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February 11, 1943
11:00 a.m.

FINANCING

Present: Mr. Bell
Mr. Thomas
Mr. Stevens
Mr. Wood

MR. THOMAS: Mr. Secretary, I wanted to first introduce these gentlemen again, not personally but in relation to their activities.

Mr. Stevens is the vice president of the J. Walter Thompson Company, which is, as you know, one of the biggest and very best advertising agencies in the country.

H.M.JR: I have heard of them.

MR. STEVENS: That sounds like propaganda, Mr. Secretary.
(Laughter)

H.M.JR: Are you one of their clients?

MR. THOMAS: I don't happen to be, no.

H.M.JR: Then it is a real compliment. (Laughter)

MR. THOMAS: As I told you when we were talking about this committee in the beginning, I wanted a representative from an outstanding agency because of their broad commercial experience in all kinds of selling.

Mr. Wood is second vice president of the John Hancock Life Insurance Company in Boston, and there again, I told you that I wanted someone from the agency field; the accent being, in both instances, because of their broad experience in national sales problems. I told you also that I wanted somebody from the motor industry, and you and I agreed that Don Bathrick would be the man.

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Bathrick was very much interested in the undertaking, but the unfortunate break was that Richard Grant went back to Detroit the first of the year. I don't know whether that has received any wide publicity or not, and I only know it because Bathrick told me so. I believe his health has not been very good, which you and I knew, and I think it has been necessary for him to ease off a bit. At any rate, he went back the first of the year and left Bathrick with this whole job here.

I discussed the problem in the early days with Bathrick, and he expressed a great deal of interest and a keen desire to help, although he had to declare himself out and chuck everything and devote his whole time to it, which is the only way the job should have been approached.

Subsequently, I was able to get him on the long distance phone. He is away now. I told him about this meeting, but he was unable to get back to go over the report with us and catch up. So that is the reason why the fourth member of the group is not in the picture.

H.M.JR: I understood there were six or seven of you that traveled around the country.

MR. THOMAS: Those were field men doing field reports for us. I will touch on that later. Our committee is this group you see here. I can tell you frankly and sincerely that I just wouldn't have gotten to first base if these two gentlemen hadn't come in here and pitched in and chucked everything else and done this job.

In writing up this report, we have tried to do it on a very modest basis. As I look at it this morning, before handing it to you, I am inclined to think we have been so modest with it that it is almost a little sloppy. I am a little ashamed of it, but I would rather have it that way than to have it all bound up in a gilded portfolio. It is what is in it.

H.M.JR: That is right.

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MR. THOMAS: This report is for you and, of course, for Mr. Bell. There is nobody that knows what is in it except the three of us here. It hasn't been discussed with anybody in the Treasury, and I think you will attest to that, Dan.

MR. BELL: It hasn't been with me, I know.

MR. THOMAS: No, nor anybody else, inside or outside. The reason for our doing that was this, that you asked us to do this thing for you. We felt that while we would gain a great deal from discussing it with other people, it might put you in an awkward position if it were widely known before it got to your eyes. It might be prejudged favorably or unfavorably, and then your actions wouldn't be as free as otherwise. So, this report is yours; and whatever you do with it from here on, that is up to you. You have a great big wastebasket there, too, if you want to do that with it. When I started out right after the first of the year, I came here to the Treasury and talked with, I think, practically everybody in the Treasury that was connected with the venture of selling securities. After I had finished that, I came to the conclusion that the answer did not lie in Washington. The reasons for that, I think, are apparent without unnecessary discussion. I did, however, learn a great many things from sitting down with these people and discussing the problem with them for half an hour, and some of them a couple of hours at a time.

But, in talking the matter over with Mr. Stevens and Mr. Wood and recounting to them what I had learned down here in the Treasury, we said, "Well, now, as a commercial enterprise, what would we do? We wouldn't go to the factory to find out about this thing, because it is essentially a marketing job. We would go right out in the field. We would get right down on the line where they are actually selling these bonds, and we would find out what is going on. We would work from there back to the factory," which is what we did.

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We went to thirty-five cities and towns throughout the country. We had six, or eight, or nine fellows who did a lot of field work. We couldn't cover all of these cities ourselves, and have compiled a stack literally that (indicating) high of reports of one kind or another. We weren't going to swamp you with all that, so we condensed it into a relatively small pamphlet.

Now, in this pamphlet the meat is on probably eight or nine pages, but that meat, or those recommendations, are drawn from the analysis that is set forth in the earlier part of the report. A good deal of that you are going to be somewhat familiar with. However, if you have the time, I am going to ask you to go over that for the reason that it sort of lays the foundation and shows how we arrived at the conclusions that are later stated. Do you have the time for that?

H.M.JR: Yes, you mean this morning? To do eight or nine pages?

MR. THOMAS: No, there are twenty-one of preliminary matters. They are not closely typewritten.

H.M.JR: Let's start and see what happens. I have nothing else this morning. We will start, and we will go as far as we can. Have you fellows got--

MR. WOOD: We came down at your service.

H.M.JR: Let's go along until I call a halt.

MR. THOMAS: If you will start here, and if you will permit me, I want to run over that first page called the foreword.

H.M.JR: Are you going to read it?

MR. THOMAS: I think I will, that one. Later on I won't do that.

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(Reading) "Proposed Marketing Organization for War Financing Sales.

"Foreword: This report covers a special survey made for Secretary Morgenthau at his request.

"The purpose of the survey has been to try to determine the most effective type of organization for the marketing of Government securities in wartime. Our concern has been with how to organize to do the job -- not with the operating details of doing it."

That position is our point of view, and what we are after, and that was in accord with our conversation, as you remember.

"The report is divided into four parts: 1. An analysis of the Market in the Field on the Local Level.

"The attempt here has been to examine the major characteristics of each market with a view to determining the required sales organization for each. Time did not permit making an exhaustive study of the operations in each market, nor was this considered essential to our purpose."

In that regard, I would like to say that we did not give consideration to the War Savings Staff and the Victory Fund Committee except as operating units. In other words, we were interested in the market - what is the job to be done - and that is what that analysis is for.

"2. The Marketing Organization Required: a. For any area in the Field, b. From the Field to Washington, c. in Washington.

"We have endeavored to think the problem through from the standpoint of the marketing requirements in the field. In short, we have worked from the field's requirements back to Washington, not from Washington to the field.

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"3. The War Savings Staff & Victory Fund Committee. In our survey careful consideration was given to these two organizations and a few comments are made in this report relative to them.

"4. The April Drive. In this section we relate our recommendations to the immediate needs of the April Drive.

"The field work included interviews with many people in 35 cities. Most of these people had some association with the marketing of government securities."

Not all, but most of them.

H.M.JR: You gentlemen went to these cities, all of them?

MR. THOMAS: No, we went to Chicago, St.Louis, Dallas, Atlanta, and Boston.

MR. STEVENS: That availed us to keep in touch with the field men at all points and control their activities and direct them.

H.M.JR: These field men were from what walk of life?

MR. STEVENS: Primarily from advertising agencies, men who had been trained in doing interviewing and field work. For the most part they were senior men from agencies in that capacity.

H.M.JR: Other than your agency?

MR. STEVENS: They were entirely outside of our own agency.

H.M.JR: What did we do, borrow them? Did the Treasury pay for them?

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MR. THOMAS: We arranged that their expenses be paid. There was no charge for time.

H.M.JR: It came out of the Advertising Council?

MR. THOMAS: That is right.

MR. WOOD: If any commercial organization intended to sell a product they were marketing to a better advantage - or a new product - they would go out and make a field survey to find out how it best could be done.

For instance, while we went to the larger cities, here are some places like Springfield, Missouri, and Abilene, Texas - places where you get down to quite a small town or city which naturally would have a different organization setup, at least in numbers and subdivisions, than you find in a large city. That was the idea.

H.M.JR: So far it sounds good.

MR. THOMAS: I think that the smallest town we went to probably was Huntington, Indiana - or Sweetwater, Texas. I think those probably were the smallest.

H.M.JR: How small is Sweetwater?

MR. WOOD: It is about fifteen thousand. But I believe we got to a smaller town in Alabama. I am not sure but I think we got way down to ten or twelve thousand.

H.M.JR: But the quality of these men was good?

MR. THOMAS: Let me give you an idea. One of the men is the managing head of the Marketing Research Department of Young and Rubicam.

H.M.JR: The head of it?

MR. THOMAS: Yes, sir. There is a vice-president in charge of all research, but he heads that department - he is the department head.

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Another man was sales manager of the Sanforizing Division of Clewett Peabody; he had had previous marketing experience in the field.

Another man was similarly situated with Pedlar and Ryan, the advertising agency.

MR. STEVENS: You had their senior man - their vice-president.

MR. THOMAS: It is one of the group that is working for the Treasury - Pedlar and Ryan.

H.M.JR: You mean they are working for us?

MR. THOMAS: Through the Council.

H.M.JR: As members of the Council?

MR. THOMAS: Yes, sir. That just gives you an idea of the men that we used.

H.M.JR: It sounds good.

MR. WOOD: We might explain that these men just went out and they did a reporting job to the three of us. They did not do an analytical job, but a reporting job. We tried to supply whatever analysis there was.

MR. THOMAS: They don't know what is in this report.

MR. STEVENS: Nor have then seen this.

MR. THOMAS: The first part is an analysis of the market in the field on the local level.

MR. STEVENS: (Reading) "1. An Analysis of the Market in the Field on the Local Level.

"The Marketing Job. In the marketing of government securities the four broad objectives in order of their importance are: 1. To raise money for the war. 2. To

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curtail inflation. 3. To create a greater sense of personal involvement in the war and thereby to strengthen morale. 4. To promote thrift.

"Consistent with these objectives we understand that in 1943 the fiscal policy of the Treasury Department requires selling in the neighborhood of sixty billion dollars in government securities."

Mr. Thomas made clear to all that we didn't know what a billion is, Mr. Secretary, but that is the figure we have used here.

H.M.JR: Isn't that high?

MR. BELL: It is low for the calendar year.

MR. THOMAS: I just want to say that at no time have we made any effort to be exact on the figures.

MR. BELL: This is close enough.

H.M.JR: It doesn't make any difference.

MR. STEVENS: "As much as possible of this should be sold to the public and the remainder to the commercial banks.

"Economic factors which work in favor of this financing are: According to bankers interviewed, there are throughout the country large pools of idle funds both in the hands of individuals and corporations."

We were told that at every point.

"The national income in 1943 is estimated at 130 billion or more.

"The supply of civilian goods and services is being curtailed, perhaps to 70 billion dollars or less. Somewhere between these limits there will be a substantial inflation gap.

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"Factors which work against the sale of U.S. government securities include: Higher 1942 income taxes and the probability of still higher taxes on the 1943 income. Higher living costs over 1942. The present Victory tax of 5%. If adopted, a 'pay as you go' plan and a new compulsory savings tax, while bringing money into the Treasury may psychologically add to the marketing difficulties.

"Obviously, any factors that retard the sale of government securities may also be expected to have an unfavorable effect on the redemption rate.

"It is against this background that both as a war and a post-war measure the Treasury Department contemplates what is at once the largest financial and the largest marketing operation in the history of the world."

MR. WOOD: As a matter of fact, wouldn't you say that almost everyone we talked to with any breadth of vision almost always said, in effect, what we had on those two pages? In other words, they understood that pretty well.

H.M.JR: Everybody understands but "Time" magazine. (Laughter)

MR. STEVENS: They may catch up; there is still hope.

H.M.JR: I mean, in the whole article they never even mentioned financing once! They just left it out. There wasn't anything at all.

MR. STEVENS: "The Market. From this study in the field, we find that the market for United States Government Securities is divided into these five main groups - Payroll Savings Group, Mass Group - untapped by payroll savings, Farmers, Large Investors, Commercial Banks.

"On the following pages separate consideration is given to each of these separate markets and to the type of marketing organization required to reach each of them effectively.

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"Consideration is also given to two departments which will act in a service relationship to the five selling groups. These are: The Women's Department, and The Advertising and Promotion Department."

H.M.JR: How do you happen to just hit that at this point?

MR. STEVENS: We are now taking a look at the individual markets for the sale of Government securities, and after we have looked at the main characteristics of each of those individual markets we consider the required marketing organization at the local level.

Part of that would include the women's department and promotion and advertising, which we treat in two places.

H.M.JR: You mean at the local level you split the thing into two groups? One is the Women's Department and the other is Advertising and Promotion?

MR. STEVENS: We have thought of it that way, Mr. Secretary, and I think, as we develop the report--

H.M.JR: It all falls under those two headings?

MR. STEVENS: No, we perhaps haven't made that clear. We take up an individual market; for example, the pay-roll savings market. We consider, with respect to that, the main characteristics of that market, simply to ground ourselves. Having determined those main characteristics, we then, in the light of them, decide in our own minds what is necessary as a marketing organization to cultivate them aggressively.

In setting up that marketing organization, we also wish to draw on a Women's Department, and on an Advertising and Promotion Department in surveying pay roll.

MR. THOMAS: It is a service relationship for the last two groups.

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MR. STEVENS: The reason we single this out separately is that whereas we have an individual marketing organization to cultivate the pay roll group, we find that the Women's Department and the Advertising and Promotion Department, service all five markets. That is why we single that out.

H.M.JR: I get it. It seemed funny to bring it out at this point.

MR. THOMAS: Look at the last sentence on that page. "Consideration is also given to two departments which will act in a service relationship to the five selling groups."

H.M.JR: To all five?

MR. THOMAS: Yes, sir.

MR. BELL: And any other department you have might not act in relationship with the whole five, but might act in relationship to some one or two.

MR. STEVENS: That is right. In fact we point to a specific organization related specifically to pay roll - all this at the local level.

H.M.JR: I understand it now. This is two service organizations which will service all five groups at the local level.

MR. STEVENS: That is correct.

The next section is on the pay-roll market. (Reading) "Payroll Market. In 1942, 80 billion dollars of the national income was paid in wages and salaries. With the anticipated rise in national income in 1943 the amount to be paid in wages and salaries may be even higher.

"Obviously, not all of this market can be tapped by payroll savings. At present 26 million employees are on the Payroll Plan, and current estimates indicate that more than 32 million employees may eventually be enlisted on the plan.

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"In December, 1942, after continuous effort throughout the year, the Payroll Savings Plan reached a peak of about \$400,000,000 in E bond sales. This is at the rate of approximately 4.8 billion dollars per year.

"The Treasury has a record of the number of employees by individual companies. These records provide the Treasury with a bulls-eye target for extending the sale of E bonds through the Payroll Savings Plan both to more employees in companies now having the plan and to additional companies.

"Important though the extension of this coverage is, we think there are jobs in the payroll field of greater importance.

"The first of these is the consolidation of the present payroll market. This market is not in any sense static. It will either shrink or grow. It is continuously affected by the turnover of employees and by the shift of employees to war work. This year it will also be affected by the higher taxes and the higher cost of living and possibly by compulsory savings. As the economic pressure increases there will be a growing tendency for employees either to reduce their percentage of payroll participation, or to drop out of the plan entirely, or to redeem their present holdings.

"To minimize this there is a pressing need for continuous education, not only of employees but also of the employers. The best safeguard will come through an understanding of the tremendous need for funds to finance the war, and a willingness to meet this need at the cost of a temporarily lowered standard of living. The redemption rate may be expected to stand the shock of increasing economic pressure when a bond owner thinks of redemption in war time as a disloyal act, except when resorted to out of dire emergency.

"Another basic job requires education on the 10% idea. While this figure was intended as a minimum it is often thought of as a maximum. In some quarters there is a

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question as to whether it relates to net income or gross income. As taxes rise this question may become more serious. Instances were also found where employees in non-war plants thought of the 10% as applying only to the relatively high paid workers in war plants.

"The need quite evidently is two-fold: first, to establish that 10% is a minimum for everyone and secondly, to single out those industries where wage scales justify a considerably higher percentage figure. It is these latter industries that represent one of the greatest single threats to inflation.

"To sum up, the main needs with respect to the payroll market in 1943 are: 1. To keep the plan sold in the face of steadily increasing financial pressure. 2. To get the participants in the plan to keep their bonds at least until the war is over. 3. Where the plan is in operation, to increase the percentage of participants, to bring more up to the 10% minimum, and where wage scales justify to bring the percentage of payroll savings up to 15 or 20 percent or more. 4. To complete the coverage of prospective companies not now having the Payroll Savings Plan.

"These needs, of course, require continuous cultivation of the market. They require educational effort directed to employers, employees, and possibly to the wives and children of employees and in many cases to labor unions."

"Required Sales Organization."

If I may repeat, this required sales organization is one that we see on the local level, either as a region or district, without being too definite as to how far it goes down. Individual facts determine that.

H.M.JR: You are talking about - this is on the local level?

MR. STEVENS: Yes, sir; region, or district, or large city.

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"The nature of the market largely determines the type of organization required.

"1. Sales Manager (Paid) The sales manager would bring to this job broad experience in selling corporations and employees on plans involving payroll deduction. His function would be to provide leadership and continuous direction to the sales organization.

"2. Advisory Committee (Voluntary) In addition to the salesmanager, this committee would be composed of employers, representatives of labor and commercial bankers. Specific functions of this committee would be to advise on policy, to influence employers and labor, to provide clinical experience on special situations, and to assist the salesmanager in getting speakers."

For example, in the City of Kansas City, if there were certain groups they just couldn't bring in - somehow they couldn't be sold - this committee would get together and see if they could, out of their knowledge and experience - or even drawing on Washington, if need be - see if they could solve that problem.

"Labor Representative (Expenses paid) The time of the Labor Representative might be either paid or voluntary, depending on the circumstances of the local situation."

In New York City, for example, he is paid.

"His function would be to work with the unions in getting full cooperation from employees. He might also have an influence in getting unions to invest some of their funds in government securities.

"4. These salesmen would be recruited from marketing fields such as the sales organization of life insurance companies, food companies, automobile companies, etc. Their main function would be to service the existing accounts and to sell new accounts. In the selling of new accounts, particularly those with less than 100 employees, they may be supplemented by saleswomen.

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"5. Women's Department (Expenses Paid) The activities of this department are not to be confined to the Payroll Market alone. Rather they are in a position to contribute to the selling on all fronts. Their broad functions are therefore outlined in a separate section of this report.

"With respect to the Payroll Market, the Women's Department would be drawn on to provide womanpower where needed and also to aid in reaching into the homes of employees through Parent Teachers' Associations and through schools, etc.

"6. Advertising and Promotion Department. As with the Women's Department, the Advertising and Promotion Department would service the selling operations on all fronts. With respect to payroll operations, the department would be drawn on to provide suitable plant posters, pamphlets, broadsides, publicity, etc.

"The Advertising and Promotion Department is reviewed in a separate section of this report."

"Mass Market"--

MR. BELL: This is just one of the five?

MR. STEVENS: This is one of five, and as Mr. Thomas said, we have high-spotted the characteristics of each of the five, so that you might see with us, we hope, the reasoning that underlies the recommendations in each case.

H.M.JR: Let me just interrupt you at this time. Do you take into any consideration the political end of it? Now, let's just say - the pay roll is just as good a one as any to sound off - supposing that Congress says we are going to go ahead and have a fifteen or twenty percent deduction at source, and then besides that, compulsory savings.

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Now, I had a press conference for half an hour this morning and they kept asking me about this and that - and compulsory savings. I said, "We follow what Congress wants to do." I am not an elective representative of the people.

If they decide - let's say that they go the whole way and have both - I think they would knock out the--

MR. BELL: They ought to combine them.

H.M.JR: I don't want to call it the worst, the best, or the extreme - whatever you want to call it - you get the fifteen to twenty percent withholding and a compulsory savings, and a stiff tax; I mean, have you people taken that into consideration in this first section in your pay-roll savings?

MR. THOMAS: Yes, sir, we have taken it into consideration, in that those are unknown quantities, depending upon the degree of that extremity to which you refer. There would be modifications made.

Now, let's look at it this way. Suppose the extremity, we might say, if I can phrase it this way, was relatively moderate. There would still be a big field for pay-roll savings. Let's suppose it is fairly extreme. There still is going to be some pay-roll savings.

H.M.JR: But I mean, in your thinking you just haven't--

MR. THOMAS: No. Don't you see, we have referred to the compulsory savings and all of those things.

MR. BELL: As I get your thought through here, the stiffer the withholding tax, and the enforced savings, the more sales effort you have got to put on this section.

MR. THOMAS: Exactly.

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MR. WOOD: As a matter of fact, Mr. Secretary, the very discussion of it in the newspapers at the present time - as we go around and talk to people they would say, "The very publications - the interviews that are given out in Congress are affecting our plan right now."

MR. THOMAS: There is no question about it - adversely.

H.M.JR: I just want to say I think these two things dovetail. I have here a marvelous report done in the Treasury as to sources of funds. The report is complete on: Where is the money; where can we get it; and what kind of securities. You haven't gone into that at all?

MR. THOMAS: You mean the type of securities to be sold?

H.M.JR: Yes.

MR. THOMAS: We have only touched on it as a broad general subject.

H.M.JR: As to the sources of funds?

MR. STEVENS: No, sir. We assume there is so much information here that we have only touched on it broadly.

H.M.JR: I mean the individuals, insurance companies, and so on.

MR. THOMAS: We knew you had it, so there was no use to duplicate it.

MR. WOOD: We did in our own work sheets. Originally we had it down to see, as we talked about pay roll and these other things, that we were talking about something that seemed to be within the realm of practical achievement. So we made our own guesses, but they are not included in this report.

H.M.JR: Then these two things would dovetail. This is a sales organization.

MR. THOMAS: That is right.

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H.M.JR: Starting from the field - the grass roots - and up. And here I have got another part.

MR. THOMAS: Your facts.

H.M.JR: So I am in pretty good shape.

MR. THOMAS: The two things dovetail. If you choose in the end to do this thing, that is where you start, with your book of facts.

MR. WOOD: For instance, I might mention--

H.M.JR: Excuse me - and, incidentally, it has just been finished.

MR. THOMAS: I think it is extremely fortunate that it is there, because that is where you start.

If I may interject, you remember back in the beginning when you were talking about this Victory Fund Committee and what they were going to do, I kept urging for a definition and delineation of this market - who are they going to sell to, and how much money have they got - and at no stage of the game were those facts put out. They may have been available, but nobody put them on the table, that I ever saw.

MR. BELL: They weren't available. This was just finished in the month of January.

H.M.JR: Well, it is done now. I mean, where the money is--

MR. WOOD: There is one thing the Secretary touched on that I might mention, and that was, that as we went around to many, many individuals, they would make suggestions or try to tell us as to what bonds should not be sold or should be sold - additions and subtractions, and so on. We rather looked upon our function not as one of attempting to suggest to the Treasury the issues you

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put out - we don't have that kind of background. We didn't put that in the report.

We have the background of people who talked to us, but we didn't come out in this report and say, "We suggested dropping this bond, or adding that one," because that is not a sales problem.

H.M.JR: Well, if I say so myself, I think on that end we are very well staffed. If we weren't I shouldn't be sitting here.

But this is - after all, in normal times, why should the Treasury of the United States have the biggest marketing organization - it is unheard of. So that is why I have got to go to experts.

MR. THOMAS: This is essentially the marketing approach.

H.M.JR: I have to go to experts, and I think I have.

MR. THOMAS: I don't know, maybe we had better duck on that one, Mr. Secretary. (Laughter)

H.M.JR: But I am very much pleased that we are up to date on the other thing. We have done it in six-month periods. We have what has been done for the last thirty-six months, and how much we got. It is very interesting.

MR. STEVENS: This next one I might say one word about. This was the most difficult market of all to determine, Mr. Secretary, and it is the only section I think you will find in this report that is a little nebulous because the ideas about it were a little nebulous. I think the others you will find very specific.

MR. WOOD: (Reading) "Mass Market. This is the market that lies midway between the Payroll Savings group and the large investor group. Estimates indicate

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that it may be in the neighborhood of some 20 million in size. It is composed of small retailers, wholesalers, and tradesmen, lawyers, doctors, dentists, clergymen, government employees, teachers, school children and other miscellaneous groups, including clubs, societies and labor unions. Negroes and foreigners are part of the mass market. In December this mass market was largely credited with the purchase of some \$325,000,000 in E bonds.

"From the standpoint of the selling organization it would be desirable to keep to a minimum the different types of securities offered to this market. From our talks in the field we believe that the market requirements would be met with an accrual bond such as the A, with a new baby income bond if justified from a fiscal policy, and with an open market bond such as the Victory 2's."

MR. THOMAS: We haven't been specific about it. It is a general need in these three classes.

"A segment of the market may also be interested in the A tax anticipation notes. From a fiscal standpoint, does the Treasury wish the A notes to be thought of in a different sense than bonds in relation to war financing? In the point of view -- that everyone should pay their taxes but over and above this, there is the need for everyone to buy war bonds? If so, this would argue for making no general offering of A notes to the mass market. This would be consistent with the marketing requirement for simplicity."

Just as an aside, we ran into instance after instance where the people we were talking to said that an individual or a company or a corporation would, in the December campaign, for instance - or before - buy a lot of tax anticipation notes and throw out their checks and say they were helping in war financing and justify their action to themselves, at any rate.

"If this policy were adopted, the salesmen selling to the mass market could readily call in a specialist

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salesman in exceptional cases where a prospect expressed an interest in A notes and a broader range of government securities than indicated above.

"To date the attempts to sell the mass market have been by house to house canvass, by industry drives and by special event drives such as the drive to replace a battleship or buy a bomber, the premiere of a new motion picture, auctions, etc. The difficulty reported everywhere has been to locate specific segments of the market and to make them productive in relation to their capacity. It was felt that important sections of the mass market had gone untapped."

I might add again that nowhere did we find anyone that really seemed to have the answer to this particular part of the market. There were attempts being made, and many ideas that looked helpful, but no one seemed to think they had the answer.

"As an approach to this problem, we believe it would be helpful to distinguish between those with regular incomes and those with irregular incomes.

"Study should be given to ways and means of placing those with regular incomes on some modified form of regular purchase which would tap their income as it is earned. For instance, it may be unwise to try to get small organizations with two or three employees to set up a Payroll Plan. In such a case some plan such as the Christmas Savings Plan worked out with the local bank might be explored. Other cases involving regular income will require special study and special solutions."

We found some banks where they sent out notices with their statements and offered to deduct from the statement once a month, but there were very few cases where we found it being used.

"The group with irregular incomes such as the doctor, lawyer and tradesmen represents the major problem. The opportunity here would seem to lie in defining these groups as clearly as possible and in reaching them through occupational drives conducted two or three times yearly.

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"The nature of these occupational drives would naturally vary according to the size of the community. For example, in Cleveland there are 467 drug stores and in Charlottesville only 12. In a drive on this group in Cleveland, it might be possible to draw on drug salesmen regularly selling to drug outlets. In Charlottesville, on the other hand, there would probably be no such drug salesmen and the opportunity might lie in drawing on local salesmen from several fields.

"Other campaigns and 'special events' would still be required for the mop-up effort, and to peak the interest three or four times a year.

"Required Sales Organization. 1. Sales Manager (Paid) The sales manager would bring to this job wide experience in selling the mass market. His duties would include defining the segments of the market, establishing quotas for the various segments, recruiting, training and directing the sales organization, and planning and directing special event drives.

"Another duty of the sales manager would be to develop a form which, if possible, would enable the sales organization to take firm orders and in lieu of this to report on the prospects interviewed. At present, there is often no way of knowing the specific results of the salesmen's call. If this could be corrected, it would not only be beneficial to the marketing job but also the salesmen's morale."

We ran into that time and time again.

"2. Civic Advisory Committee (Voluntary) In addition to the sales manager as chairman, this committee would be composed of civic leaders, including a representative from the women's clubs. The primary purpose of this committee would be to assist the sales manager in 'special event' drives. This would include recruiting salesmen and women, providing speakers for civic groups, and helping to get enthusiasm for the drives.

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"3. Salesmen and Saleswomen (Time voluntary - expenses paid) To convert those with regular incomes to some form of regular purchase of securities. To participate in the occupational drives. To aid with 'special events'. To make house to house canvasses.

"4. Women's Department (See later section)

"5. Advertising and Promotion Department (See later section)"

(A short recess was taken.)

MR. BELL: Do I understand that what we are getting here is an organization for each one of these groups?

MR. STEVENS: Yes, we are considering each one as a market and considering how that market could best be cultivated.

The next market is the farm market.

"The Farm Market. There are about six million farm families in the United States. In 1942 their income from marketings of farm commodities totalled about 15 billion dollars, compared with 11 billion dollars in 1941. Should present prospects for higher prices and larger production be realized, it is estimated that the income from marketings for 1943 would be from 15 to 20 percent higher. This increase in farm income, if not tapped, represents one of the inflationary threats.

"An important problem in selling the farm market relates to the distribution and delivery of the bonds. This must be solved.

"Two other main problems are encountered in selling the farm market. First, the farmer represents a scattered market. This is particularly serious in view of the gasoline and rubber situation.

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"Secondly, the farmer's income is irregular, depending on when his crops or livestock are sold. Obviously, it is essential to determine the nature of the farmer's income in each community and then to plan the selling so that the farmer will be reached when he has funds available.

"While there may be special drives in any given area, there will be a year round job of farm education, not only to lay a foundation for the selling, but also to get the farmer to keep his bonds at least for the duration. This educational work will probably extend to the farmer's wife and children.

"It would seem that the same types of securities mentioned for the mass market, would also be required for the farm market. These include a baby accrual bond such as the E, the baby income bond if justified from a fiscal policy, and an open market bond such as the Victory 2½'s.

"Admittedly, a small group of the farmers may in addition be prospects for "A" tax anticipation notes. If so, they could buy these from their local banker but as has been previously stated, we question whether the "A" notes should be thought of in the same sense as War Bonds. Clearly over and above the payment of taxes, there is the need for buying War Bonds.

"Many differing plans have been proposed for selling the Farm Market. It would appear, however, that there is need for further work and exploration in this field."

MR. THOMAS: When we say War Bonds, Mr. Secretary, that is an over-all expression.

H.M.JR: I understand.

MR. STEVENS: "Required Sales Organization. 1. Sales Manager (Paid) This should be a man who has had wide experience in directing sales to the farm market. His function would be to analyze the market, to set quotas, to plan and conduct selling campaigns and to carry on educational work."

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If I may interrupt there, you will find that in each instance in discussing these markets, we propose as the sales manager, a man who has had a lifetime of experience in selling to those markets and knows them from "A" to "Z".

"2. Farm Advisory Committee (Voluntary) This would parallel, in the farm field, the activities of the Civic Advisory Committee in the urban areas. It would be composed primarily of farmers and perhaps a representative of the Agricultural Department such as the county agent, and a local banker. The sales manager would ex-officio be chairman of the committee.

"The committee would advise on policy matters and also aid directly in the selling. It would help to provide speakers when desired."

MR. BELL: Provided in the other cases that the sales manager would be chairman of the committee?

MR. STEVENS: We have always thought of him as the head man and always established the committee in a purely advisory, but we think very active, capacity.

"3. Salesmen (Time voluntary - expenses paid) There are several sources from which the sales organization for the drive might be recruited. These include farmers themselves, farm women, business men in towns adjacent to farm areas, and representatives of the Department of Agriculture.

"Another source to canvass is represented by those industries normally engaged in selling the farm market, such as the Fertilizer Industry, the Oil Industry and the Farm Machinery Industry. It is possible some one of these industries would be in a position to supply manpower for the drives.

"Still another channel to be explored for reaching the Farm Market are the various farm organizations, including such bodies as the Farmers' Union, Federal Farm Bureau, the Grange, the Farmers' Cooperative, etc.

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"4. Women's Department (See later section)

"5. Advertising and Promotion Department (See later section)"

H.M.JR: Just one second. Next you have, "Large Investor Market," and "Required Sales Organization," and then "Commercial Bank Market."

MR. STEVENS: Then we discuss the "Women's Department" and "Advertising and Promotion Department."

H.M.JR: Let me see if I can't read this between now and twelve-thirty, if I can get through page seventeen--

MR. THOMAS: You really want to go through page twenty-one.

MR. STEVENS: That is when we get into recommendations.

H.M.JR: You don't think there are more than five thousand salesmen in the whole country?

MR. WOOD: We checked up and once in a while we got as high as eight or nine, but they said many of them are not really salesmen.

MR. THOMAS: As a matter of fact there is one opinion that is pretty good that says there aren't over three thousand.

MR. WOOD: It was rather interesting - they told us there were fifty-nine thousand people of all kinds, office boys and presidents of investment houses, and so on, about a year and a half ago, and that number now has dwindled to thirty-nine thousand.

H.M.JR: From which?

MR. WOOD: Fifty-nine thousand to thirty-nine thousand and that includes everybody in the business.

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H.M.JR: I didn't know the thing had shrunk that far. That is a surprising figure.

MR. THOMAS: On the middle of page 16 we found - we were told that in most instances the larger banks were doing their job about buying for their own account, but that there were many thousands of these smaller banks that needed a great deal of education as purchasers or prospective purchasers for bonds of their own account.

Their deposits are sky high. They still think in terms of buying twenty-five thousand when, with their increased deposits, they ought to think in terms of buying a hundred thousand.

H.M.JR: I think we have to have some kind of a quota for the banks, depending upon their surplus and deposits.

MR. WOOD: They want that, I believe.

MR. BELL: We have discussed it quite a bit and there are several points of view on it. It is rather difficult to make a quota that will fit all banks or get a formula to fit all banks.

MR. WOOD: One big reason everyone offered - those that offered a suggestion for separating a bank drive - was that you couldn't know how much the banks could take until you sold to the groups other than the banks.

H.M.JR: You were going to say more about the Women's Department?

MR. THOMAS: No, that is all.

MR. WOOD: This is a skeleton and if you want more on it, we will stand ready to discuss it.

H.M.JR: That isn't enough, for instance, on the Women's Department.

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MR. THOMAS: We can elaborate that material. We haven't attempted to run the gamut on any of this stuff.

H.M.JR: what I thought I would do - it doesn't fit with your plans, but it does with mine - I thought I would ask these three gentlemen to come up to my house at three o'clock this afternoon. We will work about an hour and a half.

MR. BELL: I don't think you can set the amount of your drive until you set this.

H.M.JR: I was curious about the Washington organization. That isn't so different from what you and I talked about.

I like your approach, gentlemen.

(The remainder of the report is as follows:)

"Large Investor Market. During the December drive, this market absorbed several billion dollars in securities.

"It is composed of two groups: 1. Individual investors and trusts. 2. Companies, corporations and institutions.

"It does not include commercial banks which are discussed in a separate section.

"The two groups have in common that they are technical buyers. This requires that, insofar as possible, they be called on by professional salesmen. The source of these salesmen are the financial houses including investment banks, security dealers and commercial banks.

"The number of men available from these financial houses is not sufficient for covering the entire market adequately and in the time available. For example, it is estimated that the number of salesmen with investment

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banking houses that might be available is less than five thousand, and the total number of commercial banks in the country is about fifteen thousand.

"In order to make the most productive use of these professional salesmen, we suggest the following steps for consideration:

"1. Limit the number of drives to 3 or 4 times per year with each drive confined to a few weeks' duration. This will not only permit an extensive concentration of sales power at the time of the drive, but it will also allow time for funds to accumulate.

"2. The companies, corporations, and institutions are potentially large buyers. They are comparable to the 'special gifts' group that is singled out in the Red Cross and Charity drives. Therefore, assign this group exclusively to representatives from the commercial banks and financial houses -- representatives who already have contacts with these prospects.

"At the same time, make every effort to avoid any duplication in assignments, and endeavor to get each salesman to make an accounting of his calls. He will more readily do this if he understands that he alone has the responsibility for the assignment.

"3. Compile a list of the individual investors. One of the sources for this is commercial bank deposits. The size of this list will necessarily be limited by two factors; first, the number of salesmen available and second, income or savings. For example, if there were a total of 50,000 professional and general salesmen available and if each salesman would cover 20 prospects, the total market which could be covered is 1,000,000 (it happens that the number of people who in 1942 had incomes of \$10,000 and over was approximately this same number -- of course, it is in the higher income brackets that accumulated funds are frequently found).

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"Obviously, the compilation of this list of individual investors will be helpful in avoiding duplication between the department selling the Mass Market and the department selling the Large Investor Market.

"4. Classify the list of individual investors according to importance. Assign the larger individual investors to professional salesmen. Their technical experience will be needed in selling this group.

"5. Then assign the remainder of the individual investor list to salesmen recruited from other than the financial field. Draw on the financial field, however, to train these salesmen. Instruct them to call in a professional salesman when they run into technical difficulties with a prospective buyer.

"6. Develop some form which will enable the salesman, wherever possible, to take firm orders, and in any event to report on his calls. This will not only help to insure intensive cultivation of the market, but also as pointed out in an earlier section, it will have an important effect on the salesman's morale. It will also provide a basis for healthy rivalry between individual salesmen and sales groups.

"Our field study indicated that this Large Investor Market would be interested in a wide range of securities including the $\frac{1}{2}$ bonds, the F and G bond, the Victory 2 $\frac{1}{2}$'s, the 7/8 Certificates, the 1-3/4 Notes, and the Tax Anticipation Notes, A and C. It was pointed out that this market represents both accumulated funds and higher-bracket income. The Individual Investor and the Trust may be interested in long term investments, whereas the corporations' requirements are usually for short term investments.

"Required Sales Organization. 1. Sales Manager (Paid) This man would be drawn from the financial field. He would have had wide experience in selling and in directing the sale of securities to the Large Investor Market.

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"2. Financial Advisory Committee (Voluntary) This committee would be composed primarily of financial people. It would serve in an advisory capacity between drives, would be called on to give active aid during the drives, including training salesmen and securing speakers when desired.

"3. Salesmen (Time voluntary - Expenses paid) This would include professional men from the financial field as well as salesmen from other fields. In some areas, it might also include saleswomen.

"4. Women's Department (See later section)

"5. Advertising and Promotion Department (See later section)

"Commercial Bank Market. There are about 15,000 commercial banks in the United States. In the December drive they accounted for some five billion dollars in government securities.

"With respect to war financing, the commercial banks have three important roles. First, they are large consumers -- buyers of securities for their own account. Second, they are important physical distributors of the securities. Third, they are in a position to influence the sale of securities to all the markets.

"As consumers, the commercial banks have a special character. There is a need for them to pick up where the public leaves off in financing the Government. To some extent this calls for direct selling effort to the banks.

"One point of view is that since the commercial banks are consumers, they should be included in the general security drives to give momentum, unity and scope to the drives.

"We understand these advantages, but we think they are more than offset by one major disadvantage. The inclusion of the banks in the general drives tends to confuse the issue -- it takes the spotlight off the

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public -- the individual.

"Everyone agrees that if inflation is to be curtailed and if the banks are not to become frozen with government securities, the public must buy these securities in large quantities. We think this will be more readily accomplished if the drives to the public are made quite separately from financing through the banks.

"Under this proposed procedure, the government would be in the position, if it were considered desirable from a fiscal standpoint, of selling the banks smaller amounts at greater frequency.

"As distributors, the banks face two difficult problems -- the first of these relates to manpower and it is one that will become increasingly serious. The second is the cost of handling the many services for the government including point rationing and bonds. Both of these problems merit the serious consideration of the Treasury Department.

"As we get deeper into the war and as the need for more intensive cultivation of all markets for securities grows, the commercial bankers can render increasing aid with respect to educational effort and selling. Their views carry authority that affects all markets, employers, employees, farmers, large investors, depositors generally. Full use should be made of this authority.

"Required Sales Organization. 1. Sales Manager (Paid) This man would be an able, experienced commercial banker. He would be concerned with the banks on three fronts -- namely, the banks as consumers, the banks as distributors, and the banks as an educational and selling force. The salesmanager would also make provision for drawing on the various bank associations -- national, state and local, wherever they could be helpful.

"2. Bank Advisory Committee. (Voluntary) In addition to the salesmanager, this committee would be composed of both Federal Reserve and non-federal reserve

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bankers. Its function would be to advise with the sales-manager on policies, to provide active assistance in the educational and selling work, and to help get speakers when required.

"3. Salesforce (Time voluntary - Expenses paid) As part of this educational and selling work, it may be desirable from time to time to make calls on commercial bankers individually. The manpower required for this would largely be drawn from the top officers of commercial banks, and from the Federal Reserve System. This program contemplates making the fullest possible use of the Federal Reserve System and the authority of its office.

"4. Women's department (See later section)

"5. Advertising and Promotion Department (See later section)

"Women's Department. We have now considered the five broad markets for government securities: The Payroll Savings Market, the Mass Market, the Farm Market, the Large Investor Market, and the Commercial Bank Market.

"We have considered the specific marketing organization required to cultivate each one intensively. In doing so, we have pointed to the activities of the Women's Department as not being confined to any one market, but rather as cutting across all markets. The Women's Department is properly to be thought of as an indispensable service arm to the five sales managers. It brings specialized experience to bear in carrying out the plans and policies of the sales managers.

"As gainfully employed workers, the women are prospective buyers for war bonds, either via the Payroll Plan or in response to the Mass Market appeals.

"As housewives, they are the purchasing agents for the home and directly influence the bond purchases of the husband, whether he be plant worker, farmer or small tradesman.

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"A fair percentage of the wealth of the country is in the hands of women. This means that women are also an important factor in the large investor market.

"Thus, of the five broad markets for government securities, the only one in which women do not play a prominent part is the Commercial Bank Market, and even here their influence is felt.

"Clearly, therefore, in selling to each market, special counsel is needed, not only on how to enlist womanpower for helping to reach the markets, but also on how to get the best buying response from the women in the individual markets.

"For this purpose there should be a Women's Department, headed up by a woman who is not only able and intelligent, but who also understands the indispensable value of teamwork and is able to get the cooperation of other women.

"This is seen as a full time job and the head of the Women's Department would be paid.

"Local Advertising and Promotion Department. As with the Women's Department, the Advertising and Promotion Department would service the selling operations to all markets.

"The Department would have to be familiar at all times with the selling activities in each market so the necessary advertising and promotion could be available to each. For this purpose, the Department would have four main functions in connection with: Payroll Market, Mass Market, Farm Market, and Large Investor and Bank Market. Because of the nature of the latter two markets and the proposed methods of selling them, the latter two markets can be considered from an advertising standpoint as a single function.

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"The head of this Department should be a man schooled in planning and producing advertising - not just a local publicity man. Such an individual could be secured in the larger communities from the local advertising club or a local manufacturer or agency. In the smaller communities, he could be obtained from a local retailer or the advertising department of the local newspaper.

"When special event drives were staged in a community, the Advertising and Promotion Department would give these drives the 'build up' so necessary to success.

"Certain printed matter would have to be produced locally to meet local requirements. This would be prepared and produced by the Department.

"As time goes on, it would appear that more dependence may have to be placed on locally sponsored advertising. Such local sponsorship also takes full advantage of local enthusiasm and raises local interest in the selling activities. The Department in the locality would organize and supervise this locally sponsored advertising.

"Finally, the Department would be kept fully advised of National policy as to themes - types of advertising - and methods so that there would be a high degree of uniformity throughout the country. This would greatly help to avoid public confusion."

The
Harold Thomas Report

PROPOSED MARKETING ORGANIZATION

for

WAR FINANCING SALES

Foreword

This report covers a special survey made for Secretary Morgenthau at his request.

The purpose of the survey has been to try to determine the most effective type of organization for the marketing of Government securities in wartime. Our concern has been with how to organize to do the job--not with the operating details of doing it.

The report is divided into four parts:

IN THE

1. An Analysis of the Market ~~with~~ Field on the Local Level

The attempt here has been to examine the major characteristics of each market with a view to determining the required sales organization for each. Time did not permit making an exhaustive study of the operations in each market, nor was this considered essential to our purpose.

2. The Marketing Organization Required:

- a. For any area in the Field
- b. From the Field to Washington
- c. In Washington.

We have endeavored to think the problem through from the standpoint of the marketing requirements in the field. In short, we have worked from the field's requirements back to Washington, not from Washington to the field.

3. The War Savings Staff & Victory Fund Committee.

In our survey careful consideration was given to these two organizations and a few comments are made in this report relative to them.

4. The April Drive

In this section we relate our recommendations to the immediate needs of the April Drive.

The field work included interviews with many people in 55 cities. Most of these people had some association with the marketing of government securities. The map on the next page shows the cities covered.

1. AN ANALYSIS OF THE MARKET

IN THE FIELD ON THE

LOCAL LEVEL

The Marketing Job

In the marketing of government securities the four broad objectives in order of their importance are:

1. To raise money for the war.
2. To curtail inflation.
3. To create a greater sense of personal involvement in the war and thereby to strengthen morale.
4. To promote thrift.

Consistent with these objectives we understand that in 1945 the fiscal policy of the Treasury Department requires selling in the neighborhood of sixty billion dollars in government securities. As much as possible of this should be sold to the public and the remainder to the commercial banks.

Economic factors which work in favor of this financing are:

According to bankers interviewed, there are throughout the country large pools of idle funds both in the hands of individuals and corporations.

The national income in 1945 is estimated at 150 billion dollars or more.

The supply of civilian goods and services is being curtailed, perhaps to 70 billion dollars or less. Somewhere between these limits there will be a substantial inflationary gap.

Factors which work against the sale of U. S. government securities include:

Higher 1942 income taxes and the probability of still higher taxes on the 1945 income.

Higher living costs over 1942.

The present Victory tax of 5%.

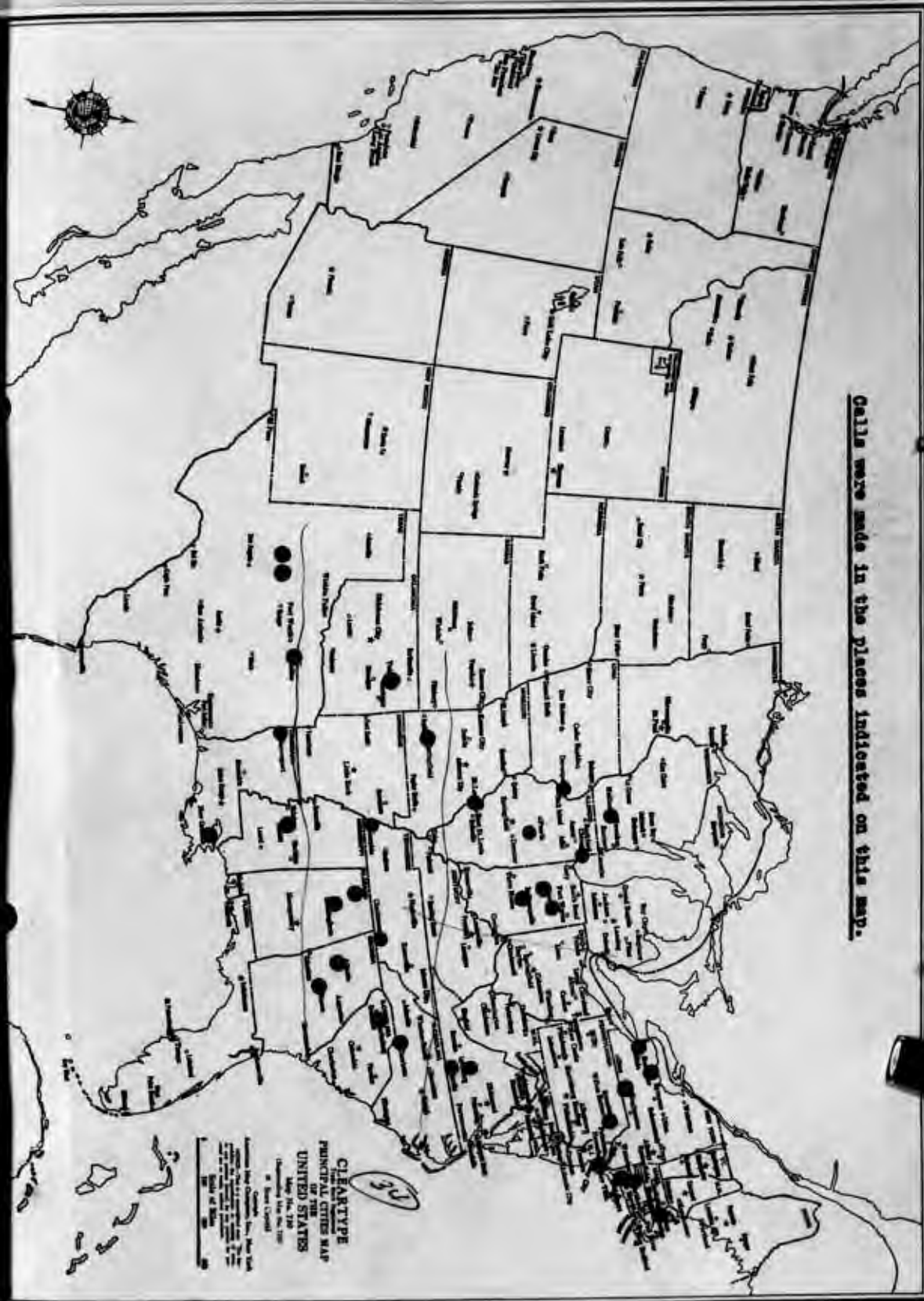
If adopted, a "pay as you go" plan and a new compulsory savings

tax, while bringing money into the Treasury, may psychologically add to the marketing difficulties.

Obviously, any factors that retard the sale of government securities may also be expected to have an unfavorable effect on the redemption rate.

It is against this background that both as a war and a post-war measure the Treasury Department contemplates what is at once the largest financial and the largest marketing operation in the history of the world.

