessity for, government deficit spending in the post-war period without risking severe contraction of the national income would be exceedingly valuable. The public debt at the end of the war will be tremendous, and strong pressure for balancing the Federal government budget can be expected. From a social standpoint, also, production in response to consumer demand is likely to be preferable to production in response to expenditures by public agencies. If individuals make the choice, the nation will be assured of getting goods which its citizens want. If government agencies must make the choice, the very magnitude of the task of organizing quickly an adequate spending program is likely to produce goods that are less socially useful.

Control of demand for consumers' durables

It will be noted that the writer has avoided any claim that post-war-delivery instalment sales will increase the immediate post-war demand for consumers' durable goods. They will, it is true, create an assured and measurable market that will certainly be much larger over the long run than it would otherwise have been. But the primary consequence of a large backlog of prepaid order for consumers' durables will not be an enlargement of the post-war market for those goods but the preservation of the market for goods and services that would otherwise be sacrificed to meet payments for durables.

Regardless of the operation of any plan for selling goods for post-war delivery, demand for consumers' durables is likely to exceed productive capacity for considerable periods of time after production is restored. Demand for heavy consumers' durables is more volatile than that for any other category of consumers' goods and services. If the market were left to its own devices, we would no doubt have a tremendous and short-lived upsurge of demand, which would be accompanied by high prices, excessive profits, and over-expansion of facilities for production and distribution, followed by a severe drop in demand which would be accompanied by cut-throat price competition, dealer bankruptcy, unemployment, and idle equipment.

The machinery for controlling prices will undoubtedly be continued into the post-war period. But in the face of hunger for goods that have not been available during the war, a tremendously excessive demand in relation to the immediate supply of such goods, and the natural relaxation of public support of price regulations that would follow the end of the war, it seems

exceedingly unlikely that price control alone could be effective. Continuation of a full-fledged wartime rationing program would provide the necessary complement to price control. But political resistance to such a program after the restoration of production of civilian goods would undoubtedly be strong.

The system of priorities proposed here would provide a feasible solution to the problem of preventing chaotic conditions in the markets for consumers' durable goods. It would permit demand to be closely related to production, thereby preventing erratic price movements. Production itself could be limited by withholding the call of priority numbers if this seemed desirable either to prevent excessive plant expansion or to accomplish a systematic plan of gradual transition to peacetime production and employment, or to conserve materials more urgently needed for other purposes.

The system of priorities would amount in essence to a post-war rationing plan. But eligibility, under this form of rationing, would have to be earned by foresight and self-denial during the period of the war. This is certainly much more equitable and would have much more ready support from the public than a system which would give those in certain occupations greater rights than other citizens.

Preservation of sales machinery

The stoppage of production of automobiles, refrigerators, washing machines and many other consumers' durable goods threatens the existence of a large number of business enterprises that have been engaged in the retail distribution of those goods. Instalment selling for post-war delivery would

provide some measure of current relief to these agencies and would, by providing useful work, preserve at least a skeleton sales and financing structure upon which to build the post-war expansion of distribution.

The full impact of production stoppages upon sales and financing agencies has not yet been felt. Instalment payments on previous sales of consumers' durable goods are still being made to sales finance agencies. There is still a trickle of new car sales under the automobile rationing program and a substantial, though declining, volume of used car and service sales to sustain automobile dealers. Increased profit margins both on new car and used car sales have tended partially to offset the decline in the total volume of sales. For many other types of consumers' durable goods whose production has been stopped, retail inventories have not yet been exhausted.

Nevertheless, the machinery for selling and financing consumers' durable goods is rapidly disintegrating. Already, many dealers have gone out of business, some voluntarily, others as the result of bankruptcy and compulsory liquidation. Many sales finance companies have completely liquidated, and others have severely cut the number of their branch offices. The process of disintegration will continue and accelerate unless other use can be made of these facilities.

The misfortunes of these enterprises represent, in a sense, the hazards of war, which are never equitably distributed. Nevertheless, the public at large has interests of two kinds in their difficulties. In the first place, it has been the policy of all nations to prevent any one class

of citizens from bearing an unreasonably large share of the burden of war. In the second place, it is desirable to preserve at least a rudimentary sales and financing structure as a nucleus for post-war expansion.

Congress has already given evidence of its desire to ease the burdens imposed upon automobile dealers by the war. The Murray-Patman Act, a product of the deliberations of the Senate and House Small Business Committees, contains several features which come close to an outright subsidy to dealers in rationed goods. But while subsidies and other types of benefits may help individual business men, they will not prevent the disintegration of the machinery for selling and financing consumers' durable goods. The only way to preserve this machinery is to give it work to do.

Instalment selling for post-war delivery provides the opportunity for work that is both useful to the nation and reasonably profitable to selling and financing agencies whose business has been disrupted by the stoppage of consumers' durable goods production. Fortunately, the plan involves kinds of work that do not require able-bodied manpower needed elsewhere. The sales job can readily be handled by men who are beyond the age for military service and who have no aptitude for production or by men who are physically handicapped. The work of receiving, recording, and auditing can well be done by women.

INCENTIVES FOR PURCHASERS

It scarcely needs to be said that the usefulness of instalment selling for post-war delivery in reducing the inflationary pressure does not guarantee its practicability. However dangerous the prospect of inflation for the nation as a whole, one cannot expect many individuals to act against their own self-interest to further so intangible an objective as the maintenance of stable prices. For example, everyone would concede that higher taxes are necessary to combat inflation, yet most individuals will struggle to minimize their own taxes and it is necessary to support tax legislation with an elaborate system of audit and compulsion.

Because voluntary action is contemplated, any plan for selling futures must rely upon strong individual incentives if it is to work on a satisfactory scale. The conditions must be such that consumers will want to buy goods for post-war delivery.

Resistance to the sale of futures

It has been argued by some that any plan of instalment selling for post-war delivery is bound to fail through the unwillingness of consumers to buy goods that are not yet in existence and therefore cannot be displayed or demonstrated. Let us examine the merits of this argument.

The history of merchandising is full of illustrations of sales of goods which the purchaser has not seen. The mail order houses have distributed tremendous quantities of goods and have progressively increased their

share of the market on the basis of catalogues which give photographs, sketches, or mere verbal descriptions of the articles offered for sale. Department stores and specialty shops make a considerable proportion of their sales in response to telephone or mail orders based on newspaper or handbill descriptions or sketches. Houses, cooperative apartments, and boats have long been sold from architects' plans; and one scarcely expects to see an oil burner, automatic stoker or home air-conditioning system demonstrated or displayed on the premises of the heating contractor who sells them.

It can properly be argued that the characteristics and performance of these goods are well-known to buyers even if they do not see them before making their purchases. Yet the consumer will certainly not be buying a pig-in-a-poke when he commits himself to the purchase of an automobile, a refrigerator, a piano, or an oil-burner. The usefulness and technical performance of these goods have long been demonstrated. The consumer knows that he will need such articles in the post-war period. He also knows that Chevrolet, Ford, Plymouth, and other automobile manufacturers will make good low-priced cars, and that Frigidaire, General Electric, Kelvinator, Servel, Westinghouse, and other manufacturers will make good refrigerators. Under the plan proposed here he would be free to choose among various makes and models at the time of delivery.

Technological advances induced by the war can be expected to change substantially the construction and design of most consumers' durable goods. But the consumer knows that these developments should make post-war goods more desirable than pre-war goods. Under these circumstances the inability of

manufacturers to describe precisely their post-war product may be an asset rather than a handicap to promotional efforts. It presents both a challenge and an opportunity to the advertising profession. Colorful sketches indicating progress in the improvement of design and performance could be used to attract the consumer's interest and to whet his appetite for the new goods. Color plastics, light metals, and functional design offer enormous potentialities for appeal to the eye.

There is nothing essentially novel in the idea of accumulating funds for the purchase of goods by instalment payments in advance of delivery. Examples of instalment buying for deferred delivery can be found both here and abroad. While these examples are far from conclusive, they provide no evidence to indicate that there would be any considerable resistance by consumers to post-war-delivery purchases.

The most comparable example is the sale of the Volkswagen or people's car in Germany. The motives underlying the original plan, which resulted from an order of Hitler in the spring of 1937, are obscure; but it seems probable that its purposes were: (1) to create a sufficiently large market to permit the manufacture of a small pleasure car at a price the German working classes could afford to pay, (2) to create a government-owned factory that would be useful for the production of military equipment, (3) to create a stock of civilian automobiles which could be used for military purposes, and (4) to gain popular support for large expenditures for highways intended for military use.

The details of the plan did not begin to emerge until August 1938, when it was announced that the price of the car would be 990 marks--the

equivalent of about \$350.00--payable in weekly instalments of 5 marks or multiples thereof. Collections, which started in September, were made through the Labor Front. Later the price was increased to 1250 marks to cover liability, fire, and theft insurance for the first two years, and shipping charges. A large plant, called the Volkswagen Works, with a town to house its workers, was built near Brunswick. Production was scheduled at 100,000 cars in 1940, 200,000 in 1941, and 250,000 in 1942.

While the original program appears to have contemplated delivery of automobiles before instalment payments were completed, the detailed plan made it clear that no car would be delivered until the purchase price had been fully paid. This suggests that an additional motive--to divert purchasing power from the market--had in the meantime been added to the earlier ones. It is even conceivable that the primary purposes from the start may have been to finance the production of armaments and to hide from the outside world the creation of an additional armament plant. Although models were shown at the International Automobile Show in Berlin in 1939 and later in various provinces, in order to stimulate instalment purchases, no cars were ever delivered even though thousands of buyers had paid the full purchase price.

By July 1939, 10 months after the plan became effective, 253,000 purchasers had paid in 110 million marks against the future delivery of cars. No later figures have been published. Following the outbreak of war in September, purchasers were urged to continue their payments and it was announced that the Volkswagen plant had been converted to war production.

Although the number of instalment purchasers was relatively small, it should be remembered that automobiles are owned only by the wealthy classes in Germany. Few among the working classes knew how to drive a car, and workers' homes lacked facilities for storing one. Moreover, the incomes of German workers were so low that even the relatively small instalment payments represented a substantial sacrifice.^{1/}

There have also been examples of instalment purchases for deferred delivery in this country. Lay-away plans, by which instalment payments are made in advance of the delivery of merchandise, have been common in many fields of merchandising, notably clothing. Christmas savings plans, the success of which was limited only by the low yields on short-term investments, were in reality means of accumulating the price of Christmas expenditures by advance instalment payments. In the automobile field, the General Motors Corporation experimented with a pre-payment plan in 1925 and 1926. In order to encourage a continuing relationship with the Chevrolet dealer who sold him a car, the purchaser was encouraged to accumulate payments for a new car and a discount on service bills was credited to his new-car fund.

Lay-away plans have never been used on a large scale and the Chevrolet experiment produced a relatively small number of prepaid sales. But the significant fact is that they should have succeeded at all under the

^{1/} The writer is indebted to the Research Project on Social and Economic Controls in Germany and Russia, undertaken by the Graduate Faculty of Political and Social Science, New York, and especially to Dr. Ernest Hamburger, for the information on which these comments on the Volkswagen were based.

circumstances of their use. Those schemes had to compete with offers of identical goods on the usual instalment terms, and it is little wonder that most consumers preferred to enjoy the merchandise while they were paying for it.

If the goods offered for sale under the post-war-delivery plan could be purchased for immediate delivery on the usual instalment credit terms, a very limited volume of sales could be confidently predicted. But the present situation is completely different from that under which deferred-delivery instalment sales have been offered previously. The goods subject to sale for post-war delivery would be those which are no longer available for current delivery on any terms. Under these circumstances deferred-delivery instalment sales need not compete with current-delivery instalment sales of the same goods. The only competition would be with increased quantities of other types of goods which remain in the market. This is a competition in which instalment sales for post-war delivery can readily come out on top if adequate incentives are offered.

Appeal of priorities

By far the most important of the two advantages that would be offered to purchasers of post-war-delivery certificates is the prior claim to the post-war product. By virtue of the stoppage of civilian production of major types of consumers' durable goods, a backlog of potential demand is rapidly being built up. The longer the war lasts the larger will be this pent-up demand. Besides, after the conclusion of the war it will take time to get

into production again. Millions of people will want a new automobile or refrigerator or oil-burner as quickly as possible after the conclusion of the war. But many will have to wait.

In the automobile field, for instance, at least 2.5 million cars would normally be junked each year and this rate is likely to be increased by gasoline and tire rationing. By the close of 1943, the replacement demand alone could be expected to equal the number of cars produced during the best previous automobile year. But even if the war ended then, it would take months to reestablish production lines for passenger automobiles. The period of transition to peace-time production has been estimated at roughly four months if 1942 models are repeated and at least eight months if the post-war automobile is to be redesigned. It is apparent therefore that, even if the war is of relatively short duration, the immediate replacement demand for automobiles is likely to exceed a full year's production. To the replacement demand must be added the inventory requirements of dealers for display and demonstration purposes and the demand from those who will want a car or an additional car for the first time. This means that some people who would like to buy a car promptly after the conclusion of the war will have to wait for months--and perhaps for years if the war is long.

In varying degrees, the same thing is likely to be true of many other types of consumers' durable goods.

If a prior claim to post-war production is given to instalment buyers of "futures," each such sale would still further postpone the date of delivery for those who failed to make such purchases. As the number of instalment

purchasers increases, the hopes of well-established customers for preferential treatment from their dealers will disappear, and their only hope of prompt delivery will be to enter instalment purchase contracts themselves. As the war goes on, the wearing out of automobiles and household appliances will also impel participation in the plan. When these goods are no longer serviceable, it will be brought home to the consumer how important they are in his life and how desirable it would be to replace them as soon as possible.

The price discount as an incentive

The offer of a price discount would probably be a less powerful incentive than a priority to post-war production. Nevertheless, it should add substantially to the appeal of the plan. Every individual naturally tries to get the most for his money, and the strong sales appeal of a bargain price is well-known to the merchandising profession. The offer of a discount from the standard price for post-war-delivery purchases would permit "futures" to compete more effectively with present goods for the consumer's dollar.

Moreover, a price discount is fully justified by the circumstances. On one hand, since money commands a rental, the person who pays for his goods in advance of delivery should, in the interest of equity, obtain a price advantage over the person who pays at the time of delivery. On the other hand, the creation of a large backlog of prepaid orders for consumers' durable goods in specific price classes will permit economies in production and distribution which should be shared with the purchaser who helps to create them.

