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War Savings Bonds
See Financing, Government

February 15, 1943
9:30 a.m.

FINANCING

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

H.M.JR: I gave Harold Graves the memorandum, swore him to secrecy, and told him to read it. He has read it. It is uppermost in my mind. I thought we might - you haven't anything you have to do now?

MR. BELL: No.

H.M.JR: There is nothing more important. I thought we might discuss it a bit. I thought we might have a little frank discussion.

Let's have it straight from the shoulder what you think, Harold.

MR. GRAVES: I suppose everyone has read this?

H.M.JR: Just Bell and I. Bell had a long session with them, part in here, and part by himself; and I had a long session, part with Bell and part by myself.

MR. GRAVES: Would you like me to tell you what I think?

H.M.JR: I don't want you to tell me any fairytales. (Laughter) And I want your help.

MR. GRAVES: You can have that to the best of my ability.

This is a proposal to set up a paid organization at all levels, beginning with the city, town, or county

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organization, then up through regional divisions, into Federal Reserve Districts. There will be a paid sales organization at every level.

The standard organization that is described here consists of nine departments. Pay-roll allotment is one; the farm market is second; other mass markets, as they call it here, is a third. Women's activities is one; advertising is another; banking is another; what they call the investor market is another. With the administrative department it makes nine. They say that that would be the organization at each level, the Reserve District, region, county, town. They said they wouldn't require that complete an organization in the smallest towns and in the agrarian counties.

So the first point I think you have to consider when you look at that program is where you get on money and cost. Assuming that they would need an average of five instead of nine, allowing for the smaller organizations in the smaller towns and counties, that set-up would require, for executives only, about fifteen thousand people. There the problem is, where are you going to get fifteen thousand people.

Second, even if you could get them, the matter of cost - the pay-roll for executives only would run somewhere from thirty to fifty million dollars a year. If you add in what would be involved for the paid office staffs, clerical employees, and other subordinate people it would seem to me that this plan would involve a pay-roll of somewhere in the neighborhood of a hundred million dollars a year. So you couldn't adopt this thing and proceed with it without dealing with that question of getting an appropriation of some such magnitude as that.

Now, on the question of recruiting a force like that, I don't think it is practical in these times to talk about bringing into this organization, or any other, fifteen thousand new people. If you were to try, I think that it would take a long, long, long time to do it if you are careful, as you should be, in setting up that organization. I think probably the war would be over long before this plan could be perfected.

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The other point that I think is worth noticing here is that this would eliminate all of the existing War Savings Staff at the management level.

H.M.JR: What level is that?

MR. GRAVES: You see, our organization is a State organization. Our headquarters go by States; our program is managed by States. This plan adopts the Victory Fund set-up by Federal Reserve Districts, by regions, and by communities. It strikes out the State as a unit in the organization. So if you think about our Illinois organization, for example, our State organization just disappears. It would be managed from the Federal Reserve District, to regions, and then right down to the counties and cities.

MR. BELL: It would probably go to a county rather than the State.

MR. GRAVES: Yes, it skips the States from Federal Reserve to region, to county, or town, so that I think it is an intended effect of this program to eliminate the War Savings Organization, except in the county and town level. I consider that to be very bad, because I think we have a certain experience, a certain ability in the War Savings management and organization that ought not to be thrown out right on the eve of an operation like we contemplate for April. That is about my--

H.M.JR: I think it goes further. One thing I didn't like - I have asked them for field reports, because I said, "I want to see how you get this way." They said that there was great dissatisfaction with Washington, and so forth. When I said that, they said that was a poor term; that wasn't a correct term. I said, "Let me see some of them." They said, "We went to these people and told them if they talked frankly we wouldn't pass it on." In whose name did they go? I said, "I want to see some of the original reports. This is terribly important." They said, "You won't find the criticisms in the reports because we have left those out of the reports," and so forth, and so on. That immediately raises a fellow's suspicion.

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Let's say I was going to do this thing. They said they had all these wonderful people doing this thing. I have asked for samples.

Now, what this thing, as I see it, really does is to scrap both organizations.

MR. GRAVES: I don't think it would scrap the Victory Fund. Geographically they stick to the Victory Fund.

H.M.JR: They say that the maximum number of investment banker salesmen that they can find is five thousand. They don't think it is really more than three. That is not enough salesmen to cover the country, so what they are thinking of doing - what they are recommending is to put in a man who is an executive of a sales organization. They referred to somebody like the president of the National Cash Register Company who came up through the sales end, and then they want to use salesmen in non-war industries all the way down to do the selling and to rely on them.

As far as I have gone with them is that I have said, "See whether you can find me the top man; see if there is such a person who exists." I have been thinking a tremendous lot about this over the week end, and, of course, the thing that - where businessmen so often lose track of reality in Government - supposing I took and got rid of all of my volunteer State chairmen, look at the political repercussions that would be on me. I mean, these fellows, after almost two years - we built these people up; and while I don't know, I suppose that two-thirds of them are Republicans.

MR. GRAVES: No, no. Some are Republicans, but I would say a vast majority of our personnel are Democrats.