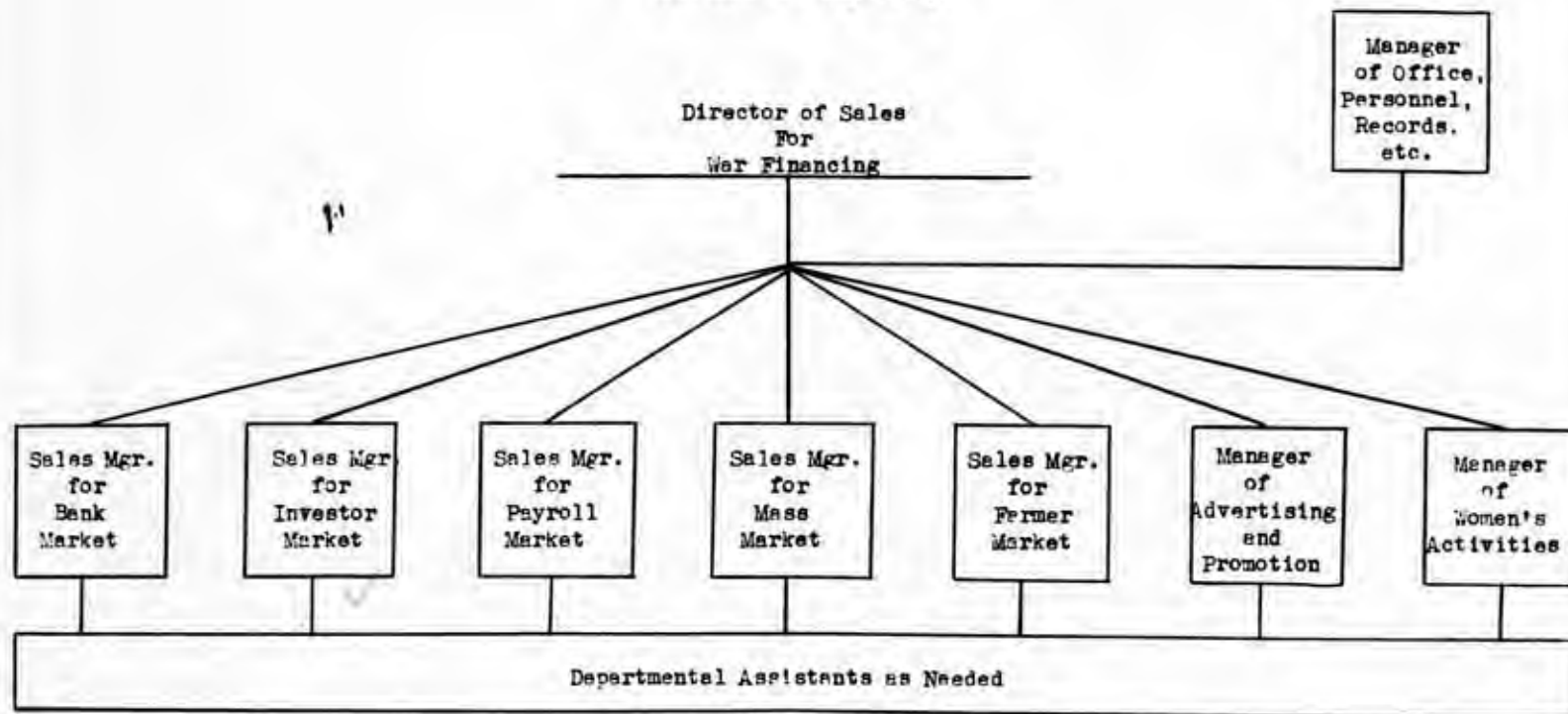
Calls were made in the places indicated on this map.



CLEARTYPE
PRINCIPAL CITIES MAP
OF THE
UNITED STATES
 Map No. 100
 (Revised May 1950)
 U. S. GOVERNMENT PRINTING OFFICE
 16-50000-000

2. THE MARKETING ORGANIZATION REQUIRED

Local Organization
(Pattern for any area)



The Market

From this study in the field, we find that the market for United States Government Securities is divided into these five main groups -

Payroll Savings Group
Mass Group - untapped by payroll savings
Farmers
Large Investors
Commercial Banks

On the following pages separate consideration is given to each of these separate markets and to the type of marketing organization required to reach each of them effectively.

Consideration is also given to two departments which will act in a service relationship to the five selling groups. These are:

The Women's Department

The Advertising and Promotion Department

Payroll Market

In 1942, 80 billion dollars of the national income was paid in wages and salaries. With the anticipated rise in national income in 1943 the amount to be paid in wages and salaries may be even higher.

Obviously, not all of this market can be tapped by payroll savings. At present 26 million employees are on the Payroll Plan, and current estimates indicate that more than 32 million employees may eventually be enlisted on the plan.

In December, 1942, after continuous effort throughout the year, the Payroll Savings Plan reached a peak of about \$ 400,000,000 in E bond sales. This is at the rate of approximately 4.8 billion dollars per year.

The Treasury has a record of the number of employees by individual companies. These records provide the Treasury with a bulls-eye target for extending the sale of E bonds through the Payroll Savings Plan both to more employees in companies now having the plan and to additional companies.

Important though the extension of this coverage is, we think there are jobs in the payroll field of greater importance.

The first of these is the consolidation of the present payroll market. This market is not in any sense static. It will either shrink or grow. It is continuously affected by the turnover of employees and by the shift of employees to war work. This year it will also be affected by the higher taxes and the higher cost of living and possibly by compulsory savings. As the economic pressure increases there will be a growing tendency for employees either to reduce their percentage of payroll participation, or to drop out of the plan entirely, or to redeem their present holdings.

To minimize this there is a pressing need for continuous education, not only of employees but also of the employers. The best safeguard will come through an understanding of the tremendous need for funds to finance the war, and a willingness to meet this need at the cost of a temporarily lowered standard of living. The redemption rate may be expected to stand the shock of increasing economic pressure when a bond owner thinks of redemption in war time as a disloyal act, except when resorted to out of dire emergency.

Another basic job requires education on the 10% idea. While this figure was intended as a minimum it is often thought of as a maximum. In some quarters there is a question as to whether it relates to net income or gross income. As taxes rise this question may become more serious. Instances were also found where employees in non-war plants thought of the 10% as applying only to the relatively high paid workers in war plants.

The need quite evidently is two-fold: first, to establish that 10% is a minimum for everyone and secondly, to single out those industries where wage scales justify a considerably higher percentage figure. It is these latter industries that represent one of the greatest single threats to inflation.

To sum up, the main needs with respect to the payroll market in 1945 are:

1. To keep the plan sold in the face of steadily increasing financial pressure.
2. To get the participants in the plan to keep their bonds at least until the war is over.
3. Where the plan is in operation, to increase the percentage of participants, to bring more up to the 10% minimum, and where wage scales justify to bring the percentage of payroll savings up to 15 or 20 percent or more.
4. To complete the coverage of prospective companies not now having the Payroll Savings Plan.

These needs, of course, require continuous cultivation of the market. They require educational effort directed to employers, employees, and possibly to the wives and children of employees and in many cases to labor unions.,,

Required Sales Organization

The nature of the market largely determines the type of organization required.

1. Sales Manager (Paid)

The sales manager would bring to this job broad experience in selling corporations and employees on plans involving payroll deduction. His function would be to provide leadership and continuous direction to the sales organization.

2. Advisory Committee (Voluntary)

In addition to the salesmanager, this committee would be composed of employers, representatives of labor and commercial bankers. Specific functions of this committee would be to advise on policy, to influence employers and labor, to provide clinical experience on special situations, and to assist the salesmanager in getting speakers.

3. Labor Representative (Expenses paid)

The time of the Labor Representative might be either paid or voluntary, depending on the circumstances of the local situation. His function would be to work with the unions in getting full cooperation from employees. He might also have an influence in getting unions to invest some of their funds in government securities.

4. Salesmen (Time voluntary - expenses paid)

These salesmen would be recruited from marketing fields such as the sales organization of life insurance companies, food companies, automobile companies, etc. Their main function would be to service the existing accounts and to sell new accounts. In the selling of new accounts, particularly those with less than 100 employees, they may be supplemented by saleswomen.

5. Women's Department (Expenses Paid)

The activities of this department are not to be confined to the

5. (continued)

Payroll Market alone. Rather they are in a position to contribute to the selling on all fronts. Their broad functions are therefore outlined in a separate section of this report.

With respect to the Payroll Market, the Women's Department would be drawn on to provide womanpower where needed and also to aid in reaching into the homes of employees through Parent Teachers' Associations and through schools, etc.

6. Advertising and Promotion Department

As with the Women's Department, the Advertising and Promotion Department would service the selling operations on all fronts. With respect to payroll operations, the department would be drawn on to provide suitable plant posters, pamphlets, broadsides, publicity, etc.

The Advertising and Promotion Department is reviewed in a separate section of this report.

Mass Market

This is the market that lies midway between the Payroll Savings group and the large investor group. Estimates indicate that it may be in the neighborhood of some 20 million in size. It is composed of small retailers, wholesalers, and tradesmen, lawyers, doctors, dentists, clergymen, government employees, teachers, school children and other miscellaneous groups, including clubs, societies and labor unions. Negroes and foreigners are part of the mass market. In December this mass market was largely credited with the purchase of some \$525,000,000 in E bonds.

From the standpoint of the selling organization it would be desirable to keep to a minimum the different types of securities offered to this market. From our talks in the field we believe that the market requirements would be met with an accrual bond such as the E, with a new baby income bond if justified from a fiscal policy, and with an open market bond such as the Victory 2½'s.

✓ A segment of the market may also be interested in the A tax anticipation notes. From a fiscal standpoint, does the Treasury wish the A notes to be thought of in a different sense than bonds in relation to war financing? Is the point of view -- that everyone should pay their taxes but over and above this, there is the need for everyone to buy war bonds? If so, this would argue for making no general offering of A notes to the mass market. This would be consistent with the marketing requirement for simplicity.

If this policy were adopted, the salesmen selling to the mass market could readily call in a specialist salesman in exceptional cases where a prospect expressed an interest in A notes and a broader range of government securities than indicated above.

To date the attempts to sell the mass market have been by house to house canvass, by industry drives and by special event drives such as a drive to replace a battleship or buy a bomber, the premiere of a new motion picture, auctions, etc. The difficulty reported everywhere has been to locate specific segments of the market and to make them productive in relation to their capacity. It was felt that important sections of the mass market had gone untapped. μ

As an approach to this problem, we believe it would be helpful to distinguish between those with regular incomes and those with irregular incomes.

Study should be given to ways and means of placing those with regular incomes on some modified form of regular purchase which would tap their income as it is earned. For instance, it may be unwise to try to get small organizations with two or three employees to set up a Payroll Plan. In such a case some plan such as the Christmas Savings Plan worked out with the local bank might be explored. Other cases involving regular income will require special study and special solutions. . .

The group with irregular incomes such as the doctor, lawyer and tradesmen represents the major problem. The opportunity here would seem to lie in defining these groups as clearly as possible and in reaching them through occupational drives conducted two or three times yearly.

The nature of these occupational drives would naturally vary according to the size of the community. For example, in Cleveland there are 467 drug stores and in Charlottesville only 12. In a drive on this group in Cleveland, it might be possible to draw on drug salesmen regularly selling to drug outlets. In Charlottesville, on the other hand, there would probably be no such drug salesmen and the opportunity might lie in drawing on local salesmen from several fields.

Other campaigns and "special events" would still be required for the mop-up effort, and to peak the interest three or four times a year.

Required Sales Organization

1. Sales Manager (Paid)

The sales manager would bring to this job wide experience in selling the mass market. His duties would include defining the segments of the market, establishing quotas for the various segments, recruiting, training and directing the sales organization, and planning and directing special event drives.

Another duty of the sales manager would be to develop a form which, if possible, would enable the sales organization to take firm orders and in lieu of this to report on the prospects interviewed. At present, there is often no way of knowing the specific results of the salesman's call. If this could be corrected, it would not only be beneficial to the marketing job but also to the salesman's morale.

2. Civic Advisory Committee (Voluntary)

In addition to the sales manager as chairman, this committee would be composed of civic leaders, including a representative from the women's clubs. The primary purpose of this committee would be to assist the sales manager in "special event" drives. This would include recruiting salesmen and women, providing speakers for civic groups, and helping to get enthusiasm for the drives.

3. Salesmen and Saleswomen (Time voluntary - expenses paid)

To convert those with regular incomes to some form of regular purchase of securities.

To participate in the occupational drives.

To aid with "special events".

To make house to house canvasses.

4. Women's Department (See later section)

5. Advertising and Promotion Department (See later section)

The Farm Market

There are about six million farm families in the United States. In 1942 their income from marketings of farm commodities totalled about 15 billion dollars, compared with 11 billion dollars in 1941. Should present prospects for higher prices and larger production be realized, it is estimated that the income from marketings for 1943 would be from 15 to 20 percent higher. This increase in farm income, if not tapped, represents one of the inflationary threats.

An important problem in selling the farm market relates to the distribution and delivery of the bonds. This must be solved.

* Two other main problems are encountered in selling the farm market. First, the farmer represents a scattered market. This is particularly serious in view of the gasoline and rubber situation.

Secondly, the farmer's income is irregular, depending on when his crops or livestock are sold. Obviously, it is essential to determine the nature of the farmer's income in each community and then to plan the selling so that the farmer will be reached when he has funds available.

While there may be special drives in any given area, there will be a year round job of farm education, not only to lay a foundation for the selling but also to get the farmer to keep his bonds at least for the duration. This educational work will probably extend to the farmer's wife and children.

It would seem that the same types of securities mentioned for the mass market, would also be required for the farm market. These include a baby accrual bond such as the E, a baby income bond if justified from a fiscal policy, and an open market bond such as the Victory 2½'s.

Admittedly, a small group of the farmers may in addition be prospects for "A" tax anticipation notes. If so, they could buy these from their

local banker but as has been previously stated, we question whether the "A" notes should be thought of in the same sense as War Bonds. Clearly over and above the payment of taxes, there is the need for buying War Bonds.

Many differing plans have been proposed for selling the Farm Market. It would appear, however, that there is need for further work and exploration in this field. »

Required Sales Organization

1. Sales Manager (Paid)

This should be a man who has had wide experience in directing sales to the farm market. His function would be to analyze the market, to set quotas, to plan and conduct selling campaigns and to carry on educational work. »

2. Farm Advisory Committee (Voluntary)

This would parallel, in the farm field, the activities of the Civic Advisory Committee in the urban areas. It would be composed primarily of farmers and perhaps a representative of the Agricultural Department such as the county agent, and a local banker. The sales manager would ex-officio be chairman of the committee.

The committee would advise on policy matters and also aid directly in the selling. It would help to provide speakers when desired.

3. Salesmen (Time voluntary — expenses paid).

There are several sources from which the sales organization for the drive might be recruited. These include farmers themselves, farm women, business men in towns adjacent to farm areas, and representatives of the Department of Agriculture.

Another source to canvass is represented by those industries normally engaged in selling the farm market, such as the Fertilizer Industry, the Oil Industry and the Farm Machinery Industry. It is possible some one of these industries would be in a position to supply manpower for the drives.

Still another channel to be explored for reaching the Farm Market are the various farm organizations, including such bodies as the Farmers' Union, Federal Farm Bureau, the Grange, the Farmers' Cooperative, etc.

4. Women's Department (See later section)

5. Advertising and Promotion Department (See later section)

Large Investor Market

During the December drive, this market absorbed several billion dollars in securities.

It is composed of two groups:

1. Individual investors and trusts.
2. Companies, corporations and institutions.

It does not include commercial banks which are discussed in a separate section.

The two groups have in common that they are technical buyers. This requires that, insofar as possible, they be called on by professional salesmen. The source of these salesmen are the financial houses including investment banks, security dealers and commercial banks.

The number of men available from these financial houses is not sufficient for covering the entire market adequately and in the time available. For example, it is estimated that the number of salesmen with investment banking houses that might be available is less than five thousand, and the total number of commercial banks in the country is about fifteen thousand.

In order to make the most productive use of these professional salesmen, we suggest the following steps for consideration:

1. Limit the number of drives to 3 or 4 times per year with each drive confined to a few weeks duration. This will not only permit an extensive concentration of sales power at the time of the drive, but it will also allow time for funds to accumulate.
2. The companies, corporations and institutions are potentially large buyers. They are comparable to the "special gifts" group that is singled out in the Red Cross and Charity drives. Therefore, assign this group exclusively to representatives

2. (continued)

from the commercial banks and financial houses — representatives who already have contacts with these prospects.

At the same time, make every effort to avoid any duplication in assignments, and endeavor to get each salesman to make an accounting of his calls. He will more readily do this if he understands that he alone has the responsibility for the assignment.

5. Compile a list of the individual investors. One of the sources for this is commercial bank deposits. The size of this list will necessarily be limited by two factors; first, the number of salesmen available and second, income or savings. For example if there were a total of 50,000 professional and general salesmen available and if each salesman would cover 20 prospects, the total market which could be covered is 1,000,000 (it happens that the number of people who in 1942 had incomes of \$10,000 and over was approximately this same number — of course, it is in the higher income brackets that accumulated funds are frequently found).

Obviously, the compilation of this list of individual investors will be helpful in avoiding duplication between the department selling the Mass Market and the department selling the Large Investor Market.

4. Classify the list of individual investors according to importance. Assign the larger individual investors to professional salesmen. Their technical experience will be needed in selling this group.
5. Then assign the remainder of the individual investor list to salesmen recruited from other than the financial field. Draw on the financial field, however, to train these salesmen. Instruct them to call in a professional salesman when they run into technical difficulties with a prospective buyer.
6. Develop some form which will enable the salesman, wherever possible, to take firm orders, and in any event to report on his calls. This will not only help to insure intensive cultivation of the market, but also as pointed out in an earlier section, it will have an important effect on the salesman's morale. It will also provide a basis for healthy rivalry between individual salesmen and sales groups.

Our field study indicated that this Large Investor Market would be interested in a wide range of securities including the E bonds, the F and G bond, the Victory 2½'s, the 7/8 Certificates, the 1-3/4 Notes, and the Tax

Anticipation Notes, A and C. It was pointed out that this market represents both accumulated funds and higher-bracket income. The Individual Investor and the Trust may be interested in long term investments, whereas the corporations' requirements are usually for short term investments.

Required Sales Organization

1. Sales Manager (Paid)

This man would be drawn from the financial field. He would have had wide experience in selling and in directing the sale of securities to the Large Investor Market.

2. Financial Advisory Committee (Voluntary)

This committee would be composed primarily of financial people. It would serve in an advisory capacity between drives, would be called on to give active aid during the drives, including training salesmen and securing speakers when desired.

3. Salesmen (Time voluntary - Expenses paid)

This would include professional men from the financial field as well as salesmen from other fields. In some areas, it might also include saleswomen.

4. Women's Department (See later section)

5. Advertising and Promotion Department (See later section)

Commercial Bank Market

There are about 15,000 commercial banks in the United States. In the December drive they accounted for some five billion dollars in government securities.

With respect to war financing, the commercial banks have three important roles. First, they are large consumers — buyers of securities for their own account. Second, they are important physical distributors of the securities. Third, they are in a position to influence the sale of securities to all the markets.

As consumers, the commercial banks have a special character. There is a need for them to pick up where the public leaves off in financing the Government. To some extent this calls for direct selling effort to the banks.

One point of view is that since the commercial banks are consumers, they should be included in the general security drives to give momentum, unity and scope to the drives.

We understand these advantages, but we think they are more than offset by one major disadvantage. The inclusion of the banks in the general drives tends to confuse the issue — it takes the spotlight off the public — the individual.

Everyone agrees that if inflation is to be curtailed and if the banks are not to become frozen with government securities, the public must buy these securities in large quantities. We think this will be more readily accomplished if the drives to the public are made quite separately from financing through the banks.

Under this proposed procedure, the government would be in the

position, if it were considered desirable from a fiscal standpoint, of selling the banks smaller amounts at greater frequency.

As distributors, the banks face two difficult problems-- the first of these relates to manpower and it is one that will become increasingly serious. The second is the cost of handling the many services for the government including point rationing and bonds. Both of these problems merit the serious consideration of the Treasury Department.

As we get deeper into the war and as the need for more intensive cultivation of all markets for securities grows, the commercial bankers can render increasing aid with respect to educational effort and selling. Their views carry authority that affects all markets, employers, employees, farmers, large investors, depositors generally. Full use should be made of this authority.

Required Sales Organization

1. Sales Manager (Paid)

This man would be an able, experienced commercial banker. He would be concerned with the banks on three fronts -- namely, the banks as consumers, the banks as distributors, and the banks as an educational and selling force. The salesmanager would also make provision for drawing on the various bank associations -- national, state and local, wherever they could be helpful.

2. Bank Advisory Committee (Voluntary)

In addition to the salesmanager, this committee would be composed of both Federal Reserve and non-federal reserve bankers. Its function would be to advise with the salesmanager on policies, to provide active assistance in the educational and selling work, and to help get speakers when required.

3. SalesForce (Time voluntary - Expenses paid)

As part of this educational and selling work, it may be desirable from time to time to make calls on commercial bankers

5. (continued)

individually. The manpower required for this would largely be drawn from the top officers of commercial banks, and from the Federal Reserve System. This program contemplates making the fullest possible use of the Federal Reserve System and the authority of its office.

4. Women's Department (See later section)

5. Advertising and Promotion Department (See later section)

Women's Department

We have now considered the five broad markets for government securities:

The Payroll Savings Market
The Mass Market
The Farm Market
The Large Investor Market
The Commercial Bank Market

We have considered the specific marketing organization required to cultivate each one intensively. In doing so, we have pointed to the activities of the Women's Department as not being confined to any one market, but rather as cutting across all markets. The Women's Department is properly to be thought of as an indispensable service arm to the five sales managers. It brings specialized experience to bear in carrying out the plans and policies of the sales managers.

As gainfully employed workers, women are prospective buyers for war bonds, either via the Payroll Plan or in response to the Mass Market appeals.

As housewives, they are the purchasing agents for the home and directly influence the bond purchases of the husband, whether he be plant worker, farmer or small tradesman.

A fair percentage of the wealth of the country is in the hands of women. This means that women are also an important factor in the large investor market.

Thus, of the five broad markets for government securities, the only one in which women do not play a prominent part is the Commercial Bank Market, and even here their influence is felt.

Clearly, therefore, in selling to each market, special counsel is

needed, not only on how to enlist womanpower for helping to reach the markets, but also on how to get the best buying response from the women in the individual markets.

For this purpose there should be a Women's Department, headed up by a woman who is not only able and intelligent, but who also understands the indispensable value of teamwork and is able to get the cooperation of other women.

This is seen as a full time job and the head of the Women's Department would be paid.

Local Advertising and Promotion Department

As with the Women's Department, the Advertising and Promotion Department would service the selling operations to all markets.

The Department would have to be familiar at all times with the selling activities in each market so the necessary advertising and promotion could be available to each. For this purpose, the Department would have four main functions in connection with:

Payroll Market
Mass Market
Farm Market
Large Investor and Bank Market

Because of the nature of the latter two markets and the proposed methods of selling them, the latter two markets can be considered from an advertising standpoint as a single function.

The head of this Department should be a man schooled in planning and producing advertising - not just a local publicity man. Such an individual could be secured in the larger communities from the local advertising club or a local manufacturer or agency. In the smaller communities, he could be obtained from a local retailer or the advertising department of the local newspaper.

When special event drives were staged in a community, the Advertising and Promotion Department would give these drives the "build up" so necessary to success.

Certain printed matter would have to be produced locally to meet local requirements. This would be prepared and produced by the Department.

As time goes on, it would appear that more dependence may have to be placed on locally sponsored advertising. Such local sponsorship also takes full advantage of local enthusiasm and raises local interest

in the selling activities. The Department in the locality would organize and supervise this locally sponsored advertising.

Finally, the Department would be kept fully advised of National policy as to themes - types of advertising - and methods so that there would be a high degree of uniformity throughout the country. This would greatly help to avoid public confusion.

LOCAL ORGANIZATION

CHART OF ORGANIZATION

We have so far considered the problem from the point of view of the several major markets and the sales departmental set-up necessary to reach each of them effectively in the field. Obviously central administration and control is necessary. The preceding chart pictures the set-up.

DIRECTOR OF SALES

Here is introduced the Director of Sales who will have overall control and direction of the departmental activities. He must bring to the job leadership and administrative ability. His past experience is important. He will supervise selling activities to a number of markets. His job will be marketing and he should have had that experience. He should have the respect of his fellow citizens but above all, he must be a worker and not a "front man". Such men can be found among the executives of automobile — oil — food companies, etc. He should be paid salary and expenses.

STANDARD ORGANIZATION

This marketing set-up is indicated for most all geographical units. It might not be needed in full in small towns or agrarian counties where it would be condensed or curtailed. Also, it might have to be somewhat expanded for one or two of the largest cities. But essentially it would be the standard form of organization.

WEEKLY MEETINGS

In all offices regular weekly meetings of the staff should be held to discuss the problems — review the operations — and make decisions. In most instances, the decisions will make themselves when the matter is reviewed. If not, the decision rests with the general sales manager in each office. These weekly meetings of the staff will develop the "team spirit" so essential to a successful undertaking. They will get action. They will obviate the need for many time wasting "conferences" and also eliminate the calling of "specialists" and "advisors" who have to be educated and brought up-to-date before they can advise. The staff meetings will bring about "planning ahead" so that the whole organization will be "working ahead" and not just be "meeting emergencies". Attendance at these meetings would be compulsory except when excused by the general sales manager.

OFFICE MANAGER

It is felt that there is a need for a manager of the office operations. He would supervise the clerks and install good office procedure. He would see that adequate records were kept and that routine reports were made on schedule. Proper performance of these duties would add materially to effective operations.

SALARIES

As shown there would be a number of salaries paid. This is important because it will materially help to get competent administrative personnel. All selected would have the "privilege" of working without compensation but the choice should not be limited to those who are able to serve without pay. Salaries in conformity with government scale would help pay taxes and ease the personal burden for many good men who could not other-

wise consider accepting such positions. The importance of this is again stressed because any plan will be only as good as the people administering it.

RECORDS and CLERKS.

In addition there will be need to spend money for office space and clerical personnel. Reasonably adequate facilities, well kept records, prompt and efficient handling of mail and reports, are all essential to effective operations, and to the attainment of the required result. Full use should be made of loaned space and equipment and of volunteers but full reliance on such lending and volunteering will probably not meet the requirements. Among volunteers there is oftentimes too much turnover and too much lack of responsibility to permit of a well trained and efficient organization. All this applies only to the "permanent" offices. The great majority of the actual field work will be done by volunteers — full or part time — who will function well, providing they are "tied in" to competent administration.

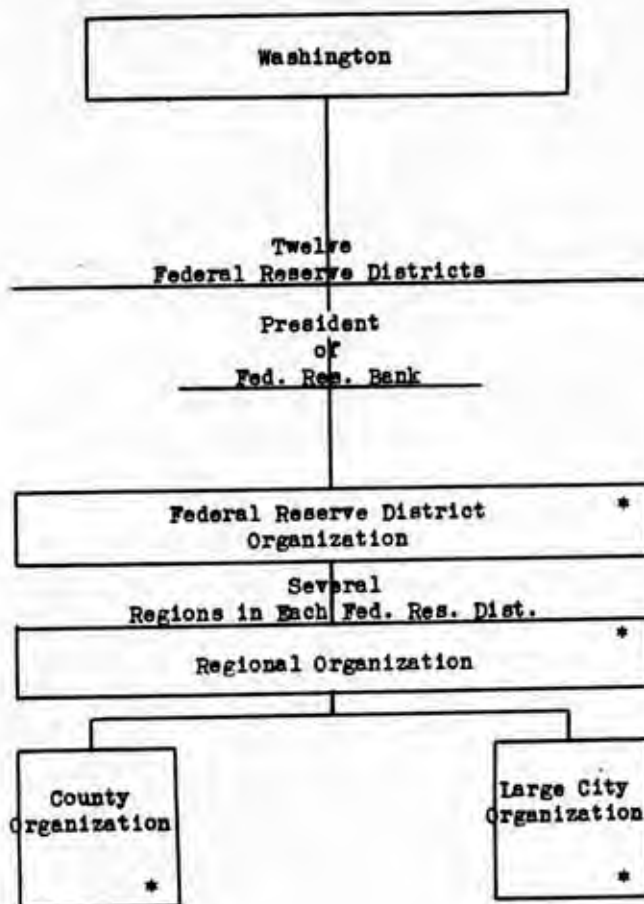
Reasonable expenses should be paid to all "permanent" personnel and to many volunteers. This is a viewpoint held by practically everyone — even by those who would not accept "expenses".

TRANSPORTATION

Transportation is a very real problem in this connection. It involves gasoline. The farm market probably cannot be worked — the plants with payroll plans probably cannot be properly serviced — and many other functions may have to be curtailed unless the transportation problem is solved.

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Vertical Organization
The Field to Washington



* In each of these areas there would be a field area horizontal organization as in previous chart.

VERTICAL ORGANIZATION

THE FIELD to WASHINGTON

ONE ORGANIZATION

It has become obvious that there would be one organization to do this job—not two. The two present organizations would be consolidated on a reorganized basis. To describe it more accurately, a new organization would be built from the timbers of the present two. The preceding chart shows the new organization vertically.

The new organization would be constructed on the geographical base of Federal Reserve District — regions therein — cities — counties — towns. This would build on the banking system, which is the main distributing machinery for the merchandise being sold, and permit the full use of the records regularly kept by the central system.

It has been determined that local competition and pride of accomplishment lies in the towns, counties and cities rather than in or between states. Therefore, the need of state units disappears. The country would be divided into twelve sections rather than forty-eight and provide for much more practical decentralization and control. It would be relatively much easier to find competent men to manage twelve areas than forty-eight.

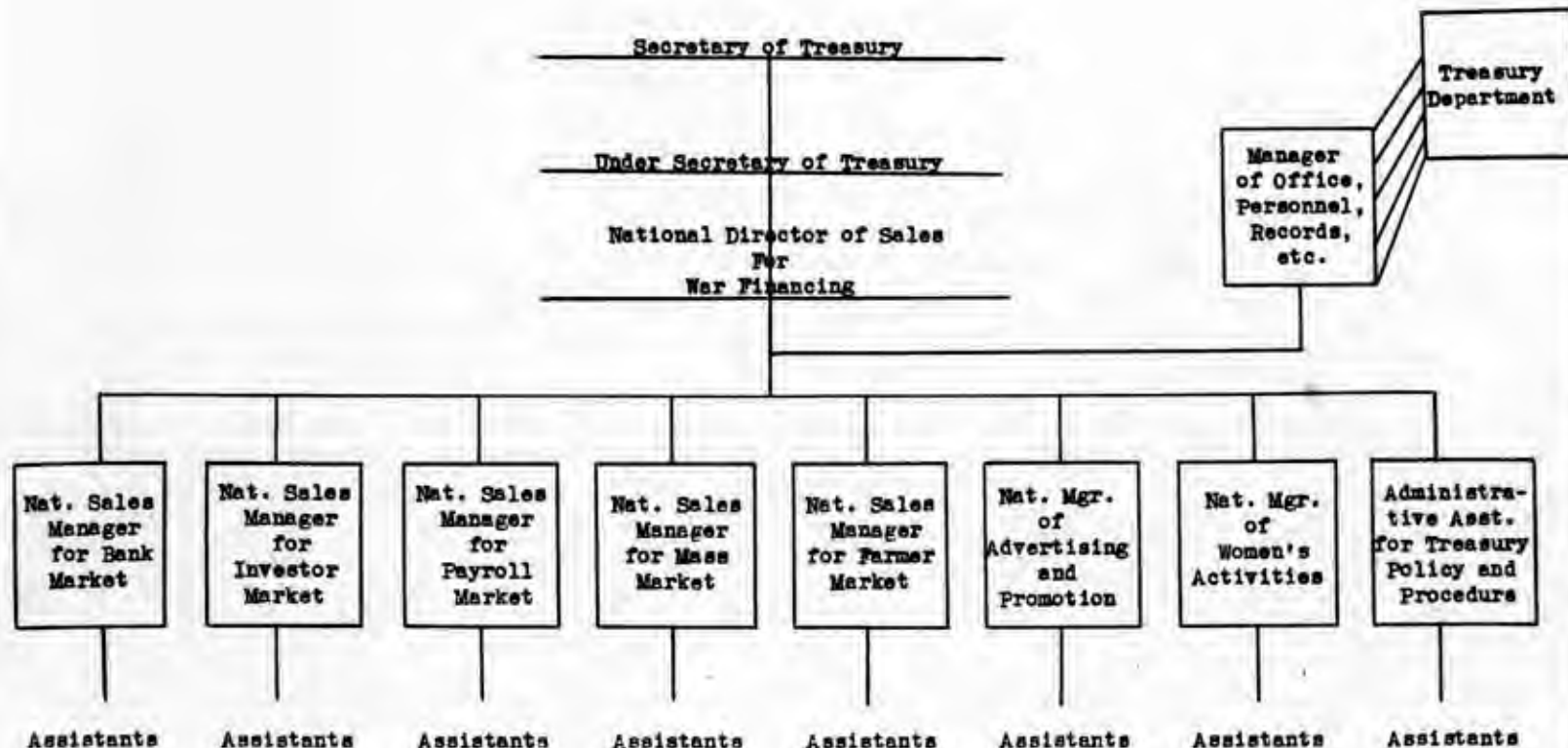
FEDERAL RESERVE PRESIDENTS

The President of the 12 Federal Reserve Banks would be in the picture as Chairman of the District organizations. Their function would be advisory and not administrative. They would give the operation prestige and an official character in the District. Through them, the full use of Federal Reserve Bank facilities would be made available. They would be

helpful particularly with the Bank and Large Investor Markets.

DECENTRALIZATION

Stress is laid on decentralization. The Federal Reserve district offices would be organized as complete functioning branch sales offices. The regional offices would be sub-branch offices. The offices in cities, towns and counties would be local offices. This is in accord with good commercial practice. The Washington office should "push down" to the District offices all possible operations and administration. The degree to which the district office "pushed down" to the regional office and from there on to the local office would, of course, depend on regional office and local office organization and personnel. It would be desirable to build up the regional and local offices so that they could carry a substantial administrative load.

Washington Organization

WASHINGTON ORGANIZATION

CHART

Now we consider the organization necessary at Washington to administer and control the marketing operations. It is shown on the preceding chart.

SECRETARY and UNDER SECRETARY

In Washington, which is the home office of this operation, a special situation exists. There are the Secretary of the Treasury and the Under Secretary who may be likened to the President and Executive Vice-President of a corporation. With these reside the determination of fiscal policy and all general policy of the operation. But these two are extremely busy men. They do not have time to discharge their many responsibilities and also direct the national marketing operation. They are running one of the biggest and most important departments in our government and they need competent men who can direct for them this gigantic selling task.

In recommending this marketing organization every effort has been made to fit it to that portion of their time and energy which the Secretary and Under Secretary can give it and at the same time provide the direction and administration which it must have. With this set-up the Secretary and the Under Secretary would deal primarily with and through the national sales director so that they can receive reports of operations and decide policy and do it expeditiously with a minimum demand on their time and energy.

NATIONAL DIRECTOR OF SALES

The next man to be considered is the "key" to successful opera-

tion. As National Director of Sales, he will be in full charge of the whole operation for the Treasury. He must have all the qualifications set forth for Sales Directors in the field but on a National scale. He must bring to the job an unselfish determination to do a good job for his country. He must be a man who has demonstrated his ability to organize — to direct — and to produce from a marketing standpoint. He need not be and preferably should not be a "national figure", but he should be a leading figure in his own business field. He would receive salary and expenses.

DEPARTMENT HEADS

As the chart indicates there will be sales departments in Washington similar to the set-up previously described for the field offices. The heads of these departments should have the same qualifications as called for in field except, of course, that these men should be of top calibre.

ADMINISTRATIVE ASSISTANT

The chart provides for an administrative assistant to the National Director of Sales. This man should be a competent regular Treasury employee thoroughly familiar with the Department procedure. His job would be to "tie in" the new organization with the Treasury.

DIRECTION and CONTROL

Washington would deal largely with policy and handle only those things of a national character. Full use should be made of local enthusiasm and full recognition given to local conditions but the Washington office should not hesitate to decide on policy and plan, and to issue instructions. If policies and plans are sound and instructions are intelligently given, they will be accepted gladly and followed willingly. It is generally recognized that the

Washington office has available to it experience from all over the country and is therefore in the best position to "chart the course", and to provide leadership.

Advertising and Promotion Department

As with the Women's Department, the Advertising and Promotion Department would service the selling operations of all five markets. With due regard for the fact that the Treasury is not paying for the advertising it would have a responsibility for:

The national advertising.—This has an educational influence on all markets.

Material for the individual markets.—This would include special advertising such as farm advertising, advertising to bankers, advertising of special events, etc. It would also include all forms of literature, and display material, and publicity related to the specific campaigns. In addition, it would include sales training material required to meet the needs of the respective sales organization.

Special studies.— These should be made from time to time to determine the extent to which the current programs are meeting the needs and where they should be strengthened.

We believe the requirements for the above work would best be met by an Advertising and Promotion Department divided into four sections. Each section would have a specific responsibility for servicing one of the individual markets. We believe that one section head could service both the Large Investor Market and the Bank Market. The work of all four sections would be coordinated through the National Advertising and Promotion Manager who headed the Department. Each section head would thoroughly ground himself in the selling problems related to his individual market and would work closely with the sales manager for that market. The section head would also work closely with the Advertising Council and volunteer advertising agency servicing his individual market.

The National Advertising Manager should bring to his work wide

practical experience in the advertising and sales promotion field. He would probably be drawn either from an advertising agency or from the advertising and promotion department of a large manufacturer.

While the section heads may be less experienced than the Department head, they would generally have a background similar to his. In addition, it would be desirable for them to bring to their job some specialized experience with the market to which they are assigned. For example, the section head on the Payroll Market preferably would have had experience with companies employing large numbers of people. The section head for the Mass Market would have had experience in the advertising and promotion of products selling to the masses. The section head for the Farm Market would have had specialized experience in that field. The section head for the Large Investor Market and the Commercial Bank Market would have had experience in financial advertising and promotion. The Department head and the section head would be paid.

The aim here has been to point to the main structure only. Obviously, there will be other service requirements in the department such as a traffic man, a special event man, a display man, perhaps a direct mail man, etc. These, of course, would be worked out by the Department head and the section heads.

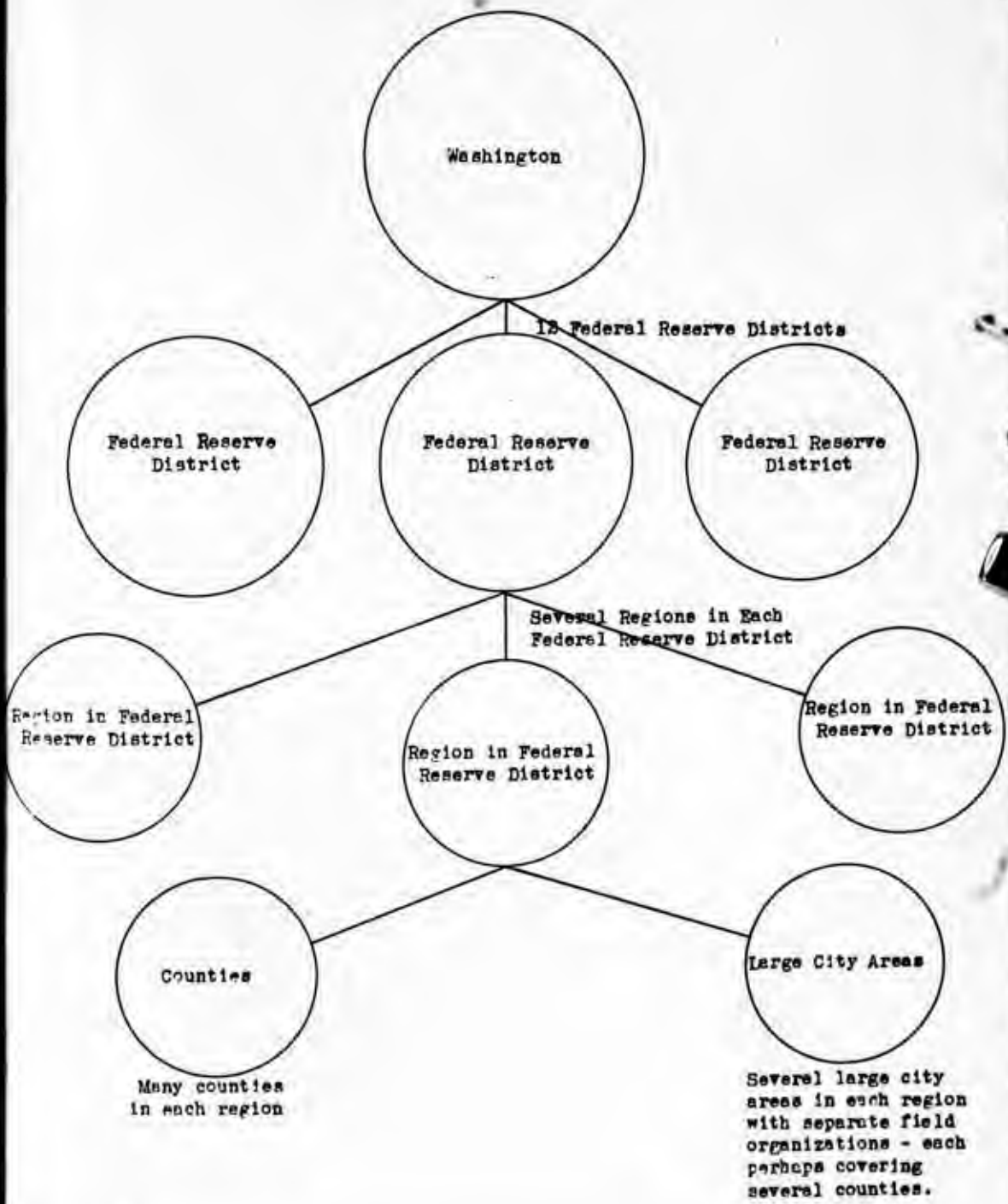
From our field work we received a number of specific suggestions which may be of value to the Department head and we will pass these along. There is one suggestion, however, which was made so universally, that we repeat it here. It was felt that there was too much promotional material, and this was not only wasteful, but it affected adversely the morale of the volunteer workers who found such waste inconsistent with the government's need for rais-

ing money through the sale of securities.

We suggest that in the future no promotional material be prepared until the need, the specifications, the quantity required and the production time have in each case been clearly established.

Placing the emphasis on thought and content rather than on volume, is a principle that might well be considered with respect to all of the Treasury Department's advertising and promotion. Increasingly, the opportunity for improving the Treasury's advertising program will, we believe, be found in the quality of the ideas used and the clarity and taste with which they are presented.

Summary Chart



5. WAR SAVINGS STAFF and VICTORY FUND COMMITTEE

WAR SAVINGS STAFF and VICTORY FUND COMMITTEE

The War Savings Staff and the Victory Fund Committee were brought into being at different times to serve different purposes. That they have served these purposes well, is too widely recognized in the Treasury to need comment here.

Today the war has brought new conditions. The amount of money to be raised has reached tremendous proportions. As has been seen, the best hope for raising it lies in an intensive cultivation of the individual markets.

Everyone with whom we talked recognized these new conditions. All pointed to the resulting need of unity in the marketing operation. Almost without exception, they urged the appointment of a single National Sales Director. ✓ Some of them had in mind that under a National Sales Director, the War Savings Staff and the Victory Fund Committee could be retained, yet unified. Others believed that the War Savings Staff and the Victory Fund Committee should be consolidated into one organization. ✓

From our field work we have seen at first hand the fundamental need for unity in the marketing organization. Human nature being what it is, we cannot believe that unity would result simply from the appointment of a National Sales Director and the retention under him of the two existing organizations. In our opinion this would be unity only on paper. It would fail to recognize that organizations are people and react according to human nature -- not according to organizational charts.

Therefore, to insure real operating unity, we propose that the Secretary adopt a strong policy. We propose not only the appointment of a National Sales Director, but also the consolidation of the War Savings Staff

and the Victory Fund into a single organization. We are firmly convinced that this full step is essential to the establishment of a marketing organization suited to cultivate the individual markets with the required intensity.

We are sure that the adoption of this strong policy and the deliberate avoidance of a middle-ground policy, will by itself have a heartening effect on a great majority of the volunteer workers on the War Savings Staff and in the Victory Fund Committee. Virtually all of these people are working with the single patriotic motive of helping their Government. They will welcome the consolidation as a firm, business-like policy which will further their work.

There may be a small minority who believe either that the War Savings Staff and the Victory Fund Committee should be retained under a National Sales Director or that one organization should absorb the other. While this small minority may hold to their views, we think that, with few exceptions, the personnel of the two present organizations will recognize the good sense underlying the consolidation and give their wholehearted support. ✓

The combined original purposes of the War Savings Staff and the Victory Fund Committee were:

1. To teach the habit of saving.
2. To further a sense of involvement in the war.
3. To counteract inflation.
4. To raise money to pay for the war.

None of these purposes will be lost in consolidation. Rather all four purposes will be furthered thereby.

It is only proper to record that the one single thing which in-

spired us most strongly in the course of our field work was the sincere loyalty to their country of the workers with whom we talked. This is priceless, and in our opinion it will both be retained and made more effective in the unified organization that is proposed. ✓

4. THE TRANSITION and the APRIL DRIVE

THE TRANSITION AND THE APRIL DRIVE

In planning the type of marketing organization needed to do this tremendous job, the problem has been considered from the "long haul" standpoint. There will be a need to sell government securities in very substantial quantities for many months to come — through the duration of the war and probably well on into the peace and reconstruction period. The marketing set-up recommended is designed to meet that need. The problem now must be considered from the standpoint of the transition from the present selling operations over to the marketing set-up recommended and at the same time meet the Treasury's current needs and provide for the April drive.

The first step would be to get the National Sales Manager. A list of six or eight likely prospects could be quickly compiled with a detailed history of each. These men could be interviewed to determine suitability and availability. One would be chosen. Similarly the five divisional sales managers, the manager of advertising and promotion, the manager of the women's division, and the administrative assistant would be chosen with and by the National Sales Manager. All, of course, would be selected in accord with the special job specifications. These men would be brought together for a short intensive course on the background and the marketing plan.

The second step would be an announcement to Victory Fund Committee and War Savings Staff in Washington — in the Federal Reserve Districts, in the states, in the cities, counties and towns, covering the following points:

1. Reference to "this survey committee" and information gathered by it from people in W.S.S. and V.F.C.
2. Announce the appointment of National Sales Manager.

3. Announce the future consolidation into one organization of V.F.C. and W.S.S.

4. Ask for cooperation of both groups under leadership of V.F.C. for April drive period.

5. Advise that the national sales manager and assistants will supervise cooperation during the drive period.

6. Advise that consolidation plans for new organization will be ready and announcement of new set-up will come shortly after the April drive*(1)

The national sales manager and his eight assistants would travel extensively during the period of preparation and drive — meeting people in both groups — obtaining at least some of the many facts needed — and planning the details of the consolidation. By the close of the drive they would be ready to effect the consolidation and begin direction of the new organization.

The reaction to such an announcement and procedure would be favorable with practically everyone concerned. Everyone interviewed was told they would not be quoted. Comment was very frank. Many have already expressed opinion openly. Universally there is dissatisfaction with present operations. Almost none think the job can be done "this way." Naturally, there is some difference of opinion as to how the problem should be solved — but all want a solution. In summary, they want unity — continuity of objectives — and leadership. They look to Washington to provide these three things for them so that they can go to work and get the job done.

*(1) See attached for suggested announcement.

ANNOUNCEMENT BY THE SECRETARY

To War Savings Staff and Victory Fund Committee in all areas.

Many of you know that I have had a small committee studying our bond selling operations. Through this committee, I have learned what you in the War Savings Staff and Victory Fund Committee want, so that this tremendous job can be done and so that effective use can be made of your patriotic service to your country on which I have relied so heavily.

Our task is the biggest financing and marketing job the world has ever seen. We will need the best organization and the best marketing ability obtainable.

I have learned that you want unity — unity of administration and unity of objectives. With this, I am in accord. Therefore, I have appointed John Doe as National Director of War Financing. Mr. Doe is (has been) Vice-President (President) of the XYZ Corporation and brings to this new task a lifetime of experience primarily devoted to marketing problems. He will have associated with him other men experienced in the different fields which compose our market.

Further, the Victory Fund Committee and the War Savings Staff will eventually be consolidated into one organization. This will provide for all the activities needed to do an all-out job. Obviously this is a big undertaking and it will take time to work out the details.

We are faced with the present needs to raise money to pay for the war. That means we must have another drive in April. It is impossible to work out and effectuate the consolidation before April. Therefore, we are asking for full cooperation between the War Savings Staff and the Victory

Fund Committee for the period of preparation before the drive and during the drive itself. Because of the nature of the drive the Victory Fund Committee must have a "green light" but only for this period. The War Savings Staff is asked to give every advice and counsel - to lend all possible personnel -- and to make available all promotion facilities. All this to the end that the drive be successful in the common interest.

From now and until the April drive is over, Mr. Doe and his assistants will work closely with Mr. Graves and his War Savings Staff and with Mr. Buffington and his Victory Fund Committee organization to help insure the greatest possible degree of cooperation for the drive.

In the meantime, we are going ahead working out the details of the consolidation of the War Savings Staff and the Victory Fund Committee into a new organization to be known as the National Committee for War Financing. Full announcement will be made shortly after the April drive. Needless to say each and everyone of you now working with either the War Savings Staff or the Victory Fund Committee will be much needed in the tremendous task ahead. I know we can count on every one of you because the only reason you are doing this work at all is to patriotically serve your country.

February 11, 1943
12:42 p.m.

HMJr: Okay.

Operator: Go ahead.

HMJr: Hello.

Secretary
Knox: Hello, Henry.

HMJr: Yes, Frank.

K: Bill Bullitt is here with me. He just told me
of his talk with you....

HMJr: Yes.

K:and if you're satisfied to have the French
advance a little money to pay these sailors
out of that \$200,000 they already have, it's all
right with me.

HMJr: No, it - it can't go that way - hello?

K: Yeah.

HMJr: Now last night we called up - there was a - I -
first, I sent word to Mr. Hull that we were
waiting. He wrote a memorandum and signed it -
rather, signed a memorandum which we wrote to
the President last Saturday, you see? It was
from Hull to the President.

K: Yeah.

HMJr: Then I called up Miss Tully and found a memo-
randum. They couldn't lay their hands on it, so
we sent another one over to Hull, and Hull signed
it again and sent it to the President, and the
President said that wasn't complete - there
wasn't everything in the memorandum he'd seen in
the first memorandum. As a result of that, he
spoke to several of your admirals and sent a
cable to the American admiral at Casablanca.

K: Yeah. American or French?

HMJr: American.

- 2 -

K: Yeah.

HMJr: What's his name there?

K: I don't know who the - Hewitt?

HMJr: No.

K: Glandsford?

HMJr: Well, anyway whoever it is....

K: Yeah.

HMJr:and the President of the United States has reopened the whole thing. Now I can't on my own - I mean I'm just a paying agent. I'm just a teller - hello?

K: Yeah.

HMJr: Unless I get a directive from the President or the Secretary of State, I can't move.

K: Well, I'm not blaming you any, Henry. The only thing I'm trying to hasten it, because I....

HMJr: Well....