The allowance of a discount from the post-war price rather than an

interest rate is desirable for a number of reasons. First, it would eliminate expensive interest calculations. Second, it would encourage prompt use of certificates to obtain delivery of goods after their priority numbers have been called. Third, it would more clearly identify the instalment transaction with the purchase of merchandise. The delivery of an interest-bearing certificate would certainly induce a much higher degree of competition with other forms of saving.

Discounts from standard retail prices have been commonly offered by dealers in automobiles and other consumers' durable goods, either in the form of a reduced price or an excessive trade-in allowance. Consequently, only a relatively substantial price-discount would be considered significant by post-war-delivery purchasers. It is recommended that the discount from the established purchase price should approximate 10 percent. This can best be accomplished by giving the post-war-delivery certificate a merchandise value 10% greater than the amount paid in by the purchaser.

The amount of the discount for post-war-delivery purchases should be reconsidered from time to time in relation to the prospective period of deferment of delivery. For instance, the discount might be reduced progressively at six-month intervals, unless so many certificates had been sold that the delay in delivery after the war promised to offset the approach to the end of hostilities.

The price discount for post-war-delivery purchases would be made up when the goods were delivered by the sacrifice of part of the usual gross profit

margin on the part of the dealer who delivers the goods and by a rebate to that dealer on the part of the manufacturer whose goods are delivered. In the light of the relative benefits that would accrue to dealers and to manufacturers under the plan, a 10 percent price differential might be divided in the proportion of 7 to the dealer who delivers the goods and 3 to the manufacturer whose goods are delivered.

Since commissions paid out for the sale of certificates and for the collection and recording of payments would be covered by the Treasury payment for the use of the purchaser's money during the period prior to the delivery of the goods, the purchaser who meets his payments promptly could be guaranteed the return of the full amount paid after his priority number has been called if he should prefer to take cash instead of goods. The cash withdrawal right would probably never be exercised because at that point it would be possible to sell the certificate--undoubtedly at a profit. But the guaranteed return of the amount paid in after priority numbers had been called would undoubtedly be a valuable selling point.

Cash withdrawals should also be permitted before the completion of payments and before the purchaser's priority number has been called. But such withdrawals would be penalized by the loss of the commissions paid out for sales and collections.

Incentives for prompt payment

Prompt payment of instalment accounts should be encouraged by penalizing delinquencies. Two types of penalties are readily available: the

deferment of the priority to which the purchaser would otherwise be entitled and a decrease in the price-discount allowed for advance payment.

The deferment of priorities in cases of delinquency is important not only as a means of encouraging prompt payment in order to minimize collection costs, but also as the means of assuring equitable treatment of purchasers. If there were no such penalty and if priorities were assigned solely on the basis of the date of the instalment purchase contract, it would be possible for the purchaser to get a low priority number by making an immediate down-payment and defaulting on all subsequent payments. This would give him an unfair advantage over those who meet their commitments. It is obviously desirable that the deferment of priorities be progressive--the greater the degree of delinquency, the greater the deferment of priority--and that the schedule of deferment be so arranged that the purchaser would benefit by waiting until he could meet his instalment payments rather than by entering a contract on which he would be unable to perform.

Similarly, the reduction of the price-discount in cases of delinquency is important not only to stimulate prompt payment but also to compensate for the additional expense of following up delinquencies and for the shorter period of time for which the United States Treasury would have the use of the purchaser's money. It would obviously be unfair to permit the purchaser who made an initial down-payment and defaulted on later payments to buy goods at the same price-discount as the purchaser who made his payments according to schedule. Like the deferment of priorities, the decrease in the price discount should be related to the degree of delinquency, and the schedule of

delinquent charges should be so adjusted that it would pay to postpone entering an instalment contract until payments could be met promptly.

Delinquency could be calculated most efficiently if all instalments were payable on the first of each month. However, in order to prevent peak loads for collection agencies, due-dates for individual contracts should be scheduled for the tenth, twentieth or thirtieth of each month, to suit the convenience of the purchaser. Each month should be treated as having thirty days for purposes of calculating delinquency. The use of rounded payment dates would still leave a very simple calculation, which clerks could soon compute and check with great speed.

Purchasers might be allowed a delinquency of 99 payment days without penalty. On a twenty-payment contract, this would represent an average grace period of 5 days for each payment. Such an allowance would compensate for payment dates that would fall on Sundays and holidays and allow a reasonable leeway for the receipt of mailed payments, for delays due to illness, etc. It is further recommended that the priority number to which the purchaser would be entitled by virtue of the date of entering an instalment purchase contract be increased by one for each additional two hundred delinquent payment days, or fraction thereof, and that delinquency charges be computed at 0.2% of the cash value of the certificate for each additional one hundred delinquent payment days, or fraction thereof.

Delinquency charges should be computed and collected after all scheduled payments have been met. Since it is an objective of the plan to insure regular periodic payments out of income, no compensating credit should be allowed for prepayment of any instalments.

Payment schedules

Payment schedules should be designed to produce as large payments as possible without creating excessive sales resistance and without penalizing too severely those with low incomes.

Two considerations point to the desirability of high payment requirements. The first is the cost of collection. Most cost elements vary with the number of items handled rather than with the number of dollars collected. This means that the larger and fewer the payments, the lower the total collection cost. The second is the deflationary effect: the larger the payments, the larger the diversion of purchasing power from a given income.

It is obvious, however, that excessive payment requirements could defeat the economic objectives of the plan. Large groups of potential purchasers would be eliminated from participation by fixing down-payments and instalments at figures that are beyond their reach. Consequently, even though the flow of funds from those who could meet the required payments might be speeded up, the total deflationary effects of the plan would be substantially reduced by the reduction in the volume of certificate sales.

Beyond this there are social objections to excessive payments, because the priority system would operate to deny prompt delivery of goods in the post-war period to those who were financially unable to meet the payments. The exclusion of some prospective purchasers is unavoidable. Even though the payments were exceedingly low, some persons who would like to purchase post-war-delivery certificates would be unable to do so by virtue of their poverty. But these persons would be equally unable to buy such goods in an absolutely

free market. It should be a prime objective in fixing post-war-delivery payments not to increase the difficulties of low-income classes in acquiring consumers' durable goods. This means, in effect, that the terms offered for post-war-delivery sale should not be much more stringent than those which would normally be offered in a free market.

In the normal instalment sales transaction, particularly for automobiles, down-payments are fixed relatively high in order to cover the initial depreciation which occurs when the goods become "used." In actual practice, however, automobile down-payments are generally covered by trade-in allowances. A large down-payment for post-war-delivery sales is not only unnecessary, but undesirable because it would create additional sales resistance. The down-payment should be such that prospective purchasers would be likely to have the sum in their pockets at the time they are approached by salesmen. Other reasons for keeping the down-payment modest will be discussed in the succeeding section.

Instalment payments should be more substantial than down-payments. Once the purchaser has made a down-payment he can be expected to adjust his budget to meet a more substantial sum out of his next pay-check. These readjustments of expenditures are, in fact, the key to the deflationary effects of post-war-delivery purchases.

The following payment schedule is proposed as one which would maintain a satisfactory balance between these various conflicting objectives:

<u>Merchandise Value of Certificate</u>	<u>Cash Value of Certificate</u>	<u>Down Payment</u>	<u>Instalment Payment</u>
\$ 110	\$100	\$3	1 @ \$9 ; 11 @ \$8
165	150	4	10 @ \$11 3 @ \$12
220	200	5	13 @ \$14; 1 @ \$13
330	300	6	6 @ \$19; 10 @ \$18
440	400	7	15 @ \$22; 3 @ \$21
550	500	8	12 @ \$25; 8 @ \$24
770	700	9	19 @ \$33; 2 @ \$32
1,100	1,000	120	22 @ \$45
1,540	1,400	11	9 @ \$61; 14 @ \$60
2,200	2,000	12	20 @ \$83; 4 @ \$82

WORK AND MOTIVATION OF OTHER PARTICIPANTS

The willingness of consumers to buy is obviously of crucial importance to the successful operation of any plan of instalment selling for post-war delivery. However, the purchaser is but one of several parties to the instalment sales transaction. Adequate incentives must be offered to motivate the voluntary action of other participants. Dealers must want to sell post-war-delivery certificates; the collection agencies must be willing to handle funds and to maintain bookkeeping records; and manufacturers and public utilities companies must have reason to play the parts assigned to them.

Characteristics of certificate sales

There may be some broad categories of goods--such as food--which consumers will buy in stable quantities at given income and price levels, regardless of the amount of sales effort that is exerted. But this is not true of the category of consumers' durable goods. Even less is it true of individual articles in that category or of certificates for the future delivery of such articles. Sales effort will be needed to overcome the natural inertia that has always characterized markets involving commitments for the payment of relatively large sums.

Sales efforts cost money and the dealer should be compensated for them. Costs of selling post-war-delivery certificates, however, would be substantially lower than cost of selling the goods themselves and the commissions offered dealers can properly be much lower than the usual sales commission.

The techniques of selling for post-war delivery would differ substantially from those of normal sales. There would be no dickering for trade-in allowances, no competition with other makes at the point of the instalment sale, and no demonstrations. There would be no inventories to store and finance and no additional overhead to maintain. The primary objective of the sales effort would be to bring the advantages of instalment purchases for future delivery forcefully to the attention of every household. The potential list of customers would include all gainfully-occupied persons. House-to-house canvasses would probably be profitable as soon as solicitation of dealers' regular customer lists had been exhausted.

The sales efforts of dealers would be reinforced by pressures upon the purchaser which do not usually exist. Priorities would provide a powerful force for reducing sales resistance. In fact, many purchasers could be expected to seek out their dealers in order to buy post-war-delivery goods as promptly as possible. The sales campaign would be supported by government pronouncements that purchases for post-war delivery help the war effort. The complete freedom of choice of makes and models should also facilitate certificate sales. The purchaser would buy only a right to an automobile, or a refrigerator, or an automatic stoker, and he would have none of the hesitations and uncertainties that naturally arise when he puts his hard-earned money on the line for specific goods.

Not only is it practicable to offer relatively modest commissions but there are positive reasons for keeping commissions as low as possible.

In the first place, as has already been indicated, commissions paid for sales and collections should be limited to the amount which the Treasury would pay for the use of the purchaser's money prior to the date of delivery of the goods. In this way the purchaser can be assured of the return of the amount which he had paid if he should choose to take cash instead of goods when the priority number of his certificate has been called.

In the second place, the deflationary effects of instalment payments would be offset to the extent that these payments are diverted to the payment of sales and collection commissions.

Finally, it is in the interest of making the best use of our manpower resources to keep sales commissions low. The stoppage of production of major consumers' durable goods was necessary not only to release materials for production of military equipment but also to release manpower. Many of those who sold these goods are as readily adaptable to war work as those who operated machines or worked on assembly lines. The compensation offered to salesmen should be sufficient only to attract those who are for one reason or another not readily adaptable to other work. Sales could readily be made by physically handicapped men or by previously unemployed women. This work would lend itself readily to part-time employment. The number of salesmen engaged in selling post-war-delivery certificates should be only a small fraction of the number normally employed in selling goods for current delivery, but each salesman should be able to produce many times as many sales as the peacetime average.

Dealers' sales commissions

The down-payment made by the purchaser would be kept by the dealer as his initial sales commission. By treating the entire down-payment as part of the sales commission, the necessity of holding thousands of individual dealers accountable for funds collected by them can be avoided. The down-payment should vary with the value of the certificate, but it should be modest even on certificates of substantial value. This is desirable in the interests of reducing sales resistance and of minimizing competitive reductions in down-payments. If a large down-payment were required, there would undoubtedly be a tendency for buyers, knowing that the down-payment goes to the dealer, to "shop" for a dealer who would reduce the down-payment or eliminate it entirely.

An additional sales commission would be paid to the dealer upon completion of the purchaser's payments, or, if it seems desirable, at specific stages in the fulfillment of the instalment contract--for instance, upon the payment of the sixth, the twelfth, and, if there are more than twelve, the final instalment. These secondary commissions should be paid only to dealers who follow up delinquent accounts referred back to them by the sales finance agencies. Otherwise, dealers might prefer to take the secondary commissions that would come to them automatically and to avoid the exertion of additional sales pressure on accounts in default.

The amount to be paid dealers through down-payments and secondary commissions should be determined in relation to the amount which must be paid to cover costs of collection and the amount which the U. S. Treasury would pay for the use of the purchaser's money. The following schedule of dealers' commissions, however, would appear to be feasible:

<u>Purchase Price of Certificate</u>	<u>Initial Commission (Down Payment)</u>	<u>Secondary Commission (2% of Purchase Price) Monthly Payment:</u>	<u>Total Commission Amount</u>	<u>Commission Percent of Purchase Price</u>
\$ 100	\$ 3.00	\$ 1.94	\$ 4.94	4.9
150	4.00	2.92	6.92	4.6
200	5.00	3.90	8.90	4.4
300	6.00	5.88	11.88	4.0
400	7.00	7.86	14.86	3.7
500	8.00	9.84	17.84	3.6
700	9.00	13.82	22.82	3.3
1,000	10.00	19.80	29.80	3.0
1,400	11.00	27.78	38.78	2.8
2,000	12.00	39.76	51.76	2.6

Participation of dealers in the plan would be encouraged not only by the commissions that would be paid for selling post-war-delivery certificates but also by their stake in the final delivery of the goods. Even though the certificate would be valid for purchase with any dealer, it could be anticipated that most certificate holders would buy from the dealer who sold them their certificates. Certainly the dealer who made the initial sale would have a strong competitive advantage when the certificate becomes valid for delivery.

Beyond these incentives of self-interest, however, one can rely heavily upon the patriotic desire of consumers' durable goods dealers to participate in a program that will contribute to the war effort. Automobile dealers, refrigerator and piano dealers and heating equipment contractors are frequently among the leading citizens of their communities and most of them are itching for an opportunity to be more directly useful toward the winning of the war. Post-war-delivery sales would provide this opportunity, and even if the commissions were smaller than those suggested above, full

cooperation of dealers could be anticipated.