H.M.JR: I didn't mean that in the sense to criticize; but if they were Republicans, it would be--

MR. GRAVES: ... not a majority.

H.M.JR: Well, I mean, the thing I am afraid of - of course, it isn't a good comparison. One of the things that

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got Henderson in dutch was, he would go to the Democratic Senator in New York State, Mead, and say, "Would you make recommendations for people? When my bill gets through, I am going to need some people." Then after the bill was passed, he went into Mead's district and appointed people who had worked against Mead. Did you know that?

MR. BELL: No.

H.M.JR: This came direct. That was multiplied many, many times over. While I haven't got a political organization and haven't done either way - I mean, I haven't asked for endorsements. We have been very careful. I just don't see, after almost two years, how I can scrap this State organization.

On the other hand, I do, particularly since I have been ill, feel the need that if I could get this ideal person in here who had the right attitude towards labor, the right attitude towards Mr. Roosevelt, the right attitude on the war, the right attitude towards the colored people, all of those things - I mean, one who could come in and take the bulk of this direction off the hands of Bell and myself, at our level, and work over both the organizations, I think it would be a good thing.

Now, I don't know how you feel.

MR. BELL: I think that is right.

H.M.JR: I think the time has come, with the multitudinous job that Bell and I have, that we do need a "super super" over both organizations. Do you agree?

MR. BELL: Yes.

H.M.JR: I don't know how you feel about that. I will go a step further. I also feel the time has come that there has got to be some kind of amalgamation.

For heaven's sake, the little hair you have got - let it down. I mean, I am going to be just as honest as

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I know how, and I would like to say this, Harold, at this stage - I would like to say in front of Bell that nobody appreciates more what you have done than I do, both in the matter of results and your health. I also remember the talk that you had - this isn't what you wanted to do. I ordered you to do it; and whatever happens in this thing at the proper time I am going to sit down; and if you say, "Now look, boss, I have given you the best I have; I want to get fixed now some other place at the proper time," I told you some day that I would sit down and talk it over, and I have never forgotten it. I want you to know that. On the other hand, you may say, "Well, I think I ought to go along with you for another year on this particular phase of the Treasury work," all right; but I want you to know that I haven't forgotten that. What was it, six months ago?

MR. GRAVES: It was before you went to Europe.

H.M.JR: That would be four or five months. I haven't forgotten it. I have been very conscious of it. I knew that the time would come. I am being a little wordy for me. Let's compare ourselves to the Red Cross drive. They go down into every single community, and they are well organized. I mean, it is the one thing--

MR. BELL: They have three thousand or so chapters.

H.M.JR: It is the one thing that really in our township, on a national basis, we are called up on the phone about once a year and asked to subscribe to. It is the only national thing that really touches the community. I mean, you couldn't divide the Red Cross in half.

As I say, I think the time has come where - certainly in Washington, and somewhere down the line - there has got to be an amalgamation.

MR. GRAVES: Of course, as to the idea of bringing someone in here, I think everything would depend on who that turned out to be. It could be a very bad mistake if it isn't just the right man.

H.M.JR: I could have an Eberstadt, a Wilson, and a Donald Nelson--

MR. BELL: And a Donald Duck. (Laughter)

H.M.JR: ... right here in my own shop. I have been very fortunate. That is, of course, what these businessmen and bankers think, that because we don't have one, we are no good. We did raise our twelve billion dollars in December, and we have been successful, and so forth, and so on. At least this crowd here isn't trying to put a banker over on me; they are trying to put a manufacturer.

MR. GRAVES: A sales executive.

MR. BELL: You mean Thomas?

MR. GRAVES: This national director of sales, they say, should be an oil executive, a food executive, or somebody who has been in the merchandise marketing business.

H.M.JR: I have talked about that; there is nothing original in that. You have heard me talk about it.

MR. GRAVES: That is right.

MR. BELL: It was along that line that you got Grant and his crowd, to see if we could eventually find somebody out of that crowd.

H.M.JR: It didn't work; Grant went home to Detroit. I mean, there is nothing particularly original. Grant, of course, always insisted that the two organizations should be separate.

MR. GRAVES: In their operations, yes. I don't know what he has had to say about coordination at the top.

H.M.JR: Let's just talk this way a minute. Let's just say that under the Secretary's Office - let me be Mr. X for the time being. We haven't got anybody - the

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thing is going to be consolidated. How are we going to consolidate? Let's forget Mr. X for a minute. How can I go in this April drive and get these two organizations working together on the community level? That is what I would like.

MR. GRAVES: I think that is a problem, item one, of simply analyzing again the fields that the two organizations occupy and taking steps to see that they stay in their own fields; and that they thoroughly cover their own fields, item two. That, in my opinion, has never been done.

H.M.JR: It has to be more than that. For instance, Bell gave me an example where they said that the Victory Fund came out with an advertisement during this last drive on one page and on the other page was an advertisement on the E bond.

MR. GRAVES: That happened over and over again.

H.M.JR: I will tell you, Harold, I have gone this far in my thinking: I am sure that Eccles and the rest of them are going to insist on it, that there is some kind of consolidation for this April drive. I haven't talked to Eccles. I haven't talked to anybody; I have just been trying to think.