K:already had a minor experience which might give us an idea what's going to happen.

HMJr: Well, I - I'm - I'm like any other bank teller, the minute that I get a draft or an order, we pay on the spot.

K: Uh huh.

HMJr: But I can't use the bank's funds unless somebody gives me a directive, particularly where the President of the United States is taking....

K: Well, how soon is the President going to act?

HMJr: Well, he sent the cable last night.

K: Uh huh. Can't do anything until we get an answer, eh?

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HMJr: I don't think so.

K: Okay. Well, the only thing I was trying to do is to prevent a....

HMJr: Well, Frank....

K:to them down there.

HMJr: What do you think?

K: Why, I think you've got a hell of a lot of French money that it's perfectly safe to advance to them to pay their own sailors. Nobody can challenge the correctness of that.

HMJr: No, but where the President has taken the matter into his own hands, and we've put it up to him.....

K: No, I guess you're right.

HMJr:and we've put it up to him three times.

K: Yeah, I guess you're right.

HMJr: What?

K: Yeah. Yeah, you're right.

HMJr: Okay.

K: All right, Henry. Thank you.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

February 11, 1943.

MEMORANDUM TO THE SECRETARY:

I talked to Dr. Feis about the payment of the French crews arriving in New York on the French naval ships. He said the matter had been discussed with the President on three different occasions last evening and he would not change his first instructions. They were that a cable should go to Admiral Hall at Casablanca stating that the President had discussed with the French Admiral in charge of this particular group of ships that will come to the United States the question of paying the crews. The President gained the impression that this French Admiral wanted to pay the expenses for these crews, including the salaries, out of their own funds. (It is presumed that by this is meant North African funds.) In the cable Admiral Hall was requested to discuss the matter along this line with the French admiral and report back to him. I understand that cable went last night.

I have made inquiry of the French American Banking Corporation in New York as to the funds made available to General Bethouart and his Mission and I understand that he has a letter of credit payable through the Riggs National Bank in Washington for \$100,000 on which Riggs makes advances and then gets reimbursement from the French American. Through these accounts \$62,000 has been paid to the General, leaving \$38,000 in this account. Before he can get any funds it is necessary for him to certify that the funds so drawn are for the administrative expenses of the French Military Mission.

There was another \$100,000 made available by the French American Banking Corporation to the Riggs National Bank for account of one Georges Picot. License is now pending before the Treasury for the transfer of this sum to an account in the name of this individual in the Riggs Bank. As Mr. Picot disburses this money he has to certify that the funds withdrawn are for the purpose of paying administrative expenses of the Civil Mission attached to the French Military Mission. None of this last mentioned fund has been spent.

The only funds available in this country which could be disbursed immediately are funds belonging to the French



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Government on deposit in New York which could be disbursed in the same manner as the \$1,000,000 monthly transfer for Martinique. This could be done on a letter from the Secretary of State to the Secretary of the Treasury. The Secretary would take action under 5 (b) of the Trading with the Enemy Act. This would probably bring requests from other French groups such as the DeGaulle interests for funds from French balances in this country.

It may take several days to get a reply to the President's cable which was sent to Casablanca last night. If it is necessary to make immediate payments and they want to use funds other than the French balances, it is suggested that the President make an allocation out of his Emergency Funds with the understanding that it would be reimbursed out of whatever French funds are ultimately designated to be used for this purpose.

scwB

February 11, 1943
3:10 p.m.

FINANCING

Present: Mr. Thomas
Mr. Stevens
Mr. Wood

H.M.JR: How far did you get with Bell?

MR. THOMAS: We finished it.

H.M.JR: We are up to the second paragraph.

MR. THOMAS: Do you wish to review any of that?

H.M.JR: No. I got the idea. I think that some of those things have to be expanded, like the banking organization and the women's operations, and so forth, and so on.

MR. THOMAS: We didn't attempt to go down the full gamut of the thing.

MR. WOOD: We could have written twenty pages on each one of them, and it wouldn't have been enough.

H.M.JR: I want to get the impression of the thing this afternoon.

MR. WOOD: (Reading) "Local Organization. Chart of organization. We have so far considered the problem from the point of view of the several major markets and the sales departmental set-up necessary to reach each of them effectively in the field. Obviously central administration and control is necessary. The preceding chart pictures the set-up.

"Director of Sales. Here is introduced the Director of Sales who will have overall control and direction of the

- 2 -

departmental activities. He must bring to the job leadership and administrative ability. His past experience is important. He will supervise selling activities to a number of markets. His job will be marketing and he should have had that experience. He should have the respect of his fellow citizens but above all, he must be a worker and not a 'front man.' Such men can be found among the executives of automobile - oil - food companies, etc. He should be paid salary and expenses.

"Standard organization. This marketing set-up is indicated foremost all geographical units. It might not be needed in full in small towns or agrarian counties where it would be condensed or curtailed. Also, it might have to be somewhat expanded for one or two of the largest cities. But essentially it would be the standard form of organization.

"Weekly meetings. In all offices regular weekly meetings of the staff should be held to discuss the problems -- review the operations -- and make decisions. In most instances, the decisions will make themselves when the matter is reviewed. If not, the decision rests with the general sales manager in each office. These weekly meetings of the staff will develop the 'team spirit' so essential to a successful undertaking. They will get action. They will obviate the need for many time wasting 'conferences' and also eliminate the calling of 'specialists' and 'advisors' who have to be educated and brought up-to-date before they can advise." That sentence to me is important.

"The staff meetings will bring about 'planning ahead' so that the whole organization will be 'working ahead' and not just be 'meeting emergencies.' Attendance at these meetings would be compulsory except when excused by the general sales manager."

We found quite a bit of that, of course.

H.M.JR: In other words, this is an advisory report to end all advisors? (Laughter)

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MR. WOOD: That is right.

"Office manager. It is felt that there is a need for a manager of the office operations. He would supervise the clerks and install good office procedure. He would see that adequate records were kept and that routine reports were made on schedule. Proper performance of these duties would add materially to effective operations.

"Salaries. As shown there would be a number of salaries paid. This is important because it will materially help to get competent administrative personnel. All selected would have the 'privilege' of working without compensation but the choice should not be limited to those who are able to serve without pay. Salaries in conformity with government scale would help pay taxes and ease the personal burden for many good men who could not otherwise consider accepting such positions. The importance of this is again stressed because any plan will be only as good as the people administering it."

Now as we mentioned to Mr. Bell, while salaries are involved in here, and certain expenses, nevertheless if it were understood by us in the beginning that salaries or expenses could not have been paid to anyone, we still would have recommended this type of organization.

H.M.JR: But that isn't true. I mean, we can pay it.

MR. WOOD: But we don't want to tie our recommendations to the theory that salaries would have to be paid to carry out this type of organization. I mean, not to carry it out, but that our recommendations rest on that wholly.

MR. STEVENS: Put it this way, that the only reason for bringing up the question of salaries at all is to enable the Treasury Department to get the services of men who do not have independent incomes.

H.M.JR: Even if you knew we couldn't get the salaries, you would recommend it anyway?

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MR. WOOD: We would recommend this type of organization.

"Records and clerks. In addition there will be need to spend money for office space and clerical personnel. Reasonably adequate facilities, well kept records, prompt and efficient handling of mail and reports, are all essential to effective operations, and to the attainment of the required result. Full use should be made of loaned space and equipment and of volunteers but full reliance on such lending and volunteering will probably not meet the requirements. Among volunteers there is oftentimes too much turnover and too much lack of responsibility to permit of a well trained and efficient organization. All this applies only to the 'permanent' offices. The great majority of the actual field work will be done by volunteers -- full or part time -- who will function well, providing they are 'tied in' to competent administration.

"Reasonable expenses should be paid to all 'permanent' personnel and to many volunteers. This is a viewpoint held by practically everyone -- even by those who would not accept 'expenses.'

"Transportation. Transportation is a very real problem in this connection. It involves gasoline. The farm market probably cannot be worked -- the plants with payroll plans probably cannot be properly serviced -- and many other functions may have to be curtailed unless the transportation problem is solved."

Next is just the vertical organization chart, and perhaps the reading will describe it even better than the chart.

H.M.JR: This is as it is, or is this the recommendation?

MR. THOMAS: This is the recommendation.

MR. WOOD: As a matter of fact, that is the way the VFC almost is now - I mean, the vertical organization.

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H.M.JR: What?

MR. WOOD: The Victory Fund.

"Vertical organization - the field to Washington. One organization. It has become obvious that there would be one organization to do this job--not two. The two present organizations would be consolidated on a reorganized basis. To describe it more accurately, a new organization would be built from the timbers of the present two. The preceding chart shows the new organization vertically.

"The new organization would be constructed on the geographical base of Federal Reserve District -- regions therein -- cities -- counties -- towns. This would build on the banking system, which is the main distributing machinery for the merchandise being sold, and permit the full use of the records regularly kept by the central system.

"It has been determined that local competition and pride of accomplishment lies in the towns, counties and cities rather than in or between states. Therefore, the need of state units disappears. The country would be divided into twelve sections rather than forty-eight and provide for much more practical decentralization and control. It would be relatively much easier to find competent men to manage twelve areas than forty-eight.

"Federal Reserve presidents. The President of the 12 Federal Reserve Banks would be in the picture as Chairman of the District organizations. Their function would be advisory and not administrative."

Could I add an aside that it would mean that they would definitely not be in executive charge. They would not have the power of veto; they would not be the boss of the sales manager of their District.

H.M.JR: Are they now?

MR. WOOD: No. In the Victory Fund theoretically they occupy about the same position as we recommend here.

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In some cases they may have in the beginning assumed more executive direction, but as we understand from observation and conversation that now is advisory, but I would say that on our setup it would be even more advisory than it is now and less executive direction.

"They would give the operation prestige and an official character in the District. Through them, the full use of Federal Reserve Bank facilities would be made available. They would be helpful particularly with the Bank and Large Investor Markets."

If we could add another aside - one reason we mention they would not be in executive control at all is that they are not sales managers, they have not been trained in marketing; they have full time jobs, and it just won't work for many reasons.

"Decentralization. Stress is laid on decentralization. The Federal Reserve district offices would be organized as complete functioning branch sales offices. The regional offices would be sub-branch offices. The offices in cities, towns and counties would be local offices. This is in accord with good commercial practice. The Washington office should 'push down' to the District offices all possible operations and administration. The degree to which the district office 'pushed down' to the regional office and from there on to the local office would, of course, depend on regional office and local office organization and personnel. It would be desirable to build up the regional and local offices so that they could carry a substantial administrative load."

This next chart is the national organization chart. It is the same chart applied to the national scene as was applied to the Federal Reserve District and to the regions within the Federal Reserve District and on down as far into each local area as one wanted or thought it desirable to go: Five sales managers, two service managers, and one administrative assistant.

MR. STEVENS: As I understand it, this is a greatly simplified organization over the existing one. We ran

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into one situation there in Atlanta, for example, where we were shown a chart that was rather staggering in the number of divisions.

MR. THOMAS: They had twenty-one committees.

H.M.JR: In Atlanta?

MR. THOMAS: It was one of the towns that had all these things on paper.

H.M.JR: This was the Victory Fund?

MR. STEVENS: This happened to be the other, the War Savings.

In other words, the only point - Mr. Bell wondered if this was complicated. It is relatively streamlined as compared with the existing organizations.

MR. WOOD: I don't believe he asked if it were complicated; he asked if we were having more sub-divisions or fewer.

MR. STEVENS: I think that is correct.

MR. THOMAS: I will read the section on "Washington Organization." By "Washington" I mean the national sales organization.

"Chart. Now we consider the organization necessary at Washington to administer and control the marketing operations. It is shown on the preceding chart.

"Secretary and Under Secretary. In Washington, which is the home office of this operation, a special situation exists. There are the Secretary of the Treasury and the Under Secretary who may be likened to the President and Executive Vice-President of a corporation. With these reside the determination of fiscal policy and all general policy of the operation. But these two are extremely busy men. They do not have time to discharge their many responsibilities and also direct the national marketing

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operation. They are running one of the biggest and most important departments in our government and they need competent men who can direct for them this gigantic selling task.

"In recommending this marketing organization every effort has been made to fit it to that portion of their time and energy which the Secretary and Under Secretary can give it and at the same time provide the direction and administration which it must have. With this set-up the Secretary and the Under Secretary would deal primarily with and through the national sales director so that they can receive reports of operations and decide policy and do it expeditiously with a minimum demand on their time and energy.

"National director of sales. The next man to be considered is the 'key' to successful operation. As National Director of Sales, he will be in full charge of the whole operation for the Treasury. He must have all the qualifications set forth for Sales Directors in the field but on a National scale. He must bring to the job an unselfish determination to do a good job for his country. He must be a man who has demonstrated his ability to organize -- to direct -- and to produce from a marketing standpoint. He need not be and preferably should not be a 'national figure,' but he should be a leading figure in his own business field. He would receive salary and expenses.

"Department heads. As the chart indicates there will be sales departments in Washington similar to the setup previously described for the field offices. The heads of these departments should have the same qualifications as called for in field except, of course, that these men should be of top calibre.

"Administrative assistant. The chart provides for an administrative assistant to the National Director of Sales. This man should be a competent regular Treasury employee thoroughly familiar with the Department procedure. His job would be to 'tie in' the new organization with the Treasury.

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"Direction and control. Washington would deal largely with policy and handle only those things of a national character. Full use should be made of local enthusiasm and full recognition given to local conditions but the Washington office should not hesitate to decide on policy and plan, and to issue instructions. If policies and plans are sound and instructions are intelligently given, they will be accepted gladly and followed willingly. It is generally recognized that the Washington office has available to it experience from all over the country and is therefore in the best position to 'chart the course,' and to provide leadership."

MR. WOOD: Did we pass any of that too rapidly? I mean by that that I can't remember a single exception to the general statement that all felt that it would be an immense amount of help to have what we have chosen to call a National Sales Director. That is the one thing, if anything, which came up unanimously.

H.M.JR: From both sides?

MR. WOOD: Without a single exception anywhere. I can't remember a single exception whether we were way down or way up high.

MR. THOMAS: That is developed a little more fully later on.

This page ten is part of the national organization. It has to do with the Advertising and Promotion Department on a national level.

"As with the Women's Department, the Advertising and Promotion Department would service the selling operations of all five markets. With due regard for the fact that the Treasury is not paying for the advertising it would have a responsibility for:

"The national advertising.--This has an educational influence on all markets.

- 10 -

"Material for the individual markets.--This would include special advertising such as farm advertising, advertising to bankers, advertising of special events, etc. It would also include all forms of literature, and display material, and publicity related to the specific campaigns. In addition, it would include sales training material required to meet the needs of the respective sales organization.

"Special studies.-- These should be made from time to time to determine the extent to which the current programs are meeting the needs and where they should be strengthened.

"We believe the requirements for the above work would best be met by an Advertising and Promotion Department divided into four sections. Each section would have a specific responsibility for servicing one of the individual markets. We believe that one section head could service both the Large Investor Market and the Bank Market. The work of all four sections would be coordinated through the National Advertising and Promotion Manager who headed the Department. Each section head would thoroughly ground himself in the selling problems related to his individual market and would work closely with the sales manager for that market. The section head would also work closely with the Advertising Council and volunteer advertising agency servicing his individual market.

"The National Advertising Manager should bring to his work wide practical experience in the advertising and sales promotion field. He would probably be drawn either from an advertising agency or from the advertising and promotion department of a large manufacturer.

"While the section heads may be less experienced than the Department head, they would generally have a background similar to his. In addition, it would be desirable for them to bring to their job some specialized experience with the market to which they are assigned. For example, the section head on the Payroll Market preferably would have had experience with companies employing large numbers of

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people. The section head for the Mass Market would have had experience in the advertising and promotion of products selling to the masses. The section head for the Farm Market would have had specialized experience in that field. The section head for the Large Investor Market and the Commercial Bank Market would have had experience in financial advertising and promotion. The Department head and the section head would be paid.

"The aim here has been to point to the main structure only. Obviously, there will be other service requirements in the department such as a traffic man, a special event man, a display man, perhaps a direct mail man, etc. These, of course, would be worked out by the Department head and the section heads.

"From our field work we received a number of specific suggestions which may be of value to the Department head and we will pass these along. There is one suggestion, however, which was made so universally, that we repeat it here. It was felt that there was too much promotional material, and this was not only wasteful, but it affected adversely the morale of the volunteer workers who found such waste inconsistent with the government's needs for raising money through the sale of securities.

"We suggest that in the future no promotional material be prepared until the need, the specifications, the quantity required and the production time have in each case been clearly established.

"Placing the emphasis on thought and content rather than on volume, is a principle that might well be considered with respect to all of the Treasury Department's advertising and promotion. Increasingly, the opportunity for improving the Treasury's advertising program will, we believe, be found in the quality of the ideas used and the clarity and taste with which they are presented."

I can just mention there that wherever we went we just saw bundles of this stuff, and it was just overwhelming. We had one little interesting story that came to light,

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one place where a man called up the office and said that he could use a few posters if they would get them for him. He was told that they would, and after several weeks had gone by, he called up again and said, "You know, I asked for a few posters." "Yes," he said, "I only wanted a few, but they sent me twelve hundred, and what is more they sent me a bill collect for air express. It is seventy-six dollars and ninety-five cents, and I will be damned if I am going to pay it."

H.M.JR: Good for him.

MR. THOMAS: But we ran into that.

MR. WOOD: They said so much of it was coming air express.

H.M.JR: It got onto the floor of Congress. It was in connection with this women's department store week; they got the stuff out late. They sent it all out, but I stopped all of that. Miss Elliott has just been around the country for three weeks, and she wrote reports - she told my wife that the stuff is piled up all over. That is one of the chief complaints that she has had.

MR. THOMAS: We saw it everywhere.

H.M.JR: Whoever is in charge of distribution of posters here ought to be fired.

MR. THOMAS: It is part and parcel of planning ahead.

MR. WOOD: Not only the amount of material, but here was the kind of other criticism or suggestion, whichever you want to call it, that we received, that Thanksgiving posters would arrive on December 1.

H.M.JR: I know.

MR. WOOD: I think there is a lot of that material we didn't see because it had been carted away.

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H.M.JR: It is bad enough to have it, but to have it happen in the Treasury makes it doubly worse. This fellow cussing us for seventy-eight dollars for air express today, and we come around and tell him to pay his income tax - it is bad enough for any Department, but inexcusable for us.

What is this chart?

MR. THOMAS: That is just the over-call chart showing the regions.

MR. WOOD: "War Savings Staff and Victory Fund Committee. The War Savings Staff and the Victory Fund Committee were brought into being at different times to serve different purposes. That they have served these purposes well, is too widely recognized in the Treasury to need comment here.

"Today the war has brought new conditions. The amount of money to be raised has reached tremendous proportions. As has been seen, the best hope for raising it lies in an intensive cultivation of the individual markets.

"Everyone with whom we talked recognized these new conditions. All pointed to the resulting need of unity in the marketing operation. Almost without exception, they urged the appointment of a single National Sales Director."

H.M.JR: May I say that before you started - for the record - you will confirm that that was what I wanted - I asked for myself before.

MR. THOMAS: Asked for the national sales director?

H.M.JR: Sure, I asked you.

MR. THOMAS: I know we spoke about it.

H.M.JR: I said that I felt the need of it. I mean, I want to be added to those.

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MR. THOMAS: Yes, I remember that.

MR. STEVENS: That makes it doubly unanimous.

MR. THOMAS: I recall that very definitely the day we were sitting there at the desk.

MR. WOOD: "Some of them had in mind that under a National Sales Director, the War Savings Staff and the Victory Fund Committee could be retained, yet unified. Others believed that the War Savings Staff and the Victory Fund Committee should be consolidated into one organization."

H.M.JR: Now you are getting down to the difficult part.

MR. WOOD: "From our field work we have seen at first hand the fundamental need for unity in the marketing organization. Human nature being what it is, we cannot believe that unity would result simply from the appointment of a National Sales Director and the retention under him of the two existing organizations. In our opinion this would be unity only on paper. It would fail to recognize that organizations are people and react according to human nature -- not according to organizational charts.

"Therefore, to insure real operating unity, we propose that the Secretary adopt a strong policy. We propose not only the appointment of a National Sales Director, but also the consolidation of the War Savings Staff and the Victory Fund into a single organization. We are firmly convinced that this full step is essential to the establishment of a marketing organization suited to cultivate the individual markets with the required intensity.

"We are sure that the adoption of this strong policy and the deliberate avoidance of a middle-ground policy, will by itself have a heartening effect on a great majority of the volunteer workers on the War Savings Staff and in the Victory Fund Committee. Virtually all of these people are working with the single patriotic motive of helping their Government. They will welcome the consolidation as a firm, business-like policy which will further their work.

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"There may be a small minority who believe either that the War Savings Staff and the Victory Fund Committee should be retained under a National Sales Director or that one organization should absorb the other. While this small minority may hold to their views, we think that, with few exceptions, the personnel of the two present organizations will recognize the good sense underlying the consolidation and give their wholehearted support."

As we mentioned to Mr. Bell, we said that the people who might object would be a few of the people around the country more at the top, but it would be those people at the top who wanted their position for the glory of it rather than the sweat of the effort. In other words, they want the glory without the work.

"The combined original purposes of the War Savings Staff and the Victory Fund Committee were: 1. To teach the habit of saving. 2. To further a sense of involvement in the war. 3. To counteract inflation. 4. To raise money to pay for the war.

"None of these purposes will be lost in consolidation. Rather all four purposes will be furthered thereby.

"It is only proper to record that the one single thing which inspired us most strongly in the course of our field work was the sincere loyalty to their country of the workers with whom we talked. This is priceless, and in our opinion it will both be retained and made more effective in the unified organization that is proposed."

Three of us started on this study, but we didn't commit ourselves because we tried to do an unprejudiced analytical job. The problems of consolidation are obvious, and the difficulties are easily seen. What may not be quite so easily seen is that if it isn't done, the hurdles that will keep coming up every few miles along the course will in time get higher and higher, and more and more of the people on the course will fall by the wayside. So it seems to us - well, we would run into situations where

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they would say that the two organizations conflicting are rather intolerable. Others might say, "We get along well together."

Then, as a matter of fact, on some of the local levels, as I told you this morning, the people will be the same people on those levels.

MR. STEVENS: I think that is a very important point, Mr. Secretary, the realization that while the consolidation may present difficulties now, as you go along in the task of cultivating markets, it grows intensively with the increased size of the money to be raised. The job of consolidation will become more difficult, but the need for it will become increasingly great.

H.M.JR: Does this have anything more on the consolidation?

MR. WOOD: No, but we can discuss it to any length.

MR. THOMAS: We have thought of the last part of it in relation to the proposed April drive.

"The Transition and the April Drive. In planning the type of marketing organization needed to do this tremendous job, the problem has been considered from the 'long haul' standpoint. There will be a need to sell government securities in very substantial quantities for many months to come -- through the duration of the war and probably well on into the peace and reconstruction period. The marketing set-up recommended is designed to meet that need. The problem now must be considered from the standpoint of the transition from the present selling operations over to the marketing set-up recommended and at the same time meet the Treasury's current needs and provide for the April drive.

"The first step would be to get the National Sales Manager. A list of six or eight likely prospects could be quickly compiled with a detailed history of each.

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These men could be interviewed to determine suitability and availability. One would be chosen. Similarly the five divisional sales managers, the manager of advertising and promotion, the manager of the women's division, and the administrative assistant would be chosen with and by the National Sales Manager. All, of course, would be selected in accord with the special job specifications. These men would be brought together for a short intensive course on the background and the marketing plan.

"The second step would be an announcement to Victory Fund Committee and War Savings Staff in Washington -- in the Federal Reserve Districts, in the states, in the cities, counties and towns, covering the following points:

"1. Reference to 'this survey committee' and information gathered by it from people in W.S.S. and V.F.C.

"2. Announce the appointment of National Sales Manager.

"3. Announce the future consolidation into one organization of V.F.C. and W.S.S.

"4. Ask for cooperation of both groups under leadership of V.F.C. for April drive period.

"5. Advise that the national sales manager and assistants will supervise cooperation during the drive period.

"6. Advise that consolidation plans for new organization will be ready and announcement of new set-up come shortly after the April drive - see attached for suggested announcement.

"The national sales manager and his eight assistants would travel extensively during the period of preparation and drive -- meeting people in both groups -- obtaining at least some of the many facts needed -- and planning the details of the consolidation. By the close of the drive they would be ready to effect the consolidation and begin direction of the new organization."

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H.M.JR: Wait a minute. Are you proposing - I don't quite understand - that this should be done prior to April?

MR. THOMAS: Yes, sir. What should be done prior to April?

H.M.JR: That is what I want to know.

MR. THOMAS: The announcement should be made. We are proposing that, step No. 1, you get the national sales manager; and as soon as you get him you make this announcement. I think it will be clearer, Mr. Secretary, if we finish this and then read the proposed announcement on the next page.

H.M.JR: I don't get this part about the national sales managers - I mean, during the month of March they will be traveling around educating themselves, while at the same time we would have to be getting ready for the April drive.

MR. THOMAS: Yes, sir.

H.M.JR: I don't think that is possible.

MR. THOMAS: Let's wait until we get the announcement and perhaps then it will be more clear.

"The reaction to such an announcement and procedure would be favorable with practically everyone concerned. Everyone interviewed was told they would not be quoted. Comment was very frank. Many have already expressed opinion openly. Universally there is dissatisfaction with present operations. Almost none think the job can be done 'this way.' Naturally, there is some difference of opinion as to how the problem should be solved -- but all want a solution. In summary, they want unity -- continuity of objectives -- and leadership. They look to Washington to provide these three things for them so that they can go to work and get the job done."

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Now let's take the proposed announcement, which, I think, will picture the thing a bit better for us as we have it in mind. Then we have another phase that we haven't incorporated here that came up in the discussion with Mr. Bell this morning. This goes to the War Savings Staff in all areas, and it is from you.

"Announcement by the Secretary. To War Savings Staff and Victory Fund Committee in all areas. Many of you know that I have had a small committee studying our bond selling operations. Through this committee, I have learned what you in the War Savings Staff and Victory Fund Committee want, so that this tremendous job can be done and so that effective use can be made of your patriotic services to your country on which I have relied so heavily.

"Our task is the biggest financing and marketing job the world has ever seen. We will need the best organization and the best marketing ability obtainable.

"I have learned that you want unity -- unity of administration and unity of objectives. With this, I am in accord. Therefore, I have appointed John Doe as National Director of War Financing. Mr. Doe is (has been) Vice-President (President) of the XYZ Corporation and brings to this new task a lifetime of experience primarily devoted to marketing problems. He will have associated with him other men experienced in the different fields which compose our market.

"Further, the Victory Fund Committee and the War Savings Staff will eventually be consolidated into one organization. This will provide for all the activities needed to do an all-out job. Obviously this is a big undertaking and it will take time to work out the details.

"We are faced with the present needs to raise money to pay for the war. That means we must have another drive

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in April. It is impossible to work out and effectuate the consolidation before April. Therefore, we are asking for full cooperation between the War Savings Staff and the Victory Fund Committee for the period of preparation before the drive and during the drive itself. Because of the nature of the drive the Victory Fund Committee must have a 'green light' but only for this period. The War Savings Staff is asked to give every advice and counsel - to lend all possible personnel -- and to make available all promotion facilities. All this to the end that the drive be successful in the common interest.

"From now and until the April drive is over, Mr. Doe and his assistants will work closely with Mr. Graves and his War Savings Staff and with Mr. Buffington and his Victory Fund Committee organization to help insure the greatest possible degree of cooperation for the drive.

"In the meantime, we are going ahead working out the details of the consolidation of the War Savings Staff and the Victory Fund Committee into a new organization to be known as the National Committee for War Financing. Full announcement will be made shortly after the April drive. Needless to say each and everyone of you now working with either the War Savings Staff or the Victory Fund Committee will be much needed in the tremendous task ahead. I know we can count on every one of you because the only reason you are doing this work at all is to patriotically serve your country."

That is our position. In talking to Dan this morning, the question came up as to whether you needed a drive exactly in April.

H.M.JR: Who raised that point?

MR. STEVENS: Mr. Bell.

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H.M.JR: Whether we needed one?

MR. THOMAS: I guess it was. I mean, in April whether there was any other way to raise the money. He said, "Well, there might be, yes." He said, "We might be able to expand our bank financing perhaps during the month of April and postpone a drive until May." That might make it possible then to effectuate the consolidation before the drive, which would be in May instead of April. That is an alternative idea.

H.M.JR: Who suggested that?

MR. STEVENS: I think it grew out of Mr. - Mr. Bell raised the question as to whether it would be possible for the consolidation to be effected in advance of the April drive, and Harold and several of us doubted that. Then he said, "Let's see, the plan contemplates separating the bank financing from the public financing, and that suggests the possibility of conducting the April financing solely through the banks and of thinking of the public financing for the month of May." I mean, he didn't propose it; he was just sort of turning it over in his mind, allied to the possibility of getting the consolidation in effect prior to the next public financing.

MR. WOOD: It was suggested, however, that we mention it while we were here.

MR. STEVENS: Yes, he asked that we call it to your attention as a possibility.

H.M.JR: I raised the point - the thing that flashed through my mind - Mr. X is traveling around, familiarizing

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himself, and a lot of people are going to be uneasy, not knowing what is going to happen. They wouldn't put as much heart into the thing if they thought it were a re-organization as they would if you started out with a new organization.

MR. THOMAS: There might be some of that, but let's think of it in another light. If you made your announcement hard upon the selection of your national sales manager, someone in accord with the form we have suggested there, our opinion is that the reaction would be electric.

Furthermore, if you asked for cooperation for the period of the drive between the War Savings Staff and the Victory Fund Committees, and you said that Mr. Doe was going to work with Huffington of the VFC and Graves of the War Savings Staff toward the end of facilitating this cooperation, I think it would work out. I think on your local levels you would find a great desire to work that way. I think they would like to work that way.

MR. STEVENS: Many of them are now working that way.

MR. THOMAS: You would find certain personnel clashes, yes, that is inevitable; but again I don't think those are the people that are really important to you in the undertaking.

H.M.JR: Let me ask you this: In the localities amongst the War Savings Staffs, is there dissatisfaction on the War Savings?

MR. THOMAS: Yes, sir.

H.M.JR: There is?

MR. THOMAS: Yes.

H.M.JR: What are they dissatisfied with?

MR. THOMAS: The lack of a clear-cut policy, the lack of unity, and the lack of leadership.

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H.M.JR: That is more with the War Savings, or more with the Victory Fund?

MR. THOMAS: I will express my opinion. I think it is equal. Both of them are about the same.

MR. WOOD: Well, perhaps I would - I would say that there is added to the War Savings Staff feeling a feeling of a sort of a resentment. They felt they were in the picture first, and the Victory Fund people have not been organized long enough for them to feel any resentment. They feel - well, I think the Victory Fund Committees in many cases, because of the caliber of many of their leaders, believe that in time they may sort of take over or should take over large segments of the marketing.

There is one area of selling which has led to a great deal of dissatisfaction, and I don't see how it could have been avoided, even in retrospect, if there are two organizations. That is, who is going to sell the F and G market. The Victory Fund certainly think they should. They don't see how they could operate without it. The War Savings Staff thinks that that has left them with a great gap of both opportunity and accomplishment.

MR. THOMAS: Couldn't we say it this way, that both sides recognize that the Pay Roll Savings Plan is working, both sides recognize - that is, the War Savings Staff is doing a good job on pay-roll savings? Both sides recognize that the Victory Fund operation is a solution to your large investor market, but between the two they are both after the same area, and that is where the trouble lies. Where there has been little or no friction there, there has been little or nothing done.

H.M.JR: Grant and his group thought we should keep the two organizations. You know that, don't you?

MR. THOMAS: You remember when I started out, that is what I told you, too.

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H.M.JR: It wasn't so clear what you thought - that sounds terrible. I mean, if you had asked me what you thought, I couldn't remember, but I do remember Grant and his committee said two.

MR. THOMAS: We pictured on a piece of paper the national sales director, the War Savings Staff over here, the Victory Fund here, and the advertising department in the middle, serving the two of them.

H.M.JR: I am not too clear.

MR. THOMAS: That is where I started out. You said we would have to merge these some day. I said that I didn't think so; but since we have been out in the field and looked at the field operation, we just think there is no other answer.

MR. STEVENS: Harold, I think this might throw a little light on it, not to amplify anything you said, but to add this point. Most people seem to take the point of view that the whole effort had the single goal of selling war bonds. Everybody seemed to think that was the ball on which they were keeping their eye. It seemed to them confusing - and I think this underlies your statement - irrespective of whether they were members of the War Savings Staff or the Victory Fund, it seemed to them confusing that there should be two organizations with the single objective of selling war bonds, because even with their best efforts there was this lack of unification, and there was to some extent a treading on one another's toes, which could not be avoided under the structural set-up.

They were almost all of the same mind that if you were starting out, you would have one organization, not two. The only thing that raised a doubt in their minds was that having these two should we let well enough alone and try to unify them? I think that since we are just speaking openly here, the one thing that - there were many factors that led finally, in our own judgment, to the belief that the consolidation was the best answer and the proper answer. I would say that one of the most

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compelling reasons that at least influenced my own judgment was the recognition that whereas there is conflict today and lack of unity today, which perhaps is serious, apparently it is something that could be lived with. The thing that influenced me was the recognition that as we get deeper into this job, as the need of raising more money goes, steadily that conflict and that lack of unity is going to reach extremely serious proportions. That is the only - I think that explains, Harold, why you felt equally the sense of some dissatisfaction in both groups.

MR. WOOD: Let's spell that out, why it would, why we would have increasing conflict. It is because the Victory Fund Committee was really organized and got going in December or a few weeks prior thereto. But, even with the best of ability and intentions, in no district and with no executive manager of the VFC did we find any indication that he thought that he had even begun to organize his sales forces. In each case they believed and were working toward the objective of having a greatly expanded organization for the following drives, which is exactly what they should feel like having. But, as soon as they got to talking in terms of ten thousand or a hundred thousand workers in a large city or state, then they are going to call on the same people that the War Savings Staff workers are going to call on. Mr. Stevens represents War Savings and I am with the Victory Fund, and we call on the same person and resent it a little that we have each spent our time on the one man.

The buyer begins to wonder what this is all about, so that is why we say it is going to become increasingly - that the conflicts are going to increase rather than diminish. It is going to increase as the two organizations operating as separate entities do their job better.

MR. STEVENS: That is right. The manpower problem is going to make that increasingly serious.

H.M.JR: Let me just explain something to you. You people confined yourselves to organization, which is the

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task, but I think I will talk to you very frank here. You people have been frank, and I think you are on the right track; I am not worried. You have got to go back to '35, I think; it was the idea of building up a middle class who would take some interest in the Government as stockholders, have some counteracting effect on this spending, and then we expanded that into this War Savings thing, always trying to work with the small investor. Then along came this thing.

Now, I have resisted wanting to turn this thing over, lock, stock, and barrel, to the financial community, and you know that. I still want to resist that - well, I think it is a mistake; it is not in tune with what I have been trying to do the last ten years. I may have been entirely wrong, but that is my philosophy.

MR. THOMAS: I agree with that, you know.

H.M.JR: I take it what you people are looking for is turning this organization over - I want you to be terribly frank with me - to a group of highly trained marketing specialists.

MR. THOMAS: That is right.

H.M.JR: And they would not necessarily be bankers.

MR. STEVENS: They definitely wouldn't be, except with respect to the banking market.

H.M.JR: After all, due to the Banking Act of 1933, the bankers were divorced from selling securities. This is not the sine qua non, but it is the important thing, and I take it that that isn't what you have in mind.

MR. THOMAS: No, sir.

H.M.JR: You and I have talked very frankly about it.

MR. THOMAS: Yes, Mr. Secretary; and while, of course, I haven't been able to advise them fully of our conversation, I have given them as much background as I could to bring them up to the point.

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H.M.JR: Any more than I think it would be wise to turn the whole thing over to the investment bankers.

MR. THOMAS: We think that would be just the wrong thing to do.

H.M.JR: Again, the reason I brought Mr. Grant and his group in was that I felt that there are a lot of businesses that have national organizations which have nothing to sell today because they are non-military producers. There must be thousands of them who are highly trained salesmen, and I don't think there is an awful lot of difference between selling a subscription to the Saturday Evening Post, or War Bonds, or a Chevrolet car.

MR. STEVENS: It follows the principles of salesmanship.

H.M.JR: I have said that consistently, haven't I?

MR. THOMAS: Yes, you have.

H.M.JR: Is that what is running through your mind - I mean, to turn it over to trained salesmen?

MR. WOOD: Trained marketing men. The only reason the Federal Reserve Banks are brought in is because of marketing regions and to get some prestige out of the presidents of the bank. That is why we emphasize that the president of the Federal Reserve is not to be the boss or have a veto power or have much to say, if anything. We are not interested in that at all. As a matter of fact, as far as I am concerned if anyone said today, "What we would like to do is turn it over and let each Federal Reserve president handle it in his District," I would say that I would want to go on record that it would fail absolutely and completely.

MR. THOMAS: Maybe if I were to give you a couple of names, Mr. Secretary, in each of these classifications - not that we know whether these men are available at all,

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but it will show you the kind of men we are thinking about. We didn't make them part of the report, and I am not going to do this in writing, but it will show you what we want. The national director of sales, for example, might be Will Dodge, vice president of the Texas Company, admittedly one of the outstanding sales managers of the country.

H.M.JR: I don't know him. Do you mean national director of sales?

MR. THOMAS: National director of sales, the top job. Take a fellow like Charles Allen. I don't happen to know him. He is president of the National Cash Register Company, and came right up on the sales side of the picture. He is still the dominant figure in the Cash Register Company in sales.

H.M.JR: They did a particularly good job for us.

MR. THOMAS: Did they?

H.M.JR: I gave them a suggestion; I wired them that I wanted over every National Cash Register "Buy a War Bond," instead of the slogan they had. They liked it so well that they put in there "Buy a War Bond." I figured when the fellow rang the bell, that was the time to sell. They spent thousands of dollars of their own besides that for material to back it up. By golly, their service men who went around stuck this material in so that every cash register was a sales agency. They did a beautiful job, one of the best jobs anybody has done.

MR. THOMAS: It isn't that we are recommending - we don't know whether they are available or whether their personalities would jibe, but they are the kind of men we are talking about for the top job. When you come to the bank market, take a fellow like Keen Barrett, president of the Whitney Company down in New Orleans; Harold Amberg, vice president of the First National in Chicago. These are names - I don't know these names, but they are prominent, well-known men in the banking fraternity who have the respect of their fellow men in that business.

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In the large investor market, take a fellow like Ripley of Harriman-Ripley Company in New York; Charles McCain of Dillon-Read; Tompkins, vice president of the Bankers Trust.

Those are three men that are the top men in that particular field.

H.M.JR: I know Tompkins; he lives up near you.

MR. THOMAS: Yes, he does.

H.M.JR: He has a son in the Navy.

MR. THOMAS: In the mass market, take a fellow like Robbins, sales manager of General Foods; or Wood, vice president and general sales manager of Proctor and Gamble - that kind of a man.

On the pay-roll market, there is only one; that is Ted Gamble. He knows more about it and certainly has the ability.

On the farm market, these names are suggested that might be thought of: There is a fellow with the DeLaval Separator Company; and there is a Mr. McCaffrey, vice president and general sales manager of the International Harvester Company. These people are specialists in that field.

I think that gives you an idea of what we are driving at.

H.M.JR: You haven't thought of the names, personalities, or what will happen to some of the people here?

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MR. THOMAS: Sir?

H.M.JR: You haven't thought of some of the people here?

MR. THOMAS: We couldn't exactly ignore that situation, but I think one of us said that if you are going to fight a battle you don't pick the general because you like him, you pick him because he is a good man. If he doesn't do a good job, you retire him and get another one.

Maybe some of that, with due consideration for individuals, would be in this picture.

MR. WOOD: That would be almost a necessity. I know none of the people here, none of them, but it has often been said that given a good plan and a weak manager, you can get no results at all; but a poor plan and a strong manager will bring good results. So, you can combine the two.

MR. THOMAS: People are very important.

MR. STEVENS: This certainly is not, though, in any sense intended as an indictment of anybody who has been in any of these offices; rather, it is a case where the job has grown into, as you said, a tremendous marketing job, and the requirement now is for specialized experienced marketing people

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H.M.JR: It is so important. I mean the plan doesn't scare me. It is getting the right people, that frightens me.

MR. WOOD: That is the milk in the coconut.

H.M.JR: I am not worrying about a plan because somebody comes in, and after he is going six months you might not recognize this plan.

MR. THOMAS: That is right. He might remold it.

H.M.JR: But it is the people.

MR. WOOD: The people, as I see it, would really come down in the beginning to one person, because if that one person, the national director of sales, is going to do the job to the best of his ability, while he would have to appoint anyone with the consent of the Secretary, or even in conjunction with the Secretary, he would have to have a reasonably free hand, as I see it; or he will get working with him a group of people - able though they might be - who cannot work in harmony and are at cross purposes.

MR. THOMAS: That is true, Harry, but if you will get a fellow like Will Dodge, who I happen to know, you are going to get all the harmony that you want, because he just works that way. That is his business.

Now, the same thing is true on any of the other levels as you go along. Of course, the further down the field, you have got to be willing to accept less capable men. But you have got strength here in an organization. You have got your one national sales director, and you have got five, six, eight people, each one of whom is a capable person in his own right, or else you don't want him.

H.M.JR: Of course, the thing, as I say - getting down to individuals - take this man's attitude, for instance, toward Labor - let's say toward the Negroes. I mean, the fellow has got to be a liberal because you can't get

- 32 -

those four things you mentioned - interested in the war and all the rest of that stuff - if the man is out of tune with Mr. Roosevelt. There hasn't been anything in the papers as far as our organization is concerned - you know there has been no dis-harmony and publicity like that - I haven't seen it, have you?

MR. THOMAS: No.

H.M.JR: I don't want - for instance, that Wilson-Eberstadt episode, and Nelson and Jeffers and the Army, and all that kind of business. I don't want that.

MR. THOMAS: Of course you don't want it.

H.M.JR: I don't want Jeffers and the Army and somebody else getting a crack - have them saying "this is lousy" and "you are lazy" - and then have to go up before a committee and explain why, and all the rest of that stuff, or fail in raising the money. There may have been a disunity, but at least we raised the money, and handsomely oversubscribed.

MR. THOMAS: I think you can find those men, Mr. Secretary, if you start out to get yourself a list of six or eight of the men of the type of Dodge or Allen, that kind of man. You thoroughly investigate their background and history, and you get an awfully good line-up on people and what they think.

H.M.JR: Take a man like Dodge of Texas, does he do both sales and publicity?

MR. THOMAS: He runs the whole merchandising and marketing end of it.

MR. STEVENS: He is a marketing man who has come up from the field. He has under him, or did when he was with Texaco, I think - for the last year he has been doing Government work, voluntarily--

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H.M.JR: He is separated from Texaco?

MR. STEVENS: I think he is on leave. I originally met him - I don't know him as Mr. Thomas does - I originally met him when he was with the Texaco Company. He not only had all the field staff under his direction, but also the advertising and publicity and all others contributing to marketing.

H.M.JR: Would that be true of the man in the National Cash Register?

MR. THOMAS: He is president of the company.

MR. STEVENS: But having come up through sales, he would have had that very background.

H.M.JR: He still is the boss salesman. Is he with the Government?

MR. THOMAS: I don't know, Mr. Secretary.

H.M.JR: He can't be selling any new cash registers. They are made of metal and all that.

MR. THOMAS: I just happen to have remembered about him, and know that he did come up through sales and he is the head of the company and still the dominant sales manager, and I know they have done a swell selling job. So it occurred to me he might be the kind of man you were looking for.

MR. WOOD: But suggesting him as a type and not as an individual.

MR. THOMAS: Yes.

MR. STEVENS: Ultimately you get to the point; you are talking about individuals, once having defined the types.

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MR. THOMAS: But the job specifications we have laid out are broad; they give the background. To definitize it, here is Allen. You get a list of six or eight and you research their backgrounds pretty carefully, as can be done - you know their past experience, their past record, their past activities - and you get a pretty good idea of the men. Then you ask his friends, you go out and find out all about this fellow, and you interview him yourself and satisfy yourself as to his temperament, and so on. I think you could find your man without too much difficulty - I really do.

MR. STEVENS: They would bring to this problem the marketing point of view which, in our opinion, is essential to its success.

H.M. JR: There is no argument on that. I am sold on that. I am sold on the idea that a man who has come up through sales, and who has sales promotion, and advertising and publicity experience, is the man we want. You have got to go to a commercial concern rather than to a bank or to an investment house.

MR. STEVENS: You just don't find this in banks because they don't have that problem.

MR. THOMAS: You don't find it in investment houses.

H.M. JR: They haven't had the goods to sell.

MR. THOMAS: They don't operate on that sort of a basis, anyway.

MR. STEVENS: Perhaps we might clear up one point you were inquiring about - whether they had experience with advertising and promotion. It is almost universally true, Mr. Secretary, that the sales manager and the marketing vice president, who is usually over him, are the direct bosses, among other things, of the advertising department. The advertising department there, as here, is regarded as a service arm to the sales operations, and conforms to the policies of the sales management. So it would be an

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exception, rather than the rule, if the marketing man were not rather familiar with advertising and promotion. I can put that the other way - the rule rather than the exception.

MR. THOMAS: A man by the name of that is president of General Mills has become a great leader in this marketing operation.

H.M.JR:

MR. STEVENS: Surely there are some people in the automobile field--

MR. THOMAS: I don't believe you are going to find those fellows. I will tell you what I found out about that. The automobile companies are such tremendous producers of war goods that they need these sales managers for special activities in that connection.

Now, not being able to get Bathrick, I tried to get another fellow out of their organization, and he was just about ready to say yes when he got an order from the company that he was to take a new product that they were making for the Army and start on a six-weeks' trip around the country in the testing areas to see how this thing was going. So there was a vital assignment in the war effort that he couldn't side-step. Most of the men are in that kind of work.

H.M.JR: You may find that National Cash Register is making shells or antiaircraft or something.

MR. STEVENS: I am sure that the man, or the men, whom you want are all in the unavailable class, Mr. Secretary, and the demands of the job will result in their becoming available.

H.M.JR: But you also may find - which I have - that there are a lot of round pegs in square holes in Washington who would love to have a job like this.

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This is just in the room - I was told that the reason Eberstadt hadn't resigned was because one hundred men would go out with him. So he says, "I can't do it." But in that crowd--

MR. STEVENS: It may well be that they are here. I only know Dodge very casually. The last I heard of him he was in charge of copper, or some such division, in WPB. I inquired of a friend of mine, "What in the world is he doing down there, with all his experience in marketing?" The answer that was given to me was that Dodge is a good man wherever he is, and maybe that is the answer.

H.M.JR: Well, Buffington wanted somebody from the Donaldson Company in Chicago, I think, who was very good in putting booklets together, and that man - Buffington found he had been down here for three months with WPB doing something entirely different. When he was told he could get back to what he was trained to do, he came over the next day, crazy to get back into--

MR. STEVENS: Something he knew about?

H.M.JR: Yes.

MR. WOOD: There are several fields. You mentioned two or three - food and cash register - but there are other fields.

MR. THOMAS: Yes, there are a number of fields where you get the broad sales managing experience.

MR. WOOD: I can think of a couple of fellows in the insurance business. I don't know if they would measure up.

H.M.JR: The insurance field - would they have the experience the same as a man in the commercial business?

MR. WOOD: Yes, I think they might have as much - of course, I happen to know more about that field than any other.

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H.M.JR: Who do you think of, for instance?

MR. WOOD: I think of two individuals right off the reel. As I say, as we talk them over, they might both be unavailable in their own minds. One would be John Stevenson, who is president of the Penn Mutual.

H.M.JR: He is up in Philadelphia?

MR. WOOD: He happens to have been the vice president before he was the president. I don't know - he might not be the man at all.

H.M.JR: He does some work for us, I think.

MR. WOOD: I can think of another fellow who is vice president of the Connecticut Mutual, Pete Frazier. If we were down to serious business, talking about both of them, we might find, in five minutes discussion, that we didn't want to talk about them; but as we talk, we will get man after man.

H.M.JR: You have given me an awful lot to think about. I have some other people coming up. Supposing you think a little between now and tomorrow about names. I would like to meet with you again at eleven o'clock tomorrow morning, if that is agreeable.

MR. THOMAS: Mr. Secretary, we are not going to conjure up out of our own minds the list of men that you would want. What we would have to do there would be to go out on a regular hunt, and maybe we would get together a hundred names, and then pull it down to ten that we might want to consider. We haven't done that because we were talking about the plan.

H.M.JR: My guess is that would be the next step.

MR. THOMAS: Not only for your national sales manager, but the list for the others, too.

H.M.JR: I think that would be the next step. I am very much pleased. I think you have done a swell job.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

February 11, 1943

I am attaching a file containing memoranda
of several conferences I had when you were
away.



Attachment

1. Memo re conference with Justice Byrnes and Ben Cohen, January 20, 1943.
2. Memo re conference with Chairman Doughton, Jere Cooper, Wesley Disney, and Willis Robertson, January 22, 1943.
3. Memo re conference with Marriner Eccles, January 23, 1943.
4. Memo re conference with Senator Vandenberg, January 25, 1943.
5. Memo re conference with Chairman Doughton, Jere Cooper, Wesley Disney, Willis Robertson, and Colin Stam, January 25, 1943.
6. Memo re lunch with Willis Robertson, January 26, 1943.
7. Telephone conversation with Senator George, January 28, 1943.
8. Memo re Ways and Means Committee and Senate Finance Committee resolution urging the filing of returns and the payment of the first quarterly installment of 1942 taxes on or before March 15, 1943.
9. Memo re conference with John McCormack, February 1, 1943.
10. Memo re conference with Chairman Doughton, February 7, 1943.
11. Memo re Mr. McIntyre's telephone call, and conference with Mr. McIntyre, February 9, 1943.

No. 1

Mr. D. W. Bell

January 21, 1943

Randolph Paul

I had a conference with Justice Byrnes and Ben Cohen yesterday which lasted for about an hour and a quarter. I told him that I was seeing him at the suggestion of the Secretary, and I explained to him the Secretary's position in regard to the questions discussed in my memorandum of January 14, 1943, particularly the idea of a tax collection plan for passage before March 15, 1943; the postponement and forgiveness plans and the matter of compulsory lending. I impressed upon Byrnes that the situation in respect to compulsory lending must be kept confidential or the E bond campaign will be injured. Both Byrnes and Cohen agreed with our general approach all along the line, with one exception to be noted in a moment. Byrnes was particularly pleased about compulsory lending, as he said he was strong for it and so was the President. Byrnes seemed particularly impressed by my statement in regard to a schedule showing the effects of the complete RumI plan, and I am sending him a copy of this schedule -- one is attached hereto. It shows that in higher income brackets the complete RumI plan would have the effect of eliminating all tax increases since 1936.