The dealer who finally delivers the goods in the post-war period would, as has been indicated, forego part of his normal gross profit. If the suggestion made here is followed, the final dealer would discount the established retail price by about 7 percent. But this concession would represent only a little more than 1/4 of the customary dealer's gross profit margin on automobile sales and about 1/5 of the customary dealer's margin on refrigerators, pianos and heating equipment. Besides, more than a commensurate part of the selling job would have been done. The development of customers, ready, willing, and able to buy, constitutes a very large part of the procedure of selling consumers' durable goods and the dealer who completes the sale in the post-war period will be presented with such customers.

Trade-in bargaining, particularly in the automobile field, would take place as usual when the sale is completed. But the dealer who completes the sale would be in a much stronger position to resist pressure for excessive trade-in allowances. In fact, since certificates would presumably cover the full purchase price of the new car, the sale of the used car might readily become an entirely separate transaction, the sale being made to the highest bidder whether he be the dealer who delivers the new car, another new car dealer, or a used car dealer.

Incentives for manufacturers and public utility companies

Manufacturers would be expected to contribute to the plan by providing part of the post-war-delivery price-discount in the form of a rebate to dealers who deliver their goods in exchange for a certificate. It has been suggested that this rebate should approximate 3% of the established retail price. They would also be expected to reinforce the sales efforts of dealers

and their salesmen through national promotional advertising.

In return for their contributions to the plan, manufacturers would benefit in four different ways.

First, the plan would help to preserve the present pattern of consumer expenditures. In the absence of some scheme for absorbing the purchasing power that can no longer be devoted to the purchase of consumer durables, other categories of goods are bound to get a larger share of the consumer's dollar. The further this shift of spending habits progresses, the more difficult it will be for durable goods manufacturers to regain their previous position in the expenditure pattern when production is restored.

Second, it would provide an enormous assured market for specific price-classes of consumers' durables in the post-war period. A large and measurable market has been the dream of every production man. It would permit the planning of production and distribution by the industries concerned in response to accurate advance knowledge of the character and distribution of demand. This would lower production and distribution costs all along the line, which might be the means of preserving the favorable competitive position of the American manufacturers of automobiles and other consumers' durable goods in relation to foreign manufacturers in the post-war period. Even more important it would facilitate rapid--but controlled--expansion of production and employment. The consumer durable goods industries are fully aware of their large responsibility for absorbing at the conclusion of the war a substantial part of the manpower now devoted to the military effort.

Third, it would help to preserve the facilities for retail sales upon which the manufacturer must depend for the distribution of his products in the post-war period. The mortality among their dealers has already led several automobile manufacturers to consider plans for dealer subsidies as a means of preserving a skeleton sales organization.

Fourth, it would help to conserve substantial investments in the trade-names of their products. Values built up through years of promotional advertising and product performance will gradually disintegrate if these trade-names are not kept before the public. From the standpoint of the manufacturers concerned, it is just as important to preserve these trade-names as it is to preserve the plant and specialized tools that are capable of manufacturing the product. There is general agreement that present institutional advertising campaigns, based on the contribution of the manufacturer to the war effort, have reached the point of rapidly diminishing returns and that a new advertising appeal is essential. Advertisements directed toward the promotion of instalment sales for post-war delivery would fill this need. They would serve the double purpose of contributing to the battle against inflation and preserving product trade-names.

Public utility companies would be expected also to support the sales campaign with promotional advertising and to serve as agencies through which payments would be made. These companies have long recognized their special interest in the sale of household appliances. Such sales not only increase the total market for gas or electricity, but produce operating economies through an increase in the average billing for domestic service and through the creation of a demand which tends to balance the industrial load.

These advantages, plus the prospect of excess productive capacity in the post-war period, can be expected to guarantee enthusiastic participation of the gas and electric power companies in the promotion of the sale of household appliances for post-war delivery. In fact, several such companies have indicated their willingness to bear the full cost of making such sales.

Selection of collection and book-keeping agencies

Provision must also be made for the collection and recording of instalment payments if the plan for post-war-delivery sales is to work. It is not enough merely to collect the purchase price of the certificate by the time the instalment contract matures. If the deflationary potentialities of the plan are to be fully exploited and the Treasury is to get its money's worth, it is necessary to require regular payments at stated intervals, to send delinquent notices and to refer cases of substantial delinquency back to dealers, and to assess delinquency charges. This means that the amount and date of each instalment payment on each certificate must be recorded currently.

Two considerations make it seem inadvisable to permit dealers to collect instalment payments. First, instalment sales have been used by some merchants as the means of exposing customers to pressure for the purchase of additional merchandise at the time of each instalment payment. Since refrigerators and other household appliances are frequently sold by merchants who deal in household furnishings, clothing, or jewelry, post-war-delivery sales might be used to stimulate sales of these latter goods. Whatever the merits

of this merchandising device during normal times, it seems highly undesirable to allow a plan which is designed to take purchasing power off the market to be used to stimulate additional sales of current goods. Second, the mortality among dealers in consumers' durable goods is likely to be high, in spite of the additional income which instalment sales for post-war delivery would provide, and it is desirable to avoid the necessity of establishing an auditing system to protect purchasers against default by dealers.

The agencies best equipped to undertake the job of recording payments, sending delinquent notices and computing delinquency charges are the enterprises which have been previously engaged in financing instalment sales of consumers' durable goods. Moreover, because their businesses have been badly hurt by the discontinuance of production of such goods they have the best claim to the right to do it.

Sales finance agencies already have the personnel and the office equipment necessary for the work. The recording of payments for post-war-delivery certificates would replace naturally and easily the recording of payments on conventional instalment purchase contracts. The remaining branch-office structure and the clerical office force of these enterprises would be given employment and thereby kept intact. But there would be no need for the able-bodied men normally employed to chase "skips" and to repossess cars, who properly belong in the military forces or in war industries.

Sales finance agencies should be required to meet two standards before they are authorized to participate in the plan. First, they should

be required to show that at the time Regulation W was promulgated they were engaged, as a major activity, in financing the purchase of goods subject to post-war-delivery sale. This is desirable both for the purpose of assuring the availability of trained personnel, of adequate office equipment, and of established relationships with dealers--all of which would be important to smooth and efficient operation--and for the purpose of limiting the advantages of the plan to enterprises that have been most seriously affected by the discontinuance of production of consumers' durables. Second, they should be required to furnish a bond, to hypothecate securities, or otherwise to provide a guarantee of their responsibility for funds passing through their hands.

The sales finance agencies have, however, two important handicaps so far as the collection of instalment payments from purchasers is concerned. First, their remaining offices are situated primarily in the large cities, so that residents of smaller places would be able to make payment only by checks sent through the mail or by money order. Second, many of them are also engaged in the business of lending money. To permit these enterprises to use the personal contacts with individual purchasers which the acceptance of payments would give them for the solicitation of personal loans not only would handicap the attainment of the economic objectives of the plan but would be inequitable to competing lending agencies which would be excluded from participation.

For these reasons, it seems desirable to arrange for the acceptance of cash payments by agencies which have no interest in selling the purchaser goods or in lending him money and whose offices are numerous, readily accessible to purchasers, and equipped to accept cash payments. A number of agencies

would meet these standards. The telephone companies would be ideal. The post offices and the telegraph companies would be almost equally satisfactory. Mutual and other savings banks that have no personal loan service would also meet the requirements. The gas and electric companies could also be used, but care should be taken to protect the interests of independent household appliance dealers where the utility company is engaged directly or through a subsidiary in the sale of household appliances. Use of the telephone and public utility companies would permit the payment of instalments with bills for telephone, gas, or electric service.

Payments by check sent through the mail could go directly to the sales finance agency. But that agency should be prohibited from accepting cash payments, from addressing solicitations of any sort to purchasers for post-war delivery or from revealing the names of purchasers.

Work of the sales finance and local collection agencies

This division of labor between the sales finance agency, which would do the bookkeeping, and the local collection agency, which would accept and receipt for payments, need not involve any duplication of effort. On the contrary, this functional division is a natural one and it would assign to each agency the work which it is best equipped to do. The lack of offices generally accessible for cash payments has long been recognized as a handicap of sales finance companies. Only recently two large sales finance companies undertook to remedy this shortcoming by arranging for payment through the Western Union Telegraph Company, a device virtually identical with that proposed here.

The most satisfactory collection procedure would appear to be as follows:

Upon receiving a post-war-delivery sales contract from the dealer, the sales finance agency would issue a payment book to the purchaser and open a ledger account for him. The payment book should contain a coupon and a stub for each payment, imprinted with the purchaser's serial number, the payment number, the amount of the payment, and the name and address of the sales finance agency which issued it. The payment book should also show the names and addresses of the local collection agencies to which cash payments could be made in each community.

The local collection agency would accept payments made by the purchaser, stamp the coupon and the stub to show the collection agency and the date of payment, tear out the coupon and initial the stub in the payment book. Coupons would be sorted periodically and sent with remittances to the appropriate sales finance agency, which would use the coupons to post its ledger accounts. If the purchaser wished to do so, however, he could send checks or money orders directly to the sales finance agency.

The sales finance agency would keep a current record of payments for each purchaser to which it had issued a payment book, send a series of notices to delinquents, and refer cases of substantial delinquency to the dealer for additional sales effort. The notification of delinquents would serve not only to minimize delinquency but also to prevent theft by cashiers of local collection agencies, since the failure to forward payments would be quickly discovered. The sales finance agency would send remittances periodically to the Federal Reserve Bank or branch of the district in which its office

is situated. When the last payment has been made, it would compute delinquency charges, notify the purchaser of the amount and instruct him to make payment to his local collection agency. When delinquency charges have been collected, it would send the dealer his final sales commission, assign a priority number to the account, and send it to the Federal Reserve Bank for audit and the issuance of a paid-up certificate.

Collection and bookkeeping commissions

The work of local collection agencies could be handled at very little cost. There would be no necessity for maintaining files, for looking up records, for recording names and amounts, for making computations, or for referring to schedules of charges. Making change would be simplified by keeping the payments in even dollars. The cashier need only take the payment, stamp the payment book at two points, initial the stub, and tear out a coupon. This operation could be done with ease at the rate of two a minute, although allowances would have to be made for questions and for irregularities, such as the failure to present a payment book.^{1/} Many local collection agencies could handle this additional work by fuller utilization of present personnel.

The sorting of coupons could be done with great speed and would add

^{1/} Although receipts could readily be given by the local collection agency for payments made without the tender of the payment book, the difficulties of the sales finance agency in identifying the purchaser other than through the serial number and the possibilities of error in attempting to do so are such that it would appear to be the best policy not to accept any payment unless the book or the coupon was presented. A purchaser who has lost his payment book should be sent back to the dealer who would obtain a new payment book from the sales finance agency upon the payment by the purchaser of a small fee to cover the cost.

little to the cost. It would probably be necessary to list the serial numbers of the coupons by sales finance agencies as a protection against loss of the coupons in the course of delivery to sales finance agencies, but this also could be done very rapidly and would involve the transcription of only one figure.

The money-order service of the Post Office is somewhat similar to that which would be rendered by local collection agencies. Charges for money orders range from 6¢ an item for amounts of \$2.50 or less to 22¢ for amounts from \$80.01 to \$100. The procedure for handling them is elaborate. The money-order clerk must first get the customer to fill out a blank; then he must transcribe the names and addresses of the payor and payee and the amount to be sent at two places on the money-order form; he must stamp the form, look up the fee and add it to the amount to be sent, and collect the total from the customer. For each money order issued, funds must also be paid out to the payee and these transactions must be accounted for through inter-office bookkeeping.

Thus, while postal money orders serve a somewhat similar purpose, the procedure for handling them is of necessity far more costly than the collection system proposed here. Observations of actual transactions of both types indicate that the acceptance of payments on a coupon basis requires less than one-fifth as much time as the issuance of money orders. The difference in clerical time required for completing the transaction--from payment by the payor to repayment to the payee--is probably even greater.

Commercial services virtually identical with those that local

collection agencies would be expected to perform have been recently contracted for at 7¢ an item. Costs may have increased somewhat since these contracts were entered into, but any rise in costs would probably be offset by the tremendous volume of payments that could be expected. A fee of 7¢ an item would appear therefore to provide adequate compensation for local collection agencies. These fees should be subtracted from receipts in computing remittances to sales finance agencies.

Sales finance agencies would need larger commissions than local collection agencies to cover their costs. The posting of payments would be exceedingly simple since the amount of the payment would be determined by the value of the certificate subject to purchase and it would be necessary only to enter the date of payment on the purchaser's ledger account. In addition to posting payments, however, the sales finance agency would send delinquent notices, compute delinquency charges, pay dealers for secondary commissions, and assign priority numbers. They would also be expected to supply the contract forms used by dealers and the payment book issued to purchasers.

As compensation for sending notices to delinquents and for computing delinquency charges, sales finance agencies should be permitted to keep part of the delinquency charges. The income from such charges should be large enough to encourage a continuous effort to collect delinquent accounts. In the absence of such an incentive, some sales finance agencies could be expected to take the income from payments that came in automatically and to neglect their delinquent accounts.

It is suggested that the sales finance agency retain one-quarter of all delinquency charges collected, less the 7¢ per item retained by the local collection agency for its services. Since delinquency charges would be collected in a lump sum at the end of the payment period, and the grace period would avoid the collection of negligible amounts, the collection fee would usually be small in relation to the sales finance agency's share of delinquency charges.

As compensation for furnishing contract forms, payment books and bookkeeping services, for supervising collections, and for assigning priorities, the sales finance agencies should be given a commission on all collections handled by them. This commission should be expressed as a percentage of purchaser's instalment payments, and it should cover the fees paid to local collection agency. It is proposed that this commission be fixed at $1\frac{1}{2}$ percent of all payments less than \$30.00 and 1 percent of all payments of \$30.00 or more.

This method of computing bookkeeping commissions of the sales finance agencies has substantial advantages from an accounting standpoint. It is useful for purposes of internal controls and of reports to the Federal Reserve Banks to treat the total value of coupons collected as receipts. The fixed percentages of coupon values for bookkeeping and collection services would then be subtracted from receipts and credited to current earnings; another fixed percentage would be subtracted from receipts and transferred to a liability account for dealers' secondary commission; and the remainder would be

forwarded to the Federal Reserve Bank. The fees withheld by local collection agencies would be treated as an operating expense of the sales finance agency chargeable against its income account.