MR. BELL: I think they are going to raise it tomorrow when we get to discussing the amount of the April drive. They will say, "Before you fix the amount, we think you ought to do something about the organization, because the organization - the type of organization is going to determine what you can do in raising funds." I think we can do a lot in our own shop before April, and probably do it quickly by in some way consolidating the functions here that have to do with both. For instance, advertising for both ought to be under one place. There isn't any question about that. Harold ought to be coordinated. The radio and the publicity, it seems to me, ought to be right in one place where one agency won't be doing something that the other is doing or where they are doing the opposite. I think it is a good

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deal harder to consolidate it in the field before April; but I don't think that you can give instructions to keep them in their specific fields, because I think each one will run across people who will want to get over for investment into the other man's field. I don't think you can say to that man, "Somebody else will be around to see you next week."

MR. GRAVES: You are quite right there; there shouldn't be anything like that.

H.M.JR: Let's just take the names in New York; that is as difficult as any place.

MR. GRAVES: The most difficult.

H.M.JR: Let's take the most difficult. If we could solve New York, we could solve any place, couldn't we?

MR. GRAVES: Yes.

H.M.JR: Here as chairman you have Dick Patterson for the State of New York. Then for the Federal Reserve District - where can I get a map of the Federal Reserve District?

MR. BELL: I can get it.

(Mr. Bell left the conference.)

H.M.JR: What is the name of the man in the Victory Fund?

MR. GRAVES: Perry Hall.

H.M.JR: It gets down to this: Here is Perry Hall and Dick Patterson, and there is the president of the Federal Reserve Bank who has, let's say, six or seven Perry Halls under him.

MR. GRAVES: Perry Hall - he has one. Perry Hall operates for the whole Federal Reserve District, which

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consists of New York State and the northern part of New Jersey and one county in Connecticut.

H.M.JR: Does he have the whole?

MR. GRAVES: Yes, the whole.

(Mr. Bell reentered the conference.)

H.M.JR: Perry Hall has - does he cover New Jersey, too?

MR. BELL: Just a little northern part of New Jersey, and just a little bit of Connecticut.

MR. GRAVES: One county.

H.M.JR: As I say, we are talking about Perry Hall and Dick Patterson - it affects part of the State Chairmen of New Jersey and part in Connecticut. How could we get these fellows - somebody has got to be boss on that level. Somebody has got to say - we get the names out of the bank, but how are they going to divide them up, the teams and everything else? There has got to be a boss on that level.

MR. GRAVES: I don't think you could have a boss on that level unless you either take the War Savings Staff and convert it over into the Federal Reserve Bank setup, or do the opposite, take the Victory Fund thing and put it on a State basis. You would have to do one or the other. You get into fantastic situations about geography.

H.M.JR: Let's just take the latter for the minute. Let's say we are going to convert the Victory Fund over to a State basis. Then can Sproul function on a State basis?

MR. BELL: I don't think so; he would be over in the other District.

MR. GRAVES: Sproul would divide them. He would have all of New York, part of Connecticut, and part of New Jersey.

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MR. BELL: Of course, it wouldn't hurt in New York so much, I suppose, to give up part of New Jersey to the Philadelphia District and a little bit of Connecticut to the Boston District; but take Illinois, it is split right through the center. The southern half is in the St. Louis District, and the northern in the Chicago District.

MR. GRAVES: Indiana is divided between Chicago and St. Louis. There are others; the State of Missouri is partly in the Kansas City District and partly in the St. Louis District.

H.M.JR: As I understand it - for instance, what Eccles wants is, he would like for the three weeks in April that we have the drive to have the War Savings give way to the Victory Fund?

MR. BELL: Yes. I think he would like to go a little further by saying that they will be under the Victory Fund Committee for the three weeks' period and all work together in the whole drive, that the War Savings Staff would have the same basket as the Victory Fund people, and they would all get together on the type of canvass so that there would not be any overlapping of names and things of that kind. If you had a house-to-house canvass - I don't know whether we can or not - the War Savings wouldn't be working the same street as the Victory Fund. You wouldn't be hitting the same house twice. His idea is to put the two organizations together for three weeks and let them go their way afterwards.

H.M.JR: If you are going to do it, you might just as well settle the thing. I didn't say we were going to do that, but whatever we do we might as well settle it; because once you do it and have all the dissatisfaction and heart-aches, you might just as well do it and say, "This is the way it is going to be," not, "After you do it for three weeks, go your own way again."

MR. BELL: Except you do it for three weeks out of every four months. They get together and work on one big drive.

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H.M.JR: But look how difficult it is for them to get together. The difficulty is between these various States.

Now, how is the Red Cross organized? They are organized on a State basis, aren't they?

MR. BELL: Yes, they are organized on a State basis, but each county has a chapter. They have about thirty-one hundred chapters.

H.M.JR: I have said right along that each county should have a chairman. I don't know whether they do or not.

MR. GRAVES: They do in our organization.

Have you read Mr. Haas' memorandum on this subject? I think you have, Dan.

MR. BELL: It was in his financing memorandum.