Byrnes spoke of having a conference at the appropriate time when we have developed our plans, not only with Congressional leaders but also with the President, Congressional leaders attending, the group to include Republicans. Byrnes said this idea had been suggested to the President by Doughton and George, and that the President had acquiesced.

The only respect in which Byrnes was inclined to differ with the Secretary was on Question 4 discussed in our conference on January 14. The question is, "Should the pay-as-you-go plan be handled as a separate legislative matter without including taxes or compulsory saving?" You, Sullivan, and Surrey voted "Yes" on this question; White, Blough and I voted "Yes, if that is the only way to get it passed quickly."

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Byrnes thought that compulsory saving should be included in the quick program, if possible, because we should get something like compulsory saving for our concession in respect to forgiveness. He felt that if we did not get this legislation after we had played our forgiveness card, we would not get it for the rest of the year 1943 and possibly in 1944.

No. 2

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 Ruml 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 Ruml 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 Ruml 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 19% forgiveness idea. It was implicit that forgiveness should be applicable for only one-half

- 2 -

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.

RSF

No. 3

D. W. Bell

January 23, 1943

Randolph Paul

I had a conference this morning with Marriner Eccles lasting from 10:15 to 11:15. Martin Krost attended.

In the course of this conference I acquainted the Chairman with all the recent developments on the tax front. He expressed himself as being against the complete Ruml plan; in favor of the 19 percent plan as against other plans for easing the doubling up situation; and strongly in favor of compulsory lending. Like Justice Byrnes, he feels that we should get something for forgiveness such as a strong compulsory lending requirement.

I suggested to the Chairman that he loan Martin Krost to us for a period to work intensively on taxes and he was agreeable to this idea.

(Initialed) R.E.P.

141

No. 4

D. W. Bell

January 26, 1943

Randolph Paul

I had a conference yesterday with Senator Vandenberg, pursuant to the Secretary's instructions before he left for Cuba. The conference was not until yesterday because Vandenberg had been absorbed in the Flynn case.

Vandenberg expressed himself as being strongly in favor of compulsory savings, and as being pretty much in favor of the Ruml plan. He did think, however, that the Ruml plan forgiveness should not exceed the amount of doubling up in 1943.

The Senator also thought that any concession by way of forgiveness should be coupled with the enactment of a compulsory saving program, the forgiveness being the last bait we had.

(Initialed) R.E.P.

REP:mv

143

No. 5

D. W. Bell

January 26, 1943

Randolph Paul

There was a conference last night at Chairman Doughton's office, attended by the Chairman, Jere Cooper, Wes Disney, Willis Robertson, Colin Stam, and myself.

At first there was discussion of the several pay-as-you-go plans which had been submitted over the week-end to the congressmen. Cooper expressed himself as being against any forgiveness except what might be politically necessary, and was inclined toward the 19 percent plan if I expressed an opinion that that plan would be necessary. Robertson at first said he was for the 19 percent plan, of all the plans suggested, but withdrew this opinion when he was informed that this would involve \$7.6 billion of forgiveness. Disney did not express himself as in favor of any particular plan. The Chairman repeated his opposition to any forgiveness, and thought there could be no tax increases, but merely some compulsory savings and a sales tax. Disney, as usual, talked for a sales tax.

Stam produced a new plan which he had not been frank enough to disclose to us in the conference of that morning. The plan involved (a) complete collection in 1943 of 1943 liabilities, (b) a forgiveness of the increase in rates from 1941 to 1942, and collection over a four year period of 1942 liabilities at 1941 rates and exemptions. This would involve considerable less forgiveness than the 19 percent plan, and seemed to be fairly popular with those present, particularly Robertson. I did not express any opinion on this plan, except to say that on its surface it looked all right from the standpoint of distribution of forgiveness.

I raised the point of the disposition of pay-as-you-go without consideration of compulsory savings. Those present, other than the Chairman, seemed concerned, but the Chairman thought that the present discussion ought to be limited to

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pay-as-you-go. "We will do our best later in the year" as to any increases. I pointed out also that this might be confusing to taxpayers who might be led to think that matters had been settled by the pay-as-you-go legislation.

Another meeting was arranged for Friday evening, and it was stated that hearings would probably commence, subject to the decision of the Committee at the Thursday meeting, on next Tuesday. At my suggestion, those present agreed that I should be the first witness at the hearings. I said that I would present a general statement of the problem.

(Initialed) R.E.P.

REP:mv

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No. 6

- D. W. Bell

January 26, 1948

12 Randolph Paul

I had lunch today with Willis Robertson of Virginia who has swung around again to the 19% plan, and has thought since last evening, of criticisms of the Stam plan propounded last evening.

Robertson is concerned about the total rate - a total rate of compulsory saving and taxes. I told him it would have to be from 30 to 35 to realize on the President's program. This I told the group last night.

Robertson seemed very much concerned on the point of clearing with the President whatever plan is urged. He says that the Chairman's real fear is not of forgiveness but that the President will accuse him of forgiving a lot of the taxes of rich people.

(Initialed) R.E.P.

REP/kfa

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No. 7

Mr. Paul's conversation with Senator George: 10:15, January 28, 1943

P: I hope you are not staying home today because you are sick.

G: I have got a considerable amount of cold; the weather is bad so I thought I better stay in.

P: I think it is a wise precaution. When they said you were at your apartment I was concerned. I just called because John Sullivan said that you spoke to him about this press conference we are having today and I wanted to reassure you that is isn't a conference for quotations, but just for background. What has happened, these press people are coming in, about three a day, and trying to see me individually and I haven't got time to see them all. We would have no quotations, no predictions and no statement of Treasury position, but just for educational purposes.

G: I asked John because he happened to be passing over and I asked him because one of your own press men had asked me and I told him I didn't know. It's quite all right. I am glad to hear from you. I didn't know of any conference and they seemed to think I would know, and I told them I didn't.

P: I am sorry I didn't let you know.

G: That's all right.

P: One thing I do want to do. You know about the collections coming in -- I wanted to take yours and Doughton's joint statement and bring that out and emphasize it again.

G: Yes.

P: That's the only thing on which I would be quoted.

G: That's quite all right. I hope you don't get sick in this weather.

P: I am taking pretty good care.

G: I haven't very much to do - nothing unusual today in the office and decided I would stay in. I could be out but thought the sensible thing to do was to stay in.

P: I wish you luck.

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No. 8

January 30, 1943.

Secretary of the Treasury

Mr. Paul

Yesterday the House Ways and Means Committee considered the advisability of a Committee resolution urging the filing of returns and the payment of the first quarterly installment of 1942 taxes on or before March 15, 1943. The Committee seemed inclined toward such a resolution in some form but deferred action thereon until next Tuesday.

The Finance Committee also considered such a resolution and after discussion agreed to a resolution offered by Mr. Vandenberg as follows:

Resolved, That this Committee desires to inform the American people that no pending tax plan will relieve them of the necessity of filing an income tax return and paying their first quarterly installment on March 15th; and that though the Congress is seriously considering ways and means to put individual income taxes on a current basis, even though such a plan be developed prior to March 15th, there will be no relief from the necessity of filing a return on March 15th and the payment made in connection therewith will be a full credit for the taxpayer under any circumstances.

The Chairman was authorized to release the resolution whenever he considered it wise and to do so in conjunction with the Ways and Means Committee if he considered it preferable.

JES:ims

(Initialed) H.N.P.

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No. 9

D. W. Bell

FEB 6 - 1949

Randolph Paul

On February 1, 1949, following the Secretary's suggestion, I visited John McCormack at his office. I had previously seen him in the Washington Hotel for a few minutes at the cocktail hour, where we arranged the conference.

Mr. McCormack and I had a short but friendly discussion of the revenue situation. I explained to him our objections to the Ruml plan, and our desire to hold the situation open for some forgiveness if that should be necessary. He explained to me some of his strategy in connection with the \$25,000 limitation, his thought being that he could threaten Gearhart with adverse votes on the community property situation.

(Initialed) R.W.B.

REP:ka:mv

154

No. 10

TREASURY DEPARTMENT

155

INTER OFFICE COMMUNICATION

DATE

February 10, 1943

TO Secretary Morgenthau

FROM Randolph Paul

Last Sunday I had a conference with Chairman Doughton at his office, lasting about an hour. I had come there pursuant to a telephone conversation of Saturday afternoon, to discuss the propaganda angle of the Ruml plan. The Chairman is concerned on the point because he thought if too much momentum were gathered by the Ruml plan, his Committee might be upset on the floor of the House, and also something might happen in the Senate.

I suggested to the Chairman that he go on the radio, but he did not seem to want to do so at this time. He authorized me to speak to Cooper and Disney, making this suggestion. This I asked Surrey to do. Cooper seemed unwilling, and so far I have received no report on Disney.

In this conference, the Chairman showed me some of his mail, particularly that which opposed the Ruml plan. He then called Mr. Stam in the conference, and we discussed some technical features of pay-as-you-go for a while. He then told Stam that he expected him to take the stand Friday. This made Stam very nervous, and he asked for a postponement until Monday, which the Chairman granted. Obviously, Mr. Stam hates to take any public position that might become unpopular, but apparently he will have to do so.

The Chairman also told me that if I wanted to make any rebuttal I could have any time I wanted before the Committee.

RET

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No. 11

TREASURY DEPARTMENT

157

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

February 10, 1948

FROM Randolph Paul

As you know, Mr. McIntyre called me at home yesterday morning very much concerned with Chairman Doughton's attempt to reach the President in connection with the Smith interview to the Associated Press. He wanted to explain why he had tried to postpone the matter since the President was in Hyde Park. He told how he had put Smith and the Chairman on the phone, with him listening. The Chairman talked pretty hard to Smith, and Smith promised to send a letter to the Committee. In the course of his conversation with McIntyre, the Chairman referred in a very friendly way to me personally, and to the cooperation given the Committee by the Treasury.

Yesterday evening, under arrangement made by you over the telephone, I went to the White House and presented to Mr. McIntyre Mr. Blough's memorandum on the morning session of the Ways and Means Committee, together with a proposed letter to the Chairman. Mr. McIntyre said he would explain the situation to the President this morning, but pretty strongly indicated that he would not recommend the writing of any letter. He suggested the technique of having the President authorize a statement by Doughton to be made by his Committee members to the public.

McIntyre asked for an explanation of the objections to the Ruml plan, which I gave him very briefly. I don't know whether or not he understood it.

The rest of the discussion of this interview was in regard to the sales tax, which McIntyre entirely favors. He said, however, he had not been able to persuade the President to accept the idea.

This noon, as per your suggestion, I told the Chairman that you had suggested the situation would not be cleared unless he pressed the matter at the White House. He did not seem inclined to press any further, thinking he had done all

- 2 -

he could. However, he was pretty much on the fence, and I told him that you might telephone him about it. Later in the afternoon I saw Disney, who is strong for pressing the matter, and I suggested to him that he work on the Chairman, which he said he would do.

A handwritten signature, possibly reading 'ABT', is written in dark ink below the typed text.

February 11, 1948

Memorandum to the President:

I thought you might like to have
a short statement showing the defects of the
Rural plan.

(Signed) H. Morgenthau, Jr.

Secretary took to White House 2/13

File in Diary (copy of encl.)

DEFECTS OF THE HURL PLAN

The so-called "pay-as-you-go" income tax plan proposed by Mr. Beardsley Hurl is unacceptable.

1. By fully cancelling individual income taxes on the high 1942 incomes and profits, it would seriously violate the principle of ability to pay.

a. It would bestow the greatest benefit on those best able to pay and the smallest benefit on those least able to pay. About 60 taxpayers with million-dollar incomes in 1942 would each receive a benefit of at least \$854,000. At one stroke, the Hurl plan would add to their wealth more than they could save in six years, even if they saved every cent of their income after taxes. The benefit to a person with a \$100,000 net income would be about \$64,000; to one with \$10,000 income, about \$2,150; and to one with \$2,000, only \$140. Those who had no income in 1942 would receive no benefit whatsoever.

b. In view of war revenue needs, tax collections will have to be increased substantially. Speeding up the payment of taxes, without the forgiveness of any taxes, will provide part of the increase in tax collections needed. Complete forgiveness will mean that tax collections can be increased only by tax rate increases. These increases will necessarily fall in large part on the smaller incomes because the rates on large incomes are already very high. Forgiveness would in effect shift part of the tax burden from the few at the upper end of the income scale to the many at the middle and the lower end.

c. Only those who had incomes in 1942 would benefit from tax forgiveness but all who will receive incomes after 1942 will bear the burden of the tax increases. In other words, tax burden would be shifted from old to new taxpayers. Those in the armed forces would not share in the benefits but would share in the costs when they return to civilian life.

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2. The cancellation of a year's taxes would be a psychological deterrent to the war effort.

a. It would be injurious to the morale of the armed forces, since it would imply economic gain rather than economic sacrifice on the home front.

b. It would lead people to expect lower taxes at a time when higher taxes cannot be escaped.

c. It would release funds which had been set aside for taxes already due and would thereby contribute to the psychology of inflation.

3. The Ruml plan cannot place the income tax on a pay-as-you-go basis. The tax paid in any one year would be determined by incomes received during the two preceding years. Tax payments in 1944 would consist of a tentative tax based on 1943 income, together with an adjustment to take account of the change in income between 1942 and 1943. The Ruml plan presupposes that incomes are stable, whereas in more than two-thirds of the cases, income fluctuates substantially from year to year. The continual adjustments made necessary by income fluctuations would throw tax payments even further out of step with income than they are at present.

4. The collection of taxes under the Ruml plan, which requires both the taxpayer and the Government to work with two years' incomes to determine each year's taxes, would complicate tax administration and taxpayer compliance.

5. As you indicated in your Budget Message, it is important that the income tax be placed on a pay-as-you-go basis. Collection at source must be the keystone of a pay-as-you-go plan. If collection at source is combined with the Ruml plan, it would have to be unnecessarily complex. A workable collection at source plan can be achieved directly without cancellation of a full year's taxes.

TREASURY DEPARTMENT

163

INTER-OFFICE COMMUNICATION

DATE

February 11, 1943

TO Secretary Morgenthau
FROM Randolph Paul

I checked with Disney this morning as to whether he had spoken to the Chairman about forcing the Smith issue at the White House. Disney had not yet done so. I don't know whether you will want to call the Chairman in view of this lack of development.

BR

AP

MEMORANDUM

FEB 11 1943

TO: Secretary Morgenthau
FROM: Mr. Paul
SUBJECT: Appropriations for Division of Tax Research,
Office of the Tax Legislative Counsel, and
Foreign Funds

I. Division of Tax Research and Office of
the Tax Legislative Counsel

The House of Representatives, in approving the bill making appropriations for the Treasury Department for the fiscal year ended June 30, 1944, reduced the item for personal services for the Division of Tax Research from \$163,760 to \$116,000, a reduction of \$47,760. At the same time, the item for personal services for the Office of the Tax Legislative Counsel was reduced from \$90,165 to \$74,700, a reduction of \$15,465. I understand that both of these reductions are being protested before the Subcommittee on Appropriations of the Senate which will consider the bill.

In talking with Senator George about these reductions, I believe the following points should be stressed:

1. The amounts approved by the Bureau of the Budget for the Division of Tax Research and the Office

- 2 -

of the Tax Legislative Counsel for the fiscal year 1944 are the same, with one insignificant exception, as were allocated to these offices for the fiscal year 1943. Any reduction below the amount approved by the Budget Bureau would thus force a reduction in the staffs of these offices at a time when, if anything, the load on these offices is greater than ever before.

2. Both offices are engaged exclusively in tasks directly related to the problem of financing the war.

3. The work of both offices is directed largely toward the ultimate objective of presenting information and suggestions to the Congressional Committees. Consequently, if the staffs of these offices have to be reduced, we shall not be able to give these Committees as much information as they have received in the past or to supply the information with as much promptness. I believe that the House Ways and Means Committee and the Senate Finance Committee would agree that any impairment in the ability of these offices to assist them will hinder and delay their work.

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4. These offices supplement each other without any overlapping. Moreover, their functions are not duplicated elsewhere in the Treasury or in any other part of the Government.

II. Appropriation for Foreign Funds Control

For the current fiscal year (1943) the Foreign Funds Control is spending approximately \$5,000,000. For the coming fiscal year (1944) the Budget Bureau approved an estimate of \$4,350,000. The House Appropriations Committee cut this to \$4,100,000.


On February 5 a motion made by Representative Taber to reduce the appropriation to \$3,100,000 (a further cut of \$1,000,000) was approved by the House by a teller vote (178 to 115). This figure was included in the bill forwarded to the Senate. It is important that the Foreign Funds Control appropriation be restored to the amount approved by the Budget Bureau; i.e., \$4,350,000. This reduction is also being protested before the Subcommittee on Appropriations of the Senate.

In talking with Senator George about this reduction, I believe that the following should be stressed:

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The work of the Foreign Funds Control consists entirely of economic and financial warfare activities. There is no overlapping between the work of the Alien Property Custodian and that of the Foreign Funds Control since both agencies are rigidly adhering to the line drawn by the President in the Executive Order No. 9193 of July 7, 1942. There can be no doubt that curtailing the activities of the Foreign Funds Control would be detrimental to the war effort.

At Senator George's request a memorandum is being prepared for him giving the background and the need for the full amount of appropriations for Foreign Funds Control, the Division of Tax Research, and the Office of the Tax Legislative Counsel.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

FEB 11 1943

TO Secretary Morgenthau

FROM Mr. Paul

In accordance with the existing instructions, there is submitted herewith a summary report of activities and accomplishments carried on by the Legal Staff for the month of December 1942.

A handwritten signature, possibly "B.A.", in dark ink, located below the main text block.

Attachment.

SUMMARY REPORT ON ACTIVITIES AND ACCOMPLISHMENTS
IN THE OFFICE OF THE GENERAL COUNSEL
DECEMBER 1942.

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. New Developments in Annenberg Settlement. In June 1940, a settlement agreement was entered into with Moses L. Annenberg to pay a principal sum of \$8,000,000.00 in satisfaction of income tax liabilities of himself and of the Cecelia Company. The contract made the payment of this amount, with interest, a joint and several liability. Payments were to be made on an installment basis - \$2,000,000 on the principal sum, in round figures, to be paid by the end of the year 1942. The taxpayers were permitted to anticipate installment payments so that as of the end of 1942, \$3,200,000 in round figures had been paid upon the principal amount, together with interest. Annenberg died July 20, 1942, and the question of estate tax liability is now brought into the picture. As it is desirable as far as practicable to avoid a disruption of the orderly processes which have obtained up to this time in the liquidation of the income tax liabilities, a conference will be held here with counsel for the estate on January 11, looking to a possible agreement upon the valuation of the estate for estate tax purposes.

2. Investigation of Tax Affairs of Former Texas Governor under Consideration. Consideration is being given to recommending a Special Intelligence investigation of the tax affairs of W. P. Hobby, former governor of Texas and publisher of the Houston Post. It was disclosed during the trial before the United States Tax Court of Hobby's 1939 case that he had failed to report income derived from the receipt in 1937 of \$50,000 upon the redemption of 500 shares of his preferred stock in the Enterprise Company, Beaumont, Texas; and that on his 1938 return he had reported as sales of stock the redemption of 200 shares of the same preferred stock. He denied the omission and misrepresentation, but later his counsel stipulated the facts and Mr. Hobby voluntarily paid the additional tax due. The taxpayer's explanation is that the omission in 1937 was due to an oversight and the misrepresentation in 1938 was due to a misunderstanding of the transaction. The 1939 case was based upon the challenge of the bona fide character of sales in 1939 of preferred stock in the Enterprise Company at a time when the redemption was imminent.

3. Tax Status of Large Initiation Fees Paid Union.
International Longshoremen's Association, Local No. 1261,

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requires the payment of an initiation fee in the amount of \$500. The facts disclose that it is necessary for an individual to secure membership in the Union to obtain employment in that field of labor. The Chief Counsel's office held that such initiation fees are not deductible in their entirety as ordinary and necessary business expenses of the year in which paid but that they are in the nature of capital expenditures required to obtain employment over a number of years. It was, accordingly, suggested to the Income Tax Unit that such expenditures might be amortized and deducted over a reasonable period if it is administratively possible to determine a reasonable period over which the benefit extends. It was pointed out, however, that if any part of such initiation fees is paid for personal benefits, such as insurance, etc., they must to that extent be considered as personal expenses which are not deductible. GCM 13872 (unpublished), dated October 23, 1934, in re Photo-Engravers' Union No. 7, and GCM 22845 (unpublished), dated July 25, 1941, in re Clarence Jones, which held that labor union initiation fees are deductible as ordinary and necessary business expenses, were modified to accord with the views above expressed.

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4. Collecting Taxes from Life Insurance Policies.

The Income Tax Unit inquired whether general instructions should be issued to Collectors of Internal Revenue to cease attempting to collect Federal taxes due by delinquent taxpayers out of the cash surrender values of life insurance policies held by them which permit change of beneficiary. The inquiry was prompted by reason of the decision of the Third Circuit in United States v. Penn Mutual Life Ins. Co., which held that the defendant insurance company was not personally liable under section 3710 of the I.R.C. for its failure to pay the cash surrender value of a delinquent taxpayer's policy to the collector upon his levy and demand. The question is being tested further in the Second Circuit in United States v. Aetna Life Ins. Co. of Hartford, Conn., et al. The Third Circuit merely held that penalty section 3710 was inapplicable, and did not even purport to hold that the cash surrender value of a policy could not be recovered in other appropriate proceedings. The First Circuit in United States v. Mass. Mutual Life Ins. Co., and the District Court in Connecticut in United States v. Aetna Life Ins. Co., etc., indicate that the Government may reach a delinquent

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taxpayer's interest in a life insurance policy by instituting a civil action under the provisions of section 3678 of the I.R.C. to enforce or foreclose its tax lien against that interest. Such an action was successfully brought in United States v. Trout et al., from which there was no appeal. The Unit has been advised not to issue the instructions suggested by it.

5. Airline Sues to Restrain Collector from Interfering with Passengers. In a suit filed by Colonial Airlines, Inc. in the District Court of the United States for the Southern District of New York, the plaintiff seeks to enjoin the Collector and his deputies from requiring of alien passengers departing for Canada on plaintiff's airlines, certificates of compliance and otherwise enforcing the provisions of Section 146(e) of the I.R.C. against such alien passengers by maintaining deputy collectors at LaGuardia Airport. To support the prayer for relief, the plaintiff asserts that delay is occasioned in the departure of airplanes, and that a number of persons have ceased to use the plaintiff's airplanes for travel, but have instead gone by rail, bus, or other means of transportation which are available to them

without first obtaining certificates of compliance. The Government's position in defending the cause is that the plaintiff has no standing to challenge acts of the defendant in carrying out his official duties; that the issuance of certificates of compliance for aliens departing from LaGuardia Airport is committed to the defendant; that the plaintiff can not challenge the acts of the deputy collectors in making known to passengers the provisions of the federal laws; and that the fact that collection is made of taxes from departing alien passengers by the deputy collectors for their convenience and to save them a trip to the Customhouse cannot be challenged by the plaintiff in view of the provisions of Section 3653 of the IRC prohibiting suits to restrain the collection of federal taxes.

6. Interesting Developments in Case in which Government took Stock in Reorganization Settlement. One of the earliest reorganization cases under Section 77B of the Bankruptcy Act, that of the Miller Printing Machinery Company, Pittsburgh, Pennsylvania, in which the Government accepted stock in settlement of a tax claim was that of this company. In settlement of a tax liability of \$181,971.35, the United States

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received \$5,000 in cash and 591 shares of 5 per cent preferred stock and 1,773 shares of no par common stock of the company. Stock certificates covering these shares of stock are in the Treasury Department, and dividends have been regularly paid on the preferred stock. The company is no longer engaged in the manufacture of printing machinery, but is producing the complete recoil mechanism of the guns used in American tanks. On September 11, 1942, the company was given the Army and Navy "E" award in recognition of its important contribution to the war effort. All contracts of the company have been completed ahead of schedule, and during the 18 months devoted exclusively to such war contracts, not one unit has been rejected, even though production is now 500 per cent higher than it was 15 months ago and the price charged the Government for the company's product is as much as 33 1/3 per cent lower than that charged by other manufacturers. In operating the plant 24 hours per day and 7 days per week, the employees work 8 hours per day and 7 days per week with 1 day off every five weeks. There are now approximately 1,000 persons continuously employed by the company, and about 22 per cent of the employee payroll goes to the purchase of Government bonds and income tax certificates.

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7. Cincinnati Conference of War Department on Renegotiation. Mr. Reiling attended this conference which was held on December 20-22, 1942. Points of interest to Revenue included the following. (a) Inclusion of amortization in price of article. The War Department renegotiators are acting upon the assumption that in determining excessive profits they are to allow the 5-year amortization, without any steps being taken to protect the Government's interests in the property. This does not appear to be in line with the assurance by War and Navy Departments, at the time section 124(i) was repealed, that they would as an administrative policy protect the Government's interest where more than normal depreciation was included in the contract price. (b) Payment of income taxes. Contractors, who are insisting upon reserves which are not deductible for income tax purposes, are not to be allowed profits sufficient to pay the income taxes, and leave a balance equal to the requested reserve. (c) Delaying renegotiation for tax benefit. Contractors cannot, by delaying renegotiation for a particular year until after the tax return is filed, secure a greater post-war credit and a larger net income against which the carry-back adjustments will apply. (d) So-called voluntary repayments.

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If a so-called voluntary repayment is made in respect of a prior year, it will be presumed that the check is for the net amount after the credit for taxes.

8. Penalties and Interest ruled Part of Tax for Refund Purposes. In GCM 22966 (unpublished) the Chief Counsel's office held that interest is to be regarded as a part of the tax for purposes of refund as well as for purposes of collection. The question was raised whether the same rule would apply to the negligence and fraud penalties imposed by section 293 IRC, as amended. It was concluded that interest and penalties should be regarded as part of the tax for purposes of refund as well as for purposes of collection. Although the Internal Revenue Code does not expressly provide that penalties imposed by section 293 of the Code, as amended, shall be collected as part of the tax, it is believed that such penalties are subject to the same treatment for purposes of credit and refund as penalties specifically stated to be collected as part of the tax. It is desirable that uniform treatment be accorded to tax, interest, and penalty, and there appears to be no indication of any contrary Congressional intent or administrative policy. It was concluded that

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penalties imposed under section 293 of the Code, as amended, should be treated in the same manner as interest is treated in GCM 22966, supra.

9. Big Decrease in Tax Liability of the American Tobacco Company. The income and excess profits tax returns of this company for the year 1941 reported total tax liability in the amount of \$16,862,600.93. After the enactment of the Revenue Act of 1942, the taxpayer filed amended returns in order to take advantage of the retroactive provisions of section 156 of the Revenue Act of 1942, and to claim the amount of \$1,749,233.67 as a war loss of its investment in Societe Anonyme des Papeteries de Mauduit, a French corporation. These amended returns showed a decreased tax liability in the aggregate amount of \$1,273,966.86, to be abated (rather than refunded) since the taxpayer did not pay the final installment due December 15, 1942, of its income and profits tax liability.

10. Overpayments Approved by Joint Committee. Overpayments were approved by the Staff of the Joint Committee during November in the following cases: Estate of Daniel Guggenheim - estate tax, \$149,821.23; Robert E. McConnell - income tax,

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\$156,190.25; Estate of Emil P. Miller - estate tax, \$186,438.41; New York Central Railroad - income tax, \$585,818.67; Estate of J. H. Nunnally - income tax, \$417,964.56; Estate of William E. Upjohn - income tax, \$196,852.40. In some of these cases the overpayment included assessed interest.

11. Million Dollar Refund to E. I. duPont de Nemours and Company. This company reported a tax liability of \$9,701,903.21 in its income and excess profits tax return for the calendar year 1936. The Commissioner thereafter asserted a deficiency of \$363,260.87 plus \$90,249.35 interest, which was paid. In its return, however, the taxpayer followed the procedure laid down in Article 27(f) of Regulations 94 and allocated the sum of \$6,864,000 of the cash dividends paid in December 1936 to certain subsidiaries. Under the rule laid down by the Supreme Court in the case of Credit Alliance Corporation, the company claims that no part of these amounts should have been allocated to the subsidiaries, but that the company was entitled to claim the entire amount as "dividends paid credit". The Commissioner agreed with this claim, and the Joint Committee under date of December 10, 1942 approved the refund resulting therefrom amounting, with interest, to \$1,012,642.27.

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12. Regulations - Revenue Act of 1942 (See November 1942 report, item '7). Since the Revenue Act of 1942 was approved on October 21, 1942, 21 Treasury decisions have been issued and 11 Treasury Decisions have been prepared, reviewed and are now in process of being forwarded to the Assistant Secretary for approval, and 15 Treasury decisions have been prepared and reviewed in the Chief Counsel's office and in the Unit and are now awaiting the tentative approval of the Tax Legislative Counsel - a total of 47. An additional 28 Treasury decisions are now in the process of being prepared or are being reviewed in the Chief Counsel's office.

The following work was done under the supervision of Assistant General Counsel Cairns:

13. Free Importation of Gifts by Members of the Armed Forces of the United States. Public Law No. 790, approved by the President on December 5, 1942, provides for the entry of so much of any shipment of bona fide gifts as does not exceed \$50 in value without the payment of customs duties, charges or exactions, or internal revenue taxes for the duration of the present war and six months thereafter when

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such gifts are sent by members of the armed forces of the United States on duty abroad. The Chief Counsel's office, Bureau of Customs, prepared regulations under this Act to put its provisions into effect.

14. Wollner and Matchett v. Brewer and Madorsky (See September 1942 report, item 36). In connection with the patenting for Dr. H. J. Wollner of certain inventions, the Chief Counsel's office, Bureau of Customs, prepared a memorandum addressed to the Commissioner of Customs concerning the proposed commercial activities of Dr. Wollner in connection with certain of the proposed patents. On the basis of information furnished by Dr. Wollner regarding the patents and his proposed activity, the conclusion was reached that there was no legal objection on the part of the Bureau of Customs.

15. Traveling Expenses of Consulting Experts Traveling to Washington. An opinion, addressed to Mr. W. N. Thompson, which was prepared by Mr. Tobolowsky and Miss O'Connor, and signed on December 18, 1942, concluded that the present practice of designating the home of a consulting expert as his official post of duty and allowing him traveling expenses

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while away from that place should be discontinued. However, the Department may, under section 201 of the First War Powers Act 1941, enter into a contract with a consultant to pay him a fixed amount for each day of actual work plus actual traveling and subsistence expenses.

16. Narcotics Prescribing by Service Medical Officers.

In connection with the prescribing of narcotics by Army medical officers for Army patients, the Surgeon General of the Army called attention to the fact that these prescriptions were intended to be filled by civilian drug stores and the patient probably would experience difficulty in obtaining the needed drugs, as these prescriptions would not bear a narcotic registry number required in the case of civilian physicians' prescriptions. This difficulty was adjusted by the issuance of Treasury Decision No. 33, dated December 21, 1942, which authorizes the filling of such prescriptions by registered civilian druggists notwithstanding the absence of a registry number. The Treasury Decision, which was prepared by Mr. Tennyson, was published in the Federal Register and was given national publicity by the national druggists' associations.

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The following work was done under the supervision of Assistant General Counsel Tietjens:

17. Public Debt. (a) Chicago Office (See November 1942 report, item 22). Mr. Cunningham returned on December 14th, after spending two weeks in the Chicago office. The work in Chicago is very heavy but it is not believed that for the present an additional attorney is needed. Certain simplifications in procedure which have been ordered relieve the Legal Staff at Chicago of a considerable volume of some types of cases. Certain other changes which are contemplated will probably have similar effect and as the efficiency of the newer members of the Staff increases, they will be able to carry on without undue strain.

(b) Tap Issues for Redemption. Conferences were held pertaining to the acceptance of so-called tap issues for redemption at par and accrued interest, the proceeds to be applied to estate taxes. A particular concern arose in connection with bonds owned by partnerships, by living trusts or standing in joint ownership. A telegram to all Federal Reserve Banks, which was prepared by Mr. Tietjens, followed

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very closely the precedent set with regard to Liberties made directly acceptable by statute. The regulations for these were contained in Department Circular No. 225. That telegram has been signed and sent.

18. Philippine Gold and Securities. (a) Release of Marsman Gold (See September 1942 report; item 19 (c) and August 1942 report; item 25 (b)). William Mahaney of San Francisco, attorney for the Marsman interests, called Mr. Tietjens by phone to state that a surety agreement in the amount of \$150,000 had been obtained in connection with the release of gold produced by the Itogan Mining Co. in the Philippines, and would be forwarded immediately with the other papers which were requested some time ago. If these documents are in proper form when received, it is believed that the Itogan gold in the estimated amount of \$150,000 may be purchased by the Mint.

(b) Tambis Gold Dredging Co. - Release of Gold (See November 1942 report; item 17). In connection with the request of the Chartered Bank of India, Australia and China for the release and purchase by the United States of certain

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gold bullion produced by the above company which was delivered to High Commissioner Sayre during the emergency in the Philippines and is now held in custody by the United States Mint at San Francisco, the Department received an agreement of indemnity, which had been drafted by Mr. Tietjens and others, executed by the New York agent of the Bank. The Superintendent of the San Francisco Mint will be instructed to purchase the gold bullion in accordance with the provisions of the Gold Reserve Act of 1934 and the regulations issued thereunder and to make payment therefor by credit to a special blocked account in the name of the Cebu branch of the Bank and the Tambis Gold Dredging Company, Inc.

19. Insurance Coverage by War Damage Corporation of Shipments of U. S. Securities. Mr. Reeves conferred with Mr. Batchelder of Under Secretary Bell's office and Mr. Kilby, Assistant Commissioner of the Bureau of Public Debt, concerning a request for advice by the War Damage Corporation concerning a proposal by that agency to exclude from its insurance coverage shipments of United States Government securities, upon original issue or in exchange

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for interim certificates made by the United States Treasury Department or by the Federal Reserve Banks (or their branches) acting as fiscal agents of the United States. Since these shipments are made at the risk and expense of the United States and are covered by the Government Losses in Shipment Act, the proposal of the War Damage Corporation would be unobjectionable to the Treasury Department.

20. Purchasing of Treasury Bonds by Custodians of State and Municipal Funds. At the suggestion of Assistant Secretary Sullivan, Mr. Winston from Mr. Cunningham's office, and Messrs. Tobolowsky and Keith from the Opinion Section, have been assigned to make a survey of state statutes for the purpose of noting any provisions which might hinder the purchase of United States Treasury bonds by the custodians of state and municipal funds.

21. Mexican Claims Act, 1942 (See November 1942 report; item 21). Mr. Proctor conferred with Messrs. Greenberg, Gerardi and O'Daniel with respect to Treasury regulations governing payments to be made under the new Settlement of Mexican Claims Act of 1942.

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22. Railroad Reorganizations. (a) Washington, Brandywine & Point Lookout Railroad (See November 1942 report, item 20 (b)). Mr. Proctor conferred with Mr. Heffelfinger of the Treasury Department and Mr. Folsom of the Navy Department with respect to the declaration of taking filed against the above railroad of which the Treasury Department holds all the First Mortgage Bonds as security for a loan pursuant to §210 of the Transportation Act. It is believed the Navy will pay a price for the road which will make the Treasury whole.

(b) Seaboard Air Line Railroad Co. Mr. Proctor conferred with Mr. Harold Gallagher, counsel for the Receivers of the above railroad, with respect to the offer of the Receivers to purchase \$1,200,000 Seaboard-All Florida bonds held by the Secretary of the Treasury as security for a §210 loan. A letter was prepared for Under Secretary Bell's signature accepting the Receivers' offer.

23. Comptroller of the Currency. (a) Michelsen v. Penney. Mr. Anderson was present at the argument in the above case in the Court of Appeals for the Second Circuit

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on December 16th, and reported that former Governor Nathan Miller made the argument on behalf of Penney and I. Gainsburg of counsel for Michelsen made the principal argument for the depositors and the Receiver. During his argument Mr. Gainsburg referred to the interest of the Comptroller of the Currency in the case as evidenced by the presence of his counsel in court. The contentions of the bank's depositors were fully presented to the court in the briefs and argument and, of course, in the excellent opinion by Judge Knox.

24. Disposition of Registered Bonds Seized for Taxes on a Jeopardy Assessment. An opinion, addressed to the Chief Counsel, Bureau of Internal Revenue, which was prepared by Mr. Cunningham and signed on December 3, 1942, concluded that United States Savings Bonds seized pursuant to a warrant of distraint may be redeemed by the Treasurer of the United States if presented by the Collector of Internal Revenue when stamped to indicate that the bond was seized, pursuant to provisions of law, for taxes due the United States.

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The following work was done under the supervision of Assistant General Counsel O'Connell:

25. Russian Oil Refinery Program (See November 1942 report, item 25). Mr. Hill held several conferences relative to the Russian Oil Refinery Program. The question of the architect - engineering fee to be paid on the contract with E.B. Badger and Sons Company was discussed.

26. Renegotiation of Contracts (See November 1942 report, item 23). (1) A memorandum was prepared by Mr. Hill and submitted to the Director of Procurement, giving proposed definitions of products to be exempt under renegotiation. These definitions were based on theory contained in a proposed joint regulation to be issued by the Secretaries of War, Navy, and Treasury, and the Chairman of the Maritime Commission. The proposed regulation, in principle, exempts products in the form at which a depletion allowance is applicable under the Internal Revenue Code. Mr. O'Connell followed up the general conference with representatives of the War Department and others, and discussed this subject further, but it was not possible to reach an agreement on the proposed joint regulation.

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(2) Director's Order No. 176, Division of Procurement, was prepared by Mr. Hill. This order redesignated the Contract Review Board as the Treasury Department Price Adjustment Board, and set forth its duties and functions with regard to the renegotiation of contracts.

27. Minor Coinage Bill (See November 1942 report, item 31). Mr. Shea appeared with Mr. Howard before the Committee on Coinage, Weights and Measures on December 3 and 4, 1942, and testified in favor of our proposed legislation, S. 2889, to further the war effort by authorizing the substitution of other materials for strategic metals used in minor coinage, to authorize the forming of worn and uncurrent standard silver dollars into bars, and for other purposes. On December 9, 1942, that Committee met in executive session to further consider this proposed legislation and at the conclusion of this session Mr. Shea, Mr. Howard and Mr. Brenner were called into the committee room and answered many questions asked by the members concerning monetary matters. Subsequently, Mr. Shea discussed proposed changes in the bill with Under Secretary Bell. At the request of the Chairman of the Committee, the Committee's report was prepared in the Legislative Section.

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28. Federal Reporting Services Bill (See October 1942 report, item 30). This bill, S. 1666, which gives the Director of the Bureau of the Budget authority to control the collection of information by Government agencies and to require the transfer of information from one agency to another, as passed by the Senate provided for the exemption of the Treasury Department from its provisions. This exemption, however, was stricken from the bill as it passed the House. Letters enclosing a memorandum, justifying the exemption of Treasury functions from S. 1666, were sent to Congressmen Doughton and Cooper. Assistant Secretary Sullivan and Mr. Shea conferred with Congressman Whittington on December 8, 1942, about the exemption, and Mr. Shea also prepared a letter to him urging the restoration of the original Treasury exemption. On December 9 Mr. Shea, with Assistant Secretary Sullivan, attended a meeting of the conference committee on S. 1666. As finally adopted and approved by the President on December 24, 1942, the measure provides that the Act shall not apply to the obtaining or releasing of information by the Bureau of Internal Revenue, the Comptroller of the Currency, the Bureau of Public Debt, the

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Bureau of Accounts and the Division of Foreign Funds Control of the Treasury Department.

29. Proposed Legislation Relating to Suspension of Customs Barriers (See November 1942 report, item 30).

Mr. Speck attended public hearings held by the full committee of the Ways and Means Committee on the morning and afternoon of December 3 and on December 4, on H. R. 7762, to facilitate, to the extent required for the effective prosecution of the war, the free movement of persons, property, and information into and out of the United States. In cooperation with Mr. Chambers, he prepared the statement of Assistant Secretary Gaston on this bill, which was read by Commissioner Johnson.

30. Green Silver Bill (See October 1942 report, item 29). Mr. Shea and Mr. E. M. Bernstein discussed with Senator Green the provisions of S. 2768 and certain amendments thereto. This bill proposed to authorize the use for war purposes of silver held or owned by the United States.

31. Proposed Legislation Pertaining to Disbursing Officer, Successor to the Chief. At the request of Senator Hill, Chairman of the Senate Committee on Expenditures in

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Executive Departments, Miss McDuff prepared the Committee's report on our proposed legislation, H. R. 6447. The purpose of this bill is to permit the issuance of millions of Government checks prepared in the name of the Chief Disbursing Officer should the incumbent of that position suddenly die, resign or be separated from the position.

32. Proposed Legislation Authorizing Department of Agriculture to Compromise Certain Indebtedness Due United States (See November 1942 report, item 35). Mr. Speck, together with Mr. Reeves, attended a conference on December 16 to consider S. 1339, which would authorize the Governor of the Farm Credit Administration and the Secretary of Agriculture to compromise, adjust or cancel certain indebtedness due the United States. There was further discussion of the comments made by the Department to the Bureau of the Budget with respect to the original form of the bill, and the Department of Agriculture representatives submitted amendments intended to meet the Department's objections. It was decided that the Department of Agriculture would formally submit the revised draft to the Department, and it was indicated that the Department would probably be able to state that it has no objection to the revised form of the bill.

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33. Report on S. 2864, "Federal Agricultural Unemployment Insurance Act". Mr. Shea, accompanied by Mr. Reeves, attended a conference in Mr. Bartelt's office concerning a proposed report to the Senate Committee on Education and Labor on S. 2864, the "Federal Agricultural Unemployment Insurance Act", amending the Social Security Act and the Internal Revenue Code to cover agricultural employment on large industrial farms with respect to Old-Age and Survivors' Insurance Benefits and provides a system of Federal Agricultural Unemployment Insurance. It was determined by those present that the report should be revised to (1) question the advisability of appropriating \$50,000,000 for establishing an unemployment insurance system for agricultural labor without providing for subsequent reimbursement to the Treasury; (2) suggest that a limitation be placed upon the amounts available for administrative expenses under the Act; and (3) suggest that disbursements in connection with such Act be made through the Division of Disbursement, Treasury Department.

34. Proposed Executive Order Consolidating Certain Agricultural Lending Agencies (See November 1942 report,

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item 38). On December 23 Mr. Shea, accompanied by Mr. Bartelt and Mr. Cake of the Bureau of Accounts, attended a conference with representatives of the Department of Agriculture, the Bureau of the Budget, and the Department of Justice to consider a proposed Executive Order, which would consolidate certain agricultural lending agencies and functions. The purpose of the Order, which was proposed by the Department of Agriculture, is to expedite the food program for the war effort by streamlining and coordinating the Department of Agriculture agencies which lend money to farmers for a variety of purposes. The objectives and the mechanics of the arrangement provided in the Order were discussed at conferences held on December 24, 26, 28 and 29, 1942. These conferences were attended by Messrs. Bell, Heffelfinger, Bartelt, Tietjens, Reeves, Cake, Shea, Speck and Filachek. It was finally agreed that Agriculture would further revise the Order, incorporating Treasury suggestions and forwarding a copy of the final draft to this Department when the proposal was submitted to the Bureau of the Budget.

35. State Legislation Relative to War Effort (See September 1942 report, item 30). A letter to the Attorney General,

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which was prepared by Mr. Ranta, advised that this Department had no additional suggestions to recommend relative to State legislation or administrative action to facilitate the war effort. Representatives of the various bureaus were contacted and offered no suggestions.

36. Selective Service Forms 42B. This form, which provides pertinent occupational data for local draft boards in connection with III-A registrants, was prepared and sent to Mr. Thompson for each of eleven members of the Office of the General Counsel occupying "key positions" who are under 45 and who have not been placed in class III-B. Mr. Speck handled this matter.

37. Reports to be Made to Congress. At the request of the Chief Clerk, the data proposed to be sent to the Clerk of the House of Representatives for inclusion in the publication "Reports to be Made to Congress" was reviewed by Miss McDuff. One change was suggested, and the attention of the Chief Clerk was called to a number of sections in the United States Code wherein the Secretary of the Treasury is required to render various reports to Congress, which sections have not been included as citations of authority for reports required by the Secretary in previous published lists.

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38. Purchase of Tire Plant Equipment. A memorandum from the Director of the Procurement Division transmitting to the Secretary an executed contract with Ford Motor Company for the purchase of its tire plant equipment and requesting approval of an advance payment previously made was reviewed by Mr. Speck, and he prepared a memorandum for Mr. Paul's signature which called attention to certain inadequacies in the contract.

39. Compromise Offers. Letters recommending acceptance of the offers made by the following proponents in settlement of debts due the United States were prepared by Miss McDuff: Clark L. Corey, Ridgeway Natural Gas Company, Anna Zimdars, Carl Christensen, Harry S. Paynter, Florence A. Bell and L. J. Esses Logging Company. All of the above-named offers were duly accepted by the Acting Secretary and the heads of the agencies submitting them were so notified.

40. Dismissal of Indictment. Mr. Ranta prepared letters to Assistant Attorney General Berge advising that the Department had no objection to the dismissal of indictments against Charles Miller and Harry Vere Gumm for the forgery of Government checks.

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41. Threats Against the President. There was prepared a letter to Assistant Attorney General Berge advising that the Department was of the opinion that the facts in a case involving Rudolph Brady, who was arrested for alleged threats against the President, should be presented to a Grand Jury.

42. Claim for Damages Caused by Treasury Department Truck. Mr. Ranta prepared a memorandum to the Secretary recommending that the claim of Merchants and Manufacturers Mutual Insurance Company, Mansfield, Ohio, and E. H. Heffner, Washington, D. C., be certified to Congress pursuant to the provisions of the Act of December 28, 1922 (U.S.C. title 31, sec. 215). The damages were caused by the negligent operation of an official Secret Service vehicle. Also a memorandum was prepared to the Secretary recommending certification to Congress of the claim of M. W. Dove for damages to his house caused by a Procurement Division Fuel Truck.

43. Congressional Action on Treasury-sponsored Legislation.

(a) Opium Poppy Control Bill. The House agreed to the Senate amendments, on December 3, 1942, to H. R. 7568, our bill to discharge more effectively the obligations of the

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United States under certain treaties relating to the manufacture and distribution of narcotic drugs, by providing for domestic control of the production and distribution of the opium poppy and its products, and for other purposes. The President approved the bill on December 11, 1942, and it became Public Law No. 797.

(b) G. F. Allen Relief Bill. Our bill, H. R. 6900, for the relief of G. F. Allen, Chief Disbursing Officer, Treasury Department and for other purposes, was approved by the President on December 2, 1942, and became Private Law No. 533.

(c) Free Importation of Soldier's Gifts. H. R. 7992, a bill to accord free entry to bona fide gifts from members of the armed forces of the United States on duty abroad, was signed by the President on December 5, 1942, and became Public Law No. 790.

(d) Minor Coinage Bill. S. 2889, our bill to further the war effort by authorizing the substitution of other materials for strategic metals used in minor coinage, to authorize the forming of worn and uncurrent standard silver dollars into bars, and for other purposes, was reported in

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the House on December 10, 1942 (H. Rep. No. 2715). On the same day it was passed by the House with committee amendments. On December 11, 1942, the Senate agreed to the House amendments. Congressional action was thereby completed on the bill.

(e) Successor to Chief Disbursing Officer. H. R. 6447 is our bill "To provide for the orderly transaction of the public business in the event of the death or of the resignation or separation from office of the Chief Disbursing Officer". On December 15, 1942, it was reported, without amendment, in the Senate from the Committee on Expenditures in the Government Departments, (S. Rep. No. 1851). On the following day the Senate considered and passed the bill, thereby completing Congressional action on it.

The following work was done under the supervision of Assistant General Counsel O'Connell and Mr. Luxford, Chief Counsel of Foreign Funds Control:

44. Directive Licenses. (a) French Antilles (See November 1942 report, items 47 and 49). Prior to the occupation of unoccupied France by the Germans, shipments

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of food and other materials to the French Antilles were financed by payments of approximately \$1 million per month from blocked French Government accounts in the United States. These payments were authorized under permissive licenses issued by the Department. After the occupation of France such previous arrangements were no longer effective. At the request of the State Department and in order to carry out the Government's foreign policy with respect to France, the Department facilitated resumption of shipments to the French Antilles by issuing a directive license directing the New York office of the French-American Banking Corporation to make monthly payments, transfers or withdrawals from French Government accounts in such amounts and for such purposes as will be determined from time to time. Mr. Alk worked on this problem.

45. Litigation Problems (See November 1942 report, item 57). Aickelin v. General Aniline & Film Corporation. The proposed brief prepared by Messrs. Aarons, Alk, Murphy and Golding was completed and conferences were held with representatives of the Department of Justice. In this case the plaintiff relies on the doctrine laid down in Brown v.

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Morgan and a portion of the Government's brief is devoted to a discussion of the Government's views with respect to that case.

(b) Warner Von Clemm was convicted of violating Executive Order No. 8389, as amended, by conspiring with the German High Command to dispose of Belgian and Dutch diamonds in the United States without obtaining a Treasury license. An appeal has been taken to the Circuit Court of Appeals for the Second Circuit. In his brief Von Clemm argues that section 5(b) of the Trading with the enemy Act, as amended May 7, 1940, is unconstitutional as an invalid delegation of legislative power. A memorandum of law was prepared on this subject for submission to the United States Attorney. A memorandum was also prepared on the question whether an unlicensed payment of insurance on a shipment of Belgian diamonds was a violation of the Order as it then existed. Messrs. Alk, Golding and Murphy worked on these matters.

46. Federal Depositary for Enemy Assets. A study is being made of the problems which might be encountered in a program for the segregation of assets of enemy nationals. The possibility of creating a federal depositary for such

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assets or of taking other steps which would insure that such assets could be readily marshaled for utilization in the war and post-war program is being explored by Messrs. Alk, Murphy and Golding.