The use of two percentage rates in computing bookkeeping commissions adds a complication to the plan, but this appears to be unavoidable. If all dealers sold certificates covering the whole range of denominations, a single percentage rate could be established because sales finance companies would take the unprofitable accounts in order to get the profitable ones. Refrigerator dealers, however, would produce only certificates of the smaller denominations. Consequently, if a single percentage rate should be used, sales finance agencies could be expected to neglect refrigerator dealers in favor of automobile dealers, whose business would be considerably more profitable.

The lowest payment contemplated for refrigerator certificates is \$8. The collection and bookkeeping revenue from such a payment would be 12 cents, out of which the local collection agency would take 7 cents. The remaining 5 cents per item would not cover the sales finance agency's cost. However, refrigerator dealers will also produce contracts calling for payments of \$19, from which the revenue would be 29 cents per item. The sales finance agency would retain 22 cents, which would undoubtedly exceed its cost by a substantial margin. For payments of \$33 on \$700 automobile certificates revenue would be 33 cents per item, of which 26 cents would go to the sales finance agency. The highest payments would be \$83, for which the sales finance agency's revenue would be 76 cents per item.

The right of the sales finance agency to the fixed percentages of all collections should be absolute. Its right to one-fourth of the delinquency charges should, however, depend upon satisfactory performance. It should be within the power of the Federal Reserve Bank to limit any sales finance agency's share of the delinquency charges to the generally applicable collection commission if it persistently fails to follow up delinquencies or is chronically careless in the computation of delinquency charges.

Even if the compensation offered to sales finance agencies were unattractive, many would undoubtedly find it to their own interest to participate. When the war ends and production of consumers' durable goods is resumed, post-war delivery accounts subject to collection would be a principal source of sales finance business in the commodity fields covered by the plan. As the priority numbers of those whose payments had not been completed were reached, the agencies handling collections would naturally be the ones to finance the unpaid balance.

Commissions paid for bookkeeping and collections like those paid for sales would be taken directly from payment made by the purchaser and they would be subtracted from the amount paid in by him should he wish to withdraw funds prior to the time his priority number is called. Thereafter, these commissions would be covered by the payment which the Treasury would make for the use of the purchaser's money.

Work and compensation of the Federal Reserve Banks

The Federal Reserve Banks and their branches would have a number of functions under the plan.

At the outset they would select and assure the financial responsibility of sales finance agencies which would apply for authorization to participate in the plan. They would approve or disapprove local collection agencies which might be proposed by sales finance agencies. They would approve the contract form to be used by sales finance agencies, and they would print and sell payment books to them. The issuance of payment books by the Federal Reserve Banks would permit standardization of the form and content of the book, save printing costs, and facilitate control of the total liability of each sales finance agency. Payment books could be printed in blank and delivered to the sales finance agency for imprinting its name and its serial numbers, or arrangements could be made with the Federal Reserve Banks to include the name of the sales finance agency and its serial numbers when books are printed. The use of a separate set of serial numbers by each sales finance agency would facilitate the posting of payments.

The Federal Reserve Banks would receive periodically the funds collected by the sales finance agencies, less collection and bookkeeping commissions. They would credit these funds to a special post-war-delivery account in the name of the U. S. Treasury. They would audit the reports of the sales finance agencies and would forward summaries to the Federal Reserve Board.

When a Federal Reserve Bank receives the payment record of a purchaser who has completed his payments, it would examine the payment record, audit the calculation of delinquency charges and the priority assignment, check its files to prevent the purchaser from acquiring claims to more goods than he is entitled to, and issue a post-war-delivery certificate to the purchaser.

It will be noted that the dealer's secondary commission and the collection and bookkeeping commission proposed here have been expressed, for the sake of accounting simplicity, as percentages of instalment payments made by purchasers rather than as percentages of the total purchase price of certificates. These commissions do not apply to down-payments. Since the subtraction of down-payments from the rounded purchase price leaves odd amounts, the commissions resulting from the application of fixed percentages to these amounts are also odd. If, on the other hand, the same percentage rates were applied to the purchase price of certificates, the resulting commissions would be rounded figures.

It is convenient, therefore, to permit the Federal Reserve Banks to retain the difference between the amount withheld for dealers' and sales finance agencies' commissions and the amount that would result if the same commission rates were applied to the total purchase price. This is the same thing as saying that the Federal Reserve Banks should receive a percentage of down-payments equal to the percentage of instalment payments which dealers and sales finance agencies receive. This sum would range from 10 cents on \$100 certificates to 42 cents on \$2,000 certificates. Assuming that the average price of post-war-delivery certificates would be \$400, the revenue of the Federal Reserve Banks from this source would average 25 cents per certificate.

Since the time required to check the delinquency charges and the priority assignment before issuing a post-war-delivery certificate would depend in part upon the degree of delinquency, the Federal Reserve Bank

should also receive one-quarter of the delinquency charges. It is believed that these two types of revenues would provide adequate compensation for the "out of pocket" costs of the Federal Reserve Banks in fulfilling their obligations under the plan.

The Post-War-Delivery Corporation

It would probably prove desirable to create a separate corporate entity to enter into contracts with purchasers, sales finance agencies, local collection agencies, and other participants in the plan. Such a corporation, which should be controlled by the Federal Reserve Board, might well be called the Post-War-Delivery Corporation.

This corporation should receive an income which could be used to defray unforeseen expenses and to supplement the income of specific local collection agencies or other participants, if for one reason or another their commissions should prove inadequate to cover the costs of services essential to the operation of the plan. It is proposed that one-half of 1% of all payments of \$30 or more be transferred by the Federal Reserve Banks to the account of this corporation. This further payment out of the proceeds of collections would bring deductions for sales, collection and management expenses, exclusive of down-payments, to $\frac{3\frac{1}{2}}{2}\%$ of the cash value of all classes of certificates.

VI.

TREASURY PAYMENTS AND FEDERAL RESERVE BOARD
MANAGEMENT

Two government agencies would play important parts in the plan of instalment selling for post-war delivery. The United States Treasury would be expected to pay a part of the purchase price of each certificate for the use of the purchaser's money. The Federal Reserve Board would be expected to manage the operation of the plan.

Treasury payments

The Treasury would be asked to contribute to the cash value of each certificate a sum which would cover the commissions paid out to dealers, collection and bookkeeping agencies, Federal Reserve Banks, and the Post-war Delivery Corporation, provided that the certificate is held until its priority number has been called. In this way, the cash value of each certificate would equal its purchase price when it becomes valid for the delivery of goods. The Treasury's payment would be in lieu of interest for the use of the purchaser's money between the time the proceeds of each payment were credited to the Treasury's account with the Federal Reserve Bank and the time the paid-up certificate was presented for payment, following its exchange for goods.

If the schedule of commissions suggested here should be followed, the Treasury would be called upon to pay these amounts:

<u>Purchase Price of Certificate</u>	<u>Treasury Payments</u>	
	<u>Amount</u>	<u>Percent of Cash Value</u>
\$ 100	\$ 6.50	6.5
150	9.25	6.2
200	12.00	6.0
300	16.50	5.5
400	21.00	5.3
500	25.50	5.1
700	33.50	5.0
1,000	45.00	4.5
1,400	60.00	4.3
2,000	82.00	4.1

The payment by the Treasury of a fixed sum for the use of the purchaser's money means that the interest costs of funds raised through the sale of post-war-delivery certificates would vary with the length of the war and of the period that would be required to reestablish production of consumers' durable goods and to distribute an initial inventory to dealers. If the period between the initial instalment payment and the delivery of goods is short, the cost expressed as a rate of interest will be relatively high; but if the period is long, the interest cost will be low.

These variations, however, would appear to offer an advantageous hedge for the Treasury. If the war is short, the nation will be better able to absorb a relatively high interest cost. The longer the war, the more difficult will be the problem of financing government deficits and the more welcome a low interest rate.

Comparison with costs of war savings bonds

In order to compare the interest costs of funds raised through the sale of post-war-delivery certificates with the interest costs of funds

raised through the sale of war savings bonds, it is necessary to make assumptions concerning the length of the war and of the period that will be required to reestablish production and to distribute an initial inventory to dealers. It is impossible, of course, to make any accurate predictions concerning the duration of the war. There appears to be some degree of agreement as to the earliest possible date of its termination--that is, in the summer of 1944. But the probabilities seem to lie in the direction of a war of considerably longer duration.

Our calculations have been based on three assumptions concerning the date of termination of the war: (1) in July, 1944; (2) in February 1945; and (3) in January, 1947. In each case it has been assumed that sales of certificates will begin in January, 1945 and that retail deliveries will begin six months after the end of the war. It has also been assumed that certificate sales during the first month of operation of the plan would absorb the first month's production, that sales during the second month would absorb the second month's, and so on during the initial period to which these calculations pertain. Under these circumstances the Treasury would have the use of the funds for equal periods whether purchases were made in the first or fourth month. It should be remembered that the plan calls for a reduction of the Treasury's payment if this assumption should prove to be unrealistic.

The following figures compare the interest rates paid on Series E and G bonds with the interest cost of funds raised by post-war-delivery sales, subject to the schedule of commissions proposed here, under these three sets of assumptions:

<u>Purchase Price of Certificate</u>	<u>Interest Cost of War Bonds</u>		<u>Interest Cost of Funds Raised by Post-War-Delivery Sales</u>		
	<u>Series E</u>	<u>Series G</u>	<u>War Ends</u>	<u>War Ends</u>	<u>War Ends</u>
	<u>(Percent)</u>	<u>(Percent)</u>	<u>July 1944</u>	<u>Feb. 1945</u>	<u>Jan. 1947</u>
			<u>(Percent)</u>	<u>(Percent)</u>	<u>(Percent)</u>
\$100	2.9	2.5	4.41	3.20	1.67
150	2.9	2.5	4.34	3.12	1.61
200	2.9	2.5	4.34	3.10	1.58
300	2.9	2.5	4.14	2.91	1.46
400	2.9	2.5	4.20	2.90	1.42
500	2.9	2.5	4.34	2.94	1.41
700	2.9	2.5	4.23	2.82	1.33
1,000	2.9	2.5	4.12	2.71	1.26
1,400	2.9	2.5	4.05	2.65	1.22
2,000	2.9	2.5	4.02	2.59	1.03

This comparison suggests that if the war should end in February 1945 the interest cost of funds raised by the sale of post-war-delivery certificates would approximate the interest cost of funds raised through the sale of Series E bonds. If the war is shorter, the interest cost would be higher, and if the war is longer, the interest cost would be lower, than for Series E bonds. These figures, however, do not provide a fully accurate comparison. In actual practice, the true interest costs of post-war-delivery funds would be somewhat lower and the true interest costs of war-savings-bond funds would be substantially higher than the figures given above.

The calculated interest costs of post-war-delivery funds would be reduced by cancellations before maturity and by delinquency. The Treasury payment would accrue only when certificates were held until there priority numbers have been called. While this feature of the plan is designed to discourage withdrawals and to differentiate post-war purchases

from savings, it would also give the Treasury the use of some funds for which no compensation would be paid. True, a sacrifice of interest also accompanies the cancellation of war savings bonds. But the interest rate is not reduced to zero as is the case with post-war-delivery certificates. Delinquency would also reduce the average interest cost. Since the delinquency charges proposed here approximate 1 percent a month on delinquent payments, the payment of half of such charges to the Treasury would more than compensate for its loss of the use of delinquent funds.

Of considerably greater importance to the comparison is the fact that the interest calculations for post-war-delivery funds represent total costs after all operating expenses have been paid, while operating expenses must be added to the interest rates quoted for war savings bonds. Under the plan proposed here, the Treasury payment would be used solely to cover selling, collection, and administrative expenses. The commissions paid to dealers would provide the stimulus for sales. The commissions and fees paid to sales finance agencies, local collection agencies, and Federal Reserve Banks would provide compensation for the maintenance of detailed records, for the issuance of certificates, and for the channeling of funds in bulk to the Treasury's account.

In the sale of war savings bonds, on the other hand, the costs of selling and of collecting funds and accounting for them are in addition to the interest cost. These additional expenditures fall in part upon the

Treasury and in part upon the Post Office and private enterprises. The payroll, traveling expenses, advertising expenditures, and other operating expenses of the Treasury's War Savings Division are directly attributable to the cost of raising funds through the sale of war savings bonds. The expenses which the Post Office incurs in selling bonds or in handling franked promotional literature are equally attributable to such costs. Even the free services that private enterprises have devoted to the bond sales campaign are paid for in part by the Treasury through the loss of tax revenues. Free services rendered by individuals in the promotion of bond sales are expensive in terms of the diversion of manpower and they are likely to be less readily available as the labor shortage becomes more stringent.

Two other considerations need to be applied in comparing the interest costs of war savings bonds and post-war-delivery certificates.

First, in issuing Series E bonds, the Treasury contracts to pay \$33.33 per hundred for the use of funds for 10 years. In participating in the post-war-delivery plan under the commission schedules proposed here, the Treasury would pay from \$4.27 to \$6.95 per hundred for the use of accumulating monthly payments and, when payments have been completed, the full balance for the duration of the war and the subsequent period of preparation for retail distribution of the goods subject to sale. Disregarding the factors which distort these figures in favor of war savings bonds, the contracted payment for Series E bonds is five to eight times as great as the contracted payments for post-war-delivery certificates. If the war is long, the advantage to the Treasury of raising funds through the sale of post-war-delivery certificates is obvious. But if the war is short, the Treasury is in a position to refinance its obligation in a more favorable market.

When the war has ended and production of civilian goods has been fully restored, the inflationary danger of refinancing federal government obligations through financial institutions will have disappeared. There is little doubt that the Treasury could at that time refinance its obligations for post-war-delivery certificates for the remainder of the ten-year period at considerably less cost than the difference in the contracted payments.

Second, the plan of instalment selling for post-war-delivery would divert an additional volume of funds from the market for consumers' goods and services to the U. S. Treasury. If an accurate comparison is to be made, it is necessary to measure the costs of post-war-delivery funds not against the present average cost of war-savings-bond funds but against the still higher costs that would have to be incurred to raise an equivalent additional volume of funds through the sale of war savings bonds.