H.M.JR: I have begun to, but I don't see anything in this.

MR. GRAVES: He has a very thorough--

H.M.JR: I haven't finished it. I asked Dan which was the more important to do, and he said the more important thing was the question of organization.

MR. GRAVES: That impressed me as the most practical suggestion that we have had for this April organization.

H.M.JR: I haven't seen it.

MR. BELL: He says, "Amalgamate the efforts of the Victory Fund and War Savings organizations by channelizing their sales efforts in the April drive as follows:

"Victory Fund Committees: All investors, both corporate and individual, with incomes of fifteen thousand

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dollars or more or with known bank accounts of seventy-five hundred dollars or more. There are probably four hundred thousand persons and corporations in these categories. Their names would be placed on lists prepared by the local Victory Fund organizations as suggested some time ago by the Grant Committee.

"War Savings Staff: All investors with incomes under fifteen thousand dollars, which means everybody else in the country. It is contemplated in connection with the channelizing of sales efforts that the entire basket be made available to both sales organizations."

H.M.JR: Is that what you mean?

MR. GRAVES: That is a small part of what is a very long report.

H.M.JR: Is it in there?

MR. BELL: That was a summary.

H.M.JR: Should I send for George?

MR. GRAVES: I think you might want to. I think that they have a practical plan. I was not consulted by them in the preparation of their plan.

H.M.JR: I am not suspicious.

MR. GRAVES: They have, I think, a practical plan for your April operation and one which, I think, would be consistent with your getting the best possible use out of both of these organizations.

MR. BELL: There is another memorandum on financing.

H.M.JR: It is all in there, though. I have the whole business; I put the two memoranda together.

MR. BELL: Here it is.

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MR. GRAVES: I never saw that memorandum; Mr. Haas read it to me. It was quite long and detailed.

H.M.JR: Evidently Bell hasn't read it either.

MR. BELL: Yes, I have, but it has been a week ago. It is discussed all through here. "It is proposed that the E bond be opened to all investors other than commercial banks as of April 1, '43. The limitation of the amount purchased would not be changed."

(Mr. Haas, Mr. Tickton, and Mr. Lindow interred the conference.)

H.M.JR: We are talking very confidentially here about how to organize our sales forces for April, and Mr. Graves said that you (Haas) had worked out a program.

MR. HAAS: All I had was what was in that memo.

MR. BELL: I was trying to find the particular spot other than the summary.

MR. HAAS: The trouble is, it runs all the way through.

H.M.JR: Can you tell it to me?

MR. HAAS: Yes. On the basis of this analysis we made of the source of funds where the money is, it works out that there is a large portion of the funds in the lower income groups. We figured that it isn't a question of whether you need one organization or the other. The job is so big that you need to use both organizations to a maximum extent. So, we figured that the Victory Fund Committees could handle the upper groups, and they would contact people that had fifteen thousand or more or a bank balance of seven thousand five hundred, and they would work from lists to keep the two organizations from getting into each other's hair. The War Savings Staff would take all the rest. It seems to me it would mean an intensification in every direction, including a house-to-house canvass.

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H.M.JR: George, I don't understand your definition. Give me the definition of the limitations again.

MR. HAAS: The limitation would be that the Victory Fund Committees would contact people having incomes of fifteen thousand or more, or having a bank balance of seven thousand five hundred. They would operate from lists which would be made up by bankers and other groups. That would keep them out of the hair of the War Savings Staff. They are more adapted to that type of solicitation. It is the investor-minded people, whereas the War Savings Staff would contact all others. We set an estimate of sales for E bonds in April of a billion and a half.

H.M.JR: I saw that, but you are no better than the milk delivery system in New York, where they have five different companies going in the same block. You would have a Victory Fund salesman going into that block, into that apartment house, and you would also have a War Savings fellow going into the same apartment.

MR. HAAS: They wouldn't cross so much; the lists would be made up jointly. Most of the people whom the Victory Fund would contact would be at their business places rather than at home. Some would be made at home.

I also suggested that both organizations have the complete list of bonds. I think it is foolish, for instance, for one of Buffington's men to call on a man - if he hasn't bought his limit of E bonds, he should be able to sell him an E bond. The same with Harold. If he went to some organization, women's club, or something, that has been working and they already had the limit of E bonds and wanted some others, he could sell them a two and a half.

MR. LINDOW: Mr. Secretary, there are an estimated sixty-three million income recipients for this calendar year, and the people over fifteen thousand dollars would

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number only about three hundred thousand.

So, the War Savings field would number way into the millions, that is, the people under fifteen thousand income; whereas the Victory Fund field would be a heavily concentrated field where the larger incomes are, with three hundred thousand people, plus maybe a hundred thousand corporations, or a total of about four hundred thousand.

It is a highly personalized type of campaign which is needed for those people. Whereas, the mass campaign that is needed for the other sixty million or fifty million, or whatever you can work on, calls for the mass technique which the War Savings Staff has been using.

I am sorry to interrupt you, but I thought these numbers were worth bringing up.

H.M.JR: That is important.

Of course, the thing I am groping for - I don't know how to do it. That is what we are talking about, how to get these two organizations together.