47. Control of Traffic in Various Financial Instruments (See November 1942 report, item 55). A conference was held with representatives of the British, the Office of Censorship, and the State Department concerning a proposed general ruling restricting the importation of checks, drafts, bills of exchange and promissory notes from certain blocked areas and a joint directive to be issued by the United States and British Censorship authorities on the treatment of mail containing such financial instruments. The general ruling and directive are now being revised by Messrs. Aarons, Rains, Daum and Mrs. Rogan to agree with the decisions reached and suggestions set forth in the conference.

48. Alien Property Custodian Problems (See October 1942 report, item 64). The Alien Property Custodian had prepared an order providing in effect that in all legal proceedings involving property in which an enemy national had an interest,

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no distribution could be made to such national except pursuant to the Order or direction of the Alien Property Custodian. A revised draft was prepared by Messrs. Aarons, Reeves, Lawler, Alk, Murphy and Golding, confining the authority of the Alien Property Custodian to his representative powers under Section 5 of Executive Order No. 9193. A number of conferences were held, and as a result a revised order is being prepared to be issued by the Alien Property Custodian which will adequately cover the representation field allocated to him under Section 5 of Executive Order No. 9193.

The vesting order relating to Assicurazioni Generali di Trieste e Venezia has been reviewed. Problems arose by reason of the vesting order, in view of the fact that numerous attachments had been levied against certain funds of Assicurazioni Generali. These attachment cases fall into three classes, (1) attachments prior to freezing of Italian funds, (2) attachments after freezing but unbonded, and (3) attachments after freezing but bonded. The latter probably are violations of the Order since they involved a transfer of securities to the bonding company. Messrs. Reeves and Alk held

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several conferences with representatives of the Department of Justice and the Office of the Alien Property Custodian.

A memorandum, which was prepared by Messrs. Alk and Brenner and submitted to the Alien Property Custodian, concluded that in collecting his costs and expenses for representing enemy nationals pursuant to section 5 of Executive Order No. 9095, as amended, the Alien Property Custodian is not required to comply with the laws and regulations of state or municipal governments but may compel the summary transfer to him of the amount of his costs and expenses.

Numerous conferences with the Alien Property Custodian have been held over the issuance of two orders through which occupied countries with refugee governments became subject to Alien Property Custodian control. It was decided that further drafting was necessary. Mr. Lawler handled this problem.

49. Miscellaneous Studies and Memoranda. A manuscript on the Economic Law of Belligerent Occupation prepared by Ernst H. Feilchenfeld, while in the employ of the Treasury Department, was recently published by Feilchenfeld without

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consent of the Department. A study of the legal measures which might be taken against Feilchenfeld by the Department was made by Mr. Kehl.

It was decided to approve the application of Rohner-Gehrig & Company, agents for Hungarian owners of leather in this country, to pay a commission to their attorneys for sale of a portion of this leather. The Swedish Legation, Department of Hungarian Interests, was advised that the Treasury Department proposed to take such action in order that the Legation might, as representative of the interests of the Hungarian principal, take such action as it deemed appropriate before issuance of the license. Messrs. Aarons, Alk and Kehl worked on this matter.

A study is being made by Messrs. Alk and Johnston of the legal scope of the investigatory powers of the Treasury under section 5(b) of the Trading with the enemy Act, as amended. This will include problems relating to searches and seizures, the production of records, the subpoenaing of witnesses, and the methods of enforcement.

A memorandum for the Special War Policies Unit of the Department of Justice on the problem of applying freezing

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control to European refugees in the United States has been prepared by Miss Klein.

50. Proclaimed List - Bata Reorganization Plan. Another conference on the Bata Shoe Company was held with members of the administrative staff for the purpose of reaching a final decision as to the plan of reorganization submitted by the attorneys for this world wide shoe enterprise. The purpose of this plan was to effect the delisting of the Bata South American branches. Briefly, the plan proposed the creation of a voting trust in which would be placed the shares of the South American Bata branches; appointment by the Government and by the attorneys for Bata of trustees who would have complete control over the activities of the South American branches; and the setting up of an arbitration committee after the war which would dispose of the shares pursuant to certain conditions. One of the conditions specified was that if the nationality of a claimant was deemed to be enemy or if the nationality of the claimant could not be determined, such shares would be vested in the Czechoslovakian Government. In addition, the plan presupposed the granting of certain applications filed with the Treasury

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Department involving the exchange of assets of Bata branches under Axis and Allied control. It was decided at the meeting that nothing could be gained by the approval of this plan and these applications and that the interests of the United States Government would be prejudiced by agreeing to deal with a post war problem in a manner limited by certain conditions embodied in the plan. Therefore, a letter was dispatched to the State Department indicating that this Department did not approve the plan but would consider the delisting of the South American Bata branches on an individual basis in the same manner in which other Proclaimed List nationals are considered. Messrs. Lawler and Locker worked on this matter.

51. Costa Rican Decree on German Trade-Marks. A study of the decree by the Costa Rican Government which was passed for the purpose of solving the problem of the disposition of German trade-marks is being made by Mr. Lawler. Pursuant to the study, conferences with the State Department have been held.

52. Ad Hoc Blocked Attorneys (See November 1942 report, item 68). The study of the problems involving ad hoc

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blocked attorneys is being continued by Messrs. Lawler, Lesser, Alk, Cassoday and Locker. It was decided that the scope of study be extended so as to include attorneys in fact and investment counselors. An investigation is being made to determine what attorneys, attorneys in fact or investment counselors have been ad hoc blocked. Contemporaneously with this investigation a study is being made to determine what sanctions shall be applied to such ad hoc blocked nationals.

53. Hawaiian Program (See November 1942 report, item 58). A memorandum was prepared by Mr. Johnston on the desirability of issuing a general license in Hawaii which would authorize all transactions involving less than a specified amount of money. There was outlined in such memorandum the general licenses presently in force and the conclusion was reached that a general license along the lines suggested was not desirable.

54. General Ruling No. 12A. This proposed general ruling is designed to protect persons holding blocked accounts against double liability provided certain standards are met,

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and sets forth the Department's position with respect to whether a license is necessary for the bare grant or receipt of a power of attorney. Most of the problems which have arisen are either in connection with the degree of care which should be required of persons holding blocked assets or in connection with the correlative issue of the degree of care to be exercised by the Federal Reserve Bank in passing upon license applications. Messrs. Aarons, Alk and Golding have prepared drafts of the proposed general ruling, press release to be issued in connection therewith, confidential circular to the Federal Reserve Banks, and report Form TFR-12A.

55. Census of American-Owned Property Abroad - TFR-500
(See November 1942 report, item 56). Conferences were held with various other departments and agencies of the Government, including State Department, Board of Economic Warfare, Commerce Department, Department of Justice, etc., for final clearance and discussion concerning reports to be obtained from American citizens having interests in property located outside the United States. Further conferences were also

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held following these meetings, by members of Foreign Funds Control, Monetary Research and this staff, and serious consideration was given to the problems presented by the Byrd Committee and other matters. Special conferences were arranged with representatives of the Alien Property Custodian, particularly regarding patents. A two day conference was held with representatives of the Federal Reserve Banks, particularly to secure practical suggestions in matters which would affect banks. In view of various suggestions offered, substantial rewriting of forms was made and there was considerable rewriting of instructions and requirements by Messrs. Reeves and Arnold.

56. Latvian Steamship Problems. Mr. Reeves continued to handle problems concerning certain Latvian vessels. Three Latvian steamships had been subjected to a possessory libel by Charles Recht who claimed that (1) he represented the Latvian owners, and that (2) he represented the Russian interests who had succeeded to the rights of the Latvian owners. Pursuant to orders of the courts, which the Treasury had reviewed and concerning which the Treasury had advised the

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courts, applications had been made to transfer funds secured from the operation of the ships and insurance monies were paid (because the ships had since been sunk) to blocked accounts in the name of the trustees appointed by the courts for the ships. Applications also were pending for payment of certain obligations incurred in the operation of the ships, such as claims for cargo damage, personal claims of seamen arising out of the sinking, claims for wharfage and other matters naturally arising from the operations of the ships and the sinkings. The Department of State objected to these transfers for fear of recognition of Russian interest by conquest. After a number of conferences with the Department of State, the Office of the Alien Property Custodian and others, agreements were reached to grant licenses in accordance with the orders of the court under certain terms and conditions which were ascertained to be satisfactory to the parties in question. Licenses were issued with the approval of the office of the Alien Property Custodian and the Department of State. The Department of Justice had taken part in the conferences solely to represent the interests of the Alien Property Custodian.

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57. Insurance Problems (See November 1942 report, item 59). Conferences were held on the scope of a general license with respect to payment of premiums, change of beneficiary, and other transactions incidental to life insurance transactions in which there is a blocked interest. A memorandum has been prepared by Messrs. Alk, Murphy, Johnston and Kehl, suggesting the provisions which such a general license should contain, upon the basis of which the general license is to be prepared.

Further discussions have been continued by Mr. Kehl with the State Department and representatives of the British Embassy on the adoption of a reinsurance program to prevent United States and British insurance companies from reinsuring Proclaimed List business done by local South American insurance companies.

The Interdepartmental Security Service Committee, composed of representatives of various Government agencies, including the Foreign Funds Control Division of the Treasury Department, has been studying the leakage of vital and strategic information concerning the war effort to foreign countries through insurance channels. At the request of the

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Committee, a draft was prepared of a Treasury regulation under section 5(b) of the Trading with the enemy Act, as amended, prohibiting the transfer out of the United States of information relating to insurance upon war projects or marine risks except pursuant to Treasury license. Upon reconsideration of this regulation by the Committee, Censorship urged that the matter was one subject to regulation by that office. Present plans, therefore, contemplate that Censorship will regulate the transmission of insurance information with the assistance of other Government agencies, including Foreign Funds Control. Mr. Aarons, Mr. Kehl and members of the administrative staff worked on this matter.

58. Patents (See November 1942 report, item 52).

Lend-Lease arrangements with Great Britain provide for this Government's making available to the British Government or its designees war production rights with respect to British patents owned by persons subject to the jurisdiction of the United States. At the request of the Lend-Lease Committee on Patents, a draft of a Treasury regulation was prepared under section 5(b) of the Trading with the enemy

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Act, as amended, prohibiting the assignment or transfer of British-owned patent rights to any foreign country or national, except subject to the option of the United States to acquire such right for war production in Great Britain pursuant to the Lend-Lease Act. The regulation is drafted so as to require no further administrative action by the Treasury in the way of licenses or other authorizations. The Lend-Lease Committee on Patents has tentatively agreed to request the Treasury Department to issue a regulation of this type. Mr. Murphy and Mr. Kehl worked on this.

Conferences on patent problems as affected by General Licenses 72 and 72A and Public Circular No. 5 have been held and a study is being made by Messrs. Lawler and Cassoday as to the proper manner of handling accrued royalties on American patents and royalties and obligations on foreign patents.

59. Enforcement and Investigations (See November 1942 report, items 59, 60). (a) Shipping Companies. The problem of controlling shipping and freight forwarding companies which have access to confidential information concerning ship movements is still being studied by Messrs. Lawler and Proctor.

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Incident to this general problem, the major portion of the investigation of the Phoenix Shipping Company has been completed by Mr. Proctor. The results of the investigation indicate that the Phoenix Shipping Company is German-owned. As a result, it is probable that a recommendation for vesting and liquidation will be made. Also in connection with the shipping problem, the investigation of Gondrand Shipping Company has been started, but there are no indications of what the result will be as yet.

(b) Violations. On December 3, 1942, word was received that the Grand Jury in the Southern District of California indicted Shin Shibata, a national of Japan, now interned in Fort Sill, Oklahoma, for violating sections 1A, 1B and 1F of Executive Order No. 6389. This matter was referred to the Attorney General by this Department under date of September 21, 1942.

During the month of December, one case was referred to the United States Attorney at Pittsburgh, Pennsylvania, for reference to the Pennsylvania authorities and another was referred to the Board of Economic Warfare. Both these cases were thoroughly investigated and prepared before they were

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referred. Such action was taken because, although violations of the Executive Order were present, it appeared that other agencies had better facilities for handling the particular problems involved.

Under date of December 24, 1942, the Swiss Bank Corporation, New York Agency, was advised that a hearing would be held in Washington on January 11, 1943, with respect to certain seeming violations of the Executive Order and the rules and regulations promulgated thereunder. The commencement of the hearing has been adjourned to January 18, 1943, at the request of the respondent. The hearing will be conducted for the Department by Mr. Ackermann.

Messrs. Schwartz, Quint and King cooperated with the United States Attorney for the Southern District of New York in preparation of three cases involving violations of the Order.

Messrs. Lawler and Proctor held a conference with the Department of Justice over the advisability of prosecuting Val J. Peter, the well known German language newspaper publisher. It was decided that additional accounting information was necessary and accordingly an accountant from Chicago was sent.

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(c) Miscellaneous Studies and Investigations Connected with Enforcement. Studies have been concluded by Mr. Schwartz with respect to Roman Tumarkin, Swiss Travel Bureau, Fredl Bach, Julius and Carola Simson, Barney Phillips, Pan Pacific Trading & Navigation Co., and I. M. Kowalsky; and with respect to Mecke & Co., Aaron S. and Jacob S. Cohen, Urbana Wine Company Inc., Robert H. Gardiner, Cosmos Shipping Co. Inc., Herman Hollander Inc., Triangle Fur Corporation, Mukden Trading Corporation and Walter Saenger and Frederich Henjes by Mr. Cook.

Mr. Cook has continued the study of the operation of General License No. 58, and a detailed study of all applications filed for or on behalf of Swiss Banks doing business in the United States has been undertaken by Miss Mayer.

A study of the Sofina problem is being continued by Messrs. Lawler and Warner. In connection with the study, a set of questionnaires is being prepared in anticipation of an interrogatory.

The investigation of Hoffman-LaRoche will end as of December 31. The investigation of Barrel, principal figure

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in Hoffman-LaRoche, is continuing. It is hoped to combine the results of both investigations so as to furnish a complete picture. Mr. Lawler is handling these investigations.

60. Communications with the Enemy. A list is being prepared for the Office of Censorship of individuals who might attempt to communicate with the enemy. The list is composed mostly of information from the General Aniline & Film File. Messrs. Lawler and Linville are handling this matter.

61. Hearings under General Ruling No. 13. Approximately 12 hearings and conferences have been held under General Ruling 13 for unblocking and for the granting of generally licensed national status. A strict construction has been given to the facts in each particular case in order to limit the number of cases which are handled pursuant to General Ruling No. 13. In general the procedure under General Ruling No. 13 and in the informal conferences has been satisfactory.

A conference was held with Wilhelm von Meister of General Aniline and Film Works in connection with his application for unblocking. It is probable that his application

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will be denied. A memorandum on this case is being prepared by Messrs. Lawler and Linville.

A hearing was held on General Ceramics & Co. which filed an application for unblocking. General Ceramics, which has been under Treasury supervision, is controlled by the Arnhold family through Arnhold & S. Bleichroeder, Inc. The results of the hearing indicate that favorable action on the application will be taken. Mr. Locker is handling this.

Other conferences of some importance which have been held are those involving Hans Wreidt, Perez & Wilshaw, and Rosengarten-Famel, Max Dreifus, and Antoine Gazde. Messrs. Lawler, Parker and Locker attended.

62. Practice of Attorneys before Foreign Funds Control.

Following a discussion with Dr. Yntema of the Committee on Practice, consideration has been given to the steps which may be taken to bring about a better enforcement of the Treasury Department regulation governing the practice of attorneys before Foreign Funds Control. A procedure is being worked out whereby all Foreign Funds Control employees

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both in Washington and the field will receive notice of the names of attorneys who have been disbarred from Treasury practice, and will be made more cognizant of the requirements of the applicable regulations. Messrs. Aarons and Minskoff worked on this matter.

63. North Africa and West Africa (See November 1942 report, item 63). Mr. Luxford and others actively participated in the formulation and execution of a freezing control program for North and West Africa, as well as the monetary and fiscal aspects of the occupation of North and West Africa by our forces.

(a) Freezing Control Activities in North and West Africa.

The same problems administered by Foreign Funds Control in the United States are presented in North and West Africa. While the quantitative aspects of the operation in North and West Africa are not necessarily as great as those within the United States, yet qualitatively the problem is very important. Since the Axis and Vichy during the last 2-1/2 years have attempted to entrench their position in the financial and economic facilities of the area, it is now necessary to clean out such influences. Treasury representatives

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are working in close cooperation with the military and American civil authorities in North and West Africa in the execution of this program and for the purpose of integrating measures in this country with measures in North and West Africa. On the civilian side of the operation, Mr. Josiah DuBois, Assistant Chief Counsel of Foreign Funds Control, was sent to North Africa as a part of the economic mission operating under Robert Murphy.

(b) Monetary Activities. Foreign Funds Control is cooperating in the formulating of a monetary program for North and West Africa and with respect to the question of appropriate rates of exchange between the French franc, U. S. dollar, and the British pound sterling. This problem raises many political and economic questions.

(c) Fiscal Operations. There is also the question of the problem of providing our forces in North and West Africa with adequate local exchange to meet the needs of such forces in such areas. The necessary programs to provide such exchange is being worked out. Messrs. Luxford and DuBois are handling these matters.

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(d) Yellow Seal Currency. In connection with the Allied occupation of North Africa, a special issue of United States yellow seal currency was printed and made available to the occupying forces. The purpose of this issue was, among other things, to prevent the liquidation of Axis-looted currency in the occupied area, and it was hoped that the program would aid the local population in its financial transactions.

A series of measures have been undertaken to curtail the circulation of United States yellow seal currency in the continental United States. Although its circulation in the United States is not illegal, it was felt that some measures of this nature would be desirable to complement the controls instituted by the occupying authorities. Accordingly, a letter was prepared for the signature of the Under Secretary of the Treasury, advising all the Federal Reserve Banks that they were authorized to receive any United States yellow seal currency in exchange for regular currency. The banks of the country will likewise be advised that they are authorized freely to make these exchanges. The latter will

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deliver the yellow seal currency which they receive to the Federal Reserve Banks. When received by the Federal Reserve Banks, United States yellow seal currency will be treated as unfit currency and delivered to the Treasury Department.

It is contemplated that, simultaneously with the letter, instructions will be sent to collectors of customs, the British censorship authorities, and United States censorship authorities relating to the treatment of United States yellow seal currency coming into the country. Generally speaking, members of the armed forces will be permitted to bring this currency in freely. Whether other persons will be accorded the same freedom will depend upon the amount of currency in their possession and areas from which they arrive in the United States. Thus, for example, a person entering the United States from South America will be permitted considerable latitude with respect to yellow seal currency brought in with him. On the other hand, a person coming from a blocked country not within the generally licensed trade area would find the restrictions more severe. After currency is taken up by censorship or customs, it is turned over to a Federal Reserve Bank for General Ruling

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No. 5 treatment, and the program contemplates the issuance of instructions to the Federal Reserve Banks covering their duties in this regard. Messrs. Aarons, Murphy and Mrs. Rogan worked on these problems.

(e) French Accounts. An opinion as to the legality of authorizing a transfer from the Banque de l'Algerie account with the New York Federal Reserve Bank to the French American Banking Corporation, pursuant to a letter of credit set up in favor of a representative in the United States was prepared by Mr. Murphy. In addition thereto, a letter was prepared to the Federal Reserve Bank for the signature of the Under Secretary.

64. French West Africa. Messrs. DuBois and Murphy attended a school on French West Africa sponsored by the Board of Economic Warfare. This school was devoted to a discussion, by experts, on French West African problems, of the economic conditions in that area, and of the problems which are likely to be encountered by the United States Government representatives assigned to work there. Treasury representatives have prepared memoranda of the matters considered at this school.

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65. Currency Programs (See November 1942 report, items 58 and 63). Instructions were issued to collectors of customs covering the treatment of currency brought into the United States by seamen. This aspect of the currency program contemplates that seamen will declare, before leaving the United States, any United States currency in their possession and will be permitted to bring into the United States an equivalent amount. Likewise, there is permission in the instructions for seamen to bring into the United States whatever currency is paid to them as wages during a current voyage. A statement from the master of the ship is taken as evidence of the wages paid during a voyage. This procedure was the result of a series of conferences held over the past months with representatives of the War Shipping Administration, the C. I. O., and the A. F. of L. At the time the instructions were telegraphed to the collectors of customs, letters were sent to various interested agencies, particularly War Shipping, since the crux of the program is handled through these channels. Messrs. Aarons, Rains and Murphy handled this matter.

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On December 18, 1942, 12 letters, under the signature of the Under Secretary, were sent to the Presidents of all Federal Reserve Banks with respect to the treatment of United States currency, Hawaiian series, in the United States. These letters pointed out that Hawaiian series currency was intended primarily for circulation in the Territory of Hawaii and that this Department desired circulation in the United States to be as restricted as possible. Recognizing, however, that a certain amount of this currency was bound to seep into the United States, the Federal Reserve Banks were asked to advise all banks in their district that they were authorized freely to exchange such currency for regular United States currency. The Federal Reserve Banks were also authorized to make these exchanges and to receive the exchanged currency from the banks. Hawaiian series currency received by Federal Reserve Banks will be held by them and monthly reports thereon submitted to the Treasury Department. When it appears that a Federal Reserve Bank is holding a large amount of Hawaiian series currency, arrangements will be made either to transmit it to Washington or to return it to the Territory of Hawaii by official channels. The text of

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this letter, which was prepared by Messrs. Aarons and Murphy, was embodied in a confidential circular to the foreign property departments of all Federal Reserve Banks.

It will be recalled that collectors of customs were advised on November 14, 1942, concerning the treatment of Hawaiian series currency brought through customs, i.e., it will not be taken up by customs in the ordinary case but will be permitted to go forward if the person importing the currency executes a report on Form TFR-HC1. This report is, in effect, a commitment by the person importing the currency that he will exchange it at any bank. The letter from the Under Secretary of the Treasury pointed out that currency received by the Federal Reserve Banks under this exchange will be treated as other Hawaiian series currency and the certification form transmitted to Foreign Funds Control. Mr. Murphy worked on this.

66. Practicing Law Institute. Mr. Luxford was invited to speak before the Practicing Law Institute on Wednesday, January 6, 1943, on the legal aspects of Foreign Funds Control. The outline of his comments covered roughly the

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general history, background, and scope of Foreign Funds Control; its administrative aspects; and legal matters of special significance to New York attorneys. At the same time, it was planned to distribute to the members of the Practicing Law Institute the Handbook prepared for the Inter-American Conference and later made public, the documents pertaining to Foreign Funds Control, the brief of the United States as amicus curiae in the Polish Relief case, and the opinion of the court in the latter case.

67. Internal Revenue. The Internal Revenue Code was amended by the Revenue Act of 1942 by the addition of section 127, providing a deduction for war losses arising from property being located within an area coming under the control of a country at war with the United States. This provision also permits certain deductions in the case of intangible interests represented by securities, etc. Conferences were held with representatives of the Chief Counsel's Office of the Bureau of Internal Revenue, aimed at drafting a regulation to meet the provisions of the statute. Due to the difficulties of communications and the administrative necessity of reducing the burden of paper work involved, it

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was essential to draft as much of a self-executing regulation as possible under the circumstances. Study was given to this problem, and views were informally expressed to the representatives of Revenue. Messrs. Aarons and Murphy worked on this matter.

68. Finnish-American Amortization Agreement. Study was given to the drafting of an agreement, under Public Law 110, 77th Congress, which permits the Republic of Finland, at its option, to postpone the payment of certain amounts due the United States which have been deferred under various prior agreements. A proposed agreement was prepared by Messrs. Aarons and Murphy, with a view toward its submission to the Department of State. The agreement would have the effect called for by the statute which provides for the execution of an agreement by the Republic of Finland and the Secretary of the Treasury further to postpone the amounts referred to.

69. Latin America Problems (See November 1942 report, item 62). (a) Argentina. Work in cooperation with the Inter-American section of Foreign Funds Control continued.

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In implementing the program agreed upon with the State Department additional cases were prepared for submission to the State Department as candidates for ad hoc freezing. During December 126 persons and firms were designated as special blocked nationals. Additional names were gathered for the purpose of continuing the investigation along these lines.

The study of reports filed on form TFR-149 under the General Licenses relating to the European neutral countries was completed and the tabulations made from these reports were studied in connection with a proposed General Ruling, which was submitted to the State Department and which would have the effect of prohibiting, except under license, transactions involving a person in blocked territory and persons in Latin America. In conjunction with Monetary Research and Foreign Funds Control the problems which might arise under this proposed General Ruling and the considerations for its promulgation were examined. A letter is being prepared to the State Department transmitting at their request the tabulations of the reports filed on Form TFR-149, together with reasons for proposing this General Ruling.

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Mr. Moskovitz is investigating further the case of Shaw Strupp and Co., (which has been studied and recommended for ad hoc freezing) in the light of the recent memorandum received from the Mission suggesting a complete breakdown of Shaw Strupp accounts, and an undertaking from that firm in lieu of ad hoc action.

(b) Mexican Securities. In connection with the Mexican program relating to the registration of certain Mexican securities, a draft of a general license and instructions to the Mexican Registry agents were prepared, telegrams were sent to the Federal Reserve with respect to the general license and proposed instructions, and copies of the papers with covering letter were sent to the attorneys for the Mexican Government. Discussions were held with Federal Reserve with respect to suggested amendments to the above proposed documents. Mr. Minskoff worked on this.

(c) Licensing Problems. Further information has been received indicating that conflicting positions have been taken by various Missions as to whether they may receive or act on applications to license transactions engaged in by

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United States concerns in Latin America which involve enemy nationals or blocked nationals. A Public Circular and press release are being prepared which prescribe the standard of conduct of United States concerns doing business in Latin America with respect to transactions involving blocked nationals. In conjunction with this proposed circular, a circular instruction to the Missions is being drafted for submission to the State Department which explains the Public Circular, the handling and processing of applications for license, as therein provided. Another circular instruction to the Missions is being drafted for submission to the State Department at the same time which clarifies the handling and processing of applications involving enemy nationals who are not Proclaimed List nationals (prior State circular instructions deal with applications to license transactions involving Proclaimed List nationals). This circular instruction also defines the types of cases in which the Missions are authorized to act and those in which action may only be taken by the Treasury. Messrs. Rains and Moskovitz are working on this matter.

A circular instruction to the Missions was prepared by Mr. Sommerfield supplementing the direction of section 16 of

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the circular of February 25, 1942, with respect to the granting of licenses to American firms to deal with Proclaimed List nationals upon the representation that failure to issue the license would subject the American firm to legal liability. This problem arose in connection with the license granted United Shoe Machinery Co. of Chile in a case where the contractual liability was doubtful, or even non-existent.

(d) Miscellaneous. A number of problems involving the Latin American Republics were handled. A study was made by Mr. Moskovitz of a proposed Ecuadorian decree inaugurating more comprehensive freezing controls for that country and certain proposals were made to the State Department for transmission to the Mission which would tighten the proposed decree and bring it into conformity with the resolutions of the Inter-American Conference on Economic and Financial Control.

During the past month, six persons and firms in Chile (three of them also appear to be nationals of Panama) were designated as special blocked nationals.

70. Dutch Decree. In connection with the Dutch Decree problem, a memorandum was drawn by Mr. Minskoff giving the

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background and development of the problem up to the present request for action relative to the Decree of May 7, 1942. A letter to the State Department was drawn requesting advice concerning what action, if any, the State Department desires or intends to take in connection with said Decree.

71. Transfers of Property Abroad. (a) Inter-Allied Declaration. In connection with the proposed Inter-Allied Declaration regarding transfers of property in territories dominated by the enemy, a letter was prepared to be sent to the Department of State explaining this Department's interest in, and concern with, the problems involved, and exploring the possibilities of Treasury's participation with respect to questions relating to American representation on the sub-committee. A memorandum was also prepared giving the history of the Inter-Allied Declaration with a view toward showing Treasury's interest in and relationship to the problem over a period of time. Mr. Minskoff worked on this matter.

(b) Proposed General Ruling (See November 1942 report, item 54). A general ruling is being drafted by Mr. Daum which deals with the problems of the transfer of property located in blocked territory in which persons in this

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country have an interest. This general ruling would prohibit those who desire to sell property located in Europe from using the neutral licenses or from having the transfer made in South America.

72. Securities (See November 1942 report, item 53).

A public circular was prepared by Mr. Daum relating to the interpretation which had previously been given to General Licenses No. 1A, No. 4, and No. 27. The effect of the proposed public circular would be to indicate that these general licenses do not permit transfers from or to accounts or sub-accounts, although maintained in the same name, without a specific authorization from the Treasury Department.

A general ruling and general license are being drafted by Mr. Daum dealing with the exercise of voting rights with respect to securities owned by blocked nationals.

Drafts were prepared by Messrs. Daum and Lesser of a general ruling and press release dealing with the proposed program to ad hoc certain blocked accounts, particularly omnibus accounts, into General Ruling No. 6 accounts.

73. Coinage. An opinion was prepared by Mr. Brenner and Mr. Luxford and a press release issued pointing out that

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the issuance of paper pennies and paper 5-cent pieces by retail merchants association was illegal and should be discontinued.

Immediately following the enactment of the minor coinage bill, an Order of the Secretary, setting forth the findings required by that act and describing the physical properties of the new 1-cent piece which will be composed of zinc-coated steel, was prepared by Mr. Brenner.

74. Foreign Funds School (See November 1942 report, item 61). An intensive educational program on the subject of Foreign Funds Control Public Documents for the benefit of the personnel of the Legal Division of Foreign Funds Control has been inaugurated. Classes are held each week on Wednesday evening from 8 to 11 p.m. At such classes every public document issued by the Control is being discussed chronologically. The discussion deals with the meaning of the document together with a detailed statement of the circumstances leading to its adoption, as well as the critique of its position in the control today.

This educational program was originally adopted for the benefit of the members of the Legal Staff, since there were

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few, if any, attorneys on the staff who had been connected with Foreign Funds Control since its inception, and it is extremely important for each member of the staff to understand the whole control in order to integrate his activities with those of the control in general.

At the request of the administrative staff, 20 of the top personnel of the administrative staff were also invited to attend, as well as Mr. Pehle and his immediate staff. Four representatives of Monetary Research are also attending the course. The school has accordingly developed from a straight Legal Division school into one that is representative of all phases of Foreign Funds Control. A transcript of the lectures is being prepared, and it is hoped that such transcript, together with the research preceding the discussion of each document, may serve as the basis for the preparation of a Departmental handbook on Foreign Funds Control which will be invaluable both in the training of new men and also in order to preserve a contemporaneous record which may be of assistance to others at a later date in understanding the control and the functions of each of the various documents.

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The following work was done under the supervision of Mr. Klaus, Special Assistant to the General Counsel:

75. Investigation of Tax-Exempt Subversive Organizations (See October 1942 report, item 39). Progress has been made in the examination of organizations of possibly subversive character which obtained or have applied for tax exemption or as to which significant information may be obtained from bona fide tax investigations. A thorough study is underway of the America First Committee, most of whose available files are in the Hoover War Memorial Library in Palo Alto, California. The major part of the defense in the case of the New York Turn Verein, which is suing the United States in the District Court in New York to recover income taxes paid, has been undertaken by Mr. Klaus. There is being gathered and has been gathered evidence to show that this was a subversive organization tied up with the Nazis' cause in this country, as were other Turn Vereins along the Eastern Seaboard. Investigations are pending by revenue agents under the direction of Mr. Klaus in New York, Newark, Philadelphia, Baltimore, Cleveland, Chicago, San Francisco and Los Angeles. The outstanding cases already developed

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for revocation of tax exemption, in addition to those named, are the Association of German-American Technologists (with representatives in defense plants in the country), the Seamen's Mission in Hoboken, New Jersey, and the International Geneva Association, a society of waiters.

76. Subversive Activities of Bundists and Other Axis Supporters. In addition to routine work of liaison and distribution of intelligence information, largely with the Federal Bureau of Investigation, material on subversive activities has been gathered to be used by the Department of Justice in pending cases against the Bundists and other Axis supporters, usually for denaturalization. Much information has been given to Mr. Correa in New York, Mr. Maloney in Washington, as well as to the Criminal Division of the Department of Justice.

THE WHITE HOUSE
WASHINGTON

February 11, 1943.

Dear Henry:

Many thanks for your letter
and the copy of a letter to Clarence
Pickett. You do go into things thor-
oughly!

Affectionately,

Franklin D. Roosevelt

February 9, 1943.

Dear Eleanor:

I am returning Clarence Pickett's letter to you with a copy of a letter to him in response to his letter to Elinor, which was similar to that he wrote you.

Affectionately,

[Signed] Henry

Mrs. Franklin D. Roosevelt,
The White House.

File in Diary

Sent by Simmons 5:35
2/9/43

ms

February 8, 1943.

Mr. Clarence E. Pickett,
Waysmeet, Flush Mills Road,
Wallingford, Pennsylvania.

Dear Mr. Pickett:

Mrs. Morgenthau referred to me for investigation and reply your letter of January 15 with which you enclosed a copy of an extract of a letter to you from your niece, Mrs. Harold S. Woodard.

Guy T. Helvering is Commissioner of Internal Revenue and as such head of the largest and most important bureau in the Treasury Department. He is half owner of the Warren Hotel at Salina, Kansas, but is not active in its management. His partner is Warren E. Smither, who lives in Salina and manages the hotel, as well as several others in that area. Mr. Helvering says that Smither has been constantly alert to prevent the sale of liquor in this and other hotels which he manages, but that the head porter at the Warren took advantage of Smither's absence from Salina for several weeks last fall to start selling liquor illicitly to guests. He was arrested by local authorities and found guilty. A report on the incident was made to Mr. Helvering by Mr. Smither on his return, but Mr. Helvering was not informed that the Army or any Army Officer had any connection with the affair.

Mr. Helvering states most positively that he did not take any action in reprisal against anybody and would not countenance any such action by Mr. Smither or anyone else. I know enough about his standards of personal integrity to be sure that he is sincere in that statement. Mr. Helvering is now on a trip West and is looking further into the matter.

It has been ascertained from the Army that the orders relieving Captain Woodard did not come from Washington but were issued by Lieutenant Colonel William A. Cahill, who was in command of Air Base S-2 at Salina at the time. Colonel E. S. Wetzel, Personnel Officer of the Army Air Corps, has informed a Treasury Department representative that he talked to Lieutenant Colonel Cahill at Walker, Kansas, by telephone and that Lieutenant Colonel

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Cahill stated that the change in Captain Woodard's assignment was not made as the result of any complaint against his activities as Provost Marshal, that Captain Woodard's services in that assignment had been very satisfactory and that he had been reassigned to a more important position. Lieutenant Colonel Cahill has been requested to confirm this telephone conversation by a written report.

I am glad you wrote about this matter and I hope on the basis of this information you will be able to assure your niece that Commissioner Helvering has had nothing to do with any attempt to injure Captain Woodard.

Very truly yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston
Assistant Secretary of the Treasury.

2/9/48

D Copy of the Secretary's ltr to Mrs. Roosevelt was given to Mrs. Morgenthau's secretary today.

nmc

THE WHITE HOUSE
WASHINGTON

January 25, 1943

Memorandum for the Secretary of
the Treasury

Dear Henry:

To look into and consider
on your return.

E.R.

CLARENCE E. PICKETT
WAYNEET
PLUSH HILLS ROAD
WALLINGFORD, PA.

January 15, 1943

Dear Mrs. Roosevelt:

I found the letter which came to me from my niece, whose husband, Captain Harold S. Woodard, is at the Army Air Base at Salina, Kansas. It is interesting information. I am enclosing a copy of that part of the letter which tells the story that I referred to. I leave it entirely to you as to whether anything ought to be done about it.

I have sent a copy of the letter also to Mrs. Morgenthau.

Very sincerely yours,

Clarence E. Pickett

Mrs. Franklin D. Roosevelt
The White House
Washington, D.C.

have not told Harold that I would write you.

His first station on active service was at the Army Air Base at Salina in the capacity of Provost Marshal. He had a 1st lieutenant under him and their group of guards increased from about fifty men to over four hundred in a 60 day period from September to November 15th. Apparently his operations were all very satisfactory and successful but he had a great deal of trouble with the local bootleggers selling bad whiskey to the soldiers but could get no convictions on account of local authorities working with the ring. He had decided to "plant" a soldier and get a federal charge. However, before he accomplished this, he instigated a "raid" on the Warren Hotel - where the head steward (rather bell-hop) is a colored man and sells liquor there. After his (the steward's) bodily abuse of two lieutenants there in the hotel who had been drinking, Harold suggested to the manager (a woman) that it might be well to dispose of his services. In less than two weeks Harold was removed from his position as Provost Marshal at the Base and friends of ours here in town came to us with the information that this hotel is owned by Guy Helvering, the Federal Excise Alcohol Commissioner in Washington, and that those orders had most probably come from the Army Headquarters direct there in Washington.

have not told Harold that I would write you.

His first station on active service was at the Army Air Base at Salina in the capacity of Provost Marshal. He had a 1st Lieutenant under him and their group of guards increased from about fifty men to over four hundred in a 60 day period from September to November 15th. Apparently his operations were all very satisfactory and successful but he had a great deal of trouble with the local bootleggers selling bad whiskey to the soldiers but could get no convictions on account of local authorities working with the ring. He had decided to "plant" a soldier and get a federal charge. However, before he accomplished this, he instigated a "raid" on the Warren Hotel - where the head steward (rather bell-hop) is a colored man and sells liquor there. After his (the steward's) bodily abuse of two lieutenants there in the hotel who had been drinking, Harold suggested to the manager (a woman) that it might be well to dispose of his services. In less than two weeks Harold was removed from his position as Provost Marshal at the Base and friends of ours here in town came to us with the information that this hotel is owned by Guy Helvering, the Federal Excise Alcohol Commissioner in Washington. And that those orders had most probably come from the Army Headquarters direct there in Washington.

DEPARTMENT OF AGRICULTURE
WASHINGTON



February 11, 1943

The Honorable
The Secretary of the Treasury

Dear Mr. Secretary:

Reference is made to your letter of November 21, 1942, advising us of the revocation as of that date of the authority granted in your memorandum of April 6, 1942, delegating to me the authority to exercise certain powers under the provisions of subdivision (b) of section 5 of the Trading With The Enemy Act of October 6, 1917 (as amended by the First War Powers Act, 1941), and asking for a summary report of the exercise of that power.

The possession of this power was of great importance to the Farm Security Administration in enabling it to achieve a reasonable degree of equity between Japanese farmers and persons with whom they had to deal in disposing of their farming interests and assets. The mere possession of the power was in most cases sufficient to guarantee reasonable bargains.

However, in only one instance was the freezing authority actually exercised. In that case, a landlord refused to permit the assignment of a lease to a substitute operator who had agreed to pay the Japanese tenant \$1500 for property appraised at \$2000. The landlord refused to pay more than \$200 for the same property, apparently intending to obtain possession of the crop and certain improvements and other assets without adequate compensation. Efforts to effect an amicable solution were continued from the end of March until the 20th of April. The landlord was obdurate, despite the advice of her attorney. As a consequence, the freezing action was taken on April 20, 1942.

We are grateful for your cooperation in this matter.

Sincerely yours,

Claude R. Wickard
Secretary

AGENDA

FOR THE BOARD OF ECONOMIC WARFARE MEETING
TO BE HELD FEBRUARY 11, 1943 at 10:00 A.M.
ROOM 201, SENATE OFFICE BUILDING

1. Enemy oil position - report attached, entitled "Summary of the Enemy Oil Position", dated January 15, 1943.
2. Gold mining report, attached, entitled, "Report to the Board of Economic Warfare on Recommended Export Policy in Latin America".
3. Oral report on Axis blockade-runners.

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SECRET

Copy No. 4

ENEMY OIL COMMITTEE

SUMMARY OF THE ENEMY OIL POSITION

SECRET

January 15, 1943

This report contains conclusions concerning the enemy oil position reached by the Enemy Oil Committee, composed of the following members:

C. V. Barry, Chairman
(Board of Economic Warfare)

William D. Crampton, Vice-Chairman
(Petroleum Administrator for War)

Captain W. D. Puleston
(United States Navy)

Colonel C. E. Jackson
(United States Army)

Emile Despres
(Office of Strategic Services)

Sidney Kilbey
(British Ministry of Economic Warfare)

Max Thornburg
(State Department)

The conclusions represent the combined judgment of the agencies concerned.

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I. SUMMARY OF THE JAPANESE OIL POSITION	1-2
II. SUMMARY OF THE WESTERN AXIS OIL POSITION	2-3

I. SUMMARY OF THE JAPANESE OIL POSITION

1. Japanese requirements for petroleum products for the year 1943 are estimated to be about 50,000,000 barrels. Of this amount black oils (Diesel oil and fuel oil) constitute 74 percent, or 37,000,000 barrels.

2. Japan proper has a production from both synthetic and natural crude of 19,000,000 barrels annually and secures an additional 1,000,000 barrels from oil fields in Saghalien. This production is equivalent to 40 percent of her total requirements.

3. It is obvious, therefore, that Japan must rely on the development of the oil fields and refineries in the Dutch East Indies to fulfill her annual requirements.

4. Although there is very little definite intelligence as to the extent to which Japan has been able to accomplish this result, it has been estimated by experts familiar with the area that the amount of petroleum products secured from the Dutch East Indies during the year 1942 was approximately 10,000,000 barrels and that for the year 1943 this figure will be increased to 50,000,000 barrels.

5. Japan has, accordingly, been forced to draw upon stocks to meet her requirements. Based upon the estimated increase in production from the East Indies, Japan should be in a position by the middle of 1943 not only to meet total requirements by established production, but gradually to increase her stock position. During the early part of 1943, Japan's total stocks on hand of all petroleum products would approximate 9 to 10 months' supply. Japan's present stock position is weakest in black oils (Diesel oil and fuel oil) and comparatively satisfactory in respect to aviation and motor gasoline.

6. With regard to lubricating oils, Japan is consuming more than three times her present capacity to produce. The available stock pile will be drawn upon to such an extent that lubricating oil stocks are expected to be completely depleted by May 1944 unless vegetable oil substitutes are widely used. The seriousness of the lubricating oil picture is further accentuated by the fact that it is not possible to produce lubricating oils in any quantity from the crudes of the East Indies, thus necessitating transportation of all lubricating oil stocks to the areas of consumption from Japan proper.

7. In the early period of Japan's occupation of the East Indies, it was necessary for her to transport crude oil by tanker to Japan for processing. In Japan proper there is an

excess refining capacity of approximately 26,000,000 barrels which could be used for East Indies crude. Calculations, however, indicate that the transportation of such a large quantity to Japan for refining, and subsequent transportation of finished products back to combat areas, would place a serious burden upon the Japanese tanker fleet which, in view of recent losses, would now be barely adequate for the purpose. Any further decrease in the tanker fleet through submarine attack or aerial bombardment will have an increasingly serious effect upon the Japanese oil economy. It is reasonable to assume, however, that Japan has been able to rebuild refineries or to improvise topping plant capacity in the Dutch East Indies to the extent that not more than 15,000,000 barrels are now required to be moved to Japan for processing. Under these circumstances, the Japanese tanker fleet is adequate to handle her present requirements.

8. The most important oil installations in the Dutch East Indies are those located at Miri in Sarawak, Balikpapan in East Borneo, Palembang and Pangkalan Brandan in Sumatra, and Tjepoe in Java. The distributing center and fueling base at Makassar in the Celebes is another important objective, while of lesser importance is the installation at Tarakan. Action leading to the demolition of any of these facilities would have a very direct bearing on the Japanese war effort.

II. SUMMARY OF THE WESTERN AXIS OIL POSITION.

1. The Western Axis oil economy has now reached a critical phase. This critical period will continue until the middle of 1943 when it is estimated that new synthetic plants, manufacturing annually about 1,000,000 tons of petroleum products, will come into production. This increase will considerably improve Germany's oil economy and will alleviate her present precarious position.

2. Effective measures against the Western Axis oil economy to obtain maximum results should be taken immediately and before the new plants come into operation.

3. The British view, as expressed in the interim report of the Hartley Committee dated December 12, 1942, is that Germany has exhausted her free stocks and now is experiencing considerable difficulty in meeting her essential civilian and military requirements. The American view is that Germany's stock position is not quite so critical as pictured by the British, but we do agree that Germany will have great difficulty in establishing adequate reserves in all areas where they may be open to attack by the United Nations.

4. The difference in the British and American estimates of Germany's stock position is not, in the opinion of this Committee, of sufficient dimension to warrant any disagreement whatever with the recommendations made in the above-mentioned British report as to the action which should be taken immediately to cripple the German oil economy.

The Enemy Oil Committee agrees that the following methods present the best opportunities for seriously damaging German oil economy:

1. By forcing the maximum consumption and dispersal of available supplies through direct or threatened military action;

2. By destroying or damaging synthetic oil plants now in production or in the course of construction;

3. By destroying or damaging the oil refineries and transportation facilities located at Ploesti in Roumania, which concentrated area in the opinion of the Committee, is the largest single Enemy oil objective in Europe. Roumanian oil is most vital to the German oil economy inasmuch as it represents over 30 percent of the total current petroleum production of the European Axis.

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REPORT TO THE BOARD OF ECONOMIC WARFARE
ON
RECOMMENDED EXPORT POLICY FOR GOLD MINING IN LATIN AMERICA

Prepared by the Sub-committee on Gold Mining

BOARD OF ECONOMIC WARFARE
Document Security Section

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February 10, 1943

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Feb. 10, 1943

BOARD OF ECONOMIC WARFARE

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Recommended Export Policy for Gold Mining in Latin America.

1. Exportation of all machinery and equipment for gold mining in Latin America to be discontinued as of February 15, except as noted below.
2. Exportation of gold mining equipment and machinery to Nicaragua to be limited to 2,000 tons total, all of which is to be taken by Nicaraguan gold mines before July first, 1943, on a program basis; after which there is to be no further exportation of supplies or machinery of any kind, for the duration;
 - (a) The Coordinator's Office to institute immediately such work programs as have been tentatively approved to absorb any unemployment that might result from this policy.
(See attached study as to other available activities.)
3. Exportation of gold mining machinery and equipment to Colombia to be limited to not more than 2,000 tons, all of which must be taken by Colombian mines before July first, 1943, on a program basis.
 - (b) The Coordinator's Office to undertake a study of possible assistance to Colombia, although it appears that the situation there, comparatively, will not be as serious.

Based upon cables from the respective missions in Nicaragua and Colombia, the budgetary dislocation from this proposed policy would not be serious at this time. But it is believed that it would be wise for a special envoy to be sent to both countries to fully inform the respective governments of the decision, the reasons for it, and what might be expected in the way of assistance from the United States to tide over the conversion to war productive industry.

GOLD MINING IN COLOMBIA

I. IMPORTANCE OF GOLD MINING INDUSTRY IN ECONOMY OF COUNTRY

Of the total estimated national production of Colombia in 1941 of \$570,000,000, farming and grazing accounted for \$342,000,000 or 60 percent, manufacturing \$114,000,000 or 20 percent, and the value of gold produced \$22,960,660 or 4 percent.

In 1941 gold supplied 24.2 percent of the total exports and platinum about 1 percent. In 1940 and 1941 Colombia was enabled to meet its international payments by exporting gold. In 1942, however, gold exportation was not necessary to balance payments because of an increase in volume and value of coffee exported and a decrease in imports. If coffee exports and prices remain at high levels in 1943 and if imports do not rise, Colombia will not require gold to balance its international payments. Since the stoppage of gold mining would not cause a deficit in the balance of international payments, the stability of the peso would not be affected.

The Government derives about 4 percent of its national revenue from taxes on gold. In 1941 the Government allocated \$185,250 from gold taxes to maintain coffee prices. However, since the maintenance of coffee prices has not been a problem nor is likely to become a problem, failure to receive the gold taxes would have little effect on the coffee policy. Purchase of coffee to prevent glutting of markets can, if necessary, be financed by commercial bank loans. In view of the fact that gold mining can continue for some time after supplies are cut off, the financing of any deficit occasioned by loss of gold mining taxes would not be difficult.

Even allowing for the increase in gold output in recent years, not more than 1.3 percent of the total gainfully employed in Colombia are engaged in gold mining, whereas farming and grazing account for about 73 percent and manufacturing about 11 percent. More than half of the 55,000 people employed in gold mining are engaged in panning or washing gravels with simple equipment.

II. POSSIBLE TRANSFER OF RESOURCES OF GOLD MINING TO WAR PURPOSES

Industries That May Be Expanded

Industries that supply strategic materials for export to the United States and that may be expanded in the gold-mining regions of Colombia or in nearby districts are rubber, balsa wood, cinchona, mahogany, and the gathering of tanning materials.

Essential civilian industries that could be expanded by utilizing

labor and some equipment of gold-mining companies include food production for domestic consumption, hand or craft manufacturing, and road construction. This is true especially of those companies operating lode mines or placer mines in the fairly densely populated areas of the mountains.

Estimates to Which Resources Can Be Shifted

It is roughly estimated that about 20,000 people would be thrown out of employment if the dredge, hydraulic, and lode gold mines, not operating on a serial number and selling to the Metals Reserve Company, were closed down. The South American Gold and Platinum Company, operating two subsidiary companies and producing about three-fifths of the platinum in Colombia, operates on a mine serial number, selling its output to Metals Reserve Company. Persons engaged in the panning and washing of gravels, either individually or in small companies, do not require much equipment from the United States and presumably will continue operations even though the principal mines were closed down. Various programs in Colombia have been able to absorb only a fraction of the workers thrown out of employment by the decline of the banana industry and the petroleum industry. The rubber, balsa wood, mahogany, and mineral programs in Colombia will be able to absorb approximately 7,500 additional laborers in 1943. The Field Minerals Committee of the Office of Imports, investigating the mineral possibilities of Colombia, has not reported. Available information indicates that most of the strategic mineral deposits, reported in Colombia, are scattered and in irregular formations and that the possibilities of their employing many people are small.

One of the chief handicaps to the expansion of rubber and other programs in the forested lowlands is the lack of adequate transportation facilities. Some of the transportation facilities now being used in connection with gold mining in the lowlands could be utilized for transporting strategic materials. Except for dredges and hydraulic machines, much of the equipment used in the mining of alluvial deposits in the lowlands could be employed in connection with the production of rubber, balsa wood, mahogany, and other needed materials. In the lode mining districts of the highlands, some of the machinery, the transportation equipment, and even tools could be utilized for construction purposes. Should workable deposits of strategic minerals be discovered by the Minerals Committee of the Office of Imports, some of the equipment of a few of the lode mines in the highlands could be utilized in the development of such deposits.