Taking all of these factors into consideration, it seems probable that, even if the war ends as quickly as the most optimistic forecasts would permit us to hope, the true costs to the Treasury of post-war-delivery funds under the schedule of commissions proposed here would probably be less than the costs of raising an equivalent additional volume of funds through the sale of war savings bonds. If the war is longer than this most optimistic minimum, sales of post-war-delivery certificates would become a progressively cheaper means of raising funds. The commissions proposed here, however, should not be taken as fixed. They are suggested only to illustrate the principles of the plan. It is possible that a more satisfactory schedule of commissions can be worked out.

Other advantages for the Treasury

The Treasury's interest in instalment sales for post-war delivery should, however, go far beyond their usefulness in raising funds at reasonable cost. Rising prices would add tremendously to the cost of the war. As fiscal agent for the federal government, the Treasury Department is vitally concerned with the maintenance of a stable price level. To the extent that additional purchasing power can be drained from the current market for goods through instalment sales for post-war delivery, the inflationary pressure will be relieved and the possibilities of maintaining the current price level will be substantially enhanced.

But there is still another aspect of the plan in which the Treasury has an enormous stake. As has already been pointed out, instalment selling for post-war delivery would create a reserve fund of purchasing power that can be poured into the post-war market. The economic effects of such an injection of purchasing power are similar to those of a deficit expenditure of equal magnitude by the federal government. The need for federal deficit spending as a stimulant during the period of transition to a peace-time economy may therefore be minimized by the release of post-war-delivery funds.

Measured by these standards, the ultimate saving to the Treasury through instalment selling for post-war delivery may indeed represent a substantial fraction of the principal amount raised by this device.

Administration of the Federal Reserve Board

The Board of Governors of The Federal Reserve System would appear to be the logical agency to undertake the job of administration. The

primary responsibility of the Board for credit and monetary management has been recognized by statute. A recent Executive Order also identifies the Board specifically with the field of consumer credit control, to which instalment selling for post-war delivery is intimately related. The semi-private character of the Federal Reserve System, its relative immunity from political pressures, and its decentralized system of administration through regional banks and their branches make the Board the ideal administrative agency for this purpose. Moreover, administration of the plan of instalment sales for post-war delivery can be done most efficiently and effectively when combined with the function of regulating consumer credit.

The Federal Reserve Board would be responsible for: (1) developing the forms and contracts to be used, and otherwise perfecting the details of the plan; (2) establishing standards for the selection of sales finance and local collection agencies; (3) issuing reports concerning post-war-delivery sales; (4) accounting to the Treasury for payments transmitted and certificates issued; (5) releasing goods covered by the plan by calling priority numbers.

When the rationing and price-control functions presently exercised by the Office of Price Administration and the War Production Board are discontinued, the Federal Reserve Board should have responsibility for issuing such special priority certificates as may appear to be in the public interest and fixing the maximum wholesale and retail price of goods covered by the plan where such price-fixing becomes necessary in order to prevent exploitation of post-war-delivery purchasers.

Administration planning and policy-making in connection with installment selling for post-war delivery would appear to be so closely related to the objectives of the Federal Reserve Board that these functions could be properly financed through its customary sources of revenue.

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VII.

THE PROBLEM OF POST-WAR PRICES

One of the most difficult questions of operating detail is how to deal with the prices at which specific consumers' durable goods should be sold for post-war delivery. On one hand, there is the uncertainty concerning the level of production costs in the post-war period, and on the other hand there is the problem of how to assure competition with respect to price and quality in the face of a large prepaid demand that will tax productive facilities for a substantial period.

Advantages and disadvantages of selling at fixed prices

A number of important considerations suggest the desirability of providing for the sale of goods for post-war delivery at specific prices--for instance, the prices established for various types and models in 1940 or 1941, less the discount for prepayment. For one thing, this treatment would help to identify post-war-delivery transactions as sales of merchandise and to minimize their relationship to savings in the eyes of purchasers. For another thing, it would eliminate one of the variable elements in a plan which necessarily involves a number of such elements. Still further, it would appeal to those who might fear a substantial rise in prices. Purchases for post-war delivery at fixed prices would provide a hedge against inflation. But, unlike the hedge of putting money into current goods, which would accelerate the forces of inflation, purchases for post-war delivery would reduce the inflationary pressure by diverting purchasing power from the current market.

These advantages, however, are offset by a number of serious.

handicaps, which appear to be controlling. After extensive discussion and careful consideration of the pros and cons, it has seemed essential to avoid any attempt to sell goods at predetermined prices.

The most serious difficulty is that someone would have to take the risk of a substantial increase in the price-level. If manufacturers could reduce quality to compensate for increased costs, the purchaser would bear the risk and this would eliminate the principal advantages of selling at established prices. Manufacturers might be asked to guarantee delivery of goods of specified quality and thereby accept the risks of rising costs. It seems doubtful, however, that many would be willing to do so voluntarily and any attempt at compulsion would not only be difficult but would change completely the essential nature of the plan. The United States Treasury might also be asked to accept the risk of an increase in manufacturing costs. But the responsibility for action necessary to hold prices steady lies primarily with Congress and with the Office of Price Administration. The Treasury's authority in this field is limited. Lacking the power to assure a constant price level, the Treasury would undoubtedly object to underwriting the cost of production of tremendous quantities of goods.

Prospective changes in post-war products would also make it difficult to sell at established prices. Recent technological developments seem likely to revolutionize the post-war automobile and to have a substantial effect upon the construction and design of other consumers' durable goods. Consequently, the price for which pre-war models were sold might be utterly

inappropriate for post-war models. The possibility of great technological improvements and of substantially reduced costs might make consumers unwilling to buy specified models at established prices.

Use of post-war-delivery certificates

For these reasons the writer proposes that prices be kept flexible and that the instalment purchaser be offered certificates of various denominations, which can be exchanged for specific goods at prices to be established in the post-war period. The certificate denominations should correspond roughly with present price-classes for various goods. For instance, automobile certificates might be issued in \$700, \$1,000, \$1,400, and \$2,000 denominations; piano and automatic heating equipment certificates in \$200, \$300, \$400, and \$500 denominations; refrigerators in \$100, \$150, and \$200 denominations.

Certificates should be identified so far as possible with specific kinds of goods or with groups of specific kinds of goods. Thus, an automobile certificate should be valid only for the purchase of an automobile, and a refrigerator certificate should be valid only for a refrigerator. Certificates should also be identified with price-classes of goods. For instance, a \$700 automobile certificate should be valid only for the lowest price-class of cars, typified today by Plymouths, Chevrolets, and Fords; \$1,000 and \$1,400 certificates should be valid respectively for the next highest price-classes, typified today by Mercurys, Dodges, Pontiacs, and low-priced Buicks and

Chryslers, and \$2,000 certificates would be valid for the most expensive cars. Such an arrangement seems to be necessary in order to prevent those who want high-priced cars from acquiring a priority to them by purchasing a certificate of the lowest denomination.

Some degree of flexibility, however, seems to be important because the circumstances of many purchasers are bound to change. Some who now foresee the need for an inexpensive car will later want an expensive one, and some who believe they will want an expensive car will not be able to afford it when the time comes to take delivery. Also some who purchased an automobile certificate will want an oil-burner instead, and some who bought a piano certificate will later want an automobile.

There would seem to be no reason to prevent exchanges of certificates, provided that adequate measurements of the accumulated demand for various products and of the number of purchasers in each priority and price class can be maintained; and provided further that casual changes of mind were restrained by priority penalties and that costs of exchanges were met by fees. The Federal Reserve Banks might therefore be authorized to exchange certificates generally for a fee of \$1 and for a deferment of the priority number by 2. Each certificate might be made exchangeable for a certificate of equal value calling for delivery of another commodity. Certificates of larger denominations might be exchangeable for two or more certificates for different commodities or for a certificate of lower denomination and cash. A certificate of low denomination might be also traded in on a certificate of larger denomination upon the payment:

in cash of the difference between their cash values. The latter transaction, however, should require a larger penalty in the form of priority deferment.

The existence of large numbers of prepaid purchase certificates of various denominations will undoubtedly lead manufacturers generally to fit their products to the price classes established by certificate denominations. This will follow traditional practice since the design, material content, and construction of various consumers' durables have always been strongly influenced by the views of sales departments as to the price at which various products can be sold with the least resistance. Nevertheless, it is impossible to expect that all goods will be priced exactly at certificate values. For many types of commodities, model variations requiring price differentials will undoubtedly be more numerous than the certificate denominations. Also, freight charges will compel differences in price in various areas. It seems necessary therefore to include in the plan some method of dealing with differences between prices and certificate values.

Where post-war prices for individual commodities are higher than the values of certificates for their purchase, the situation can be handled very simply by the payment of the balance by the purchaser at the time of delivery either in cash or through a sales finance agency. Where certificate values are higher than post-war prices of the goods which they command, the purchaser should be entitled to a cash rebate. Since commissions for selling and collection will have been paid out of the proceeds of the instalment sale, rebate should bear the same relationship to the excess value of the certificate

as the cash value of the certificate bears to its merchandise value. Some dealers would undoubtedly prefer to encourage the purchaser to spend the remainder of the face value of his certificate for merchandise. There would seem to be no reason for preventing this, provided that the purchaser has the option of taking the cash rebate.

Post-war price competition

Since the plan of instalment selling for post-war delivery contemplates the sale of "futures" by dealers who have heretofore sold the same products and the reenforcement of these selling efforts through national advertising by manufacturers, it is tempting to propose that Ford dealers should sell Fords, Studebaker dealers should sell Studebakers, General Electric dealers should sell General Electric refrigerators, etc. This would obviously increase the interest of dealers and manufacturers in maximizing the number of deferred delivery sales. However, the effects of such an arrangement on the post-war market seem to outweigh substantially any advantages which might be gained.

In the first place, it would undoubtedly tend to cut down substantially the number of enterprises which could enter the post-war market. Manufacturers who might, by virtue of their war production experience, want to turn to the field of consumers' durable goods would lack a market for their production. Also the competitive position of small independent enterprises would probably be injured. Many purchasers, who would prefer the goods of small independent manufacturers if they could wait until the goods were delivered before making a choice, would probably feel impelled to buy

the products of large and well-established manufacturers if a choice had to be made at the time of entering an instalment contract for post-war delivery.

In the second place, it would seriously restrict post-war price competition if individual manufacturers were presented in the post-war period with prepaid orders which would absorb their productive capacity for a long time and which could be cancelled only with substantial sacrifice to purchasers. There would be no competitive pressure toward minimizing prices and maximizing quality. And in the absence of effective price competition, the Federal government would undoubtedly be compelled to fix prices--a recourse which the writer would like to avoid if possible.

For these reasons it seems desirable to sell certificates for automobiles and refrigerators and other consumers' durable goods of certain price classes and to permit the purchaser to choose the make and specific model at time of delivery. Since there would be a strong tendency for the purchaser to take delivery from the dealer who originally sold the certificate, individual dealers would still have an important stake in the sale, apart from their immediate compensation. But the preference for the original dealer and the make which he handles would hold only where the product competed favorably with other products with respect both to price and to quality. Business would certainly flow to the dealer and manufacturer who offered superior values.

Each industry as a whole would of course be in somewhat the same position as an individual manufacturer with guaranteed orders. But the effects upon price competition are far different when it is the industry rather than the individual enterprise that has the orders. The priority scheme would

provide the means of limiting demand at any one time to the available supply. This would prevent run-away prices and assure a considerable degree of price competition among individual dealers and manufacturers. In fact, the intensity of price competition can be determined by the Federal Reserve Board through its policy in timing its calls of priority numbers. It is true that shifts to the more popular makes would be restrained by the fact that certificate holders whose priority numbers had been called would have to wait longer to get delivery of products that were in greatest demand. But a situation in which certificate holders were willing to wait a month or two after their priority numbers had been called to obtain the best "buy" would exert strong competitive pressure for price readjustments by other manufacturers. Sales of products which failed to compete would be slowed down with respect to production schedules, with consequent increases in costs of production, storage, and inventory financing. Also, the manufacturer would lose prestige, which is always a substantial factor in competition in the consumer durable goods field.

The offer of a prior claim to post-war production to those who buy post-war-delivery certificates also raises a number of difficult questions. What kinds of goods lend themselves most readily to priority control? How far can we afford to go in giving those who hold post-war-delivery certificates the right to acquire goods ahead of those who need such goods for the performance of essential services? What can be done to prevent the priority scheme from penalizing those in the military services? What can be done to prevent speculators from acquiring priorities to large quantities of goods for resale at excessive prices? How can uncompleted contracts be assigned priorities?

Selection of goods for post-war-delivery sale

As has already been indicated, only goods which are no longer available should be selected for post-war-delivery sale. Most consumers would probably be unwilling to purchase post-war-delivery certificates for goods that can be bought freely in the current market. This is partly because the appeal of present goods is stronger than the appeal of future goods of the same type, and partly because the offer of priorities would be an empty gesture when there is no prospect of a large unsatisfied demand for the goods subject to sale.

Two other criteria for selecting goods for the post-war-delivery sale have been suggested or implied in the preceding sections. One of these is a relatively high price. Because the ratio of selling costs to

certificate values increases as the denomination of the certificate declines, it is desirable to limit post-war-delivery sales to goods of substantial value. The other is general consumer acceptance. The more important the place a particular article has in the consumption pattern and the more general the knowledge of its usefulness and performance, the easier it will be to sell post-war-delivery certificates for that article.

But there is an equally important criterion that has yet to be discussed; i.e., the applicability of priorities to the distribution of the commodity. Several characteristics play an important role in determining whether specific goods lend themselves readily to priorities control.

First, the goods subjected to priority control, however important in the pattern of consumption, should not be necessities of life. For instance, even if food met all the other standards for post-war-delivery sale, it would scarcely be feasible to exclude those who failed to buy certificates from post-war food markets. This requirement is met automatically, however, if the plan is applied only to goods whose production has been discontinued for the duration of the war.

Second, there should be reason to anticipate an excessive post-war demand in relation to immediate productive capacity. Unless there is such a prospect, there is little point to the priority device. The fact that civilian goods will not be available for the period of the war does not necessarily assure a post-war shortage of those goods. For instance, even though airplanes cannot now be purchased for ordinary civilian use and the post-war

demand will undoubtedly be large, the ready convertability of our enormously expanded facilities for producing military transport and training planes can be expected to assure an adequate supply to meet civilian demand.