It is easy enough to get them together here in Washington. We just have to send for two or three people, and we are together. Bring Buffington in, and we are together - I mean, at this meeting.

MR. HAAS: Our suggestion is, approximately, leaving the Victory Fund doing more or less what they did the last time.

H.M.JR: But look, George, I use this as an example. On one page of the paper will be an ad for the Victory Fund and on the opposite page the War Savings.

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MR. GRAVES: No, it would have to be done by the people in Chicago. We wouldn't know anything about that here because it is contributed and sponsored.

H.M. JR: Who would coordinate the advertising in Chicago?

MR. GRAVES: You mean here?

H.M. JR: Anywhere.

MR. GRAVES: It was done by the Advertising Council, supposedly, in the December drive. You turned that over, as you recall, to Mr. Thomas. He was supposed to take care of the advertising.

H.M. JR: But it didn't work. Who would do it in April - so that Sears Roebuck and Marshall Field wouldn't have two ads?

MR. GRAVES: You can't prevent a thing like that here.

H.M. JR: All right, but who in Chicago would do it?

MR. GRAVES: What I was trying to say was that I thought this thing would be very largely cured if we would provide for some form of supervision and coordination at the large cities, which were lacking in the December operation. That is, you could designate someone in each of the fifty largest cities, or twenty-five largest cities, and I think that would provide all of the coordination you need.

H.M. JR: To do what? To be a coordinator?

MR. GRAVES: That is right, with respect to advertising. At Cleveland what happened there was that the War Savings people went to the Victory Fund folks and said, "Here, we have got to get together on this to avoid competition," and they worked the thing jointly at Cleveland. I think it could be done everywhere.

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MR. HAAS: On the Pacific Coast - wasn't that where the men said they worked it jointly?

MR. GRAVES: They did in a good many places.

H.M.JR: You have to give some orders.

MR. GRAVES: Certainly.

H.M.JR: I still think that certainly in the hundred and twelve - aren't there - Federal Reserve districts?

MR. BELL: There are twelve.

H.M.JR: I mean with the branches.

MR. BELL: There are twenty-three branches.

H.M.JR: But the hundred and twelve cities--

MR. BELL: Those are cities of a hundred thousand and over.

H.M.JR: I thought they all had branches.

MR. BELL: No, there are only thirty-five branches in the country where the Federal Reserve has offices.

H.M.JR: Why did we go to a hundred and twelve cities?

MR. BELL: We picked the principal cities in the country of a hundred thousand population.

H.M.JR: Let's call it a hundred and twelve. If we had a boss, so to speak, of everything in a hundred and twelve cities, we certainly would take care of it.

MR. GRAVES: I think you would if you had a boss of everything in the twenty-five largest cities, or fifty. These things that Mr. Bell spoke about and that I have just mentioned kind of look bad to us, but there is nothing fatal about two advertisements appearing.

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H.M.JR: No, but you see, they have got this thing--

MR. BELL: It is bad for the public.

H.M.JR: I still think there has got to be a boss here and there has got to be a boss in New York - there has got to be one in Chicago. All right, who is going to be the boss in New York? Who is going to be boss in Chicago?

MR. GRAVES: I think we would have to figure that out city by city and select some one person from the two organizations.

H.M.JR: I don't mean just on advertising.

MR. GRAVES: Well, on any part of the operation.

H.M.JR: I mean on the whole part.

MR. GRAVES: It would not be too difficult to do that. I mean to find somebody - city by city.

MR. HAAS: Like you did over in Farm Credit - a man like a general agent to bring them all together.

H.M.JR: What did I do?

MR. HAAS: You had those diverse organizations, the Land Banks and other short-term credit agencies, and you put a general agent in each place to bring them all together.

H.M.JR: Where located?

MR. HAAS: He was located in each Land Bank district.

H.M.JR: They were based the same as the Federal Reserve?

MR. LINDOW: Twelve districts, but the areas included are a little different.

H.M.JR: I had a general agent?

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MR. HAAS: To coordinate in each district, and he reported to you. You could use him as a coordinator in each place.

H.M.JR: Everything came under him?

MR. HAAS: He was the chief coordinator. He would function like the man Graves suggested here.

H.M.JR: I had twelve of those?

MR. HAAS: Yes.

H.M.JR: Were you in Farm Credit?

MR. TICKTON: I was.

MR. LINDOW: I was.

H.M.JR: How could you put up with me so long? (Laughter)
Both of you came from Farm Credit?

MR. LINDOW: Yes, sir.

H.M.JR: How did I pick the general agents?

MR. HAAS: I don't know how you picked them. I remember Crowley was one once, don't you remember? Up in Minneapolis - St. Paul.

H.M.JR: That is right. And they were boss over the whole show?

MR. BELL: They were coordinators.

H.M.JR: Was it uniform in each district then?

MR. HAAS: Yes, they had one general agent and they had intermediate credit banks. The Land Banks and the Production Credit Corporation - Seed Loans--

MR. LINDOW: Regional Agriculture.

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MR. HAAS: You had just this type of problem only it was more complicated.

H.M.JR: Then the general agent was responsible to me?