III. SUMMARY

No material damage would be done the Colombian fiscal situation if exports to gold-mining companies ceased,

If development programs of Rubber Reserve and BSW absorb about 10,000 additional workers in 1943, cutting of exports to gold-mining companies would necessitate a make-work program to take care of at least 10,000 to 15,000 workers formerly employed in gold mining, banana cultivation, and petroleum production.

Foreign Service Telegram No. 232, February 4, 1943, from the American Embassy at Bogota, indicates that the shipment of 2,000 tons of supplies for Colombian gold mines by June 30, after which no additional identifiable supplies would be shipped, would

1. Avoid serious stoppages of gold mining activities during 1943 since many of the large operations can be maintained throughout this year with a relatively small amount of supplies.
2. Not seriously affect the exchange position of Colombia,
3. Decrease governmental revenues by approximately 1 million pesos,
4. Not seriously affect unemployment since the amount of unemployment in 1943 would be small and since other activities could absorb the unemployment caused by the application of this policy in 1943.

I. IMPORTANCE OF GOLD MINING IN ECONOMY OF NICARAGUA

The value of gold produced amounts to about 8 or 9 percent of the national income.

In 1940 gold exports were 61 percent of total exports; in 1938 only 26 percent.

In 1941 La Luz and Neptune, the two largest companies, accounted for nearly 60 percent of the total gold production, contributed 74 percent of the taxes paid to the Government by the industry, employed 2,000 of the 5,000 gold miners, and accounted for 44 percent of the total industry payroll. A substantial part of the gold exported was produced by foreign-owned mines.

Taxes paid by the gold-mining companies are reported at \$446,000 in 1941, equivalent to a little more than 5 percent of total revenues. The budgetary surpluses have been larger than receipts of taxes from the gold mining companies and the loss of such taxes, if no other losses occurred, would have little effect on the Government's financial position.

About 5,000 workers, 3 percent of the gainfully employed, are directly employed by the gold-mining companies. These miners for the most part have entered the industry since 1937. In 1941 the amounts paid out by the mines to the benefit of the Nicaraguan people were as follows:

Payrolls	\$1,652,000
Local purchases	447,000
Taxes	446,000
	\$2,545,000

While gold exports from Nicaragua in 1941 amounted to \$7,320,000, or 2.8 times coffee exports, only one-third of the total value, according to mining industry estimates, returned to the country in the form of taxes, wages, and local purchases. In 1941 coffee exports returned somewhat more income to the country than gold exports. A large part of government revenue is derived from customs duties, both import and export, so that the country's fiscal structure rests in large part upon coffee. Mining machinery enters the country duty free.

II. POSSIBLE TRANSFER OF RESOURCES OF GOLD MINING TO WAR PURPOSES

Industries That May Be Expanded

Nicaragua is experiencing an increased demand for lumber, hides,

skins, medicinal botanicals, and gums. Work on the Inter-American and Inter-Coastal Highways, on air bases, and on sanitation projects can provide increased employment and income.

Estimates to Which Resources Can Be Shifted

Nearly all of the 2,000 workers at the two largest mines were recently transported to these localities by air from other parts of Nicaragua. These and other workers can be absorbed in war projects, such as road building, rubber gathering, and mahogany cutting. In fact, mine operators complain that war projects already are competing for mine labor. Assuming that activity on war projects continues, there should be no problem in obtaining foreign exchange with which to buy the essential import requirements of the country if mining operations are suspended.

Nicaragua has an extensive road-building program -- ten different projects. The proposed roads would tap mahogany, rubber, and pine areas and open up agricultural regions. Much road-building equipment already available at the mines could be used. Labor and equipment of La Luz Company can be used to develop the Monte Carmelo copper deposits, owned by the company. Airplanes used by the mining companies are needed in other services in the country.

Recommendations: The 1943 requirements of 8,500 tons requested by the mining companies should be cut by the Office of Exports to not more than 2,500 tons programmed and distributed over the period March to June as required by the mining companies; and after July 1, 1943, no further exports should be allowed gold-mining companies of Nicaragua.

The Office of the Coordinator of Inter-American Affairs should prepare a make-work program involving the expenditure of some \$1,250,000 a year and keeping orders for equipment from the United States to a minimum.

APPENDIX I

Value of Gold Exports, Other Exports, and Total Exports from Nicaragua, 1935 to 1942

	Gold ex- ports from Nicaragua	Other ex- ports from Nicaragua	Total ex- ports from Nicaragua	Gold exports as a percent of total exports
	Dollars	Dollars	Dollars	Percent
1935	566,771	5,091,392	5,658,163	10
1936	307,704	3,840,482	4,643,186	17
1937	348,808	6,189,534	7,038,342	12
1938	1,550,520	4,333,634	5,884,154	26
1939	3,503,266	4,797,706	8,300,972	42
1940	5,757,992	3,736,008	9,494,000	61
1941	7,600,000	a/	a/	a/
1942 (to Sept. 30)	6,414,092 b/	4,637,393	11,051,485	58

Source: Based on data from Bureau of Foreign and Domestic Commerce.
a/ Not available
b/ Foreign Service Report (Managua), Dec. 4, 1942.

APPENDIX II

Gold Production, Nicaraguan Mines, 1936-1941
(In thousands of dollars)

Companies	1936	1937	1938	1939	1940	1941
<u>Sinua-Bonanza Area</u>						
La Luz	---	---	---	118	1,603	2,618
Neptune	---	---	133	1,227	1,572	1,729
<u>Western Area</u>						
La India	---	---	319	1,009	1,278	1,209
Jabalí	363	355	551	432	506	557
La Reina	---	---	50	267	376	335
Limon	---	---	---	---	20	422
Santa Rosa	---	---	---	---	16	28
San Gregorio	---	---	---	11	16	83
Morabilla	---	---	---	---	5	---
Coco	---	---	---	---	1	2
Santa Ana	---	---	21	---	---	---
Small mines	445	493	477	438	381	337
Total:	808	849	1,559	3,503	5,758	7,320

Source: Guy N. Bjorge, Gold Mining Industry of Nicaragua, June, 1942

APPENDIX III

Ownership of the Mines

That the mines are owned principally by foreign investors is shown in the description, below, of direct foreign investments in five of the leading properties:

Neptune Gold Mining Company. Approximately 75% of the stock is owned by American Smelting & Refining Company, and 25% by New York & Honduras Rosario Mining Co. Operates the group of properties formerly known as the "Bonanza Group."

La Luz Mines, Ltd. Approximately 70% of the stock is owned by Venturas, Ltd., of Toronto, and 30% by Tonopah Gold Mining Company of Nevada, whose head office is in Philadelphia. The Tonopah office is considered the head office of La Luz Mines, Ltd. Operates the old La Luz y Los Angeles and Potosi mines, which were formerly owned by don Adolfo Diaz and Mr. Fletcher.

Compania Minera La India. This is a Nicaraguan Company, but all of the stock is owned in the United States and Canada. Principal stockholders are Irving W. Bonbright, of New York, and Noranda Mines, Ltd., of Toronto. Operates a group of properties in the Santa Rosa District, located in the corner of Leon Province and Matagalpa Province.

Compania Minas de Matagalpa. Nicaraguan company, all stock owned in the United States, principal stockholders being Irving W. Bonbright, the H. B. Price Estate, Henry LeFebvre, all of New York. Operates the old La Reina Mine, located in San Ramon, Matagalpa.

Compania Mina San Gregorio. Nicaraguan company, all stock owned by Irving W. Bonbright and associates, of New York, and J. A. Willey personally. American. Operates old San Gregorio Mine, located near Santo Domingo, Chontales.

Employment

No exact figures are available on the total labor force of the country. An estimate of gainfully employed in 1928 puts the figure at 125,000. On this basis, a rough estimate for 1940 would be 175,000. About 5,000 workers, or about 3 percent of the total gainfully employed, are directly employed by the gold mining companies. These miners for the most part have entered the industry since 1937. A shift to new occupations would affect them less than it would workers of longer experience in their jobs.

APPENDIX IV
GOVERNMENT FINANCES

The revenue and expenditure accounts of the Nicaraguan Government have shown surpluses in each of the past three years and during the first half of 1942.

Revenues and Expenditures
(000 cordobas)^{1/}

	Total Revenue	Customs	Internal	Total Expenditures
1939	22,775	4,926	7,702	18,560
1940	30,174	8,024	12,090	25,938
1941	40,706	9,208	15,517	36,911
1942 (first Half)	20,869	6,150	7,903	18,908

^{1/} Current cordobas; 1 cordoba = 20 cents (U. S. currency).

APPENDIX V

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To continue in operation, the mines must import cyanide and other chemicals, iron and steel products (particularly grinding balls, and parts for ball mills), petroleum products, and replacement parts for motor trucks, including tires. The problem of the companies is essentially to get delivery of essential requirements. A large part of their requirements involves critical materials. These must be transported overseas to Nicaragua, involving the use of shipping space which could be better employed. In the case of the two mines which dominate the industry, the supplies must be transported by air from the coast to the mining properties, involving the use of air transport services which could be better employed in carrying war-needed materials.

Requirements of the Mines

It has been estimated that the import requirements of the mines in 1943 will be as follows:

	Tons
Chemicals	1,400
Iron & steel, (chiefly grinding balls, parts for ball mills, track material)	1,600
Petroleum products (chiefly Diesel oil)	5,200
Miscellaneous (including tires & parts for vehicles)	300
Total	8,500

The mines will need cyanide, dynamite, petroleum products, zinc dust, grinding balls, drill steel, nails, and carbide. By supplying these materials the United States is drawing upon its industrial resources, and is diverting war-needed materials to an industry of no importance to the war effort, and whose essentiality to the Nicaraguan economy is at least doubtful.

The estimated requirements of the mines amount to some 22 percent of the 39,000 tons of requirements which Nicaragua considers essential for 1943. The total imports of Nicaragua in the month of October 1942 amounted to only 1,601 metric tons. Shipping space allocated to Nicaragua in February will be only 1,300 tons.

It is clear that unless more shipping is made available, the supplying of mine requirements will mean a corresponding reduction in imported consumer goods. By thus cutting into consumer goods, the supplying of mine requirements would tend to aggravate inflationary tendencies in Nicaragua.

RECEIVED

1943 FEB 10 PM 2 34

OFFICE
SECRETARY OF TREASURY
9.40

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J.S. SECRETOP-1, No. 54

Following is supplementary resume of operational events covering the period 4th to 11th February, 1943.

I. NAVAL

MEDITERRANEAN. It is expected that repairs to the eight inch cruiser torpedoed on 8th November last will be completed at SPESIA by the end of February.

NORTHERN WATERS. It is believed that the cruisers HIPPER and KOLN have returned to the BALTIC from Northern NORWAY to repair damage sustained on 31st December. SCHARNHORST has also been located in the BALTIC.

LOTE. NURNBERG and TIRPITZ are still in Northern NORWAY. A convoy from North RUSSIA has arrived back in United Kingdom with the loss of one ship by U-boat.

SUBMARINE WARFARE. Shipping losses in January at 221,000 tons were less than December, the lowest month of 1942. Eighty percent of the losses was due to U-boats, 10 percent to aircraft, 7 percent to mines. 68 percent of the losses occurred in the Atlantic where the bad weather probably restricted activity of the U-boats. 10 out of 12 inward bound convoys reached UNITED KINGDOM or ICELAND (C) without loss and 11 out of 14 outward bound convoys from U.K. reached their destinations without loss during the week ending 10th February. There has been an increase of U-boat activity in the MEDITERRANEAN, and one convoy in the North ATLANTIC was repeatedly attacked by a large concentration of U-boats. In the same week in the ATLANTIC 22 attacks were made on U-boats by aircraft and 7 by surface craft excluding those by the escorts of the above convoy. 8 promising attacks are reported. 2 promising attacks are also reported from the MEDITERRANEAN.

SHIPPING CASUALTIES. During the week 6th to 12th, 17 ships were reported to have been torpedoed by submarines. 8 ships (4 British, 2 United States, 1 Greek and 1 Norwegian tanker) in a homebound convoy in Northwestern ATLANTIC and 1 British straggler from the same convoy, a United States ship in "Eastern Atlantic, 3 British ships in the Pacific and 2 Norwegian ships, one of which reached port in tow, off TORBOK. Three British ships in a convoy west of ALGIERES were attacked by submarine, one by submarine and aircraft, and the third torpedoed by aircraft but towed to port. 3 British ships (one still afloat) were mined Northwest of TANGIER and a Spanish ship was mined west of GIBRALTAR but reached port badly damaged.

TRADE. Imports in convoy into UNITED KINGDOM week ending 6th - 345,000 tons including 236,000 oil. 5 ships totalling over 35,000 tons arrived in UNITED KINGDOM from NORTH AFRICA. Approximate imports into U.K. during 1942 totalled 33,970,000 tons which included 10,960,000 tons tanker imports but not repeat not imports from AIRE totalling 477,000. Tanker imports include molasses and industrial alcohol in addition to oil of various grades.

II. MILITARY

LIBYA. Contact with enemy has been limited to clashes between patrols and enemy's rearguard estimated about a brigade strong. In coastal area causeway being constructed over marshes. Main forces still in TRIPOLI area. Enemy appears to be withdrawing his main forces to the MARATH position where he is likely to stand. Every effort being made to reopen TRIPOLI Port to ease maintenance problems of 8th Army and satisfactory progress continues despite large scale demolitions including 2 ships sunk across harbour entrance. Gap now 100 feet wide and 24 feet deep. Arrangements for civil control of TRIPOLITANIA still proceeding satisfactorily. Security reported good and population quiet. Civil food supplies scarce but situation in hand.

TUNISIA. A further United States Infantry division has now concentrated in forward area under command French Corps.

GERMAN DIVISIONS

FRANCE AND LOW COUNTRIES. Some divisions have left for RUSSIA. Departure partly counter balanced by arrival of divisions from elsewhere. Evidence that new divisions are however forming in FRANCE. Total number of divisions now 34, compared with 40 at beginning January.

Regraded Unclassified

- 2 -

RUSSIA AND FINLAND. Destruction of 20 German divisions at STALIN-GRAD confirmed and comprise 3 armoured, 3 motorised, one light and 13 infantry divisions. Further 30 to 40 divisions reported badly mauled. 180 divisions including those badly mauled now estimated on Russian and Finnish Fronts compared with 185 end October. To maintain figure of 180 divisions withdrawals have had to be made from GERMANY and occupied territories.

GENERAL. Despite decrease in number, strength and fighting efficiency of German divisions no repetition no evidence yet of deterioration in morale.

BURMA. Little change in position north of AKYAB where stubborn enemy resistance continues. Local counter-attacks by Japanese have been successfully repulsed. In places front lines only 30 yards apart. Japanese strength now estimated one regiment north of AKYAB, 1 regiment in AKYAB.

3. AIR OPERATIONS

WESTERN FRONT. Day. In numerous attacks on railway objectives in GERMANY, NORTHERN FRANCE and the LOW COUNTRIES a total of 27 locomotives were damaged. Night. 701 sorties during week with loss of 15 aircraft. Chief objectives JURIN and LORIENT. On former 350 tons dropped in 40 minutes in successful attack. On latter about 750 tons in 2 attacks under favourable weather conditions, results satisfactory. More than twenty million leaflets dropped during January over Germany, France, Low Countries, Norway and Denmark.

FRANCE NORTH AFRICA. Air operations considerably hampered by bad weather. Attacks on enemy airfields and harbours were nevertheless maintained.

RUSSIA. Main weight of Russian Air Force in south directed against KARCH STRAIT. The ice in the Strait and the towns of KARCH, TAMAN and NOVOROSSISK were heavily bombed throughout the week. Successful attacks on enemy airfields at ROSTOV, MARIUPOL and STALINO. German air activity largely concentrated on objective in DONETS-ROSTOV area.

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

BERLIN. Further reports on 2 recent night raids. During first attack anti-aircraft defences were chiefly manned by factory workers and civilians. Considerable number of flak personnel moved into BERLIN following day.

COMINES. Daylight raid by Bostons end of August. Direct hit on switch gear caused complete stoppage of power station cutting off all local supplies in district. After one month temporary partial service in operation after 7 weeks still only 10% of normal capacity not repetition not restored for nearly 3½ months.

COPENHAGEN. Attack 27th January considered full production BURMAISTE and WAIN will be held up for some time.

5. HOME SECURITY

Estimated civilian casualties week ending 10th. Killed 57, seriously wounded 103.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 48

Information received up to 7 A.M., 11th February, 1943.

1. NAVAL

On 25th January one of U.S. submarines off BILBAO torpedoed the German S.S. MORDFELS (1,200 tons) which was able to return to port. One of H.M. Canadian corvettes captured a U-boat and 27 prisoners in the ATLANTIC on the 9th, the U-boat sank in tow. An escorted convoy of 6 ships from PORT SAID arrived at MALTA yesterday without loss. A 4,700 ton British ship was torpedoed by U-boat in South African waters this morning.

2. MILITARY

LIBYA. 9th. Our advance along the coastal road delayed by demolition and bad going. 32 enemy tanks reported in area northeast of TAGHELMIT.

TUNISIA. 9th. In GAFSA area, increased enemy activity. French yielded slightly in one sector before Italian armoured car patrol, situation restored by a small mobile force from GAFSA.

RUSSIA. In the UKRAINE, the Russians have extended their thrusts across the railway BYELGOROD-KUPIYANSK and along the railway KUPIYANSK-KHARKOV.

3. AIR OPERATIONS

WESTERN FRONT. 10th. 11 escorted Venturas attacked the railway centre at CAEN. Fighter casualties, enemy - 0, 1, 2. Ours - 3, 0, 1. 12 enemy aircraft crossed the south coast, 2 were destroyed by anti-aircraft fire.

TUNISIA. 9th. 24 escorted United States Fortresses bombed KAIROUAN airfield.

BURMA. 9th. 22 escorted Blenheims bombed objectives in the AKYAB area and 10 Blenheims attacked the railway junction at TRAZI south of MANDALAY.

4. HOME SECURITY

10th. In the early evening, enemy aircraft bombed and machine-gunned over a wide area in SUSSEX and HAMPSHIRE and as far as BERKSHIRE. Damage caused to property at READING, LITTLEHAMPTON, MIDHURST and CHICHESTER and to railway services to SUSSEX. Fatal casualties so far reported, but incomplete - READING 35, NEWBURY 12, CHICHESTER 15, elsewhere in SUSSEX 8.

February 12, 1943
9:12 a.m.

HMJr: Hello.

Secretary
Frank Knox: Hello, Henry.

HMJr: Good morning.

K: How would you like to take a little trip with me about the middle of March?

HMJr: (Laughs) God, you fellows - I - of course, I'd just love to but I've got this darn financing coming.

K: Well, all right. Now listen carefully.

HMJr: Yes.

K: Atlanta was - the Atlanta was sunk just like the Houston....

HMJr: Yes.

K:and from the model set by Houston, the Atlanta people wanted me to name another ship after the city of Atlanta.

HMJr: Yes.

K: Well, I said, "It will cost you \$37 million dollars in bonds."

HMJr: Yes.

K: And they started right out to raise the money, and they're going to have the final meeting and the celebration of the completion of the drive on March 12.

HMJr: Yes.

K: Now we can leave here in the afternoon....

HMJr: Oh.

K:and be down there for the evening meeting, and get away at daylight the next morning. You'll hardly know you've been away from your office.

- 2 -

HMJr: Oh, I thought you were giving me a real invitation.

K: (Laughs)

HMJr: I thought you were going to take me on a....

K: No, this is a part of your business and part of mine.

HMJr: Oh, this is work.

K: Yeah, this is work, and I want you to go with me.

HMJr: Well, that's very nice. Well, I tell you what I think we ought to do if we're going to do that. I think - I'd like to take Walter George with me.

K: Sure.

HMJr: What?

K: Yeah, sure, take him - take him along.

HMJr: Is this something that our bond people are doing?

K: Well, no, I started it myself. You'll be getting into it because the bonds will be your bonds that they're selling, but I got this started and I got the Atlanta Journal behind and I've got the governor in it....

HMJr: Oh.

K:and it's going over. There's no doubt about it, and it means \$37 million dollars worth of bonds in that little town on top of what they've done already.

HMJr: Well, could we work in Walter George on it?

K: Sure, he's the Senator from that state.

HMJr: What?

K: Isn't he? No, he's....

HMJr: Yes, he is....

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K: George is from North Carolina.

HMJr: No, no, no, he's the senior Senator.

K: Georgia, that's right. Sure, we can work him in.

HMJr: Well....

K: Who's the other Senator?

HMJr: Well....

K: Old Car.. - no, let's see, who is he?

HMJr: Dick Russell.

K: What?

HMJr: Dick Russell.

K: Well, he's all right.

HMJr: Yeah.

K: Take them both. If you're....

HMJr: Well, I....

K:going to ask one, you've got to ask them both.

HMJr: Right.

K: Sure, we can do that.

HMJr: Well....

K: Now I'll tell you what I'll do. I've got a wire from the governor and a wire from the mayor, and I'll suggest the appropriateness of sending you an invitation so you'll be officially invited by the proper officials.

HMJr: Right.

K: And you'll go, will you?

HMJr: Absolutely.

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K: Attaboy!

HMJr: Absolutely.

K: All right, Henry, I thought it would be nice to have you hold my hand while I'm down there.

HMJr: (Laughs)

K: (Laughs) How you feeling?

HMJr: Fine. Now - now while I've got you, do you want to - do you want fix a date for next week for lunch?

K: Yeah, the only one I'm tied up on is Tuesday.

HMJr: What?

K: I'm tied up Tuesday. I got a man coming in to lunch with me Tuesday, and that's the only day I'm tied up.

HMJr: Tuesday?

K: Yeah.

HMJr: You're tied up Tuesday.

K: Yeah.

HMJr: Uh....

K: Wednesday would be all right.

HMJr: Well, I got - I thought - I gave an invitation to somebody that's outstanding.

K: Uh huh.

HMJr: How about Thursday?

K: Thursday is all right.

HMJr: Let's make it Thursday.

K: All right, fine.

HMJr: I'll look forward to that.

K: All right.

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HMJr: Thank you.

K: Goodbye.

February 12, 1943.
9:30 a.m.

TAXES

Present: Mr. Gaston
Mr. Sullivan
Mr. Blough
Mr. White
Mr. Paul
Mrs. Klotz

H.M.JR: I called this meeting because I had a little talk with Paul last night about the way this thing is going, and I thought he might tell you himself what came up yesterday with Stam and the others, because I got my own ideas after sleeping on it.

MR. PAUL: I have been arguing with Stam for a long time about what plan - what kind of a pay-as-you-go plan should be agreed upon, if any can be agreed upon, and also how much forgiveness should be allowed. Yesterday Stam made the point which we made first to him, as a matter of fact, that it is very difficult to determine the amount of forgiveness that should be allowed until you know how much tax rates are going to be in 1943, if you try to decide the amount of forgiveness you are giving away now and imposing later in the same year. Of course, there is a great deal of force in that.

So Stam has to go on Monday, much to his chagrin, and he is inclined to take the view that--

H.M.JR: Roy is not chagrined. (Laughter)

MR. PAUL: No. He tried to squirm out of it but the chairman is making him do it. Stam thought it might be a good thing to make that point and to go ahead and collect the first two instalments in 1943 of 1942 taxes, go on a pay-as-you-go basis, collection at source, July first; and defer the second two instal-

- 2 -

ments of 1942 taxes, but not forgive anything until rates were finally determined for 1943.

Now, I called up - thinking from previous conversations with Justice Byrnes that that would suit him to a tee, because he has made the point that forgiveness should not be given away until you got compulsory saving - I called Ben Cohen, after this conference, to get his reaction, and he was very much against it, offhand, thinking that that would make a bad public impression not to settle the matter now.

H.M.JR: I am going to talk last. We will go around the room.

Herbert?

MR. GASTON: It seems to me--

MR. PAUL: Cohen was very much against it.

MR. GASTON: It seems to me it isn't necessary to give anything away at this moment. They could decide to collect the instalments - the September and December instalments - in the form of deduction from pay roll, and defer consideration of how much - of whether there would be additional collection at the source beginning on July 1. That is substantially what Stam has proposed.

H.M.JR: I don't understand it, Roy. Explain it to me.

MR. BLOUGH: You mean what is being proposed?

H.M.JR: Yes.

MR. BLOUGH: I might say Stam had a lot of other things to say, and he said this at the last minute. I think this was what was really on his mind. Returns

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would be filed March 15, as usual, 1943; the first instalment would be paid in March, and the second instalment would be paid in June. Then beginning July first, 1943, a collection-at-source system would go into operation, and other methods of current collection of 1943 levies would go into effect. The instalment of '42 taxes would have been paid September 15 and the instalment that would have been paid December 15--

H.M.JR: 1943?

MR. BLOUGH: 1943.

MR. PAUL: 1942 taxes.

MR. BLOUGH: But would have been paid September 15, '43 and December 15, '43, would be put on the shelf - spread, say, over six instalments, or something like that, to be paid later. That would get us into the system July first. It would eliminate for 1943 the doubling up of '42 and '43 taxes, and would give Congress a breathing spell in which, when they started to struggle with the rates, they would be able to work their rate changes and their forgiveness into one pattern. Moreover, it would make it impossible for them to duck the necessity of raising or changing the rates.

H.M.JR: This is what is going to happen. You are going to pay March 15 taxes as usual, and you are going to pay June 15 taxes as usual, but you don't know what is going to happen to you after the first of July. That is still in the air.

MR. BLOUGH: You don't know what is going to happen to your 1942 taxes left unpaid on the first of July.

H.M.JR: You don't know whether there is going to be a withholding tax on July first.

MR. BLOUGH: Yes, there will be a withholding tax July first. That would be put into the Bill.

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H.M.JR: You know there is going to be a withholding tax, but you don't know whether the second half of your taxes are going to be forgiven. That is going to be hanging.

MR. BLOUGH: Yes.

MR. GASTON: Presumably this would be something like a twenty percentage points withholding.

MR. BLOUGH: Enough, certainly, to take care of the first bracket - that would be the idea.

H.M.JR: I still say--

Harry?

MR. WHITE: I don't like that particular proposal. I don't understand enough about it to know why it can't be forgiven. That is, I like the idea of paying the March 15 and the June portion, and I should be inclined to forgive the remainder, at least. I don't know what difference it would make - what substantial difference it would make - whatever rates were determined. You could still forgive the base rate, if that was the agreement, or any other rate that you decided upon. I certainly think it is bad to leave that thing hanging over so people won't know whether they have to pay double taxes for that year or not. I don't see any particular advantage in it.

H.M.JR: John?

MR. SULLIVAN: I agree with Harry's last comment, Mr. Secretary. I don't think the country would take that, and it seems to me that it may present us with just the opportunity we have been waiting for. I think the men on the committees are getting rapidly fed up with this whole problem, and that they would like to have the whole thing solved as quickly as possible. I wonder if, after Stam makes his statement, that would not be the time to come in and say, "Well, now

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we think this is fine as far as it goes, but why not wind it all up here and now; here are the rates we want to apply to income taxes from now on, and we will start July first - here are the rates, and that ends your income tax problem for this session." Then you go back on your corporate taxes and your excise taxes.

Does that sound feasible, Randolph?

MR. PAUL: That would be awfully hard to get across on the chairman, because he has limited his hearings strictly to pay-as-you-go.

MR. GASTON: That is the difficulty.

MR. PAUL: If you get into that other problem of what rates will be imposed, you will get into all the problems of the sales tax, and you will just never be through. That was the idea.

H.M.JR: I have got an entirely different angle on it. As Secretary of the Treasury, I have got to look at this thing from all angles, and I have got to raise somewhere around fifteen billion dollars in April. I want this damned thing out of the way. I don't want my salesmen, when they go out in April ringing all these doorbells, to say, "What about this business?" It is going to hurt my sales campaign terribly. This whole confusion, this whole suspension - I have got to raise this money. I want it settled so I can get the newspapers' support for my drive - which I can - and get this thing out of the way.

If we lose, I can't help it, Randolph. I mean, just the way I am going to the President of the United States tomorrow and say, "Now look, Mr. President, I don't care where you are going to attack or when, but can I go ahead in April and feel that that is a good month and that you, as Commander-in-Chief - that I won't be coming in at a time when the minds of the public will be unsettled?" In other words, I don't want an

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attack started, say in the middle of April, and then maybe it goes bad and is depressed. I am going to him and say, "If you say to me, 'No, Henry, that is a bad month'" - I am not asking him when or where, but say, "These are my plans," just the way I served notice on Elmer Davis that the month of January had to be clear with the Treasury. We are selling something - it is the difference between a sustained program on the radio, where the radio people go on and sustain it, and a commercial. I am commercial - I have got something to sell, and these other people have just got a sustained program.

I have got to get some kind of support out of Congress. These fellows can't have the water riled all the time. The December financing - part of its great success was the successful campaign in Africa. The people were in a good frame of mind and there was nothing stirring; and twelve to fifteen billion dollars is a hell of a lot of money in any kind of money.

This maneuvering is good, and we might win and we might not win, but as opposed to this tremendous campaign that I want, the people must be in the frame of mind that they are going to buy and not argue.

MR. PAUL: Then I would like to get the rest of your reasoning on what follows.

H.M.JR: I don't care. I want this thing settled. I want it settled. I mean, I want it settled now. I want the people to know what it is. There is enough - Ruml has got the people so upset towards the Treasury that they are not paying the taxes, and I have got to go on the air with Doughton and George Monday night and talk to them. What is the percentage?

MR. SULLIVAN: I just got the report. Through February 9, last year, we had a million nine thousand returns, and this year, five hundred and forty-odd thousand - just a little more than half.

H.M.JR: No, five hundred thousand against a million - it is about a quarter.

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MR. SULLIVAN: A million nine thousand.

H.M. JR: About half.

No, I am not going to - all I am saying - and you fellows can come back at me and say I am wrong, that isn't important - all I am saying is for gawd's sake, let's get it settled. Let's forgive it or don't forgive it, but let's get it settled.

MR. GASTON: We have to make up our mind if we adopt a plan now under which only the amount of the September and December instalments will be collected on a collection-at-source basis, that that is the limit of the amount of taxes that we are going to be able to collect in this calendar year. I think the adoption of that scheme will practically mean the forgiveness of the September and December instalments, won't it? In other words, that will fix our total collections for this year as just what they would have been if the collection-at-source weren't put in.

MR. BLOUGH: In terms of money, it will probably be a little larger - not materially - a couple of billion, maybe.

MR. GASTON: That would practically rule out any increase in income taxes as applicable to the calendar year, 1943.

MR. SULLIVAN: N o, I don't think so.

MR. PAUL: If you defer 1942 taxes and don't forgive, and they are not going to forgive - for better or for worse, we have made our fight - we have probably got a vote of twenty-two or three in our favor.

H.M. JR: Randolph, I am making my position very clear. I am not saying - I simply say I want the thing settled. I think I have perfectly reasonable grounds, don't you think so, Herbert?

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MR. GASTON: I think it is extremely desirable to get it settled. Of course, that doesn't give the answer on how you are going to settle it, but it leads to this conclusion; you ought to try to reach a compromise with the committee as quickly as possible and with the rest of the people who have declared themselves in, so as to get a scheme through.

MR. BLOUGH: One other question - how much do you want settled? Do you want this pay-as-you-go settled, or do you want the tax program for 1943 settled?

H.M.JR: I would like that, but you said that the chairman is limited to debate, so that can't come up - so what I would like, doesn't make any difference.

Wait a minute - that wasn't a fair question.

MR. BLOUGH: It is a fair question. If you are not going to get the second one settled, then your next position, I think, will have to be that they ought to postpone consideration of the tax program for 1943 until after your April campaign.

H.M.JR: Now, look, what Paul said last night over the phone - he liked that because he thought that by leaving this thing hanging over their heads, they might get more money through the Congress, see, and use this as a leverage. I am saying that I have got to rely on the newspapers and the radio, to a great extent, to help me with this campaign. When the radio - the Blue Network - will go and blue-pencil a reference to the Ruml plan out of a radio commentator's script, by gawd, the fellow has some backing.

MR. PAUL: They didn't do that, specifically. If I said that - they did blue-pencil it, but that wasn't directed against - in favor of the Ruml plan. That is a move of the Army to get rid of criticism, and it just happened that their rules were so broad that they blue-penciled the Ruml plan.

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H.M.JR: I thought it was supporting it.

MR. WHITE: I read about it and it stated that among the things they would not include was any criticism - any reference to the Ruml plan.

MR. PAUL: That was incidental. The real drive on that Blue Network and the Red Network is the Army - Somervell is behind that.

MR. WHITE: Who included the Ruml plan in the same category?

MR. PAUL: Drew Pearson mentioned it.

MR. WHITE: Who included the blue-penciling to apply to the Ruml plan?

MR. PAUL: Under the rules they had, you couldn't say anything derogatory about anybody. It was a rule suggested to the Blue Network by the Army.

H.M.JR: But you gave a memo to Walter Winchell to say something about the Ruml plan, and Winchell didn't. Can't he discuss a plan? He didn't have to discuss Mr. Ruml.

MR. PAUL: He is going to try to revise the script this week so he can discuss it under their rules, but the only point I am making now is that this is not an indication of Ruml's power - of which there is plenty, I agree - but this is not evidence of it. This is a totally different plot. This is the Army moving in.

H.M.JR: I think, gentlemen, it is a mistake to keep this question of pay-as-you-go, and everything else, an open question. I think it ought to be settled now.

MR. PAUL: I am just thinking of the time schedule. This is the 12th of February.

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H.M.JR: It is a damned nuisance. This fellow Ruml has been very very clever. He has gotten everybody behind him, and you have the committee's twenty-three votes so they won't forgive anything - while they are in the frame of mind, let's get the thing settled and then go on with the tax bill later on.

MR. PAUL: That twenty-three is not that they won't forgive anything, but they won't forgive everything, like Ruml wants.

H.M.JR: But I would get it settled. It is just a matter of public relations.

MR. WHITE: What is the matter with the plan that they have now tentatively agreed upon of working for forgiveness on the base rate?

MR. PAUL: The trouble with it is that it is our plan. Stam doesn't like it. Robertson is batting for that plan.

MR. WHITE: The advantage of this approach is that they put themselves in the position of jeopardizing something which they will feel is terribly important. Therefore, they will have to pass something. Having to pass something, and not wanting to forgive everything, and being forced to make some compromise in that direction, they might seize on this particular plan - you might get it through, since they have to do something if this other goes over their heads.

MR. PAUL: Doughton thinks that is too much forgiveness.

MR. WHITE: Oh well, Doughton--

MR. PAUL: You can't laugh Doughton off.

MR. WHITE: He will have to come out with something.

MR. PAUL: He has another plan which is very difficult for the Bureau of Internal Revenue. We have eight plans if you want them.

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MR. GASTON: I think the plan that Stam is willing to accept is a pretty good plan - this deferment proposition.

MR. PAUL: You convince Mr. Helvering that that is a good plan.

MR. BLOUGH: That is another matter. He is talking now about deferment, not about the other 1941 rate plan.

MR. PAUL: He is talking about deferment and the 1941-42 rate.

H.M.JR: Did you say deferment of the September and December payment?

MR. PAUL: No, that is another one, Mr. Secretary. This is the one suggested by Doughton, publicly.

MR. SULLIVAN: I think Herb was commenting on Stam's last one. There is no difficulty for the Bureau, there.

MR. GASTON: I was commenting on the plan - whoever is the author of it - on the plan to decide now to collect at source the normal and first bracket, or thereabouts - to make that apply to the 1943 liabilities, and to defer the collection of the September and December instalments on the 1942 taxes.

MR. PAUL: With no forgiveness?

MR. GASTON: Not at the present moment, which would leave the thing open so that a new plan could be put into effect. I don't think it would be practicable to increase collections until after January 1, but you could announce that plan - increase collections after January 1 on a new scheme of rates, involving whatever forgiveness you want to make.

MR. WHITE: How are you going to meet the argument following the Secretary's line, which seems to me to be very cogent?

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H.M.JR: I thought you said "kosher." (Laughter)

MR. WHITE: It means the same thing, under certain circumstances. (Laughter)

A man will say, "I don't know what this is going to cost." You are merely deferring this discussion to next year. "We may have to meet that payment. They may make us meet it, so we will have to meet it in addition to our regular payments. We have to set this money aside instead of buying these bonds."

They will use it as an excuse, some of them - the legislators - but they will exaggerate its importance. To that extent it may interfere with the very reason for getting this done now, at this time - settling it so they will be able to plan and forget it. I don't think it matters much how you come out of this thing, nearly as much as the long discussion involved. I don't think it is so very important to get all those taxes.

MR. GASTON: That is an uncertainty, Harry, that they always face.

MR. BLOUGH: I must say I visualize this timing like this, that if the thing was postponed it would lead to a very early consideration of the main tax bill, in order to get the thing out of the way, and it would not leave you the month of April free. That, of course, is a consideration that I hadn't thought about, which has certainly something to do with the case.

H.M.JR: Walter George - I don't know about Doughton - whenever I talk to Walter George about another financing he always listens very closely. He is very cooperative when it comes to one of our financings. I don't know about Doughton.

MR. WHITE: They can easily be scared into listening, even if they are not.

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H.M.JR: It is important. I mean, I realize perfectly what Blough said. There is this uncertainty, but they have whipped themselves up into a psychological thing that here in the Treasury we are holding back, and all the rest of this stuff, and I just want one less hurdle I have to jump over.

MR. SULLIVAN: You are looking for the lull between two storms.

H.M.JR: Yes.

MR. GASTON: They could couple this with an agreement that they would start consideration of a general tax bill about May 1 or May 15.

MR. WHITE: I don't think those agreements are important. If they are impressed with the necessity of increasing taxes, they will get to it sooner or later.

MR. PAUL: They are not, Harry. Doughton doesn't want it.

MR. WHITE: Then their agreement isn't going to mean much. They can stall on the hearings indefinitely.

MR. GASTON: They are not going to start before May 1, anyway.

MR. SULLIVAN: Do you think there is any likelihood that whenever they start they will get anything approaching sixteen billion - whatever technique they use?

H.M.JR: Anyway, I don't want to prolong it, Randolph.

MR. PAUL: That basis I understand.

H.M.JR: I felt I wanted these fellows to be thinking about it. I would like to do this sort of thing frequently with this group, because, after all, they may have something on the fire.

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MR. PAUL: While you were away we met frequently.

H.M.JR: I don't want to prolong the thing, but I am in the midst, now, of trying to plan a sales campaign - which it is - for my April drive. I am trying to button up all the things. I need all the encouragement and help that I can get. It is very easy to say that people have got the money and they are willing. That is all the bunk. I am selling Campbell's soup - or something else - I have got the merchandise to sell and I don't want - if it is Campbell's soup, I don't want them to think that in May there is going to be a new recipe, or a bigger or smaller size can; that if they buy my soup in April, at least it is some kind of a standard brand, and next month not a different flavor, or a bigger or smaller can.

MR. WHITE: That it would be borsch - Russian Campbell soup. (Laughter)

MR. PAUL: We are meeting with Stam this afternoon.

MR. BLOUGH: I think one thing ought to be made clear.

H.M.JR: Don't forget the sour cream. (Laughter)

MR. BLOUGH: That is that there hasn't been any stalling on this. The committee is only in its second week in hearings, and it has been unable to close sooner because the public demanded to be heard, and the thing is really moving quite expeditiously. So there is no cause for criticism of the committee or anybody else on the grounds that they are stalling, because they are not.

H.M.JR: Anyway - O.K. Randolph?

MR. PAUL: I have got your basic objective. It is certainly not clear in my mind what we are going to tell Stam this afternoon.

H.M.JR: That is your problem, but a basic objective. Anybody in disagreement with my basic objective? O.K.

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MR. PAUL: I am sending in to you a memorandum of various conferences I had while you were away, with Byrnes and Eocles, and I wish you would particularly glance at the one with Byrnes.

H.M.JR: All right.

Thank you all.

February 12, 1943
11:05 a.m.

FINANCING

Present: Mr. Thomas
Mr. Wood
Mr. Stevens

H.M.JR: What I have been thinking about since seeing you is this: I would like to see a couple of field reports, but not necessarily today; whatever the facts are, I would like to see them - about some of the things that you were talking about yesterday - dissatisfaction, or whatever you want to call it. It was a little bit surprising. I would just like to take up with you maybe half a dozen different towns. I would like to read them. I would like to read what your fieldmen have to say.

MR. THOMAS: I think we could do that. We would be very glad to make them available to you. There is this angle of it which may make that not as much a real help to you as you might think. In every case we told these people to whom we talked that they were not going to be quoted, and, therefore, they could talk openly and frankly if they wished to do so.

So in making up the reports, we left out personal references, particularly those that had to do with dissatisfaction. In other words, they just didn't appear there. We did it deliberately. They came through in the way of personal record, either from our own conversations with people, or recounted to us by our fieldmen. We didn't want to--

H.M.JR: I have to make an awfully important decision and I would like to sample a few reports to get the flavor.

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MR. STEVENS: I think we can single out some of those, Harold.

H.M.JR: Give me a couple of the very worst, the most critical.

MR. STEVENS: I think we can do that. I hope we did not over-emphasize by any remark we may have made yesterday that there was any strong feeling of dissatisfaction. It wasn't that so much, Mr. Secretary, as the fact that there was a general recognition that there were overlappings and duplications, and that there would be considerable benefit from the unification. It was more of a constructive point of view rather than a critical point of view, because you always run into - whether it is selling bonds or any other commodity - you always run into some dissatisfied people, but we had no intention to over-stress that point.

H.M.JR: Without saying why - Miss Elliott was at the house last night. She is head of the Women's Division. She is a very able person, and is dean of women at North Carolina. I questioned her. She has just completed about three weeks through seven states, all in the South. I said, "Well now, I take it the War Bond people are kind of dissatisfied, jealous of the Victory Fund." She said, "No, I pressed them hard." She says, "The only thing that they wanted was that they would like to have the F and G back again." I said, "The people talked about it?" She said, "No, I held these meetings and they never would volunteer the thing in the seven states I was in. When I went after them, lots of them talked about pay-as-you-go and the five-percent victory tax." I said, "I suppose they don't feel we are doing very well here in Washington," and so forth, and so on. She said, "No, the only thing that I ran up against was this distribution of posters, and so forth; there were either too many, or too few."

MR. STEVENS: There were out-and-out complaints on that score.

H.M.JR: She is a very frank person. Naturally, I am curious. After listening to you people I got the

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feeling that wherever you went there was dissatisfaction. I know, for instance - the only person I know who is constantly criticizing this end is the head of the Federal Reserve Bank in New York, Sproul. I think he has his reasons. I don't know whether you are familiar with that or not.

MR. STEVENS: We talked with Sproul, and he was one of those who advocated a degree of unity as being desirable in principle, but he was more or less with the whole group in expressing that point of view.

MR. THOMAS: I think we chose a poor word when we used the word "dissatisfaction."

MR. STEVENS: Does it appear in the report?

MR. THOMAS: "Dissatisfaction with present operations universally." It is a poorly chosen word.

H.M.JR: What page is that?

MR. THOMAS: Right in the back of the book, the last section; it is page two.

H.M.JR: I am not arguing with you whether there is or there isn't, but I wanted something to substantiate it.

MR. THOMAS: What we want to do is not give you the wrong impression.

H.M.JR: Universal dissatisfaction - that is pretty strong.

MR. THOMAS: We are not backing up on our findings. We are going to tell you just what the situation is.

H.M.JR: It would be a waste of your time and mine, but you can see that my record is such that I never go out and put my finger on anybody. If the names were there that Mr. so-and-so said that - sure, I want - I mean, in Chicago or St. Louis they said that, that doesn't bother me.

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I know Sproul has written it, that he doesn't think this is right, and so forth, and so on, but I have just not had that impression. I want you to back it up with some field evidence.

MR. THOMAS: Let's take that page right there.
(Indicating)

H.M.JR: What page is it?

MR. THOMAS: It is page two in the back of the book. In the last paragraph there, about the fourth sentence, "Universally there is dissatisfaction with present operations." That is a poorly stated sentence. It isn't a fact.

Let's go on. "Almost none think the job can be done this way" - I mean, the way it is going now - "without clarification. Naturally, there is some difference of opinion as to how the problem should be solved, but all want a solution. In summary, they want unity, continuity of objectives and leadership." That is the constructive side of it. The word "dissatisfaction" is not the correct word.

MR. STEVENS: It implies an unhappiness or dissatisfaction that does not exist in the normally meant sense of that word. I think that has given a false impression. We are perfectly willing to show the reports, and it will substantiate the point of view expressed there. I think we should show you some of those.

H.M.JR: I think you should. Let's move on from that. I would like to have that, but this is what I am thinking about, and I haven't had a chance to talk to Bell; I didn't want to call him at home. I think what you gentlemen could do to help me the most at this stage would be to see what you can find for me in the way of a man, you see.

MR. THOMAS: We have been talking on that score.

H.M.JR: What I want to say is this: We are not apart at all. Let's say we could find a man that would

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suit me. He would have to suit me - somebody I could work with. Then, once we agree that there should be one organization it would be largely his job to meld them. It would be much better to have a new man do it because he wouldn't know any personalities; I would.

It is nothing new for me to say that I want a man; I have felt right along it was too much. I feel, since I have been away, stronger than ever that there should be a sales director of this enterprise on the theory that we will be at it for a couple of years, because even if the war is won, they will have to continue to raise this money just the way they did - the biggest money they raised in World War I was after the war, as I remember it. The Victory Loan was the biggest loan they had, and that was after the war was over.

So, I mean, while this thing would taper off, they would have to do quite a lot of borrowing for several years after the war, after they have ceased fighting.

MR. THOMAS: That is why we have looked at it as a long-haul job.

H.M.JR: I feel, without having talked to anybody, that we could make time by talking personalities. Now, you have something?

MR. THOMAS: We discussed it this morning, and we think you are going to have a team job here with one lead man, and we would propose to go out and dig up as many candidates as possible for each of the jobs. We might even go further in order to save time and dig up candidates in the Federal Reserve Districts - just candidates - just names. Then, the first thing to do would be to select the top man; and after he was selected, we could give him the candidates for his assistants. We could give him the candidates for the Federal Reserve Districts in order to save time on this whole operation. I think we could get at that Monday.

H.M.JR: Good.

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MR. THOMAS: Then we are, in brief, in accord on the general objectives, to have the sales manager and the sales organization, the eventual consolidation, and so on.

H.M.JR: Just this - whoever the man is, I would like to leave the thing open. I don't want - he ought to take a look at it himself, you see. I mean, I think the man who comes in - let's say it is a man of the National Cash Register type - I think he ought to take time enough to look at it himself and satisfy himself and let him come to his own conclusions. I know if I were in his place, I wouldn't want to come in and have a ready-made plan all ready for me. It always gives him the possible alibi, "Well, Mr. Morgenthau, if I could have made my own plan, I could have done so, but you gave me a plan and I had to take it." I don't want that kind of a man, but there is always that. I don't want to commit myself. I want to move far enough forward. I would like to get one man who will be in charge of all sales and the sales promotion effort of selling Treasury securities. I am ready to go that far.

MR. WOOD: Yes, and as a matter of fact, I think that after you get the man he will just see this as a logical sequence.

H.M.JR: Yes, but don't you think I am right? Shall I repeat it again - I would like to get a man and put him in charge of all sales promotion, everything that has to do with all Federal securities. That far I am ready to go as of this morning.

MR. STEVENS: Harold, I personally feel that that point of view that the Secretary has just expressed would be one of the strongest inducements there could be to getting the kind of man that you want. Certainly one of the things that man would do would be to examine all the things; all the steps that we have gone through would simply give him a running start. If he sees it as we see it, there would be no question about it. If he doesn't, that would be a horse of another color. I felt

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as we discussed it last night and this morning that perhaps, purely from the Secretary's standpoint, our own views on that might be developed a little bit further than we went into yesterday, Harold, if the Secretary would be interested in it.

H.M.JR: Yes.

MR. STEVENS: As we saw it, Mr. Secretary, there were two main points that came out of our study. The first was this over-all marketing principle that we all recognize and which we discussed yesterday. The second was that in our own judgment the best application of that marketing principle called for consolidation; and in the discussion of that point I would like to elaborate a moment.

We did not start with the belief that the best application of the marketing principle called for consolidation. We started, if anything, with just the opposite belief. Actually, when we broke down the market into these five groups, we still saw Victory Fund and War Savings Staff in the picture. For example, if under the chart you would think of a national sales director and two lines, one going to War Savings Staff and one going to Victory Fund, then under the War Savings Staff of our five markets naturally would fall the mass market. That would be part of what the War Savings Staff is doing now. The farm market would also be part of what they are doing now. The payroll market would be one of what they are doing now.

Then on the Victory Fund you have the large investor. That is what they have been doing. You have the commercial banks, which they also have been doing.

When we first looked at that chart, it seemed that War Savings Staff and Victory Fund would remain in the picture. On studying it, and in getting additional information, we ran into what, in our opinion, were three insurmountable objections to that. The first is that we realized in looking at people that - and I say this wholly impersonally, because I do not know Mr. Graves or Mr. Buffington - but in just seeing the operations, judging

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the people from that, we realize that first of all there would be a human conflict that would make it difficult, if not impossible, for this top director to project his marketing views for the simple reason that the men in the positions through whom the directions would pass from the top down are not people qualified by experience to interpret those directions, with some exceptions, of course.

MR. THOMAS: They are not marketing men.

MR. STEVENS: No, they weren't chosen as that. There may be some exceptions, and just human nature is such that that would become a bottleneck. It would become a plan on paper only, it seemed to us.

So first, there was the human conflict. Then, a second point of view that came to our mind was the fact that there was a product conflict. The War Savings Staff is now dealing only in E bonds. Actually we find in looking at the different markets they are selling that they should have other securities if they are really going to meet the requirements of those markets. With the addition of other securities, they get in the position where they are again in conflict with Victory Fund to a greater or lesser degree, so there is a product conflict.

The third and last conflict that we ran into was, there was a geographical conflict. We found that War Savings Staff went down the State line. Victory Fund went down the Federal Reserve line. The Federal Reserve line cuts across States, so we found in different situations that there was a geographical conflict.

So, finally, in the face of those three conflicts, we reached the conclusion in our own mind that consolidation was inevitable, and the question was, when. So looking at the last phase, it seemed to us the answer was, the sooner the better, because we felt that as the amount of money to be raised increased and the intensive cultivation of the market increased correspondingly, there would be this conflict that is just beginning to be visible now.