Third, the goods should be produced by a relatively few manufacturers. This would not only facilitate the enforcement of priorities in the post-war period but would increase the benefits that would accrue to each manufacturer from a large volume of prepaid orders for specific types of goods.

Fourth, the goods should be such that large-scale production and a considerable capital investment are necessary. It would be exceedingly difficult to enforce the control of priorities for goods which could be produced readily by a small-scale assembly operation, or in an ordinary foundry, sheet-metal shop, or electrical repair shop. Moreover, it would appear to be undesirable from an economic and social standpoint to prevent the expansion of small-scale production of such goods.

It is with these considerations in mind that the recommendation has been made to limit the application of the plan at the outset to automobiles, refrigerators, pianos, oil burners, and automatic stokers. These goods meet all of the standards for post-war-delivery sale. They are no longer generally available to the public and post-war demand for them is likely to exceed productive capacity for considerable periods of time. Their prices are relatively high; even the lowest price-classes of refrigerators and pianos can properly be covered by \$100 certificates. They require large-scale, capital-intensive production and they have been produced in the recent past by a relatively

small number of manufacturers. Although these goods are well-established in the consumption pattern, they are not necessities. There will be used cars, used refrigerators and used pianos on the market for those who cannot get along without these articles, and hand-fired furnaces can serve the purpose of those who fail to acquire post-war-delivery certificates for automatic equipment.

These goods should represent only the beginning. It would be unfortunate if the plan were not progressively extended to other goods and services which fall short of the ideal standards. Careful examination of the problems that would be created in each field by the application of instalment selling for post-war-delivery would undoubtedly indicate solutions if the full cooperation of the trades concerned can be obtained.

There are a number of types of consumers' durable goods that meet the standards in all respects but price. Among these are washing machines and dryers, suction cleaners, household sewing machines, radios and phonographs, cameras, and household motion-picture projectors. Although many models of these goods have been priced too low to be readily adaptable to post-war-delivery sale, the prices of other models have approached or exceeded \$100. It might be possible therefore to subject only the deluxe models to post-war-delivery sale. These would probably be the models which would appeal most strongly to post-war-delivery purchasers. If necessary, certificates could be sold in denominations of \$70.

If such a segregation by price-classes should be found to be practicable, a number of additional fields would be opened. The principal

shortcomings of stoves, ranges, and water-heaters for post-war-delivery sale are (1) the low prices of the cheaper models, (2) the fact that they may be necessities under some circumstances, and (3) the ease with which certain types could be produced by handicraft production. However, all of these handicaps would be removed if priorities were applicable only to deluxe models and the cheaper and less desirable models could be bought in the open market. Studies of the post-war market have indicated that many housewives have their eyes firmly fixed upon durable water-heaters, made of copper or nickel alloys, and upon streamlined cooking ranges, done in colors or light metals with all the up-to-date gadgets.

Still another group of consumers' durable goods meets all the standards except that of widespread consumer acceptance. In this group are electric dishwashers, home air-conditioning systems, and television sets. While electric dishwashers have been on the market for a long time, and many are in use, the general public has never been fully convinced of their practicability. Few consumers have had an opportunity to try out a modern television set or to appraise its worth in terms of the price asked. Home air-conditioning systems, while no longer a novelty, have not been installed on a considerable scale.

It would be an important contribution to post-war employment if a large market for these goods could be developed through sales of post-war-delivery certificates. The potentialities of television are enormous but the development of this field has been prevented by the lack of receiving sets in

the hands of the public, on one hand, and the rapid obsolescence of expensive sending equipment on the other. These obsolescence charges can be borne only if there is a large receiving audience. For electric dishwashers and home air-conditioning systems, an enlargement of the market would permit price reductions, which in turn would further enlarge the market. Thus post-war-delivery sales, by creating a large volume of prepaid orders, may be the key to unlock the mass market for these goods.

The job of selling such goods on a large scale would be difficult but not in the least impossible. Sales of television sets in particular would challenge the ingenuity of the marketing profession. But if manufacturers of unquestioned integrity and technical competence offered to produce a television set that would meet certain standards of performance, and if the broadcasting companies announced their intention to televise programs as soon as sending equipment could be had, a well-organized campaign should offer real hope of success. In order to minimize the natural "show-me-first-your-wares" reaction, it might be desirable to sell certificates that would be valid either for a television receiving set or for a fine radio-phonograph combination. In appraising the adaptability of such goods to post-war-delivery sales, it should be remembered that millions of wage-earners are now receiving far larger incomes than ever before and the goods upon which these incomes would normally be spent are no longer available. Under these circumstances, intensive sales efforts are likely to produce substantial results in fields that would normally be barren.

Some services would also be susceptible to post-war-delivery sales if modifications are made in the priority scheme. For instance, pleasure cruises and foreign travel, which had widespread consumer acceptance before the war, have been virtually eliminated by the war. The American people, restricted in their movements by automobile, gasoline, and tire rationing and weary of wartime shortages, can be expected when the war ends to be hungry for the freedom and luxury of cruise ships, and cabin space is likely to be in great demand. It should be possible for travel agencies, among the first business casualties of the war, to sell post-war-delivery certificates for cruises and trans-Atlantic and trans-Pacific passages. Foreign travel by air might also be sold for post-war-delivery. If railroad travel should be restricted, all-expense trans-continental tours might well be covered also.

Priorities would create the major problem in applying the plan to transportation services. It would obviously be impractical to prevent those who failed to purchase post-war-delivery certificates from undertaking necessary business travel. This difficulty might be avoided, however, by reserving sections of ships or specific ships on certain runs for certificate holders, or by reserving only the most desirable accommodations in luxury trains and in transport planes.

Army jeeps could also be sold very readily for post-war delivery. Soldiers who have driven them have frequently expressed the wish to own one after the war, and many civilians have had their fancy caught by their small size, efficiency, and rough and tumble quality. When the war ends there will

undoubtedly be many thousands of jeeps in good condition for which the Army will have no further use and it can be expected that these will be offered for sale. The liquidation of military vehicles at that time, however, would have had economic effects since expenditures for them would not create additional incomes. This unfortunate consequence would be avoided to the extent that they could be sold now and their purchase price collected out of current incomes.

Residential houses are by far the most important type of consumers' durable goods and the potentialities of their sale for post-war delivery, both from the standpoint of current deflationary effects and from the standpoint of peace-time reconstruction are enormous. The difficulties of applying the plan, however, are also great.

The problems that would arise out of the application of priorities would constitute the primary handicap. Production of houses is localized, and it would be highly unlikely that certificate sales would be distributed in accordance with construction facilities in each community. Consequently, if priority controls were exercised on a nation-wide basis, there would be a shortage of supply in relation to certificate demand in some places and an excess of supply, with resulting unemployment in the building trades, in other communities. Moreover, even if priority numbers were called in relation to the demand-supply situation in each locality--a policy which would be exceedingly difficult to administer--control would be virtually impossible because of the large number of small builders and the difficulty of establishing standard prices for non-standard goods.

If prefabricated houses should be offered by a few manufacturers, these problems would be avoided. Post-war-delivery sales of such houses would fit nicely into the plan proposed here. For homes that are to be built locally, however, it would appear to be necessary to eliminate the priority feature. While priorities to post-war production appear to be essential at the outset to stimulate widespread public participation in the plan, it may be possible, once consumers have been educated to such purchases, to eliminate the offer of priorities in order to cover goods which do not lend themselves readily to priority control.

Goods needed for essential services

Instalment selling for post-war delivery should be limited, of course, to goods that are designed primarily for household or personal use. The field of producers' goods should be avoided. This means that passenger cars should be included, while trucks and busses should be excluded from the plan; that refrigerators of the sizes commonly used by households should be included, and the sizes commonly used in hotels, restuarants and butcher shops should be excluded; that oil burners and automatic stokers designed for private homes should be included and those designed for theatres, apartment houses, business buildings and factories should be excluded. The need to distinguish consumer goods from goods of the same class that are used predominantly for business purposes has arisen in connection with the regulation of consumer credit and the precedents established by the Federal Reserve Board for this purpose will be helpful in defining the field of post-war-delivery sales.

Even after the exclusion of goods specifically designed for business use, however, there is still the problem of an overlap. For instance, passenger automobiles of the types generally used for personal and family transportation are also used by police and fire departments, by physicians, by public utility companies for inspection, repair and collection services, by manufacturers and wholesalers for the transportation of salesmen, etc. Hotel rooms may be equipped with radios that are commonly used for household purposes, and refrigerators of household sizes may be purchased in quantity for use in apartment houses.

No matter how essential the services which they render, there would appear to be no reason to exclude any group from the operation of the priority system, provided that purchases of certificates were feasible for that group and the objectives of the plan would be served by compelling them to acquire priorities in this way. For instance, physicians could purchase automobiles for post-war-delivery just as readily as those who wanted cars for purely personal use; and the economic effects of advance purchases by physicians could be expected to be generally similar to those of purchases by ultimate consumers. The same thing would hold true for other professional people, for farmers and for small business men. Most of them use passenger automobiles both for business and personal purposes. To exclude them not only would be unfair to those who were compelled to pay in advance in order to assure prompt delivery, but also would minimize the deflationary effects of the plan, since professional people, farmers and small business men, as well as ultimate consumers, are likely to threat their instalment payments as

current expenditures.

When we come to large business enterprises, the situation is somewhat different. These enterprises, with their advanced accounting systems, would undoubtedly treat post-war-delivery payments as capital investments. Consequently, unless shortages of cash compel restriction of other expenditures in order to provide funds for instalment payments, certificate purchases by this group would not be deflationary. Nevertheless, because of the difficulty of distinguishing between productive and consumptive uses of goods in the professional, agricultural and small business fields, it seems desirable to require participation in the plan by all business enterprises which may wish to obtain prompt delivery of goods subject to post-war-delivery sale.

There is even greater reason for subjecting purchases by public agencies to the requirements of the plan. The accounts of states, counties, and municipalities are generally kept on a cash, rather than on an accrual, basis. There is usually an effort to keep current expenditures within tax revenues. Large capital outlays are generally financed by specific bond issues, but purchases of automobiles and other consumers' durable goods are likely to be treated as current expenditures. For this reason, instalment purchases for post-war delivery by government agencies would undoubtedly have a deflationary effect.

Some exceptions, however, must be made. New businesses will be needed to stimulate private employment in the post-war period, and their development should not be retarded by their inability to buy necessary equipment. For some types of enterprises, automobile priorities might prove to be

a serious handicap. Also the construction of apartment houses, the need for which cannot be accurately foreseen, should not be prevented by the inability of builders to equip them with refrigerators.

The right to exempt purchasers from the priorities system should rest with the Federal Reserve Board. So long as the Office of Price Administration and its local War Price and Rationing Boards remain in existence, the Federal Reserve Board might well establish general rules for exceptions and delegate administration to OPA and the Boards. Thereafter, the Federal Reserve Banks might well become the administrative agency.

Two tests for exemption suggest themselves: (1) the importance to the community of the use to which the goods would be put; and (2) the inability of the applicant to foresee the need for the goods and to provide for them by buying post-war-delivery certificates. Naturally those permitted to acquire goods without certificates would not be entitled to a discount.

Protecting the military forces

It would be unfortunate indeed if post-war-delivery sales operated to give civilians an advantage over the military forces in post-war markets for consumers' goods. But there is no reason why this should be so.

Soldiers, sailors, and marines could, of course, enter instalment purchase contracts like anyone else. The principal handicap to their participation lies in the fact that their incomes are generally lower than those of comparable civilians. This disadvantage, however, can be overcome by offering the military forces long-term contracts, by making sales through personnel

officers, chaplains, the Red Cross, and the U.S.O., and by making collections through payroll deductions.

By reducing monthly payments for the uniformed services to half the payments required of civilians, goods subject to post-war-delivery sale could be brought within ready reach of those in the lowest salary grades. The avoidance of commissions for sales and collections would eliminate down payments and give certificates a cash value equal at all times to the full amount paid in. This would permit military personnel to buy certificates at lower prices than civilians. Treasury payments should be reduced to $1/3$ of the amount payable on civilian certificates to compensate for the smaller amounts available to the Treasury. But these payments would be added to the amount paid in by the purchaser in determining the cash value of military certificates upon maturity. After adding the Treasury payment, the merchandise value of these certificates would be increased by ten per cent. The military forces would therefore get a better deal than civilians.

So far as the battle against inflation is concerned, it is just as useful to divert purchasing power of military personnel from the current market for goods as to do the same thing for civilians. The matter has become more important since the recent increase in the base-pay of the various fighting services. This increase has not only added substantially to their purchasing power, but has provided a surplus beyond the traditional standard of expenditures of men in the ranks, from which savings can be drawn without hardship. Since the great majority of enlisted men have no dependents, the additional funds are likely to be reflected to a considerable extent in larger

expenditures of doubtful social value. It would probably be a boon to those interested in morale and discipline, as well as to the men themselves, to have a plan which would encourage the withholding of part of their pay for goods that they can enjoy in the post-war period.

Because of the difficulty of reaching quickly military men in foreign service, such men should be entitled to the lowest priority number if they enter instalment contracts any time within six months of the initiation of the plan. It would seem proper also to give all men in the fighting services an edge over civilians by distinguishing their priority number as 1A, 2A, etc., as compared with B, 2B, etc., for civilians. This would also permit a more refined adjustment between demand and supply by the administrative agency.

Preventing speculation

It seems desirable to discourage the purchase of post-war-delivery certificates for the purpose of resale of the goods when production is resumed. Without such restraint there might readily be a large initial rush of instalment purchases by business enterprises or individual investors in anticipation of the resale of goods to non-certificate holders at a substantial profit in the post-war period. This would risk giving a limited number of individuals a monopolistic position in the post-war free market for goods subject to priorities. It would also minimize the economic objectives of the plan, since such large-scale purchases, even though paid by instalments, would undoubtedly be treated as investments to be financed out of capital accumulations

rather than as an expenditure to be paid out of current income.

The best means of preventing purchases for resale would appear to be to limit the number of post-war-delivery certificates which could be issued to any one person or corporation. Each person or corporation should be able to buy only one priority certificate for each type of goods covered by the plan or one priority certificate for each such article owned by him at the time of entering the purchase contract. Since the assignment of priority numbers would be controlled by the Federal Reserve Banks after the installment payment contract had been completed, the risks of discovery and of loss of priority would probably prevent attempts to acquire priorities to large numbers of cars.