MR. HAAS: Yes, and so was the Land Bank president under the law. But you used him as the coordinator.

H.M.JR: Who, the Land Bank president?

MR. HAAS: No, the general agent, which was an entirely separate individual.

H.M.JR: I put him in each one of the twelve districts?

MR. HAAS: That is right.

H.M.JR: Then did they work directly with me?

MR. HAAS: The general agent did, and the other people did, too. They reported to you under the law. But you used him to - as a coordinator - there were conflicts between organizations, and he settled them locally. If there was a problem they couldn't get together on, he came in and discussed it with you, you settled it, and he went back and fixed it up. You made trips around, too, in the different places.

H.M.JR: Oh, I worked in those days. I went into each one of those. I had a meeting in each one of those twelve districts.

How does OPA operate? They are under Federal Reserve districts, aren't they?

MR. GRAVES: I think not. I think they are on a State basis. I happened to read a little squib this morning about the State OPA director for Utah.

H.M.JR: What would you think of twelve coordinators?

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MR. GRAVES: I think that would be all right provided we were careful in the choice of the twelve coordinators.

H.M.JR: Wherever they were best--

MR. GRAVES: I think they ought to be your representatives and not attached to or associated with the Federal Reserve setup. That is my opinion.

H.M.JR: That is right. You wouldn't have them the twelve chairmen of the Federal Reserve?

MR. GRAVES: I think they ought to be people as far as possible detached from the Federal Reserve setup.

H.M.JR: Why?

MR. GRAVES: Because I think you want them to be your managers and not theirs. You have got to have an impartial group.

H.M.JR: They would have to come, either - one of your State chairmen or one of the Victory Fund--

MR. GRAVES: They might be so chosen, but they should be regarded as your representatives.

H.M.JR: Then how would they - let's say I have one. He won't have to be, necessarily, on the Federal Reserve; we would take them on the States. We would get over the bad business of the Federal Reserve, wouldn't we?

MR. GRAVES: As I see it, you might want to limit them to certain cities, without regard to the general agrarian communities where there would be no problem.

H.M.JR: I mean, take, for instance, the West Coast. You might have to have two coordinators on the West Coast.

MR. GRAVES: I should think so.

H.M.JR: You might have to have, say, one for San Francisco and Los Angeles, and one for Seattle and Portland, and then the back States.

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MR. GRAVES: I don't think you would have any problems out there except in those four cities.

H.M.JR: One for Seattle and Portland, and one for Los Angeles and San Francisco. I am just using that for an example.

MR. GRAVES: Or you might find it enough to have one for the whole coast. You can travel pretty fast out there by plane.

MR. BELL: It is a pretty big territory.

MR. TICKTON: Relatively small number of Victory Fund prospects.

H.M.JR: You would do this thing by cities?

MR. GRAVES: That would be my idea. I don't think you would have any problem except in the large cities of the country.

MR. BELL: Twenty-five might do the trick.

H.M.JR: What is that?

MR. BELL: Twenty-five might do the job.

H.M.JR: Here the problem wouldn't be so difficult. We have an advertising department in War Bonds. After all, Buffington's whole organization amounts to six or seven people. That wouldn't be so difficult at this end, would it?

MR. BELL: No, as a matter of fact, the Victory Fund setup ought to use the War Savings Staff setup wherever they can, particularly the advertising end, the movies and the radio with all their experience and contacts. There should not be another organization of that type set up for the Victory Fund Committee.

H.M. JR: Do you think we ought to bring Buffington in at this stage and talk to him?

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MR. BELL: It wouldn't do any harm. Has he seen your report?

MR. HAAS: Yes.

MR. BELL: The thing that worries me about all the coordinators is, in effect, another organization on top of two other organizations.

H.M.JR: I don't know. I am just groping.

MR. BELL: That is the first thing that worries me.

H.M.JR: These boys have these figures. You think you would amalgamate them and get it over with?

MR. BELL: I don't know that that is the answer. I don't know as we solve it by putting one organization on top of another.

H.M.JR: We did in Farm Credit, didn't we?

MR. HAAS: Yes, sir.

(Mr. Buffington entered the Conference.)

H.M.JR: We are doing a little talking here. We would like to keep it confidential.

I thought I might put in a call for Mr. Grant. He spent a lot of time on this thing.

MR. BUFFINGTON: He is still in Florida, I believe. Next Monday he will be back. Bathrick got in this morning, I believe.

H.M.JR: Has he any ideas?

MR. BUFFINGTON: I haven't talked to him, Mr. Secretary.

H.M.JR: George, we have got this Harold Thomas report, and to sum it up, they want to scrap both organizations,

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as near as I can make it out, and start all over with a new one. Is that about right, Bell? Well, anyway, I will give you a chance to read it. We just don't see our way clear. Of course, what I would like to have, if I could find a way, is to really consolidate both of these organizations, and do it anyway so that we will still get the best out of both of them. It is awfully difficult for everybody. Haas used to be with me in Farm Credit, and these boys, too, and they said I had a problem which was much more difficult in Farm Credit with all these various lending agencies, and I put in twelve coordinators. What did I call them?

MR. HAAS: General agents.