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It would become greatly intensified, and in fact, a very serious objection to the actual financing. It was for those reasons that we reached in our own judgment, and quite independently, I think, at different stages of the study - we reached that conclusion. I think that, as you have said, if the kind of a man, the right type of man is selected, he will have all this to review. If this is so - if this makes sense, you couldn't stop him from urging consolidation.

H.M.JR: Putting myself in that man's place - you are going to give him - as you say, in the first place he has to start a reorganization? I wouldn't want a plan handed to me if I were the man. The man has got to come, and he really has to be a big fellow, and he has to have a certain amount of leeway.

MR. THOMAS: I check with you.

H.M.JR: Sure, even if I said, "You take this plan," he would say, "Mr. Morgenthau, I am very sorry; but if you are going to give me one, you have to give me enough leeway, you have to give me the responsibility." The kind of man we want wouldn't want his hands tied.

MR. THOMAS: I don't think you would do that for a minute. We wouldn't want you to do it. I think we want to go this far, and I think you do, too, make all this stuff available to him.

H.M.JR: Yes.

MR. THOMAS: That is all we were after.

H.M.JR: I think at the beginning you were sort of trying to nail me down to the plan - early this morning.

MR. THOMAS: No. We are just trying to help, not nail you down to anything.

MR. WOOD: As a matter of fact, I don't suppose that personally it makes any difference to any of us what plan

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is used at all. Once we arrived at a conclusion, we would naturally attempt to indicate what those conclusions were, with such explanation; but whether one accepted the plan or not means nothing to us, other than we think that one plan will serve the country better than one of several other plans. Maybe it won't.

H.M.JR: Of course, this thing we are talking about, from my standpoint, is so vitally important, because whatever I do I can't fail. It isn't like you try one sales thing - well, if "Lucky Strike green has gone to war" doesn't work, O.K., "We have moved the music to Carnegie Hall" - if you can tell me what that means. I got the story on what the green was - they showed it was a phoney, and they could get all the green they wanted - but I mean, you can't start a thing and go on the air and if it is a failure, scrap it and start something else. I mean, if I make this move--

MR. STEVENS: It is a major operation.

H.M.JR: ... it has got to go. You have heard me say I can't fiddle around here as they do about rubber - maybe we do, or maybe we don't have it. Nobody knows. Nobody knows what the capacity of the plants is. It is all a mystery.

MR. THOMAS: Yes.

H.M.JR: I can't - I mean, in my business they know. I publish a financial balance sheet each day. They know what my sales are; I can't fool the public, and I can't fail.

MR. WOOD: I suppose we have assumed, without defini-
tizing our thoughts into words, after the first step,
assuming that the Secretary thought the report was reasonably
satisfactory, that when the man came down he would probably
say, "Now, you fellows get in a room with this man and I
or others in the Department will listen in and just let him
see how many searching questions he can ask you and see if
he comes out, after considering all the facts and experiences

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you have had, with the same conclusion." I think that we have assumed that that would logically follow.

MR. STEVENS: We deliberately avoided going into too much detail in the district organization for that very reason.

H.M.JR: You don't think it would be helpful if I gave you a list of the people who are working over at WPB?

MR. THOMAS: Yes, I think it would be very helpful, Mr. Secretary. After all, what we would do would be to just start out and dig up names. Then the thing to do would be to get the history and facts and the score on each one of these men. You have facilities for doing that that are superior to any in the country.

H.M.JR: I guess it would be more the thing not to pick a man because he was already in Washington, but pick him for his ability.

MR. THOMAS: That is the point.

H.M.JR: Then I can find out where he is at.

MR. THOMAS: We have this to suggest - it may or may not interest you. I have had occasion to get Dun and Bradstreet to get some pretty exhaustive reports on people, and they certainly can do it. Now, that may not be necessary.

H.M.JR: We can do a better job, I hope. No, that isn't - I have seen their reports. We can do a better job than that.

MR. THOMAS: Suppose we get to work and dig up some names for these various jobs, and as soon as we get a list of people that we think might be candidates then we will submit them to you. You can put down your objections and point out what the score is.

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H.M.JR: You will be back, when?

MR. THOMAS: That is pretty hard to answer. We won't get at this until morning.

H.M.JR: Give me a call when you are ready.

MR. THOMAS: We will certainly get at it as fast as we can, because I think you want it as soon as you can get it.

MR. WOOD: Just to definitize this - as far as the Secretary wants this group to go at this time is merely to dig up names to give to you?

H.M.JR: . That is right.

MR. WOOD: Just to present you with some names.

MR. STEVENS: And primarily for the top job. In canvassing that we may get suggestions of others, but I think our objective ought to be the top man.

H.M.JR: That is right. I think we have made a little more progress.

Give me a ring whenever you are ready.

February 12, 1943
11:37 a.m.

HMJr: Hello.

Operator: Mr. Bullitt.

HMJr: Bill?

William
Bullitt: Yeah.

HMJr: Henry speaking.

B: Yes, Henry.

HMJr: Could you come over to see me and see if we
can't straighten this thing out?

B: I'll come right over immediately. Do you want
me to bring either Bethouart or Picot or both
with me?

HMJr: Could they wait in the outer office?

B: Yes, they can wait, and I'm sure neither one of
them would mind.

HMJr: How - how soon could you be over with the gang?

B: Well, just as fast as I can get a car here to the
door.

HMJr: Well....

B: It'll - I'll order my car immediately. It'll
probably take it six minutes to get down from
the garage.

HMJr: Well, because our time is....

B: Or I'll try to get a taxi, what?

HMJr: Well, have you - you've got to send up to your
house?

B: No, no, no, I don't mean that. I'll get a special
car.

HMJr: Oh, well, that's - I mean you'll be over here
about noon.

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B: I'll be over there before noon.
HMJr: And - and - you see....
B: And I'll bring both gentlemen with me.
HMJr: And then see if we can't....
B: Yeah.
HMJr: We - we will straighten it out.
B: Right. Fine, Henry.
HMJr: It's a mess.
B: Swell. Swell, thanks very much.

February 12, 1943
11:41 a.m.

HMJr: Hello.

Operator: Mr. Bell. Go ahead.

HMJr: Hello.

Daniel
Bell: Yes.

HMJr: I'm sorry to have got you out of bed, Dan.

B: (Laughs) You didn't. I've been up a long time.

HMJr: You're on the loud-speaker, and there are two people here besides me. One is Madam Klotz; the other is Professor William Heffelfinger.

B: I see.

HMJr: And - you know, that long-haired fellow with the bow tie.

B: Yeah.

HMJr: Now listen, you run off and you leave all these poor French sailors on a ship and none of us know where we are. I read your memorandum, which doesn't help at all.

B: Really?

HMJr: And Bullitt is coming over with a general and an admiral, and - I haven't got - I'll tell - let Mrs. Klotz repeat to you what Bullitt told her, because I can't - she has all these generals down pat. Just a minute.

B: All right.

Mrs. H. S.
Klotz: As I understand it, Picot was supposed to call you last night....

B: He didn't.

K:and he didn't.

February 12, 1943
11:41 a.m.

HMJr: Hello.

Operator: Mr. Bell. Go ahead.

HMJr: Hello.

Daniel Bell: Yes.

HMJr: I'm sorry to have got you out of bed, Dan.

B: (Laughs) You didn't. I've been up a long time.

HMJr: You're on the loud-speaker, and there are two people here besides me. One is Madam Klotz; the other is Professor William Heffelfinger.

B: I see.

HMJr: And - you know, that long-haired fellow with the bow tie.

B: Yeah.

HMJr: Now listen, you run off and you leave all these poor French sailors on a ship and none of us know where we are. I read your memorandum, which doesn't help at all.

B: Really?

HMJr: And Bullitt is coming over with a general and an admiral, and - I haven't got - I'll tell - let Mrs. Klotz repeat to you what Bullitt told her, because I can't - she has all these generals down pat. Just a minute.

B: All right.

Mrs. H. S. Klotz: As I understand it, Picot was supposed to call you last night....

B: He didn't.

K:and he didn't.

B: That's right.

K: And he came over. They want that \$135,000 - the two accounts combined have \$135,000, as I understand it.

B: That's about right.

K: And they need \$250,000.

B: For this one payment?

K: Yeah.

B: I see.

K: But they're - they're perfectly willing to take what they can get. But they can't get it. As I understand it, Bethouart -- sounds something like that --

B: That's right.

K:has his license but Picot hasn't, and they can't -- where's this money, in the Riggs?

B: Yes.

K: Well, they can't get it until Picot gets his license.

B: Well....

K: That's as I understand the story from Bullitt.

B: I see.

K: And....

B: Well, that ought to be simple.

K: Yes, but since you were away no one in your office knew about it, and they wouldn't give Picot the license....

B: Well, John Pehle....

K:and since....

B: The license went through the Federal Reserve Bank in Richmond. Now it's pending some place, either

(cont.)

- 3 -

B: in Richmond or in the Treasury. What John Pehle
(cont.) ought to do is call up Hilleary Hoskinson -
Hoskinson....

K: Yes.

B: He's the second in line over at Riggs. Bob
Fleming is sick....

K: Yes.

B:and tell him to go ahead and put it through
and the license will follow, not to wait for the
license.

K: I see.

B: And Picot can use his \$100,000.

K: I see.

B: I'd just tell Riggs not to wait for the license,
go ahead and pay it out.

K: Oh. Oh, I see.

B: And we'll protect him.

K: Oh. Wait just a minute. Mr. Morgenthau says it's
not clear. Just a second.

HMJr: Now do this thing right from the beginning.
What is the money in the Riggs, and who put it
there, and what funds does it come - let's do
it all - Heffelfinger's making notes, because
I - if the President cross-examines me I've got
to get this thing straight.

B: There are two - two items.

HMJr: Yeah.

B: One is General Bethouart, who is head of the
mili... - French Military Mission in this country
....

HMJr: Now wait a minute. Now just a second. (Talks
aside: Let me have a sheet of that paper,
please.) Just a minute. I hated to bother you,
but if you....

B: No, it's all right. I'll....

HMJr:if you will....

B:come down if you want me to.

HMJr: No, no - if you will keep these things secret, you know....

B: Well, this is not really a thing that belongs with my staff.

HMJr: I see.

B: It's something that was handed to me. It belongs really to John Pehle.

HMJr: Oh. Well, I've just sent for John.

B: Well....

HMJr: Just a second. General....

B: Bethouart, you know, head of the mili.. - French Military Mission in this....

HMJr: Bethouart - you don't know how to spell that?

B: B-e-t-h-o-u-a-r-t. It's something like that.

HMJr: B-e-t-h....

B: It's in my memorandum.

HMJr: It's in your memorandum?

B: Uh huh. My secretary looked up the spelling. (Laughs) I didn't know.

HMJr: We don't think - no, they say not. Well, anyway, Bethouart or whatever it is.

B: He has a letter of credit.

HMJr: (Talks aside: How do you spell it?)

B: Letter of credit.

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HMJr: Wait a minute. (Talks aside: B-e-t-h - what? - o-u-r-t - o-u - all right. All right.) Now go ahead, General Bethouart has got what?

B: He has a letter of credit.

HMJr: A letter of credit, yes.

B: It originally amounted to \$100,000....

HMJr: Yeah.

B:but against which he has drawn, as I understood it yesterday, \$62,000....

HMJr: Yeah.

B:leaving \$38,000 that he can still draw.

HMJr: Wait a minute. He's drawn....

B: Sixty-two.

HMJr: He's drawn sixty-two - wait a minute - drawn, yeah. That's - leaving how much?

B: Thirty-eight.

HMJr: Thirty-eight, yeah. Yeah.

B: Well, he has to certify to Riggs....

HMJr: Yeah.

B:that the money he's drawing is for administrative expenses....

HMJr: Yes.

B:of the French Military Mission in this country.

HMJr: Yeah.

B: Now there's another fund which is being transferred to Riggs....

HMJr: Yeah.

B:for the account of General Picot.

HMJr: General....

B: I mean Georges Picot.

HMJr: Wait a minute - Picot, yeah.

B: P-i-c-o-t.

HMJr: Yeah.

B:amounting to a hundred thousand.

HMJr: Yeah - that's in the process of being....

B: That's in the process of being. Now that - I understood the French-American had their license but the Riggs had not received their license.

HMJr: Yeah.

B: But that was just a matter of, I should think, a few minutes.

HMJr: Yeah.

B: When he draws against that he has to certify that it's for the administrative expenses of the Civil Mission....

HMJr: Yes.

B:attached to the French Military Mission.

HMJr: Yeah.

B: That's in the memorandum.

HMJr: Yeah..

B: Now that's the \$135,000 that's available.

HMJr: I see. Gosh, that doesn't seem....

B: Now that - that is the only money that could be used, it seems to me, easily that belongs to the French North African group.

HMJr: Yeah.

B: Otherwise, you'd have to cable over....

HMJr: Well, they have.

B:or you'd have to take strong-arm methods under 5(b) which I take it you don't want to take against North Africa.

HMJr: Well, couldn't they - wouldn't it be much better to draw on the President's Emergency Fund?

B: That's right. That was in the memorandum too. The easiest way would be for the President to set aside....

HMJr: We must have - well, we've got the wrong - we haven't got - the memo she - she didn't give me the right memo.

B: She didn't? There's only one memo. It's a page and a little over?

HMJr: One's dated February 6 to the President and....

B: Oh, no, I sent you a memo last night....

HMJr: Well....

B:on the whole thing.

HMJr: (Talks aside: The eleventh.) Just a minute. Wait a minute. (Talks aside: Send Chauncey in here, Chauncey.) Well, I didn't - I got this thing - I haven't - Dan....

B: Yeah.

HMJr: Why don't I call you back in a minute or two?

B: All right.

HMJr: Let - let me read this memo which Bill's just given me. I haven't....

B: Who's given you?

HMJr: Bill Heffelfinger had a - he had one - he's got the right one. I had the wrong memo.

B: Oh.

HMJr: Let - let me read it and call you back in a minute.

B: All right, fine. I'll be right here.

HMJr: Please.

February 12, 1943
11:50 a.m.

FRENCH WARSHIPS

Present: Mr. Pehle
Mr. Heffelfinger
Mr. Bullitt
Mr. Luxford
General Bethouart
Mr. Picot
Mrs. Klotz

(Memorandum to the Secretary from Mr. Bell, dated February 11, 1943, read by Mrs. Klotz, copy attached.)

H.M.JR: That gives me the story.

Now, if the President would agree to let us have it, how would we draw on that?

MR. HEFFELFINGER: That would be an allocation out of his funds to some of the agencies.

H.M.JR: Would that be done - say the Navy through the Bureau of the Budget?

MR. HEFFELFINGER: Probably the Navy.

H.M.JR: Through the Bureau of the Budget?

MR. HEFFELFINGER: Yes, sir.

MR. PEHLE: I can add a little bit to that, Mr. Secretary. There is now sitting in my office a representative of General Bethouart, Mr. Zuber, who was referred to me by the Riggs Bank on this matter. We had only said "Hello" when you called. He is looking for funds. The two hundred thousand that has been made available - the restrictions on those funds are Treasury restrictions which can be changed by a telephone call, and those funds, I am quite sure, are fully available

- 2 -

for the payment of these expenses. In other words, those restrictions are only in there because our licenses put those restrictions in. If the French wanted to use those funds, there is nothing in the way of their using them.

H.M.JR: How much do they need?

MR. HEFFELFINGER: I think Mr. Bell said they needed two hundred and fifty thousand dollars for this payment, and there is only a hundred and thirty-eight available in those two other funds.

MR. PEHLE: They don't need any two hundred and fifty thousand dollars for crew expenses right now. They can't have that large a crew over here.

H.M.JR: The outside would be, say, two thousand net.

MR. PEHLE: They pay them very little.

H.M.JR: Supposing they paid each of them a hundred dollars--

MRS. KLOTZ: That doesn't seem possible.

H.M.JR: ... that would be two hundred thousand. It is most likely back pay.

MRS. KLOTZ: They said that to clean the whole thing up it would take two hundred and fifty thousand.

H.M.JR: These fellows have been in Dakar a long time.

MR. PEHLE: But they have been getting franc payments, I assume.

H.M.JR: Maybe.

MR. PEHLE: It may be that I could find out, Mr. Secretary, from the fellows in my office how much they need.

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H.M.JR: Should there be someone here from the General Counsel's office?

MR. PEHLE: It would be helpful if Luxford were here.

H.M.JR: Who is he?

MR. PEHLE: The fellow who took Bernstein's place.

MR. HEFFELFINGER: Has the Picot license gone through?

MR. PEHLE: Yes, sir, several days ago. This fellow said he just wanted to know whether we had heard of any money coming through.

(Mr. Bullitt and Mr. Luxford entered the conference.)

H.M.JR: Bill, you need how much money?

MR. BULLITT: What these fellows have said to me is this, that the ships are in and the admiral says he needs two hundred and fifty thousand dollars.

H.M.JR: Admiral?

MR. BULLITT: Fenard, whom I brought in. He is the admiral I brought in here the other evening - Vice Admiral Fenard.

General Bethouart, who is the head of the entire mission of General Giraud here, under whom are Admiral Fenard and also Mr. Picot - those two are waiting outside, General Bethouart and Mr. Picot.

The situation is this: Two accounts were opened, one for General Bethouart of a hundred thousand dollars--

H.M.JR: We have that.

MR. BULLITT: ... from which all has been drawn, except thirty-eight thousand. The second is for Mr. Picot

- 4 -

for a hundred thousand dollars, which has not yet been licensed; nothing has been drawn from that. Therefore, the total that they can draw out would be a hundred and thirty-eight, which would be perhaps undesirable. Say a hundred and twenty-five they might be able to do.

When I talked to Bell last evening, he said that he thought it would be all right if they were ready to go over and draw this, and it could be reimbursed later, but they would only give them a hundred and twenty-five. That is a great deal better than nothing.

H.M.JR: Let me interrupt you. The President is getting ready to leave. How much do they really need? How much do they really need, two hundred and fifty?

MR. BULLITT: They need two hundred and fifty thousand. I don't know what they need; I can only say what the General said to me this morning.

(Secretary on White House phone.)

Good morning.....

I see all the cars lined up. Has the President left yet?.....

Don't let him go.....

Mr. Bullitt is here in my office and outside are General Bethouart and Mr. Picot.....

It is a question of this money.....

Has the President heard anything?.....

This is what we can do: There is thirty-eight thousand dollars in the Riggs Bank belonging to General Bethouart and a hundred thousand dollars which has been set aside there for Picot. What I thought, and what Mr. Bullitt is very anxious to have me do is to use, say,

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a hundred and twenty-five thousand of this pending, you see, their hearing, and these gentlemen are willing to have that done.....

You would have to go over to the house²?.....

Run, please.....

Call me either way.....

(Secretary's conversation on White House phone concluded.)

She is running over to the House to try to catch him. She is at the office. She said the President said that pending hearing from Admiral Hall he didn't want to do anything, and that the crews always stay on the ship twenty-four or forty-eight hours and it wouldn't hurt them. I am just quoting. She said that he has heard nothing from the Secretary of the Navy or the Secretary of State in regard to this.

MR. BULLITT: He maybe won't get anything in for days. There we are - well, that is fine.

H.M.JR: I have the machinery here if the President says yes. Pehle, we can do it in what, five minutes?

MR. PEHLE: Right away.

H.M.JR: Go across the street?

MR. PEHLE: It is in the French American, too. We would have to get them on the telephone.

H.M.JR: Five or ten minutes?

MR. PEHLE: As soon as we can get them on the telephone.

H.M.JR: So as far as we are concerned we can move that fast, Bill.

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MR. BULLITT: That is swell.

H.M.JR: Any trouble?

MR. LUXFORD: No trouble at all.

H.M.JR: Bill?

MR. HEFFELFINGER: That is right, O.K.

H.M.JR: So, you have everybody here.

MR. BULLITT: What was this five hundred thousand dollars that was offered to them that they so nobly turned down and got themselves into this?

H.M.JR: It was a million dollars, I think.

MR. HEFFELFINGER: Mr. Bell referred to - it could be paid out of balances in the same manner as the million dollars which is being transferred each month to Martinique.

MR. PEHLE: That is something else.

H.M.JR: They were offered Lend-Lease money, which they turned down. As I understood it, at some earlier time we offered to pay all the expenses.

MR. PEHLE: As I understood it, they wanted to pay their own fleet. They asked if we could help them out through Lend-Lease. As I understand it, Lend-Lease funds are not available to pay those expenses. There was a question of doing it some other way. The President had suggested using the French gold. That is possible, but it raises various political issues.

MR. BULLITT: I would be very much inclined to think the President is very right on that, although it does raise political issues, as you say. It is a sensible way to handle it.

MR. PEHLE: They have plenty of funds, Mr. Bullitt. They are getting about fifteen million a month from

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American expenditures in that area. If they want to pay them out, they can.

H.M.JR: When did the ships get in?

MR. BULLITT: They got in yesterday.

H.M.JR: Who led them ashore?

MR. BULLITT: They are just simply sitting there. I don't know; I haven't asked beyond that.

H.M.JR: It is unfortunate some of these things aren't done the day before the ships come in.

MR. BULLITT: This is a fantastic one.

H.M.JR: The thing here - this is from Bell; I quote, "I talked to Dr. Feis about the payment of the French crews arriving in New York on the French naval ships. He said the matter had been discussed with the President on three different occasions last evening and he would not change his first instructions. They were that a cable should go to Admiral Hall at Casablanca stating that the President had discussed with the French Admiral in charge of this particular group of ships that will come to the United States the question of paying the crews. The President gained the impression that this French Admiral wanted to pay the expenses for these crews, including the salaries, out of their own funds. (It is presumed that by this is meant North African funds.) In the cable Admiral Hall was requested to discuss the matter along this line with the French admiral and report back to him. I understand that cable went last night.

That discussion might go on for ten days.

(Secretary on White House phone talking to Miss Tully.)

Yes?.....

You are a wonder, because the carriage has left.....

- 8 -

Now, listen, how about if we bring down the best looking one?.....

The Ambassador wants to talk to you.....

(Telephone conversation concluded.)

She said, "Would you bring down the best looking fellow who has some of that money?" (Laughter)

MR. BULLITT: Shall I bring them in?

H.M.JR: Yes.

(General Bethouart and Mr. Picot entered the conference.)

H.M.JR: We have just - did you explain to them that we have just caught the President?

MR. BULLITT: No.

H.M.JR: The President was just leaving and I could see the cars. I was fortunate to get his secretary, Miss Tully, and she raced over and just caught the President.

He said that we can draw a hundred and twenty-five thousand dollars out of these two funds. The one in which you have thirty-eight thousand left - that is your fund?

(Discussion off the record.)

MR. BULLITT: He says then they won't have anything left.

H.M.JR: How rapidly are you drawing?

MR. PICOT: We have drawn, in two months, sixty-two thousand.

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MR. PEHLE: The replenishment of that just requires a cable to Algeria - to get the bank to send the cable through. They have ample funds. We will license it.

H.M.JR: Would you rather - we have Mr. Picot down for a hundred thousand - would you rather have all of it taken from that or some from that and some from the thirty-eight?

MR. PICOT: Yes, sir. We take one hundred, and twenty-five thousand of the thirty-eight.

H.M.JR: All of the hundred, and twenty-five thousand out of the thirty-eight?

MR. PICOT: Yes.

H.M.JR: And then at the same time we will send a cable.

MR. PEHLE: They would send it. Whatever further funds they need they would ask for.

MR. BULLITT: May I suggest that that should be preferably drawn up here. You tell them just what they need to send on this - I mean, before they get away from here, so we don't have a hiatus where there is no money, because it may be some time before this reply from Casablanca, or wherever, comes back here, and you may have a period in which, unless you can get additional funds by this method, you may not have funds.

MR. PEHLE: We can work that out with Mr. Picot without any trouble.

H.M.JR: The General doesn't want to bother with this, does he? Does he want to see this through, himself, this morning?

MR. BULLITT: Does he have to sign something?

MR. PEHLE: No. We will take care of seeing that the funds are released and Mr. Picot, or whoever he wants,

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can work it out with the Riggs Bank if they want to draw the funds here.

MR. BULLITT: How can you get the funds in the most rapid manner to the admiral in New York?

MR. PEHLE: Drawn French American. The bank is closed today.

MR. BULLITT: If the bank is open here and not in New York, may I suggest it would be preferable to draw the money out here and stick somebody on the train to carry it up. There they are, sitting, at the moment, in New York without a penny.

H.M.JR: Can you do that?

MR. PEHLE: We could do that. If the funds are late today - it is a question of whether they will advance the thing.

MR. LUXFORD: They are going to have to go there to finish the transfer, and they might as well pay it up there.

MR. PEHLE: We can get in touch with somebody in the French American and try to get them there this afternoon.

H.M.JR: What would be the earliest you could get funds?

MR. PEHLE: Say three o'clock.

H.M.JR: He hopes to do it by three o'clock.

MR. PEHLE: We can take care of it with Mr. Picot. We will get everything ready and get it out first thing in the morning. Conceivably you could work it out through Riggs, though Riggs would have to get hold of somebody in the French American.

H.M.JR: Make the effort and see if you can do it.

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MR. PEHLE: We will work it out one way or the other.

H.M.JR: Are you going to sit in on this?

MR. HEFFELFINGER: I will be glad to.

MR. PICOT: We were expecting a hundred thousand dollars from Algeria.

MR. PEHLE: We haven't heard any word of it, but I will check also on that. Was that through the French American or the Federal Reserve?

MR. PICOT: Through the French American.

MR. BULLITT: The main point is this will cover a hundred and twenty-five thousand dollars. They need another hundred and twenty-five thousand dollars. Therefore, we ought to get off another telegram and get authorization to pursue this method until we get the thing regulated in a simpler way.

MR. PEHLE: Mr. Secretary, they are expecting another hundred thousand to come through. If that comes through, can this be worked out on the same procedure without going back to the President?

H.M.JR: I only spoke to him on a hundred and twenty-five thousand, but I got a quick answer.

MR. PEHLE: I don't see any policy problem there.

H.M.JR: -I would like to think that over. He approved the hundred and twenty-five thousand. You had better let Herbert Feis know so he can let Mr. Hull know that it is all sewed up.

MR. PEHLE: I will bring him up to date.

H.M.JR: If Mr. Picot could stay with these gentlemen - have you got time right now?

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MR. PICOT: Yes.

H.M.JR: They will finish it; we won't have to bother the general.

February 11, 1943.

MEMORANDUM TO THE SECRETARY:

I talked to Dr. Feis about the payment of the French crews arriving in New York on the French naval ships. He said the matter had been discussed with the President on three different occasions last evening and he would not change his first instructions. They were that a cable should go to Admiral Hall at Casablanca stating that the President had discussed with the French Admiral in charge of this particular group of ships that will come to the United States the question of paying the crews. The President gained the impression that this French Admiral wanted to pay the expenses for these crews, including the salaries, out of their own funds. (It is presumed that by this is meant North African funds.) In the cable Admiral Hall was requested to discuss the matter along this line with the French admiral and report back to him. I understand that cable went last night.

I have made inquiry of the French American Banking Corporation in New York as to the funds made available to General Bethouart and his Mission and I understand that he has a letter of credit payable through the Riggs National Bank in Washington for \$100,000 on which Riggs makes advances and then gets reimbursement from the French American. Through these accounts \$82,000 has been paid to the General, leaving \$38,000 in this account. Before he can get any funds it is necessary for him to certify that the funds so drawn are for the administrative expenses of the French Military Mission.

There was another \$100,000 made available by the French American Banking Corporation to the Riggs National Bank for account of one Georges Picot. License is now pending before the Treasury for the transfer of this sum to an account in the name of this individual in the Riggs Bank. As Mr. Picot disburses this money he has to certify that the funds withdrawn are for the purpose of paying administrative expenses of the Civil Mission attached to the French Military Mission. None of this last mentioned fund has been spent.

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The only funds available in this country which could be disbursed immediately are funds belonging to the French Government on deposit in New York which could be disbursed in the same manner as the \$1,000,000 monthly transfer for Martinique. This could be done on a letter from the Secretary of State to the Secretary of the Treasury. The Secretary would take action under 5 (b) of the Trading with the Enemy Act. This would probably bring requests from other French groups such as the DeGaulle interests for funds from French balances in this country.

It may take several days to get a reply to the President's cable which was sent to Casablanca last night. If it is necessary to make immediate payments and they want to use funds other than the French balances, it is suggested that the President make an allocation out of his Emergency Funds with the understanding that it would be reimbursed out of whatever French funds are ultimately designated to be used for this purpose.

(Initialed) D.W.B.

DWB:ew

February 12, 1943
12:25 p.m.

HMJr: I got word to the President and he okay'd our drawing \$125,000 out of the Riggs.

Daniel Bell: I see.

HMJr: And we're doing it that way.

B: Rather than using his fund?

HMJr: Yeah, well, I knew there was - Grace Tully had to run over there to catch him. He was going out, I think, to lay a wreath on Lincoln's tomb. I suppose that's where he was going.

B: Uh huh.

HMJr: And that tides it over, and right now there's - on it is Heffelfinger and Pehle and Luxford....

B: I see.

HMJr:and they're - Luxford - and they're going to see the thing through.

B: All right.

HMJr: So you can forget about it.

B: Well, okay. It's too bad to throw it on your doorstep. It was....

HMJr: Well....

B:not your baby.

HMJr: Uh....

B: I mean it was the State Department's baby right up until....

(Remainder of conversation not recorded.)



TREASURY DEPARTMENT

WASHINGTON

February 12, 1943

MEMORANDUM FOR MR. BELL:

Reference is made to the attached memorandum for the Secretary concerning payment of the French crews arriving in New York on French Naval ships. The Secretary called me just a few minutes before he talked with you on the telephone. His initial difficulty was probably caused by the fact that he was reading from your memorandum of February 4 and did not have before him the memorandum of February 11. After talking with you he found the February 11 memorandum and, in the meantime, had called Pehle. Mr. Bullitt from the State Department, with General Bethouart and Mr. Picot were also on their way from the State Department.

The Secretary read your memorandum of February 11 and understood the situation. At this time Mr. Bullitt came in and said that the French ships in New York had immediate need of \$250,000. The President was about to leave the White House for the Lincoln Day ceremonies and the Secretary immediately called Miss Tully at the White House and had her contact the President and tell him we proposed to permit the French to use up to \$125,000 of their balances for immediate purposes since no reply had been received from Admiral Hall at Casablanca. The President indicated his approval. General Bethouart and Mr. Picot then entered the Secretary's office and the Secretary said that we were willing that they use \$125,000 of their funds and suggested that they could consider this a temporary advance until they had time to contact their North African officials and arrange for the transfer of sufficient funds to pay the expenses of these French crews. He offered to cooperate in sending such messages as might be necessary for this purpose and told the French representatives that members of the Treasury staff would work with them in seeing that the funds were made available.

Mr. Bullitt and General Bethouart then left and Mr. Picot, with Mr. Pehle, Mr. Luxford and myself went to your office to work out the details. Mr. Picot said he would have no trouble wiring French North Africa requesting further funds for this purpose, and we suggested that he might ask for at least \$500,000, in view of the fact that the time when other arrangements could be made was so uncertain. The question then arose as to the procedure to be followed in withdrawing funds from the accounts in Riggs Bank to make them



available in New York. I talked with Mr. Boskinson and Mr. Dent at Riggs Bank and they were reluctant to make payment of \$100,000 to Mr. Picot and then immediately transfer that money to the French-American Banking Corporation in New York for account of some other French official. They took this position because they receive these funds through the Guaranty Trust Company of New York with the specific condition that they be paid to Mr. Picot for paying administrative expenses of the Civil Mission attached to the French Military Mission. Mr. Pahle and Mr. Luxford had to leave to attend an Appropriation Committee hearing at the Capitol, and Mr. Fox of Foreign Funds and myself went to Riggs with Mr. Picot. I explained to Mr. Dent and Mr. Boskinson that I could appreciate their position, and they suggested that we permit them to contact the Guaranty Trust Company tomorrow morning in an effort to get their instructions changed. I told them I thought this would involve complications that might delay the entire transaction and, since it was necessary to have the funds in New York the first thing tomorrow morning (it was developed in the meeting in the Secretary's office that the French ships arrived in New York yesterday) there were two methods by which this could be accomplished—(1) by having the French officials withdraw the funds in Washington and send them by messenger to New York, or (2) by arranging for the transfer of the funds to New York through the Treasurer of the United States. The Secretary's instructions as we left his office were to stay with this thing and see it through, and I had previously checked with George Barnes that they could handle the transfer upon the basis of Cashier's checks from Riggs Bank.

I left Mr. Picot and a gentleman representing General Bethouart at Riggs at 1:30 p.m. Mr. Picot had his check for \$100,000 and they were arranging the details for getting a check on General Bethouart's account for \$25,000, after which Mr. Picot was to call at the Treasury this afternoon.

Shortly after 4 o'clock Mr. Picot returned to the Treasury, in company with Commander Deprez, and stated that it had been decided that he would indorse the checks over to Admiral Fenard and Commander Deprez would take them to New York by train tonight. In the meantime, the Foreign Funds Division had contacted Mr. Claflin, Vice President of the French-American Banking Corporation, by telephone at his home in Newlett, Long Island, and told him his Company could receive and disburse these funds to the French officials in New York and the Treasury would issue the necessary license covering the transaction. Mr. Claflin agreed to do everything in his power to facilitate the transaction in New York.

Mr. Picot said he would arrange to contact North Africa to get \$250,000 transferred to himself, \$125,000 to replace the funds being used today, and \$125,000 for another half-month's salary for the crews. He asked what arrangement would be made for subsequent payments. I told him I understood the matter was under consideration but I had no knowledge of those details.

At the Secretary's request Mr. Pahle called Dr. Fels and informed him for the information of Secretary Hull of the action taken by the Treasury.

WJH

D

Fiscal Service

TO

Mrs. Blotz

You may desire
to bring this to
the Secretary's
attention.

Since writing this
we have been informed
that the French
representatives called
at the bank this
morning at 10:30 A.M.
and got their cash

WJF

MR. HEFFELFINGER 2/14



TREASURY DEPARTMENT
WASHINGTON

February 12, 1943.

MEMORANDUM FOR THE SECRETARY:

The final details with respect to making \$125,000 of the French funds held by Mr. Picot and General Bethouart available for paying the French crews have been completed.

After leaving your office we offered our assistance to Mr. Picot in contacting the officials in North Africa to arrange for the transfer of sufficient funds to pay the expenses of the French crews. He thanked us for our offer and said he would have no difficulty in communicating with the officials in North Africa.

We then endeavored to arrange with Riggs National Bank to transfer \$125,000 by wire to New York at the request of Mr. Picot and General Bethouart, and while no difficulty was experienced with respect to \$25,000 of funds under control of General Bethouart, the Riggs National Bank did not desire to transfer \$100,000 from Mr. Picot's account. The bank took this position because it had received the funds through the Guaranty Trust Company of New York with a particular limitation upon the purpose for which it could pay such funds to Mr. Picot, namely, for the purpose of paying administrative expenses of the Civil Mission attached to the French Military Mission. The bank took the position that it could not consistently pay these funds to Mr. Picot and then transfer them for him to another French official in New York. The Riggs National Bank offered to contact the

FOR DEFENSE



In these circumstances we suggested to Mr. Picot that he withdraw the funds by accepting cashier checks of Riggs National Bank and said we would extend the facilities of the Treasury to arrange for the transfer of these funds by wire through the Federal Reserve Bank of New York for payment to the French-American Banking Corporation for account of such officials as Mr. Picot might designate. Mr. Picot indicated he would take advantage of this offer or he might decide to send a French official to New York with the checks.

There should be no further difficulty with respect to the \$125,000 involved in this transaction.

Werkzeugführung
J. F. F. F.

TREASURY DEPARTMENT

329

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

February 12, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS (Yesterday)

House

1. The Treasury was assailed by Reps. D. E. Satterfield, Jr. and Paul W. Shafer for what they termed "needless waste" of vital war materials in cartons used to send out charts showing the progress of War Bond sales.
2. As CIO President Murray, who previously had endorsed the Ruml plan, reversed himself to call it a "snare and a delusion" in tax hearings, Rep. Louis Ludlow prepared a Pay-As-You-Go plan for introduction. Ludlow's proposal is that on April 15, 1943 each taxpayer be required to file 2 forms: (1) a complete income tax report with '42 rates applied to '42's total income, but not accompanied by any payment; (2) a quarterly report and payment covering January, February and March 1943. Thus the taxpayer would pay his first quarterly installment for '43 at '42 rates. Then when the 1943 Tax Bill is passed its rates would be substituted for 1943 rates.
3. Congressional Controls over U.S. Agencies - A. The House passed (vote 294 - 50) the Smith Resolution creating a Special 7-man Committee to investigate regulations, rules, etc., of Government agencies and departments to determine whether they: (1) exceed delegated authority by Congress or Executive order, (2) violate the constitutional rights of citizens, (3) inflict penalties for violation of regulations without giving the accused the chance to defend before a "fair and impartial" tribunal. Smith told the House the Committee's authority would not extend to investigation of the war effort or of the President.
B. The House also approved by unanimous vote a resolution giving the Appropriations Committee subpoena powers in examining the organization and operation of Government departments and agencies. Chairman Cannon, of the Committee,

said it would facilitate "pre-appropriation scrutiny" to determine the justice of requests for funds.

4. "The lead (on labor legislation) should come from Congress and not from the Executive," Rep. Jennings Randolph, a member of the Labor Committee told the House.
5. WPA equipment is being "mutilated" instead of given to the Army as "publicized", Rep. C. Jasper Bell charged on the House floor, citing an example he knew of in Independence, Mo.
6. Senators Truman and Barkley also led criticism of the WPB for what they termed maladministration which is destroying the small businesses of the nation. Sen. Truman blamed "big business (which) has sifted into our bureaucratic agencies, such as the War and Navy Departments, and the War Production Board."
7. Chairman Dies of the House Unamerican Affairs Committee said the first thing his committee would do under its new 2-year lease on life would be to re-examine 1,200 names of Federal employees previously accused of subversive connections.

Senate

1. Senator McKellar told the Senate he is unalterably opposed to any Pay-As-You-Go plan which would cancel 1942 taxes. "If there was ever a time when we ought not to cancel a whole year's taxes, it is now", he said, because they are to "support our boys in the armed forces all over the world."
2. Expressing dissatisfaction with OES Director Byrnes' opposition to changes in farm parity formulas and his injunction against further unauthorized price increases, farm bloc senators indicated that they would press even more vigorously to write into the parity formula all farm labor costs, including that of the farmer himself. Claiming that Executive policies do not always carry out the intentions of the legislative branch, they centered their attention on Bankhead's bill which would prevent deductions for subsidy, parity, conservation, and incentive payments in figuring parity prices for farm products.
3. The Administration also probably is headed for other fights in Congress over its new anti-inflation and manpower programs. There was general approval of Byrnes'

assertion that the WLB's "Little Steel" formula would remain unchanged, but sharp criticism of overtime payments for workers being ordered to a 48-hour work week.

4. Condemning duplication of questionnaires which saddle business men with "colossal expense" and "intolerable waste of time", the Byrd Committee recommended in a report that the Budget Bureau be empowered "not only to simplify but to eliminate" most of 7,025 reports put out by 48 Government agencies in 6 months, and to coordinate the remainder. OPA was the worst offender requiring statistical data on 7,715,229 report forms. Congress, the Committee report continued, should exercise control by limiting the amount of money available to each Government agency which sends out requests for information.
5. Senator Hugh A. Butler introduced a resolution calling on the Byrd Economy Committee to make a "full and complete investigation" of Government agencies which provide loans, advances or extensions of credit. He contended that since the Administration has urged citizens to pay debts or reduce them as rapidly as possible, as one of its anti-inflation measures, the Government should liquidate its own obligations as rapidly as possible.
6. In a speech, endorsed by McNary and Reynolds, Sen. Tydings called on Britain to surrender the island bases in the western hemisphere as a "token of appreciation" for her billions of dollars of benefits under the Lend-Lease program. Claiming that "Lend-Lease is a one-way street", Tydings asserted that food sent Britain under Lend-Lease is sold through retail outlets there with the proceeds going into the British Treasury. "It is just that much taxation which the British people would otherwise have to pay to sustain their Government", he said.
7. Testifying for his bill which would make it mandatory for all Civil Service appointments of \$4,500 or over to be approved by the Senate, Senator McKellar charged before a Senate Judiciary Committee that the Civil Service Commission is the most bureaucratic in the world.

MEMORANDUM FOR THE SECRETARY.

February 12, 1943.

Mail Report

A wave, in fact a tidal wave, of tax mail rolled in this week, and all in all, it was an angry one, churned by the Treasury's opposition to the Ruml Plan. If the many newspaper editorials and cartoons -- often submitted anonymously -- can be used as a gauge, the press is opposed to the stand taken by the Treasury. An unfavorable editorial from The New York Times, and another widely published one entitled, "The Treasury's Hand is Quicker Than the Taxpayer's Eye", were especially popular with those who sent clippings.

Over 150 persons urged establishment of a pay-as-you-go schedule; 88 of these endorsing the Ruml Plan in full. On the other side were 2 who spoke against the principle of a pay-as-you-go system, and 30 who objected to "forgiveness" of a year's taxes. Two or three wanted adoption of a pay-as-you-go plan made optional to the taxpayer; 5 suggested that War Bonds be bought in lieu of 1942 taxes; and a few others thought Victory Tax refunds could later be used to liquidate 1942 taxes. Although 10 persons expressly opposed concurrent payment of 1942 and 1943 taxes, many others who outlined plans for placing collection on a pay-as-you-go basis, provided for overlapping payments on the two obligations during at least part of 1943. Fifteen individuals who depend on pensions, dividends, or small salaries that have not been increased, said that they could not meet their taxes if rates are further increased. The Victory Tax slipped by almost unnoticed during the week, but the Sales Tax came in for increased attention, those in favor of it outnumbering opponents 5 to 1.

Memorandum for the Secretary.

February 12, 1943.

Aside from the great number who took issue on one or more of the many tax problems, there were between 50 and 60 who simply requested Forms, or asked for guidance in filing their returns. Half a dozen repeated the suggestion that a discount be allowed for payment in full by March 15, and one person proposed that the Government create a National Lending Agency for the benefit of those who must borrow to meet their obligations.

Bond mail, unusually light for the week, was made up chiefly of routine payroll deduction reports, and inquiries about regulations as to ownership, re-issuance, or re-placement. In several instances, persons who have accepted Bonds as security for accounts due them have notified the Treasury that new Bonds should not be issued to these original owners who may report them missing. The 8 letters received in reply to the circular dated January 25, 1943, "The Holders of 2-1/2% Treasury Bonds of 1962-67 Addressed", expressed interest in converting these Bonds to coupon form. Bonds submitted for redemption, 41 in all, maintained the level set during previous weeks. Only 3 came from Patchogue, New York, and 2 from Wurtland, Kentucky -- a decided reduction for each town. Both the total number of complaints from individuals, and the proportion from personnel of the War Department increased over the figures for last week. Letters of complaint totaled 60, with 44 from employees of the War Department.

Among the rest of the mail only 2 suggestions attracted special attention. Five Members of Congress wrote or transmitted letters which questioned the validity of the issuance of \$660,000,000 in Federal Reserve greenbacks, and recent Congressional action in regard to Mr. William Pickens brought 6 letters or resolutions which defended Pickens, and at the same time denounced the activities of the Dies Committee.

H. E. Forbush
by Kay Pearson

General Comments

R. D. Longyear, President, E. J. Longyear Company (Mining Engineers), Minneapolis, Minn. New capital equipment required for expansion of essential war production must be paid for out of cash surplus or out of earnings. Increased production requires increased working capital. This has resulted in wiping out the cash surplus of many companies. Earnings, the second source of purchasing power, are now taxed 90% under the higher brackets of the Excess Profits Tax Law. Thus, the firm with exhausted cash surplus has left 10% of earnings out of which to meet new capital requirements. This is entirely inadequate and penalizes production. In our case, cash surplus is wiped out. At the same time, pressure continues for new equipment to handle additional Government-approved contracts for the exploration and development of strategic metals. Earnings from such new equipment would be reduced to 10% after tax deductions. Therefore, it would be suicidal to borrow in order to finance our purchase. For these reasons, we are compelled to do without the equipment; and our productive effort suffers accordingly. * * * We are not so much objecting to parting with 90% of excess profits as such, but we do object to giving up hard cash which we must have to purchase equipment required to carry out our share of the war program. I suggest, as one possible solution, that a credit be allowed against Excess Profits Tax payments equal to the amount of new capital equipment approved by W.P.B.

Eugene Nistal, Route 1, Limona, Florida. * * * My dream is to own myself a little Jeep. Today I read in the local paper there is a law that the people can make contributions to the Government to buy arms and equipments for the War, so here is my proposition for your consideration. "I am willing to pay in full with War Bonds for one Jeep to be sent to any front for the duration, and after the War is over, sent back to me

to be used on my farm". As you see, this is not a contribution, but will be a Lend-Lease in U. S. terms. I am buying War Bonds regularly most every week, and if you accept my proposition, I will redouble my effort.

Frances F. Brundage, Russell, Kan. Some time ago you very kindly advised me as to the procedure in securing a Foreign Funds license so that I might repay a debt to Mrs. Alice Lewisohn Crowley in Zurich, Switzerland. Please let me thank you for your courtesy, and at the same time report that the transaction has been completed -- much to my satisfaction. I appreciate deeply the fact that you gave this small and personal matter your attention at a time when you are so engrossed in matters of state.

Senator McKellar forwards letter he has received from Peter Pyfe, President, Tipton County Farmers Union Bank, Covington, Tenn., which reads as follows: No doubt you know the Treasury has called on the banks to assist in the sale of War Bonds. Of course the banks have responded, giving part of their clerical force over to maintaining a record of these and even storing them for safe-keeping. All of this is without charge to either the Government or the purchaser. It does seem somewhat less than fair, Senator, when our Government at the same time renews its efforts to extend the services of numerous loan agencies and auxiliaries of the Government. The mail is full of these to local farmers. I am sending you one attached hereto. (Letter from Production Credit Association soliciting loans from farmers to meet their credit needs.) * * * I hope something may be done to stop all this foolishness. If banks are to survive, they will need an opportunity to fill their proper function in the community.

Curtis Truman, Truman Furniture Co., Minneapolis, Minn. Please accept my thanks for your opposition to the Nugent Plan for deferred buying. This Plan would surely work a hardship on medium, and small-sized stores. If customers are going to make payments on

an article, which is to be delivered two years in the future, they are going to select the largest and longest established store to handle the transaction. Naturally, they will feel that the large stores are more apt to be in business at the end of two years than the small stores. They will also reason that the large store is more likely to receive quick shipment, and thus have the merchandise for earlier delivery. I hope you will continue opposition to the Nugent Plan.

Dai Ming Lee, Editor, New China Daily Press, Honolulu, Hawaii. The Chinese community in Hawaii, numbering 29,000 persons, is derived chiefly from the District of Chungshan, lying adjacent to the Portuguese colony of Macao. The Hawaiian Chinese have many relatives in Macao, which is a favorite place of residence because of its relative security during the Sino-Japanese war. Some of these relatives are American citizens; the majority, however, are citizens of China. * * * The Hawaiian Chinese have been trying to reach their relatives with funds in order to prevent their dying of want and famine. The office of the New China Daily Press is besieged with appeals. * * * These folk who are now suffering in Macao are, in most cases, the kinsfolk of American citizens; in every case they are citizens of our ally, China; and the knowledge that they can be saved from starvation will greatly raise the morale of the Chinese community here. * * * The Chinese Government allows the transmissal of funds by mail to Chungshan District (although it is under Japanese domination), but this is a time-consuming and uncertain process, as the mail must be run past the Japanese patrols. * * * The American Government, on the other hand, grants special licenses for the transfer of funds by radio to Macao, but to American citizens only. Even this limited privilege has been of real value in reducing suffering among our kinsfolk there. We have found that money can be sent to Macao in about fifteen days and that it arrives safely in the hands of those to whom it is directed. In behalf of the Chinese community of Hawaii, the New China Daily Press is asking, therefore, that the right to obtain special licenses to send funds to

American citizens in Macao be extended so as to allow of the sending of funds to Chinese citizens residing there -- subject, of course, to safeguards to prevent funds falling into the hands of unreliable or unauthorized persons, or being in any way appropriated to the use of the Japanese. * * *

Anonymous -- Philadelphia, Pa. Comment on quotation, "I have decided", taken from notice on January 25, 1943, to holders of 2-1/2 percent Treasury Bonds of 1962-67: "I have decided". Does the fiscal policy of the nation depend on the decisions of one man? The insatiate desire of most Washington officials for self-aggrandizement is a measure of incompetence.

Arthur A. Spingarn, President, National Association for the Advancement of Colored People, N.Y.C., forwards statement adopted by the Board of Directors on Feb. 8, concerning William Pickens. "The attempted ouster of William Pickens from the Treasury Department Savings Staff, by arbitrary action of Martin Dies, and his followers in the House of Representatives, should bring home to Negroes throughout the country and to all decent Americans, inside Congress and out, that character assassination, professional lynching, and intimidation of public officials by the Dies clique must be stopped. * * * It is the first duty of every voter to record the action of his Representative in the Pickens case, in all similar cases, and whenever Dies asks for more money to carry on his evil work. The voters must give clear notice that no Member of Congress who gives any aid or support to Dies shall be re-elected. The N.A.A.C.P. pledges itself to work without let-up to defeat every Congressman who fails the people on this vital issue.

W. P. Hull, Portland, Oregon. Enclosed find check for \$14.49. Please use to help whip those savages and murderers that we are fighting. I am able to work again (Old Age and Survivors' Insurance) so as long as I can work enough to be able to get by, will donate yours for Victory.

Unfavorable Comments on Bonds

Joseph A. Rowe, Flintstone, Md. I am writing to you about the telegram that you sent to the plant that I work in (The Celanese Corporation of America) in reference to the buying of War Stamps. They give out a lot of Stamps on payday, and the people that get them go to the Post Office right away and cash them in. This only makes a showing for the Company and does not benefit the Government at all. You may check this at the Cumberland Office, and within a radius of 30-miles where people live that work there. I think that they can do the same as the B. & O., and other places around here -- just give a Bond and no Stamps.