The limitation of purchases to the number of articles now owned seems to be the most effective way of dealing with business enterprises which might want to buy certificates to replace their passenger car fleets or with landlords who might want to buy certificates to replace refrigerators, stoves, and other household appliances in dwellings owned by them. While the policy of permitting those who own a number of pleasure cars to acquire an equal number of priorities might be questioned, the number of such buyers is not likely to be large and the administrative difficulties inherent in any effort to distinguish between business and personal uses would seem to outweigh the desirability of a further limitation on purchases by those who own several cars for purely personal use.

It has been previously suggested that priority certificates should

be non-assignable. This seems important not only to prevent borrowing against the collateral value of the certificate, which would minimize the economic effects of the purchase but also to prevent the acquisition of certificates by speculators. Once instalment payments had been completed and priority numbers had been assigned, it would be difficult to prevent speculators from buying up certificates if they were then freely assignable.

On the other hand, there would appear to be no reason to prevent the resale of goods subject to purchase, even if it were feasible to do so. People's circumstances change. In the post-war period, some certificate holders will no longer want the goods to which they have claims while other persons who failed to purchase certificates will want the goods that others command. It would be both foolhardy and unnecessary to try to keep buyers and sellers apart at this point. When goods are ready for delivery, the person who has acquired a claim to them through foresight and thrift should be able to sell at a profit to any person who then wants the goods more than the original buyer. It would appear therefore to be only a matter of practical convenience to permit free negotiability of certificates after their priority numbers have been called.

By deferring the negotiability of certificates until their validation for purchase, it seems likely that the development of large speculative holdings can be avoided and unconscionable resale prices can be prevented. Instead of a concentration of free-market goods in the hands of a relatively few enterprises, there are likely to be large numbers of persons ready to

give up their claims for a modest profit. Moreover, the full economic advantages of the plan would by that time have been assured.

Treatment of incomplete payments

The plan of instalment selling for post-war delivery contemplates the assignment of priority numbers after the last payment has been made. When the war ends, new post-war-delivery sales would be stopped; but payments on existing contracts would be continued. By the time production has been resumed and stocks of goods have become available for retail distribution, millions of paid-up certificates bearing appropriate priority numbers would presumably have been issued. As early priority numbers are called and certificates are exchanged for goods, it could be expected that payments would be completed on other contracts and additional paid-up certificates would be issued. Consequently, instalment contracts subject to payment when the war ends would generally have been completed before goods have become available for delivery to these purchasers.

But these expectations would not be realized under all circumstances. Since payment schedules on some civilian certificates would extend for as long as 24 months, it is fully conceivable that civilian production might be resumed before the final payment was due on any contract for the purchase of such certificates. A similar situation could arise if certificate sales were small in relation to production capacity. In the latter case paid-up certificates might be exhausted before payments had been completed on all contracts.

More important is the situation of military purchasers, where payments would be spread over a longer period than those of civilians. Even though an ample number of civilian certificates should be available to absorb production, members of the military forces whose payments had not yet been completed would be entitled to the same priority as civilian certificate-holders who entered instalment purchase contracts during the same month.

For these reasons, it is necessary to provide for the issuance of certificates and the assignment of priority numbers to purchasers whose payments have not been completed.

It is proposed that whenever the number of paid-up certificates is expected to be inadequate to absorb production, the Federal Reserve Board should direct the Federal Reserve Banks to instruct sales finance agencies to forward accounts subject to payment for the issuance of certificates and priority numbers and to notify purchasers to discontinue payments after a certain date. Accounts would be called in order of the month in which instalment contracts were entered into. The purchaser would receive a partial-payment certificate having a cash value equal to the amount of his payments, less accrued delinquency charges, and a merchandise value ten percent greater than its cash value. Priority numbers would be assigned in the same way as paid-up certificates. The partial-payment certificate would therefore provide the same priority to goods as paid-up certificate, but its cash and merchandise value would be less than those of paid-up certificates. Differences between the merchandise value of partial-payment certificates and the

purchase price of goods for which they are exchanged would be settled by cash payments or by credit arrangements.

It is proposed also that military accounts be closed upon the discharge of the purchaser from the military forces. Payment records would be forwarded to the Federal Reserve Banks for the issuance of partial-payment certificates. Those who remain in the military forces and continue their payments should be notified whenever the Federal Reserve Board anticipates calling priority numbers to which they would be entitled by virtue of the date of entering their contracts. They should be given the choice of completing their payments or of obtaining partial-payment certificates.

MECHANICS OF THE PLAN IN OPERATION

All the essential elements in the plan of instalment selling for post-war delivery have now been described. Only minor operating details have yet to be added. Consequently, it seems desirable at this point to complete the picture of the mechanics of the plan by showing how it would work in practice.

Let us undertake first to describe chronologically in generalized terms the various steps involved in purchasing goods for post-war delivery and then to follow a typical transaction through from application to delivery, for each of the various participants.

Instalment contracts

The first step in the plan is the signing of an instalment contract for a post-war-delivery certificate. The initiative may come either from the purchaser or from a dealer. Since the plan should be put into effect with as much publicity as possible, many prospective purchasers can be expected to apply to dealers from whom they have previously made purchases. After the first rush of such applicants is over, however, contracts are more likely to arise as the result of solicitation by dealers and their salesmen.

Instalment contracts should be made in duplicate on forms supplied to dealers by authorized sales finance agencies. The forms should conform to a standard prescribed by the Federal Reserve Board. The dealer should have

the right to choose the sales finance agency with which he prefers to deal. Thus, an automobile dealer selling General Motors cars might choose to do business with the General Motors Acceptance Corporation, another sales finance company, or with a local bank, provided that each of these institutions had qualified with the district Federal Reserve Bank.

The contract form should give the name of the agency which issued it. It should provide space for recording the date, the name and address of the dealer, the name and business and home address of the purchaser, the name and address of a beneficiary and of a contingent beneficiary, to whom the certificate would revert in case of death. It should indicate the kind and denomination of certificate subject to purchase and the date when the purchaser wished his payments to come due, i.e., the 10th, 20th, or 30th of each month. Each purchaser should be required to state that he wishes to buy the goods for use and not for resale, and he should be asked whether he has entered a previous contract for the same kind of certificate.

A separate contract should be made for each type of goods. But if the purchaser wishes to buy several automobiles or refrigerators or pianos, these should be covered by a single contract. In such cases, the applicant should be required to state the number of such goods which he presently owns and the use to which they are put.

At the time of executing the contract, the purchaser would make a down-payment, varying with the denomination of the certificate, and get a receipt from the dealer. The dealer would keep the down-payment as his initial sales commission, acknowledge its receipt on the contract form, and

send the original copy of the contract to the sales finance agency.

Contracts would be forwarded by the sales finance agencies to the Federal Reserve Banks, where they would serve four purposes. First, they would provide statistical information concerning the number of various types of post-war-delivery contracts that had been executed. Periodic publication of totals by types of goods and by areas would be likely to stimulate further purchases, since it would remind those who had not entered such contracts of the growing number of prior claims to post-war goods. Second, they would reveal purchases from several dealers, thereby preventing multiple buying for speculative purposes. Third, they would provide protection against defalcations by sales finance agencies. Knowledge of the number and value of accounts subject to collection would permit the Federal Reserve Bank to assure that the amount of the bond or of escrow securities is sufficient to cover the liability of each sales finance agency. Transmission of contracts could be enforced by limiting the initial quantity of payment books furnished to sales finance agencies and by sending additional books only as contracts are received. Fourth, they could be used to test collections. If receipts from any sales finance agency should fall substantially below anticipations based on its contracts, the issuing agency may either be withholding funds or failing to follow up delinquencies. In either case, action by the Federal Reserve Bank would be called for.

Collections and transfers of funds

The sales finance agency that receives the contract from the dealer

would issue a payment book to the purchaser and open a ledger account for him. Payment books should be printed for each kind and denomination of certificate. They should indicate the dates when payments are due and contain coupons showing the amount of each payment. They should give the names of local collection agencies to which cash payment can be made and the name of the sales finance agency to which payments can be made only through the mail. The sales finance agency would send the payment book to the dealer for delivery to the purchaser.

If payments are made in cash, the purchaser would take his payment book and cash or a check for the payment to one of the local collection agencies named in the payment book. The cashier would accept the payment, stamp the date on the coupon and stub, initial the stub, and tear out the coupon. The local collection agency would record the serial numbers and forward the coupons to the sales finance agency with its check for the total value of coupons received, less collection fees. The coupons would then be used by the issuing agency to post to customers' accounts. If payments are made by mail or money order, the coupon should be mailed to the sales finance agency with a check or money order for the payment. Acknowledgment of such payments could be made on a penny postcard.

Sales finance agencies would maintain a ledger account for each purchaser. They would send delinquent notices to purchasers whose payments were two weeks past due. A second notice calling attention to the provision of the contract for delinquency charges and for the deferment of priorities

should be sent two weeks later. If payment has not been received by the end of a further two-weeks period, the account should be referred to the dealer for further sales effort. It might be desirable to provide a means of adjusting contracts to lower certificate values wherever purchasers find themselves unable to keep up their payments.

Local collection agencies would transfer funds and coupons to issuing agencies weekly. Presumably each local collection agency would deal with a number of sales finance agencies. Consequently, in preparing their weekly reports, coupons should be sorted and serial numbers listed by the name of the sales finance agency stamped or printed on the back.

Each sales finance agency should report monthly to its Federal Reserve Bank or branch, showing the total amount payable that month on various types of certificates, the amount of payments collected, and the amount of commissions withheld by it for its own account and for the account of local collection agencies and dealers. When instalment contracts have been completed, the sales finance agency would also report the amount of delinquency charges collected and the amount withheld for commissions. A check for the amount collected less commissions withheld should accompany the report.

The Federal Reserve Banks would credit receipts from sales finance agencies, less their own commissions, to a special post-war-delivery account in the name of the United States Treasury. The Banks would send notices of credits to that account to the appropriate officials of the Treasury Department. They should report monthly to the Federal Reserve Board, giving

summaries of the monthly reports of sales finance agencies and showing the amount credited to the account of the Treasury during the month.

When payments have been completed on any instalment contract, the sales finance agency would calculate the number of delinquent payment days. If total delinquency does not exceed the grace period allowed, the card should be marked with the priority number appropriate to the date of entry into the instalment purchase contract and sent to the Federal Reserve Bank or branch. If delinquency exceeds the grace period, the sales finance agency would compute the delinquency charges and notify the purchaser that they must be paid before a certificate can be issued. When the delinquency charges have been paid, the sales finance agency would send the card with a deferred priority assignment to the Federal Reserve Bank. The dealer's secondary commissions would be paid periodically or upon completion of each instalment contract.

Upon receiving the ledger card the Federal Reserve Bank should check the calculations of delinquency charges and the priority number. If the delinquency charges were inaccurately calculated by more than 10 cents, the sales finance agency should be required to make appropriate adjustments with the purchaser. If the delinquency charges and priority assignments are accurate, the Federal Reserve Bank would issue a post-war-delivery certificate showing the kind of goods subject to purchase, the denomination of the certificate, and the name and address of the purchaser and his contingent beneficiaries. The certificate should indicate its cash value before and after its priority number had been called. A manufacturer's credit coupon

should be attached to the certificate.

The certificate would then be sent to the dealer for delivery to the purchaser. The dealer should require the purchaser to sign the certificate so that his counter-signature can be compared before goods are delivered when the certificate is presented in exchange for goods.

Delivery of goods

When production is resumed in the post-war period the Federal Reserve Board would authorize the shipment to dealers of initial inventories of goods subject to priorities in accordance with any scheme proposed by manufacturers which appears equitable. The method of distributing inventories should, however, take into consideration the geographical distribution of post-war-delivery certificates and the time required for transportation from the point of production. After the initial inventory has been distributed, further shipments from factories to dealers should be permitted only to replace goods delivered on post-war-delivery certificates.

As soon as an initial inventory, somewhat larger than the number of holders of priority number 1, has reached dealers in all parts of the country, the Federal Reserve Board would declare certificates bearing priority number 1 to be valid for obtaining delivery. If the number of such priority certificates should be exceptionally large, the class could be divided by calling only number 1A certificates, i.e., those sold to men in the military forces. The next priority number should not be called until additional factory production had equaled the total number of certificates bearing that priority

number. Thereafter, the calling of successive priority numbers for various types of goods should be determined by the volume of production and by the number of certificates bearing those priority numbers in each field. Allowance should be made for those who will postpone taking delivery of goods even though their priority numbers have been called. Inventory and price movements should be watched carefully and stabilized by speeding up or slowing down the call of priority numbers in relation to production.

The post-war-delivery purchase will have been completed when the certificate holder has selected, and a dealer has delivered, goods of a specific make and model in the price-class covered by the certificate. The purchaser would countersign the certificate in the dealer's presence and hand it to him in payment in the same way as he would tender a traveller's check in exchange for a purchase. The certificate would be accepted at its face value by the dealer in full or in partial payment of the purchase price of the goods and the purchaser would pay any balance due in cash or through a sales finance company. If the face value of the certificate should exceed the retail price of the goods, the customer would be entitled to change, calculated on the basis of the cash value of the amount by which the merchandise value of the certificate exceeds the purchase price of the goods. The dealer would clip the manufacturer's credit coupon and forward it to the wholesaler, jobber, or manufacturer from whom he purchased goods of the type sold. This coupon would provide dealers not only with the means of obtaining additional goods to replace those delivered in exchange for certificates but also with a credit amounting to 3 percent of the retail purchase price against

his supplier's billing for additional goods.

The remainder of the certificate would serve as a Treasury note maturing with the calling of its priority number. The dealer would merely deposit the certificate, properly countersigned by the purchaser and endorsed by the dealer, to the credit of his bank account. The Federal Reserve Banks would honor properly endorsed matured certificates at their cash value from funds supplied by the Treasury to meet each call of priority numbers.

A typical transaction

The essential simplicity of the plan from the standpoint of individual participants can readily be illustrated by following through parts which the buyer, seller, sales finance agency, local collection agency and Federal Reserve Bank would play in a typical transaction.