H.M.JR: As I remember, each of them had four States, didn't they?

MR. BELL: That is about right.

H.M.JR: -- who were directly responsible to me. They had the Land Banks and all these various different lending agencies under them, and they got them together.

You must have thought about this thing, haven't you - about how the two organizations could be melded?

MR. BUFFINGTON: Yes, sir, I have, and it seems to me if it could be done effectively we would eliminate a lot of this cross-rough that we seem to be getting in the territory.

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

February 15, 1943
10:36 a.m.

HMJr: Hello.
Operator: Mr. Bathrick is in his office.
HMJr: Is where?
Operator: He's in his office here in Washington.
HMJr: I want to talk to him.
Operator: Right.

10:37 a.m.

HMJr: Hello.
Operator: Mr. Bathrick.
HMJr: Hello.
Donald Bathrick: Hello.
HMJr: Mr. Bathrick?
B: Yes, sir.
HMJr: Morgenthau.
B: Yes, sir. Good morning.
HMJr: Good morning. I hear Mr. Grant is away.
B: Yes, sir. He'll be in town a week from this morning.
HMJr: I see.
B: Anything I can do for you?
HMJr: I don't know. I'll ask you. Have - have you people got any thoughts or ideas on this April drive?
B: You mean our committee, Mr.....
HMJr: Yeah.

B:Secretary?

HMJr: Yeah.

B: Well, I would say - I would say yes.

HMJr: I'm thinking in terms of the - of the organization in the field. That's what I'm thinking about.

B: You mean the working of the organization.

HMJr: Yeah.

B: Not of the....

HMJr: Of the two organizations.

B: Well, I would say, yes, we have, Mr. Secretary.

HMJr: Have you - have you got them in your head?

B: Well, I think I could give them to you, and what I would like to do before I came over, if that was what you....

HMJr: Yes.

B:would be to call Mr. Grant and make sure that he and I are looking down the same barrel.

HMJr: Well, supposing you do that because - and do you suppose I could - you'd come over tomorrow morning?

B: Yes, sir, I'd be delighted to.

HMJr: Say about nine-thirty?

B: Nine-thirty tomorrow morning.

HMJr: Yeah.

B: I'll be there. In the meantime, I will talk to Mr. Grant now.

HMJr: And.....

B: Do you feel that it would be necessary or be helpful to you if we had our committee meet next week? We....

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HMJr: I don't know. Let - let's you and I talk first.

B: All right.

HMJr: But what I - what I'm particularly interested in is to get recommendations from you people as to the field organization.

B: Yeah.

HMJr: You see?

B: The operation of it for the campaign. I understand it's \$9 billion dollars. Is that right?

HMJr: Oh, no, it'll be much more than that.

B: Oh, well, I read that. (Laughs)

HMJr: Yeah, well....

B: All I know is what I see in the papers.

HMJr: Well, what I said was -- in the paper -- that it'd be at least as much as last time.

B: Uh huh.

HMJr: And I had twelve in mind.

B: Yeah, yeah.

HMJr: At least as much.

B: Oh.

HMJr: Yeah.

B: All right, Mr. Secretary, I'll be very glad to be over there tomorrow morning at nine-thirty, and I think I can come up with something at least to clarify your mind, and then at that time we can determine whether or not you want this full committee next week.

HMJr: Okay.

B: Thank you.

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H.M.JR: They have spent a lot of time on it.

What are your ideas, George?

MR. BUFFINGTON: What I don't understand, Mr. Secretary, is that there are some places in the field where the two organizations seem to naturally work together, and there are other places where they seem to be completely apart.

I don't see why an arrangement can't be worked out where the two organizations can function during the April drive, with the element most adequate to do the Victory Fund work working under the Victory Fund direction, and the group most adequate for pay roll emphasizing that part. I think that the big question in everyone's mind now, in the districts, is the conflict in certain sections between the objectives of the two organizations.

In our discussion a week ago Saturday about having the Victory Fund organization offer the E Bond and the other organization offering the basket that the Victory Fund Committee offers - how that will work out, and how much friction that will bring about, I am not clear on in my own mind.

H.M.JR: In these discussions, do you people still feel it should be two separate organizations or one organization in the field?

MR. BUFFINGTON: I personally feel that the pay-roll savings is one function in itself, and the sale of the - the general sale of securities to the other investors is another kind of problem. I would think, in that respect, that they certainly ought to be departmentalized if they are going to be under the same direction.

MR. BELL: Regardless of the amount, you think that that could be one organization?

MR. BUFFINGTON: Yes.

H.M.JR: George, just for fun, in your head, you have got how many of these fellows - you have got twelve key men?

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MR. BUFFINGTON: That is right. Twelve men as presidents, the executive managers - the twelve men under the chairmen - and they with their assistants, and then they go off into regional committees.

H.M.JR: How much is your pay roll, now?

MR. BUFFINGTON : I will get those figures.

(Mr. Buffington left the conference temporarily.)

H.M.JR: These chairmen of the Federal Reserve banks would be these coordinators - I mean if we put in twelve more people?

MR. BELL: That bothers me a little.