Les. Hacker, Manager, Radio Station KVEC, San Luis Obispo, Calif. It is with a great deal of regret that we are writing, asking that you grant us permission to return our present War Bond stock to the Federal Reserve Bank of San Francisco, and cancel us as an issuing agent for War Bonds. We are not making this request because we have been unable to sell Bonds. We have to date sold nearly \$30,000 in War Bonds; we don't feel that this is so bad when the population, etc., is considered. But this request is due entirely to our manpower problem. To date, we have in the Armed Forces 12 employees. Normally we have maintained a staff of 3 operators and 4 announcers. We are now down to 2 announcers and 2 operators, and the local Selective Service Board is taking one more operator and another announcer within the next thirty days, or possibly sooner. This means that we are going to be forced to curtail our hours of operation and unless some relief is obtained from some source, will have to possibly close KVEC. * * *

Ulmus Edwin Gillen, Hotel Green, Pasadena, Calif. * * *
On December 2, 1942, I paid the Bank of America, in this city, \$1,000, and have their receipt for a \$1,000 U. S. Government Bond, 2½% 1963-68 Bond. The Bond has not been delivered to me, and I am told the Bond has not been printed yet. May I ask if that statement is true?

When is the Bond likely to be available for delivery, and will the $2\frac{1}{2}\%$ interest apply from the date I paid for the Bond? A line or two from you on the subject will be appreciated.

A. W. Bittenheim. President, Frederick Snare Corporation, Contracting Engineers, N.Y.C. * * * We think we would not be doing our patriotic duty if we did not call your personal attention to the fact that these light bulletins (from War Savings Staff) were enclosed in one of the heaviest, most expensive mailing tubes that we have ever seen, the tubes having metal ends, made of critical materials. Furthermore, these could have been mailed in an ordinary inexpensive mailing tube, which would have cost a fraction of the cost of these tubes, costing much less for transportation, and by using open-end tubes, the use of any metal could have been avoided. At a time when every one in the country is being asked to conserve metal, pulp and other critical materials, it is certainly making a bad impression to have the Treasury Department waste materials in this manner. * * *

Favorable Comments on Taxation

L. Wartena, Philadelphia, Pa. I wish to express my appreciation for the way in which you have recognized the tax problem of alimony payers. You have removed a great injustice from the old income tax system, and by doing so, have justified our faith in the justice of our system of taxation. Thanking you again,
Respectfully yours, L. Wartena.

Charles S. Bailey, Glendale, Ohio. Subject: Curbing Menacing Inflation. In a meeting of approximately 500 business men the other evening, the consensus of opinion seemed to be that the 10 billion due from 1942 taxes should be paid in a three or four year installment, and the 1943 on a "pay-as-you-go" basis, and possibly avoid inflation, in my estimation, to put in also a Federal Sales Tax. I individually think as Congressman Fred. L. Crawford thinks, that, "the 1942 tax cancellation would almost be economic blasphemy". * * *

J. T. Johnson, Miami, Fla. * * * The most objectionable feature is "forgiveness" of 1942 taxes, or postponement to a later year, when tax burdens will be even heavier than now, and "forgiveness" just as popular. I fancy this plan is fostered by persons with large incomes, as cited recently by a columnist moaning over hardships of taxpaying by a \$25,000 salaried man. * * * Few persons are in love with tax paying and would welcome a Fifth Freedom -- Freedom from Taxes. * * * The Ruml Plan seems absolutely unnecessary, as the Government has provided liberal terms and methods of easy payment. The quarterly installments, tax saving notes, bearing interest when used for tax payment; War Bonds which may be converted into cash, if necessary; even Savings Stamps of small denominations; and Americans still have billions for non-essential things. Why not reduce these and devote savings to tax payments? * * *

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William S. Pollitzer, Emory University, Ga. As I understand the situation, after the U. S. Treasury has taxed the people, and the people themselves have bought all they need or want of market goods, there will be a surplus of 40 billion dollars in the country. * * * Why is it not possible, instead of directly taking 16 billion from the people in taxes, and merely asking for from 12 to 40 billion in Bonds, to tax at a considerably higher rate, even collecting 40 billion, and then leave only 15 billion for the people to give voluntarily in Bonds? This would reap more than what we need for the War, absolutely prevent inflation, and save the Government 133 1/3% (Principal and Interest). * * * No one knows more clearly than you what a tough job you have ahead of you. More power to you and best of luck.

Comments Favoring the Ruml Plan

Theodore M. Switz, Wilmington, Delaware. We should not refuse to do good for millions simply because we will be doing too much good for a few that don't deserve it. We're for the RUML PLAN.

Reginald M. Campbell, N.Y.C. Why in Heaven's name isn't there greater evidence on the part of representatives of the people to encourage acceptance of the Ruml Pay-As-You-Go Plan, the merits of which are so overwhelmingly apparent? There does not seem to be any indication on the part of the present Administration to assist any decent-thinking, patriotic American in his sincere desire to do all possible for the War effort, and back up the boys at the front. To the contrary, the attitude seems to be to make things just as difficult as humanly possible. I am just one of the millions that will have a grand tough time this year in holding on to my home and meeting bare current expenses. * * * With the existing plan, it might be well to keep in mind the cost of collection, plus the confused muddle and mess that will result. The immediate situation is pathetic.

Alfred H. Benjamin, President, Anglo American Trading Corporation, N.Y.C. * * * I am an advocate of the Ruml Plan because it would eliminate "fear" and "chaos" throughout the industrial world, the farming population as well as the men who are fighting on all fronts. * * * Our President, The Honorable Franklin Delano Roosevelt, once stated that to create fear was fear itself, and harmful to the nation. If we enforce the payment of '42 taxes, together with a pay-as-you-go plan for '43, we will spread "fear" and "chaos" amongst our people. * * * It will be a physical impossibility for the rank and file of the employers, as well as the employees, to meet the Treasury's demands. Therefore, I advocate a moderate plan, based upon the Ruml suggestions of yesterday. I have always been a supporter of the present Administration, but in this act I can well see the downfall

in '44 of the Party if they execute any plan for exacting the 1942 and '43 taxes together. * * We have always supported any Treasury recommendations, as we did in the first World War, and we have supported the purchase of Defense Bonds, and we hold your Certificate. We can only say that we intend to continue this plan as long as it is humanly possible, but must also say now that if you demand of us the '42 and '43 taxes, we will have to stop immediately the purchase of any Defense Bonds. * * *

Mrs. Iris Abbott, N.Y.C. Please reconsider and lend your support to the Ruml Plan. Am greatly concerned at this new red herring for semi-adopting a pay-as-you-go plan, plus the intolerable idea of also paying the 1942 taxes "as is" on some sort of installment plan. This is not merely beyond the people's capacity, it is bad psychology. The Ruml Plan, on the other hand, is simple, effective, and leaves the nation no worse off and will make the public feel solvent and good.

Albert E. Koehl, Hartsdale, N.Y. To Henry Morgenthau, Jr., Randolph Paul, and all the other reactionary Treasury Department officials whose only new idea in 10 years has been the Jefferson nickel: I'm a mild-tempered, God-fearing citizen of the U.S.A., but to read all the silly arguments you bring up against the Ruml Plan makes me bite my nails and tear my hair. Here's an idea that 99% of all Americans favor, an idea that means extra revenue for the Treasury, an idea that will keep all of us from bankruptcy, yet you will have none of it BECAUSE IT ISN'T YOUR IDEA. * * * The Ruml Plan is the only logical one. Quit stalling and give us poor taxpayers a break for once.

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Unfavorable Comments on Taxation

Walter C. Hecker, Curtis Manufacturing Co., St. Louis, Mo. * * * I have decided that after those tax anticipation notes that I now have purchased have been used, I shall not purchase any more because the income is taxable, and by the time I pay normal and surtax, and considering the tremendous amount of extra work and inconvenience to which I am put in paying by means of these notes, there is so little of the interest left as income, that it is not worth while. For instance: First of all, I must calculate what I think will probably be my taxes for the coming year. I then have to figure out the various denominations that I require. I have to write a letter and make out a check. In due time, the notes are received, and I have to go to the bank to put them in my safety deposit box. After my tax return is completed, I have to calculate what notes of various denominations I shall use, figure out the interest. Then I go to the bank again and get the notes out of the safety deposit box, but I find I have to break up one bond into smaller denominations. Then I have to write to the Tax Department, tabulate the notes, giving their serial numbers, dates of issue and value; and, as they will not figure to the exact amount of the tax return, I also must make out a check. After the tax note has been changed into the proper denomination, I then again have to go to the bank, put the new denominations into the safety deposit box. In June, September and December most of the foregoing must again be done - taking still further time. * * *

Lester C. Weisse, Attorney at Law, Sheboygan Falls, Wis. Last night the Sheboygan Press carried an article to the effect that the Assistant Treasurer was alarmed because of the few people who were reporting their income tax returns. I was rather amazed that the Assistant Treasurer would be so stupid as to make such statement when on the front page of the same paper there was a notice that Congress was considering changing the rate of income tax. I think I have written every official

in Washington to tell them that they should stop thinking that the public are damn fools. They are intelligent and they read. Something definite will have to be done to clarify the atmosphere as to what our tax is going to be. I too am alarmed because each year my office handles between 100 and 200 tax returns. No day passes but what someone asks me, when is the rate going to be settled so we can make our returns. What is even worse, up to the present time, no forms have been sent me from Milwaukee, or anywhere else. * * *

John Taylor, N.Y.C. I imagine you have already seen many indictments of Randolph Paul, who, unfortunately, has appeared as the General Counsel of the Treasury before the House Ways and Means Committee. You may not have seen the intelligent condemnation in the editorial of the New York Times. It is a good editorial and, if I may presume, I think it would do you and Mr. Paul good to read it. Mr. Morgenthau, how do you suppose we feel when we read proposals such as the ones Mr. Paul placed before the Committee? Have you no idea of the depression which is caused to our loyalty by these tax suggestions which are patently stupid, and which turn our devotion into channels of destructive scepticism? * * * The intransigent and insensitive attitude of the Treasury cannot be well received by the people of this country, and it cannot be loyally subscribed to. Is it of no indication to the Treasury that thousands and thousands of intelligent men and women -- people without political bias -- can see no fallacy nor any detriment in placing the revenue collection on the Ruml Plan basis? * * * In referring to the Treasury's plan as outlined by Mr. Paul, I have heard people say -- "I will not pay under that plan because I cannot pay". What further evidence is needed that you are proposing something completely unworkable.

Gabriel V. Mottla, Counsellor-at-Law, Boston, Mass.
* * * During the past I have prepared substantial numbers of individual returns. To date this year, I have found that most taxpayers are delaying the

preparation and filing of their returns. What is most alarming to me is that the number of individuals filing returns varies inversely with the amount of publicity given to the tax debates now in process. In other words, with approximately five weeks to go, I find that the number of returns are decreasing, rather than increasing. I see only one solution for the problem, and that is to suspend the tax hearings until after March 15. In this way, the fact that the returns must be filed by March 15 will become obvious to every one. The time between now and March 15 could perhaps be profitably employed in studying the various plans. * * *

David Geddes, Detroit, Mich. I have read with interest your telegram requesting that the employees of the Hudson Motor Company do not relinquish their purchase of War Bonds because of the war taxes soon to be levied on them. I am a war worker at the Hudson Plant -- was formerly a travelling salesman. I have already figured out what my obligation will be in the future and can take care of this, for I have planned for it. But believe me, there are only a very few who realize what they are up against. * * * You will find that the workers will be forced to drop their purchase of War Bonds. * * * I have never found a disloyal workman - they all want to do everything they can -- but there is a limit. If you ask too much, these workmen will turn on you, and believe me, you will wish that you had used a little common sense. * * *

George Baekeland, N.Y.C. Those entrusted with tax legislation, elected and appointed, have shown a callous disregard for the taxpayers who are forced to attempt managing their affairs not knowing until the end of the year what their tax liabilities will be. * * * There is no excuse for these eleventh-month tax laws, and the reason is inefficiency, politics, and a public-be-damned attitude. * * *

Joseph Styche, Comptroller, Ox Fibre Brush Company, Inc., Frederick, Md. * * * Under date of January 12 we wrote the Collector of Internal Revenue, Baltimore, asking that they forward us at least 2,000 Forms 1099. These Forms were not received, nor did we have any reply to our letter, and on February 2 we again wrote requesting that these Forms be mailed to us, and today it was necessary for me to make a call -- a long distance call, in fact -- to ask why we had not received these Forms, and I could get no satisfaction, other than they said "they would mail them out today". * * *

Mrs. H. Stuber, Brooklyn, N.Y. I am writing on behalf of myself and I believe, many others, who find themselves in the unfortunate position of being unable to pay their March 15th income tax installment on time, due to the rise in taxes, the rise in the cost of living, and in small part, the deduction of the Victory Tax. No where have I seen a statement on the attitude of the Treasury Department as to whether they would prefer prompt payment of the first installment if it involved sale of Defense Bond, or default on the due date and payment as soon as possible to avoid sale of Bonds. I have heard many people say this would be their only means of making the March 15 payment. I believe we would all appreciate the Treasury Department's attitude in the matter; I, for one, would be guided accordingly.* *

February 12, 1943

Dear Sumner:

In reply to your letter of February 10th, I would appreciate it if you would request the head of the Inter-American Navigation Corporation to come to see me as I would like to discuss with him in person the question of building schooners in Cuba.

Sincerely yours,

(Signed) Henry

Honorable Sumner Welles,
Under Secretary of State,
Washington, D.C.



DEPARTMENT OF STATE
WASHINGTON

February 10. 1943

Dear Henry:

Thank you for your cable from Havana dated February 5 advising me that the Arechabala Sugar Company is willing to construct some wooden ships in Cuba.

Upon investigation I find that the Inter-American Navigation Corporation, of the Office of the Coordinator of Inter-American Affairs, recently made a survey of the situation in Cuba anticipatory to inaugurating a program similar to the one proposed in your cable. As a result of this survey they discovered that labor costs were higher in Cuba than elsewhere in the Caribbean area and that native timber was suitable solely for main beams so that it would necessitate the importation of not only the engines and most of the essential fittings but also timber appropriate for planking. In view of these facts it was considered impractical to advance such a project.

However, the Embassy is investigating, with the Director of the Arechabala Sugar Company who spoke to you, the possibilities of working out some practical means by which advantage may be taken of their offer. I am also informed that a private corporation is making a study whereby, with the use of its laminating process, it hopes to be able to employ Cuban timber for planking as well as beams. You may be sure that we are giving these matters our close attention and shall be pleased to advise you of the outcome.

Sincerely yours,

FOR DEFENSE The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.



TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

February 12, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended February 3, 1943, showing dollar disbursements out of the British Empire and French Accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

(init.) E.M.B.

1mc12/15/43

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YFEDERAL RESERVE BANK
OF NEW YORK

February 10, 1943

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended February 3, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke,
Vice President.

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

Enclosure

Copy:imc:2/15/43

Abstract

million
million

England (since June 19, 1940) 32.6 million
 after monthly breakdown see tabulations prior to April 23, 1941
 before monthly breakdown see tabulations prior to October 8, 1941.
 before monthly breakdown see tabulations prior to October 14, 1942.
 (See attached sheet for other footnotes)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (e) Includes payments for account of French Air Commission and French Purchasing Commission.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) Reflects 45.0 million transferred to official Canadian account here.
- (h) Includes \$ 2.5 million deposited by British Ministry of Supply
3.0 million transferred from Commonwealth Bank of Australia
3.0 million held for credit of U. S. Army.

Marketing
David J. Reardon

including \$1.7 million awarded by Air Supplies, Ltd.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTAL No. 49

Information received up to 7 A.M., 12th February, 1943.

1. NAVAL

A convoy of 6 ships arrived at TRIPOLI (L) from ALEXANDRIA yesterday.

2. MILITARY

LIBYA. 10th. Our forward troops were in contact with the enemy east of BEN GARDANZ. Demolitions and marshes have restricted the advance in the coastal sector. In the southern sector our patrols operated about 35 miles into TUNISIA.

RUSSIA. Russian advances north of KURSK continues. The Russians are within 25 miles of KHARKOV and have reported the capture of the town and railway junction of LOZOVAYA about 75 miles south of KHARKOV as well as a locality on the same railway about 27 miles north of LOZOVAYA. There is still no evidence of any German withdrawal from the DOSSITZ Bend or ROSTOV. The advance northeast of NOVOCHERKASSK continues.

3. AIR OPERATIONS

WESTERN FRONT. 11th. 8 Bostons operating in pairs obtained direct hits on engine sheds, steel works and an industrial building in the Low Countries and North FRANCE, one Boston missing. 11th/12th. 218 aircraft dispatched: WILHELMSHAVEN 177, sea mining 34, leaflets 5, 3 bombers missing, one crashed. The attack on WILHELMSHAVEN was completed in 20 minutes in cloudy conditions. Bombing was on flares and considered to be well concentrated.

SICILY. 9th/10th. 10 Wellingtons attacked TRAPANI docks. 10th. PALERMO Harbour bombed by 7 U.S. Liberators, results mostly unobserved. U.S. Mitchells in SICILIAN CHANNEL sank one ship and left another sinking.

CRETE. 9th/10th. 8 U.S. Mitchells bombed HERAKLION airfield.

RUSSIA. 10th. Russian aircraft attacked airfields at SLAVYANSKAYA and TIMOSHEVSKAYA (50 miles northwest and north of KRASNODAR respectively), also towns of BATAISK and NOVOROSISK. 9 aircraft missing from these operations.

February 13, 1943
11:30 a.m.

HMJr: Hello.

Marvin H.
McIntyre: Hello, Henry.

HMJr: Hello, Marvin.

M: You called me yesterday, and when I called back
you had left.

HMJr: Yes.

M: I wondered whether you still wanted something.

HMJr: Yes. John Sullivan wants to come over and see
you....

M: I'd like to talk to him.

HMJr:about this judgeship up in New Hampshire.

M: Yeah.

HMJr: Then he'd like, if possible, to get a word to
the President.

M: All right.

HMJr: And he's - they offered it to him and he doesn't
want it.

M: Uh huh.

HMJr: On the other hand, he'll tell you he doesn't
want this fellow, Shea, to have it.

M: Yeah....

HMJr: So....

M: Henry, I think we ought to play with him a
little up there.

HMJr: With John?

M: Yes.

- 2 -

HMJr: I think so.

M: He's got more influence primely than anybody else.

HMJr: That's right. When could he - when could you see him?

M: I wonder if he'll want - I'll call him.

HMJr: Will you do that?

M: Sure.

HMJr: Thank you so much.

M: All right.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

February 13, 1943

FROM Randolph Paul

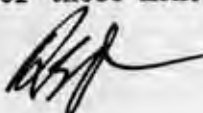
In connection with the Procurement situation under discussion between us, I have interviewed, in addition to Mr. Panuch, the following three gentlemen:

1. Edward F. Addiss, formerly President of Mainland Grees Company (a unit of Commercial Investment Trust); Treasurer of Burlington Mills. Mr. Addiss, who is between 45 and 50 years of age, is a liberal and extremely wealthy.

2. Sidney Schauer, Chief, Procurement Imports Division, Board of Economic Warfare.

3. Lawrence S. Mayers, President of L. & C. Mayers Co. Inc., a large mail-order giftwares business.

My last conference on this subject was with Mr. Mayers this morning. Any one of these three gentlemen might well qualify for this job, although I am not sure as to whether any of them would be satisfactory to you. If you wish, Mr. O'Connell and I would like to tell you our impression of these men.



C
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HSIC said
file, no answer
2/13/43

359

FEBRUARY 12, 1943

DAY LETTER

HONORABLE MARION ALLEN
OLD POST OFFICE BUILDING
ATLANTA, GEORGIA

I HAVE HAD A GREAT MANY PEOPLE ASK ME IF WE WERE GOING TO HAVE
HONORABLE HENRY MORGENTHAU JUNIOR AND HONORABLE HAROLD GRAVES OF THE
TREASURY DEPARTMENT IN WASHINGTON TO ATLANTA IN CONNECTION WITH THE
ATLANTA CRUISER CELEBRATION WHICH IS TO BE HELD ON MARCH TWELFTH NEXT
STOP I THINK IT WOULD BE A VERY FINE GESTURE TO THESE OUTSTANDING
PATRIOTIC GENTLEMEN FOR YOU TO WIRE THEM TO ACCOMPANY HONORABLE FRANK
KNOX AND HONORABLE CARL VINSON TO ATLANTA STOP PERSONALLY I WOULD
BE VERY PROUD TO SEE YOU WIRE THEM REGARDS

JOHN L. CONNER, CHAIRMAN
THE NEW ATLANTA CRUISER COMMITTEE

CHG: Sou. Fed. Svgs. & Loan Assn.

C
O
P
Y

HSK said
file, noon
2/13/43

359

FEBRUARY 12, 1943

DAY LETTER

HONORABLE MARION ALLEN
OLD POST OFFICE BUILDING
ATLANTA, GEORGIA

I HAVE HAD A GREAT MANY PEOPLE ASK ME IF WE WERE GOING TO HAVE
HONORABLE HENRY MORGENTHAU JUNIOR AND HONORABLE HAROLD GRAVES OF THE
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KNOX AND HONORABLE CARL VINSON TO ATLANTA STOP PERSONALLY I WOULD
BE VERY PROUD TO SEE YOU WIRE THEM REGARDS

JOHN L. CONNER, CHAIRMAN
THE NEW ATLANTA CRUISER COMMITTEE

CHG: Sou. Fed. Svgs. & Loan Assn.

Charge to the account of

CLASS OF SERVICE DESIRED	
DOMESTIC	CABLE
TELEGRAM	ORDINARY
LETTER	URGENT
SERIAL	DEFERRED
OVERNIGHT TELEGRAM	NIGHT LETTER
SPECIAL SERVICE	SHIP RADIOGRAM

Patrons should check class of service desired; otherwise the message will be transmitted as a telegram or ordinary cablegram.

WESTERN UNION

1206

360

A. N. WILLIAMS
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. VALLEVEN
FIRST VICE-PRESIDENT

CHECK
ACCOUNTING INFORMATION
TIME FILED

Send the following telegram, subject to the terms on back hereof, which are hereby agreed to

DAY LETTER

FEBRUARY 12, 1943

HONORABLE MARSHALL ALLEN
OLD POST OFFICE BUILDING
ATLANTA, GEORGIA

WANT A REPLY?
"Answer by WESTERN UNION"
or similar phrases may be
included without charge.

I HAVE HAD A GREAT MANY PEOPLE ASK ME IF WE WERE GOING TO HAVE HONORABLE HENRY ROBERTSON JUNIOR AND HONORABLE HAROLD GRAVES OF THE TREASURY DEPARTMENT IN WASHINGTON TO ATLANTA IN CONNECTION WITH THE ATLANTA CRUISER CELEBRATION WHICH IS TO BE HELD ON MARCH TWELFTH NEXT STOP I THINK IT WOULD BE A VERY FINE GESTURE TO THESE OUTSTANDING PATRIOTIC CITIZENS FOR YOU TO REQUEST THEM TO ACCOMPANY HONORABLE FRANK HUGH AND HONORABLE CARL VINSON TO ATLANTA STOP PERSONALLY I WOULD BE VERY PROUD TO SEE YOU MORE THAN

JOHN L. O'NEAL, CHAIRMAN
THE NEW ATLANTA CRUISER COMMITTEE

C.G. Soc. Fed. Sys. & Loan Assn.

Copy of incoming telegram and copy of
reply both furnished to Mr. Graves.

361

February 13, 1943.

My dear Governor Arnall:

Thank you for your telegram of February 12, inviting me to attend the dinner and celebration in Atlanta, on March 12, in connection with the construction of the new cruiser ATLANTA, made possible through the sale of War Bonds.

I shall be very glad to be present, and I am happy to know that Secretary Knox will also be one of your guests.

With all good wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Ellice Arnall,
Governor of the State of Georgia,
Atlanta, Georgia.

KP/dbs

WU27 94 LG

CG ATLANTA GA FEB 12 1259P

HON HENRY MORGANTHAU

75-363
45 FEB 12 PM 2 24

SECTY OF TREASURY

WE IN GEORGIA CORDIALLY EXTEND AN INVITATION TO YOU TO
BE HONOR GUEST AT DINNER AND CELEBRATION FRIDAY MARCH 12,
1943 IN ATLANTA IN CONNECTION WITH THE DRIVE NOW PROGRESSING
IN GEORGIA TO RAISE FUNDS THROUGH THE SALE OF BONDS
FOR THE CONSTRUCTION OF THE NEW CRUISER "ATLANTA". IF
CONSISTENT WITH YOUR DUTIES AND TIME PERMITS. I HOPE THAT
YOU CAN BE WITH US. SECRETARY OF NAVY FRANK KNOX HAS
ACCEPTED A SIMILAR INVITATION. WE IN GEORGIA WOULD BE
GREATLY FLATTERED BY THE PRESENCE OF YOU TWO DISTINGUISHED
GENTLEMEN FOR THIS OCCASION. BEST REGARDS

ELLIS ARNALL GOVERNOR.

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FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Page 4

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

Markets and Liquidity

Market purchases	1/	+
Market sales	1/	-
Direct purchases from Treasury		ed
Maturities		-

Specialized Tax Publications 2/

Net Increase	10
Net Decrease	14

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

STRICTLY CONFIDENTIAL

[illegible]

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

¹² Less than 500,000.

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.

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

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

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

Column B shows price changes in 1946.

STRICTLY CONFIDENTIAL

Last Week										Total	Description	This Week																				
Monday		Tuesday		Wednesday		Thursday		Friday				Saturday		Fall Week		Monday		Tuesday		Wednesday		Thursday		Friday		Saturday		Fall Week				
Feb. 1	2	3	4	5	6	7	8	9	10			11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27				
A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B					
III. Tax-exempt securities																																
Treasury notes																																
1-1/2% A - 5-15 43																																
101 1 C - 3-15 43																																
102 1 B - 12-15 43																																
103 1 A - 3-15 44																																
104 1 C - 5-15 44																																
105 1 A - 3-15 44																																
106 1 C - 3-15 45																																
107 3/4 A - 3-15 45																																
Treasury bonds																																
101 3-3/8% - 5-15 43-47																																
102 3-1/4 - 10-15 43-46																																
103 3-1/4 - 4-15 44-46																																
104 5 - 12-15 44-48																																
105 2-3/4 - 9-15 45-47																																
106 2-1/2 - 12-15 46																																
107 3-3/4 - 3-15 46-46																																
108 3 - 5-15 46-48																																
109 3-1/8 - 5-15 46-49																																
110 4-3/4 - 10-15 47-52																																
111 2 - 12-15 47																																
112 2-3/4 - 3-15 48-51																																
113 2-1/2 - 9-15 48																																
114 2 - 12-15 48-50																																
115 3-1/8 - 12-15 49-52																																
116 2-1/2 - 12-15 49-53																																
117 2-1/2 - 3-15 50-52																																
118 2-3/4 - 5-15 51-54																																
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120 2-1/4 - 12-15 51-53																																
121 2 - 5-15 53-59																																
122 2-1/4 - 5-15 54-56																																
123 2-7/8 - 3-15 55-60																																
124 2-3/4 - 9-15 56-59																																
125 2-3/4 - 5-15 58-63																																
126 2-3/4 - 12-15 60-65																																
Guaranteed securities																																
101 GOC 3/4% F - 4-1 47																																
102 FPGC 3-1/4 - 3-15 44-54																																
103 FPGC 3 - 5-15 44-49																																
104 HGLC 3 A - 4-1 44-52																																
105 HGLC 1-1/8 H - 6-1 45-47																																
106 FPRC 1-3/8 - 2-1 45																																
All tax-exempt securities																																
Market purchases																																
Market sales																																
Maturities																																
Total net increase (+) or decrease (-)																																
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	101	1-1/2% A - 5-15	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	101	1-1/2% A - 5-15	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	102	1-1/2% B - 10-15	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	102	1-1/2% B - 10-15	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	103	1-1/2% C - 15-20	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	103	1-1/2% C - 15-20	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	104	1-1/2% D - 20-25	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	104	1-1/2% D - 20-25	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	105	1-1/2% E - 25-30	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	105	1-1/2% E - 25-30	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	106	1-1/2% F - 30-35	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	106	1-1/2% F - 30-35	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	107	1-1/2% G - 35-40	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	107	1-1/2% G - 35-40	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	108	1-1/2% H - 40-45	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	108	1-1/2% H - 40-45	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	109	1-1/2% I - 45-50	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	109	1-1/2% I - 45-50	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	110	1-1/2% J - 50-55	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	110	1-1/2% J - 50-55	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	111	1-1/2% K - 55-60	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	111	1-1/2% K - 55-60	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	112	1-1/2% L - 60-65	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	112	1-1/2% L - 60-65	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	113	1-1/2% M - 65-70	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	113	1-1/2% M - 65-70	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	114	1-1/2% N - 70-75	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	114	1-1/2% N - 70-75	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	115	1-1/2% O - 75-80	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	115	1-1/2% O - 75-80	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	116	1-1/2% P - 80-85	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	116	1-1/2% P - 80-85	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	117	1-1/2% Q - 85-90	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	117	1-1/2% Q - 85-90	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	118	1-1/2% R - 90-95	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	118	1-1/2% R - 90-95	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	119	1-1/2% S - 95-100	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	119	1-1/2% S - 95-100	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	120	1-1/2% T - 100-105	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	120	1-1/2% T - 100-105	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	121	1-1/2% U - 105-110	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	121	1-1/2% U - 105-110	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	122	1-1/2% V - 110-115	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	122	1-1/2% V - 110-115	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	123	1-1/2% W - 115-120	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	123	1-1/2% W - 115-120	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	124	1-1/2% X - 120-125	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	124	1-1/2% X - 120-125	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	125	1-1/2% Y - 125-130	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	125	1-1/2% Y - 125-130	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	126	1-1/2% Z - 130-135	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	126	1-1/2% Z - 130-135	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	127	1-1/2% AA - 135-140	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	127	1-1/2% AA - 135-140	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	128	1-1/2% AB - 140-145	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	128	1-1/2% AB - 140-145	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	129	1-1/2% AC - 145-150	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	129	1-1/2% AC - 145-150	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	130	1-1/2% AD - 150-155	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	130	1-1/2% AD - 150-155	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	131	1-1/2% AE - 155-160	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	131	1-1/2% AE - 155-160	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	132	1-1/2% AF - 160-165	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	132	1-1/2% AF - 160-165	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	133	1-1/2% AG - 165-170	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	133	1-1/2% AG - 165-170	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	134	1-1/2% AH - 170-175	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	134	1-1/2% AH - 170-175	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	135	1-1/2% AI - 175-180	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	135	1-1/2% AI - 175-180	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	136	1-1/2% AJ - 180-185	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	136	1-1/2% AJ - 180-185	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	137	1-1/2% AK - 185-190	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	137	1-1/2% AK - 185-190	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	138	1-1/2% AL - 190-195	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1	-1	138	1-1/2% AL - 190-195	-2.0	-12.5	+1	-1	-2.5	-1.2	-1	-3.7	-1
-8.5	-15.0	+1.0	-3.7	-6.0	-1.2	-1	-3.7	-1	-1	139	1-1/2% AM - 195-200	-2.0	-12.5	+1																		

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

r Original figures revised.

* Less than \$50,000.

1/ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 5 o'clock are included in the next day.

Regraded Unclassified

Secretary Morgenthau
Randolph Paul

February 13, 1943

Abe Fortas sent over the attached copy of a letter,
asking what we think of it.

(Initialed) E.H.F.

Secretary's note on original:

O. K.

HM, Jr.

The original was returned to
Mr. Paul.

Attachment: Copy of letter to President Roosevelt from
Frances Powell Hill, dated November 25, 1942.

C
O
P
Y

367

November 25, 1942

Honorable Franklin Delano Roosevelt
President of the United States
White House
Washington, D. C.

My dear Mr. President:

Paramount in the mind of many Americans today is the question of ways and means of raising the stupendous sums of money necessary to successfully end this devastating war.

Individual ideas obviously arise from knowledge gained by practical, personal experience. When I read that \$9,000,000,000 must be raised in an incredibly short time to cover vital needs during the next few weeks an idea occurred to me which I hope you will consider sufficiently feasible to authorize its trial through my office. The idea is simply this:

The Federal Government has huge sums of money tied up in housing of various types. There is a definite active demand for investments, apartment houses in Washington where a reasonable return can be shown are most popular.

McLean Gardens now under construction at "Friendship" on Wisconsin Avenue represents an investment of millions. I am confident that this and other housing developments of the permanent type can be sold and the capital investment returned to the Treasury.

Such sales would of course call for Presidential approval. If the idea is worthy of consideration it will have to be developed and accurate figures on costs, rent ceilings etc. will be necessary.

I hope that you will find this idea sound and will commend it.

Sincerely,

Frances Powell Hill

FPH:am

February 13, 1943.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

I am making arrangements through the Office of Strategic Services to send two French-speaking agents to North Africa to operate for the O.S.S., but primarily to cooperate with the French police in Morocco and Algeria to suppress counterfeiting of U. S. currency.

It occurred to me shortly after the occupation that a counterfeiting situation might develop which would cause serious embarrassment and with the approval of Mr. Bell I talked with Brigadier General A. H. Carter, head of the Fiscal Division of the Service of Supply of the Army, on December 2. I proposed either that we would send some Treasury men to Africa or that we would supply a list of both Secret Service men and Narcotics agents already in the Army so that the Provost Marshal General could select men to work on both lines. General Carter thought this was the better scheme and we gave him such a list. He sent dispatches to Africa but has had no response. In the meantime several samples of American counterfeits have been floating in from Africa. The last one we received came in Thursday from the State Department with a letter from the Consul General at Casa Blanca stating that he understands there is a considerable quantity of American counterfeit floating around in North Africa and recommending that the Treasury Department send somebody to cooperate with the North African police.

I talked both with General Carter and with Mr. Berle at the State Department yesterday and both of them approved the idea of sending our own men.

- 2 -

It seems desirable to cooperate with the O.S.S. because of the fact that they have an organization and offices there and our men can be of value to them in other lines of work. Harry Anslinger took the matter up with O.S.S. and Mr. Bolton of that office is undertaking to arrange for the necessary clearances and for transportation. Secret Service has the two men here ready to start training.

The agents selected are:

Lawrence E. Albert, Executive Assistant to Chief Wilson. Albert has been seven years in Secret Service, having been a deputy sheriff in Spokane, Washington, at the time he was enrolled. He is a veteran of the last war and acted as an interpreter and liaison man for the A.E.F. in France. At the time of his enrollment in Secret Service he was a Major of Reserves. He has a fair speaking and writing knowledge of French.

Raymond Bouley, agent at Philadelphia. Bouley has been in the service about two years. He is a native of Massachusetts and was for thirteen years an officer of the Massachusetts State Police. He is of French parentage and speaks and writes the French language fluently.

Both are men of good appearance and education and are experienced in investigative work.

WES

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

February 13, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Most important single issue before Congress today is a showdown expected to take place in the House Ways and Means Committee on legislation to repeal the President's \$25,000 salary limitation. Despite a personal appeal from the President to keep the matter separated from the \$210,000,000,000 Debt Limit Bill, a majority of the Committee is reported to believe that if the proposed repeal of the salary order were enacted separately the President might veto it. Hence they are putting their proposals in the form of substitute bills to avoid disqualification on the ground that the salary issue actually doesn't belong with the debt limit measure. According to a U.P. ticker story this morning, Republican members of the Committee have decided to call for action on the Gearhart amendment (providing outright repeal of the salary limit) rather than compromise on a proposal by Rep. Wesley E. Disney to place a Congressional limitation on salaries at the levels on Dec. 7, 1942 or at \$25,000 after Federal taxes are deducted. According to an article appearing in this morning's N.Y. Times, however, Republican members are "in favor of putting on salaries, ceilings with the same dates and controls as the law and Administration policy now apply to wages", i.e. salaries, like wages, would be frozen as of Sept. 15, 1942.
2. With no agreement in sight as hearings continue in the House Ways and Means Committee on how to put taxes on a current bases, Rep. Disney said yesterday, "There are as many plans as there are members of the Committee--nor is there any indication that the Treasury Department has worked out a program satisfactory even to itself." House Democratic Leader McCormack, praising Ruml's "very fine contribution" said he believed income tax collections should be put on a current basis but that he did "not necessarily agree that we should forgive entirely the payment of 1942 taxes." Arad Riggs, tax expert for the N.Y. City Bar Ass'n.,

Roane Waring, Nat'l. Commander of the American Legion, and The Controllers Institute of America, all urged Congress yesterday to enact a pay-as-you-go tax law that would not require individuals to pay more than one year's taxes in a single year. However, Elisha M. Friedman, formerly connected with the Treasury Dept., now a consulting economist, opposed the Ruml plan but proposed instead cancelling the 1942 taxes of those earning \$2,000 or less and leaving higher bracket taxpayers on the existing year-behind schedule. Rep. Robertson also proposed cancelling '42 taxes for those earning \$2,000 or less but would have the rest pay '42 taxes at the same time they are paying their '43 taxes currently. Similarly, Rep. Voorhis (Calif.) proposed repeal of the 5% Victory tax and payment of the '42 tax in 20 monthly installments of 5% each, in addition to pay-as-you-go taxes on '43 income.

3. Chairman Ellison D. Smith of the Senate Agriculture Committee predicted that hearings next week on food production before a special Agriculture sub-committee would "develop fallacies of Administration farm policies. Before we are through," he said, "we are going to blow the lid off so the public will know the desperate outlook for food production." In addition, Senator Nye claimed, "We've already got a food shortage only a few months after harvesting the record crop of 1942", and predicted "food riots in the streets in another year unless the position of the farmer changes immediately."
4. A Congressional investigation of the necessity of Govt. publications will be asked by Rep. John Taber, who said that publications "contributing generously to the paper shortage that is threatening the press today" include those put out by the Treasury, OWI, War Department, etc. However, in the Byrd Committee report on Govt. questionnaires, this Committee commended "the action of the Treasury Department and the War Production Board in voluntarily abandoning some of the paper work" and recommended "this excellent example to other branches of the Government".
5. Senator Danaher today accused the Administration of juggling the Unemployment Reserve Fund in the Treasury to use the money for purposes for which it was not earmarked. He said the money (totaling \$3,698,000,000 in December 1942) is in Government bonds, and new taxes will have to be raised to retire them.

Rumania Offers to Transfer Jews From Trans-Dniestria to the Allies

**Proposes Removal of 70,000 of 185,000 in
District—Bid for Easing of Approaching
Retribution Is Seen in Project**

By C. L. SULZBERGER

Wireless to The New York Times.

LONDON, Feb. 12.—The Rumanian Government has communicated to United Nations officials that it is prepared to cooperate in transferring 70,000 Rumanian Jews from Trans-Dniestria to any refuge selected by the Allies, according to neutral sources here.

This proposal, which was made in specific terms, suggests the refugees would be conveyed in Rumanian ships, which would be permitted to display the insignia of the Vatican to insure safe passage.

According to the proposal the Rumanian Government indicates it is prepared to release the Trans-Dniestrian Jews, who would first be transferred to Bucharest, where they would be accommodated in specially designated buildings until the evacuation. The Rumanian Government has intimated that shipment to Palestine would be most convenient.

According to the proposal the government would levy a tax of 30,000 lei on each refugee to cover traveling expenses. It was said that the Bishop of Bucharest and the Papal Nuncio would insure adequate supervision of the transfer and arrange for use of Vatican insignia.

Serious Obstacles to Plan

It appears there has been no decision by the United Nations regarding this plan. It is far more complicated than it would appear on the surface. First, it would be dangerous to receive large numbers of refugees from any enemy country because of the ease with which spies could mix with the émigrés.

Second, now that the Arab-Jewish situation in Palestine has been considerably calmed during the past two years, it would be risky, some circles say, to stir up the latent discord, which would have

repercussions in the entire Moslem world between Morocco and India.

Third, numerous great difficulties are involved in mass transshipments. The shipping question would be serious if a more distant haven than Palestine was chosen.

Observers here believe the Rumanian project is evidence that the Rumanian Government is no longer confident of an Axis victory and is trying slowly to work into the United Nations' good graces and lessen the retribution that is to be exacted on all enemies, especially those who were responsible for inflicting suffering on the innocent.

Area Invaded by Axis

The Trans-Dniestria territory is between the Bug and Dniester Rivers. It was invaded by the Axis arms during the first Summer of the Russian war. Prime Minister Ion Antonescu began the deportation of Jews to that area, starting with those not born in Rumania before 1919. By last August Buch Lecca, Rumanian Commissioner for Jewish Affairs, announced that 185,000 Jews had been settled there. Labor camps and concentration camps for Jews were established.

The settlement of Jews in that province contradicted Gen. Antonescu's earlier pronouncements that Trans-Dniestria would be made a model Rumanian home. His conceptions do not admit Jews as Rumanian subjects. There is suspicion that he foresees the probability that Rumania would not be able to keep Trans-Dniestria.

The Rumanian Government announced last October that there would be no more evacuations to Trans-Dniestria and claimed that those already sent there "were persons who had asked to be allowed to leave Rumania."



SOVIET RUSSIA TODAY

114 EAST THIRTY SECOND STREET, NEW YORK

Telephone: MU. 3-3855-6

February 13, 1943

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

My dear Mr. Secretary:

Many thanks for the very fine letter of tribute to the Red Army which you were good enough to send in answer to my request for a statement for the special Red Army issue of our magazine and to be included in the program of our dinner in honor of the twenty-fifth anniversary of the Red Army.

You have said very beautifully what is in the hearts of all true Americans these days.

We are most grateful for the opportunity to publish this statement. We are also sending a copy to Tass, the Soviet press agency here.

Very sincerely yours,

Jessica Smith
Jessica Smith,

Editor

February 10, 1943.

Dear Miss Smith:

There are times when few words are better than many. This is such a time. No tribute that I might write could add anything that is not already known about the heroism and accomplishment of the Red Army. It has written its own imperishable tribute in blood on the cold white snow of its native land. To decent, civilized peoples the world over, home, family, and country have always been the prized possessions which gave meaning to life. We in America, like other peoples throughout the civilized world, have come better to understand the true meaning of life as a result of the inspiring example set by the Red Army.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Miss Jessica Smith,
Editor, Soviet Russia Today,
114 East Thirty-Second Street,
New York, New York.

File in Diary

TREASURY DEPARTMENT

375

INTER OFFICE COMMUNICATION

DATE February 10, 1943

TO Secretary Morgenthau
FROM Harold Mager *Hu.*

Here is the tribute to the Red Army I have prepared for your signature. It has the approval of Mr. Gaston.

TREASURY DEPARTMENT

376

INTER OFFICE COMMUNICATION

DATE

February 10, 1943.

TO Mr. Gaston

FROM Harold Mager *HM*

The accompanying correspondence explains the job I have been asked to do. I am submitting draft of letter to Miss Smith, Editor of Soviet Russia Today, for your approval.

I approve
MSH

377

Mr. Mager:

The Secretary asks that you please prepare the statement requested and then check it with Mr. Gaston before submitting it to the Secretary. He would like this done promptly.

N.M. Chauncey

SOVIET RUSSIA TODAY

114 EAST THIRTY SECOND STREET, NEW YORK

Telephone: MU 3-3855-6

Mr. Mayor
378

February 3, 1943

Miss H.S.Klotz
Secretary to Hon. Henry Morgenthau Jr.
Treasury Department
Washington, D.C.

My dear Miss Klotz:

I have your letter of February 1 in which you say that Secretary Morgenthau will not be back in time to send a statement on the Red Army for our magazine. However, we should still like very much to have a statement from Secretary Morgenthau in tribute to the Red Army to be read at our dinner on February 22nd in honor of the Twenty Fifth Anniversary of the Red Army. For that purpose there would be plenty of time if the statement reached us at any time during the next two weeks.

We should be very grateful therefore if you would bring this request to the attention of Secretary Morgenthau on his return.

Sincerely yours,

Jessica Smith
Jessica Smith,

Editor

February 1, 1943.

Dear Miss Smith:

Your letter of January 29, telling of the special issue of your magazine to be published in connection with "Red Army Day", has reached the Secretary's office during his absence from the city. Mr. Morgenthau is not expected back for some days to come, and it is not possible to get in touch with him to ask him for the statement that your letter suggests. I am sorry, therefore, that time will not permit a further reply to your letter by the date which you set as the deadline.

With regret that we are not able to be of service to you in this connection,

Sincerely yours,

(Signed) H. S. Klotz
nmc

H. S. Klotz,
Private Secretary.

Miss Jessica Smith,
Editor, Soviet Russia Today,
114 East Thirty-Second Street,
New York, New York.

GEN/dbs
WCH

not rec.



SOVIET RUSSIA TODAY

114 EAST THIRTY SECOND STREET, NEW YORK

Telephone: MU. 3-3855-6

January 29, 1943

Secretary Henry Morgenthau, Jr.
United States Treasury Department
Washington, D. C.

My dear Mr. Secretary:

February 23rd is the day celebrated in the Soviet Union as "Red Army Day," and the date this year marks the twenty-fifth anniversary of the founding of the Red Army.

Because of all that we owe to the Red Army today, we feel that it is appropriate to celebrate this anniversary here in America too. We are therefore getting out a special issue of our magazine devoted to the Red Army, which will be published around the time of the anniversary.

We are asking a number of prominent Americans to write tributes to the Red Army for publication in this special issue of the magazine. We should also like to include these tributes in the program we are preparing for a dinner we are holding in honor of the Red Army Anniversary on February 22nd, of which the program is enclosed.

I do hope that we may include a tribute to the Red Army from you. It may be either a brief or a long statement, as you desire. But since the time is short, we should be most grateful if you could have it in our hands by February 5th, or February 8th at the latest.

Hoping to hear from you,

Sincerely yours,

Jessie Smith
Jessica Smith
Editor

JS:dr
uopwa/18

You are invited to attend a dinner

celebrating the

TWENTY-FIFTH ANNIVERSARY OF THE RED ARMY

Guests of Honor

REAR ADMIRAL MIKHAIL I. AKULIN
*Vice-Chairman Soviet Government Purchasing
Commission*

MAJOR PAVEL I. BARAYEV
*Attaché for the Mechanized Forces
of the Red Army*

CAPTAIN PAVEL N. ASSEYEV
*of the
Red Air Force*

ON WASHINGTON'S BIRTHDAY, FEBRUARY 22nd, 7:00 P.M.

Hotel Commodore, New York

The favor of a reply is requested.

\$3.50 per person

Program inside

VILHJALMUR STEFANSSON
Presiding

Tributes to the Fighting Forces of our Soviet Ally

by

HON. JOSEPH E. DAVIES
Former Ambassador to the U.S.S.R.

HON. ELBERT D. THOMAS
United States Senator from Utah

MR. A. F. WHITNEY
President, Brotherhood of Railway Trainmen

CAPTAIN SERGEI N. KOURNAKOFF
Military Analyst

(others to be announced)

Responses from
REAR ADMIRAL AKULIN and MAJOR BARAYEV

Salute to the Red Army by the Flags of the United Nations

Musical and Dramatic Program

Auspices

THE MAGAZINE "SOVIET RUSSIA TODAY"

and the following

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OFFICE
SECRETARY OF THE TREASURY

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OPTEL NO. 50

Information received up to 7 A.M. 13th Feb.

1. MILITARY.

RUSSIA. On the Donetz Front the Russian drive south westward has captured the town and railway junction of Krasnoarmeisk on the railway northwest of Stalino thus cutting the most important remaining railway route for the retreat of the German forces from the Rostov area. In the area northeast of Rostov the Russians have advanced across the Donetz river to occupy the town of Shakhti midway between Rostov and Kamensk. On the Caucasus front the Russians advancing down the Kuban River have captured the important town and railway centre of Krasnodar thus further reducing the German bridgehead.

2. AIR OPERATIONS.

WESTERN FRONT. 11th/12th. Wilhelmshaven. 226 tons H.E. including 97 4,000 pound bombs and 195 tons I.B. were dropped. Visual identification not possible but flares were well placed and attack well concentrated. Many fires and one exceptionally large explosion reported. Moderate A.A. fire directed chiefly at flares. Searchlights ineffective owing to cloud and few night fighters met. 12th. A total of 26 aircraft of bomber, Fighter and Army Co-operation Commands were sent to attack objectives in Germany, France and Low Countries. 18 locomotives were damaged also rolling stock. Armament works at Liege were bombed and casualties were inflicted among S.S. Guards at Amersfoort Barracks Holland and among troops on an airfield near Poix. 1 aircraft is missing, 12th/13th. 43 aircraft despatched - sea mining 38, Ruhr 2, Leaflets 2, Intruder 1. 1 aircraft missing, 1 crashed.

TUNISIA. 11th. Operations restricted by bad weather. Bostons bombed Sened. Kittyhawks made two attacks on dispersed M.T. in the Ben Gardaneh Area.

BURMA. 11th. 17 escorted Blenheims and 6 Hurricanes attacked objectives in the Akyab area.

TREASURY DEPARTMENT

1943 FEB 15 AM 11 43

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BRITISH MOST SECRET
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OPTTEL No. 51

Information received up to 7 A.M., 14th February, 1943.

1. NAVAL

MEDITERRANEAN. One of H.M. Submarines off West coast of SICILY torpedoed a ship in convoy on 27th January, sank a 5,000 ton ship on 1st February, and probably sank a 6,000 ton tanker on 5th. A train at ST. AMBROSIO (SICILY) was shelled on 7th. Another of H.M. Submarines sank a 1,500 ton ship south of TARANTO on 4th.

2. MILITARY

RUSSIA. By the capture of ZOLOCHEV, the Russians have cut the BRYANSK-KHARKOV railway 20 miles northwest of KHARKOV and are now within 15 miles of the city on the northeast, 10 miles of it on the southeast and 25 miles on the south. Northeast of ROSTOV, the Russians have captured NOVOCHERKASSK and KILHAYA.

3. AIR OPERATIONS

WESTERN FRONT. 13th. 20 Venturas obtained direct hits on steel-works at IJMUIDEN. A total of 21 Postons attacked shipping at BOULOGNE and the docks of ST. MALO. Fighter escort was provided. Enemy casualties 3, 1, 5. Ours 6, nil, 3. 13th/14th. 491 aircraft despatched - LORIENT 466, RUHR 2, Intruders 6, leaflets 17. Preliminary reports - LORIENT state no cloud, bright moonlight, good visibility, flares and marker bombs well placed and big fires seen in docks area and centre of town. 8 bombers missing, 2 crashed.

BURMA. 12th. 12 escorted Blenheims and 6 Hurricanes attacked objectives in the AKYAB area. Enemy bombers attacked our forward positions. Enemy casualties 1, 2, 1. 12th/13th. Nine Wellingtons bombed SAGAING 10 miles southwest of MANDALAY.

4. HOME SECURITY

A few bombs were dropped at DARTMOUTH on 13th and some high explosives and incendiaries at PLYMOUTH on 13th/14th. A few fatal casualties.