Let us take, for example, the purchase of a \$1,000 automobile certificate from a Dodge dealer in York, Pennsylvania, during the first month of operation of the plan. The dealer, who has customarily sold his installment sales contracts to the Commercial Credit Company, wishes to continue this relationship. So ^{he} uses the application forms of that company, which has previously qualified its nearest branch office at Harrisburg with the Federal Reserve Bank of Philadelphia. The local collection agencies in York are the post office, and the local offices of the Bell Telephone Company of Pennsylvania, the Western Union and Postal Telegraph Companies, the Penn Central Light and Power Company, and the Peoples Gas Company.

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The purchaser's part in this transaction is confined to a few very

simple steps:

1. He pays \$10 down, signs the instalment purchase contract for a \$1,000 automobile certificate calling for 22 payments of \$45 each; names his wife and son as beneficiaries; and elects to make payments on the 10th of each month.

2. On the 10th of the following month he makes his first payment to the Bell Telephone office, bringing with him the payment book which has in the meantime been delivered to him by the dealer.

3. He makes 21 additional payments--ten on the due date; three five days late; two fifteen days late; and six a month late, by virtue of skipping a payment which fell due while he was on vacation.

4. Soon after the last instalment has been paid, he gets a notice from the Commercial Credit Corporation that there was a total delinquency in his account of 225 payment days for which there is a charge of \$4.00 and a priority deferment of 1. He pays the delinquency charge to the Bell Telephone office on his next pay day.

5. Two weeks later the Dodge dealer delivers to him a paid-up certificate for an automobile, having a merchandise value of \$1,100, a cash value at maturity of \$1,000, and an interim withdrawal value of \$955. The certificate bears priority number 2. The dealer has him sign the certificate and warns him not to countersign it until he is ready to take delivery of the car.

6. When the Federal Reserve Board matures the certificate by

validating priority number 2 for purchase, the purchaser examines a number of makes and models which the Board lists as being in the price-classes covered by a \$1,000 certificate. While the purchaser had in mind one of the more expensive Dodges when he purchased the certificate, he now prefers a Chevrolet which sells for \$850 delivered. He countersigns his certificate in the presence of the dealer and receives \$227.27 in change (the cash value of the \$250 difference between the merchandise value of the certificate and the purchase price of the automobile). He drives the car away and the transaction is completed.

The Dodge dealer's part in this transaction is primarily one of explaining the plan to the prospective purchaser and inducing him to enter a post-war-delivery instalment contract. He collects and keeps the \$10 down-payment as a sales commission. If the purchaser had defaulted, the dealer would have been expected to attempt to resell him on the desirability of completing his contract. When the instalment contract has been completed or at specified intervals, the dealer would receive an additional sales commission totaling \$19.80.

The dealer also performs a number of relatively minor ministerial acts. He assists the purchaser in filling in his contract and forwards a copy to Commercial Credit Company. When the payment book is received, he delivers it to the purchaser and explains its use. And when the paid-up certificate is received, he delivers it to the purchaser and explains the purchaser's rights and privileges under it.

The part of the Bell Telephone Company office in this transaction is purely mechanical. It has no interest in the identity or performance of the purchaser. Its function is solely to accept the monthly payments of \$45 with their identifying coupons and to transmit money and coupons to the Commercial Credit Company. It receives 7 cents a payment, or a total of \$1.54, as compensation for this service.

The Commercial Credit Company must do a number of things before it is ready to do business. First, it must qualify its offices with the appropriate Federal Reserve Banks by showing that they were engaged in financing instalment sales before September 1, 1941, and by meeting the requirements with respect to a bond or escrow securities. Second, it must prepare contract forms based on the Federal Reserve Board's model for distribution to dealers whose collection business it wishes to solicit. Third, it must make arrangements for cash payments with local collection agencies in the communities in which it chooses to solicit dealers' business.

When the contract is received by the Commercial Credit Company's Harrisburg office, it issues a payment book and sends it to the Dodge dealer in York for delivery to the purchaser, opens a ledger account for the purchaser, and sends the application to the Federal Reserve Bank of Philadelphia. When coupons and payments are received from the telephone company office, it enters the payments in the purchaser's ledger account, and transmits the face value of coupons, less 3%, to the Federal Reserve Bank of Philadelphia. On each coupon of \$45, the Commercial Credit Company would transmit \$43.65 or \$1.35 less than the value of the coupon. Of the latter sum 90 cents would be

credited to the dealer, 7 cents would already have been withheld by the telephone office, and the remaining 38 cents would be retained by the Commercial Credit Company as compensation for its services.

The Commercial Credit Company sends notices of delinquency, and when the final instalment has been paid, it computes the number of delinquent payment days. Since the delinquency exceeds the grace period, it computes the delinquency charge and the priority penalty and notifies the purchaser of both. When the \$4.00 delinquency charge has been collected, the ledger card with a priority number assigned is sent to the Federal Reserve Bank of Philadelphia, together with three-fourths of the delinquency charge. The Commercial Credit Company would retain the remaining fourth of the delinquency charge, less the 7 cent collection fee of the telephone company office. The responsibility of the Commercial Credit Company toward the transaction would be fulfilled when it has transmitted the final commission to the dealer. Its total compensation for handling the account would be \$9.29.

The dealer who delivers the Chevrolet automobile in the post-war period also plays a part in the transaction. He displays the car and delivers it in exchange for the countersigned certificate and a cash rebate. He clips the manufacturer's credit coupon and sends it to the factory branch office of the Chevrolet Motor Company. The coupon entitles him to delivery of an additional ~~car~~ car and to a credit of a specified percentage of the retail purchase price of the car delivered. He deposits the remainder of the certificate in his bank account, where it is credited at its cash value.

The part which the Federal Reserve Bank of Philadelphia plays in this transaction also begins before the post-war-delivery contract is signed. It selects sales finance agencies and local collection agencies in accordance with standards established by the Federal Reserve Board. It prints payment books for distribution to sales finance agencies. The Bank maintains ledger accounts for sales finance agencies charging each agency with payment books issued and anticipated collections and crediting it with collections transmitted.

When the contract forwarded by the Dodge dealer in York reaches the Federal Reserve Bank of Philadelphia, it should be filed alphabetically to determine whether the same person has applied for additional cars. When the completed ledger card is received from the Commercial Credit Company, the card should be audited and the alphabetical file again checked for multiple applications. If the record is satisfactory, it issues a paid-up certificate for a \$1,000 automobile which certificate is sent to the Dodge dealer for delivery to the purchaser.

When the certificate is finally exchanged for a Chevrolet automobile, and the dealer has deposited it with his bank, the Federal Reserve Bank of Philadelphia accepts the certificate at its cash value, credits that sum to the account of the bank which forwarded the certificate and charges the account of the United States Treasury with the withdrawal of the same amount.

1/23/43
Saturday, 11 a.m.

As of possible interest to Secretary Morgenthau
The Embassy has just received word that Mr. Leon
Henderson will arrive in Cuba at 5 p.m. this afternoon for a brief
stay of five or six days, and that he will probably proceed to Varadero
for a day or two next Wednesday.



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Original to Mr. Bell 1/23/43

THE COMBINED CHIEFS OF STAFF
WASHINGTON

January 23, 1943

MEMORANDUM FOR TREASURY DEPARTMENT:

Enclosure: Paraphrase copy of message received Jan. 22, 1943 from Algiers.

The above mentioned enclosure is forwarded for the information of the Treasury Department. Copies of it have been placed in the hands of the State Department.

Perry R. Taylor
PERRY R. TAYLOR,
Lt. Comdr., U.S.N.R.

Treasury

U. S. SECRET

BRITISH MOST SECRET

1/22/43

THE FOLLOWING IS A PARAPHRASE OF A MESSAGE RECEIVED TODAY FROM ALGIERS:

No. 6469 (NAF 114) (Paraphrase)
January 20, 1943.

From SOS ETOUSA and AGWAR action Fiscal Division State and Treasury, information Combined Chiefs of Staff and USFOR British Chiefs of Staff.

1. Paraphrased in M 114 January 161307Z. Cite PHCIV Murphy from Bernstein. Who are now in Navy, Army and Coast Guard could be profitably used in handling monetary fiscal and exchange and property control matters arising in West and North Africa? Services of all expert treasury personnel ----- (garbled) in your confidential S 1282 January 14.

2. The request in our 3222 December 270717Z that seven treasury representatives be sent immediately was a minimum request at that time and furthermore did not include personnel now needed for West Africa.

3. It is hoped that the men referred to in our 3222 and as many of the men referred to in your S 1182 as can be transferred immediately will be sent to Algiers without further delay. The need of at least 10 treasury experts having the experience and ability which both the personnel referred to by us and the personnel referred to by you possess is urgent and the selection of those men from these two groups who can arrive at the earliest time in Algiers is left to your discretion.

4. The handling of the above mentioned matters in this area has been assigned to the Civil Affairs Department of the NAEB and it is assumed in view of this fact, that any military

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personnel will be assigned only on a temporary basis. (From
Freedom, Algiers to USFOR, AGWAR).

Distribution:

War Department	3 copies
State Department	5 copies
Mr. F.R.H. Millar	1 copy
Maj. Berkeley	2 copies
Lt. Comdr. Taylor	2 copies
BEW	1 copy
Treasury Department	1 copy

NOT TO BE RE-TRANSMITTED

U.S. SECRET
BRITISH MOST SECRETCOPY NO. 13OPTEL 26.

Information received up to 7 A.M. 23rd January.

1. NAVAL.

One of H.M. Subs in the Gulf of Genoa has sunk a medium size ship and shelled a hanger at Finale Marina.

2. MILITARY

Libya. Our advance continues. The troops moving by the Coast Road reached Castel Verde 35 miles West of Homs by 0530/22. Those further South passed through the Defiles West of Tarhuna and by 8 A.M. 22nd were 16 miles South of Castel Benito.

Tunisia. In the Northern Sector the area North of Bou Arada has been cleared of the enemy. A further enemy advance has been made down the Road Pont Du Fahs-Robaa (15 miles South of Bou Arada). In the Central Sector the enemy have gained more ground and threaten Gusselta (12 miles South of Robaa). A small British armoured force has gone to help the French in the Robaa area. Two small parties of enemy parachutists dropped in the area Northwest of Tebessa have been captured.

Russia. The Russians have captured Saask.

3. AIR OPERATIONS

Western Front - 21/22.
Essen. Owing to cloud and thick ground haze our aircraft bombed the estimated position of the town on which 180 tons of bombs were dropped. 22nd - 53 medium and light bombers escorted and covered by 25 Squadrons of Fighters attacked oil installations near Ghent and airfields in Northern France. Enemy casualties 7, 2, Nil. Ours 4 Bombers, 6 Fighters lost. One bomber crashed. An R.A.A.F. Hampden torpedoed a 2,000 ton ship off Norway. 22nd/23rd - Seventeen enemy aircraft crossed our coasts, one was destroyed. Some bombs were dropped in Durham and Yorkshire, damage negligible, also in Dorset and Devon 5 persons killed.

French North Africa. 20/21.

Wellingtons dropped 20 tons of bombs on Bizerta starting large fires. Bisleys attacked communications in the Tunis, Tebourba and Pont Du Fahs areas. 21st - U.S. bombers attacked M.T. on the Gabes-Ben Gardene Road.

Libya. On 20th and 21st our aircraft attacked retreating enemy columns as far West as Ben Gardene in Tunisia. Many vehicles were destroyed or damaged. In an attack on Castel Benito Airfield 3 enemy aircraft were destroyed and many others damaged on the ground.

Mediterranean. 21st.

A medium size ship was sunk and another damaged by U.S. Raiders off Cape Bon. 22nd - An 800 ton ship was set on fire by Beaufighters off Gabes.

NOT TO BE RE-TRANSMITTEDU.S. SECRET
BRITISH MOST SECRETOPTEL 277

Information received up to 7 A.M. 24th January 1943.

1. NAVALMediterranean 22nd/23rd. Two of H.M. cruisers with 4 destroyers bombarded Zuara. Good fires and explosions were observed. No shipping was seen in the harbour and no damage or casualties were sustained by our forces.2. MILITARYLibya To noon 23rd. Our forward troops entered Tripoli at 5 a.m. 23rd but Azizia, 27 miles to the south, held out until 9.40 a.m., when New Zealand divisional cavalry pushed through. 2nd New Zealand division was still just south of Azizia and 7th armoured division immediately south west of Tripoli. Our armoured cars are moving west to gain contact with the enemy.Tunisia 20th 21st. An enemy attack 4 miles north west of Bou Arada was initially successful, but all positions were subsequently retaken. 21st. The enemy thrust southwestwards down the Ousseltia Valley (between DJ. Sardj and A Mestour) was continued and reached the Ousseltia-Kairouan Road. The French still hold the high ground each side of the valley and some of our troops are still operating north of Ousseltia (15 miles north north west of Pichon).Burma 22nd. No change Mayu front. Large M.T. column seen and attacked on Prome-Taungup Road and considerable troop movement on Irra waddy and on west bank Prome-Padaung area reported.Russia South of Voronezh the Russians have captured the railway town of Volokonovka 25 miles north north west of Valuiki and in the Caucasus have taken Armavir.3. AIR OPERATIONSWestern Front 23rd. 31 U.S. Fortresses dropped 66 tons of H.E. on Lorient U-Boat base, bursts on the objectives were seen. 17 Fortresses bombed Brest. Enemy casualties by bombers not yet assessed. 5 Fortresses missing. Our fighters provided escort and in other operations attacked 40 locomotives and silenced 4 A.A. positions. Enemy casualties nil, 1, 1. Ours 3, nil, 2. One pilot safe. 23rd/24th. 205 aircraft sent out. Lorient 117 (1 missing) Dusseldorf 83 (2 missing) (leaflets 4, intruders 1. Preliminary reports.Lorient Attack considered very successful, visibility excellent; many fires, including some very large ones.Dusseldorf Objective obscured by cloud, about 60 aircraft carried out a blind bombing attack, anti-aircraft intense and accurate at 24,000 feet.

Libya 21st/22nd and 22nd. Our aircraft maintained heavy attacks on M.T. west of Ben Gardene. Numerous vehicles were destroyed or damaged. In a daylight attack by 56 escorted Kittyhawks, jetties at Zuara were hit and 20 vehicles destroyed or damaged near the harbour. Enemy casualties 4,1,5. Ours 3,1,4.