H.M.JR: You couldn't have the presidents of these Federal Reserve banks act as the coordinators?

MR. BELL: Take them out as presidents of the Victory Fund Committees?

H.M.JR: Yes. Supposing we said--

MR. GRAVES: In some districts that would work; in others it would not work.

H.M.JR: In what district would it work?

MR. GRAVES: It would work very well in the Chicago Federal Reserve district, for example.

MR. BELL: And Minneapolis - somebody does both jobs.

MR. GRAVES: In Cleveland it would not do.

H.M.JR: What is the matter in Cleveland?

MR. GRAVES: Fleming doesn't like our merchandise or our organization or anything about the War Savings setup.

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H.M.JR: Mr. Fleming is a weak spot, anyway, in the whole thing.

Let me take the first district.

MR. BELL: Paddock in Boston.

(The Secretary left the conference temporarily.)

H.M.JR: Have you got the thing? Which ones are good and which ones are bad? Boston, Paddock; New York, Sproul - these are the good ones?

MR. BELL: No, those are all of them. George thinks Paddock is all right. I have some doubts about Paddock.

H.M.JR: Who thinks so?

MR. BELL: George.

MR. BUFFINGTON: I think there are five States in the first district and of the--

MR. GRAVES: Six.

MR. BUFFINGTON: -- and of the six, in at least four the administrator and the Victory Fund Committeeman seem to be completely in accord.

H.M.JR: Let's just do this, let's start with Boston. The Federal Reserve fellow's name is Paddock.

MR. BUFFINGTON: Yes.

H.M.JR: How do you work with them up there?

MR. GRAVES: We have not worked very well with him, as I recall. We have had a lot of trouble about New England, in the Federal Reserve operations. There was a time, for example, when they were thirty-five days behind in the issuing of bonds on schedule.

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H.M.JR: Who is your best man in New England?

MR. GRAVES: Tom Hughes is our administrator in Connecticut. He is a good man.

H.M.JR: Tom Hughes? The man that used to be Assistant Secretary - have you got him working for you?

MR. GRAVES: Yes. His brother worked in our operation from the very out-set.

H.M.JR: And you are paying him?

MR. GRAVES: No, he works for nothing.

H.M.JR: Did you know that?

MR. BELL: No.

H.M.JR: He is just an S.O.B. He made me more trouble when I came in here! He was the fellow responsible for all the dirty stories about me, and everything else.

MR. GRAVES: I didn't know that. I talked with McReynolds about him.

H.M.JR: Mac knew that. You (Bell) knew that. He is a filthy so-and-so.

MR. GRAVES: I didn't know that. I checked with Mac and Norman Thompson.

H.M.JR: He made all these stories the first three months I was in the Treasury. He is the fellow, when I told him the President of the United States didn't have the figures as to what the deficit would be - didn't know by three billion dollars - he said, "Why didn't you tell that to the President of the United States?" Why did I have to go over and tell him he didn't know? I said, "Why should I tell him? If he wants to know he could send for me." Hughes was then Fiscal Assistant Secretary.

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MR. GRAVES: We can change that if you like.

H.M.JR: How long has he been in there?

MR. GRAVES: He has been working right along. His brother went into the Navy and he has been functioning.

MR. BELL: Hasn't he been here on some work?

H.M.JR: Sure, he went with the State Department and all the rest.

MR. GRAVES: He was--

MR. BELL: The fellow that is in the next State, Rhode Island, is very good, isn't he?

MR. GRAVES: Pirnie is very good.

H.M.JR: Who?

MR. GRAVES: Pirnie.

H.M.JR: Who have you got up there?

MR. BUFFINGTON: John Stubbs. He and Doherty get along very well. I think there are four of them, out of the six States, that he has had a good deal of contact with and gets along fine, as I understand it.

H.M.JR: Have you got anybody else other than Hughes?

MR. GRAVES: No, I think not. Our Collector of Internal Revenue is our head man in Maine and in Vermont, and a manufacturer from Nashua, New Hampshire, named Winthrop Carter is our head man in New Hampshire. He is an excellent man, but I think would not have time for this added responsibility.

H.M.JR: Why don't you continue in your office along this line a little bit further, exploring the thing? I feel this way - I mean, it is all wide open, but the way

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I feel is I would like to have a man in each one of these districts who is boss over both organizations.

MR. BELL: Each Federal Reserve district, or would you break it down by cities?

H.M.JR: I don't know.

MR. BELL: We can explore that. You are leaning that way, toward a coordinator?

H.M.JR: Yes.

MR. BUFFINGTON: Mr. Secretary, you asked me a moment ago the number of people. Do you want those figures?

H.M.JR: Yes.

MR. BUFFINGTON: As of January first we have one hundred and fourteen in the country, executive managers, regional managers, publicity men, and with the new appointments pending there will be one hundred and fifty-two, making the pay roll six hundred and twenty thousand dollars a year.

H.M.JR: You don't have to tie up all of these people. Do you want to take George in with you? I don't think you need Tickton.

MR. LINDOW: I thought you might be interested in this write-up. They are still using the general agent.

(United States Government Manual, Fall 1942, handed to the Secretary.)

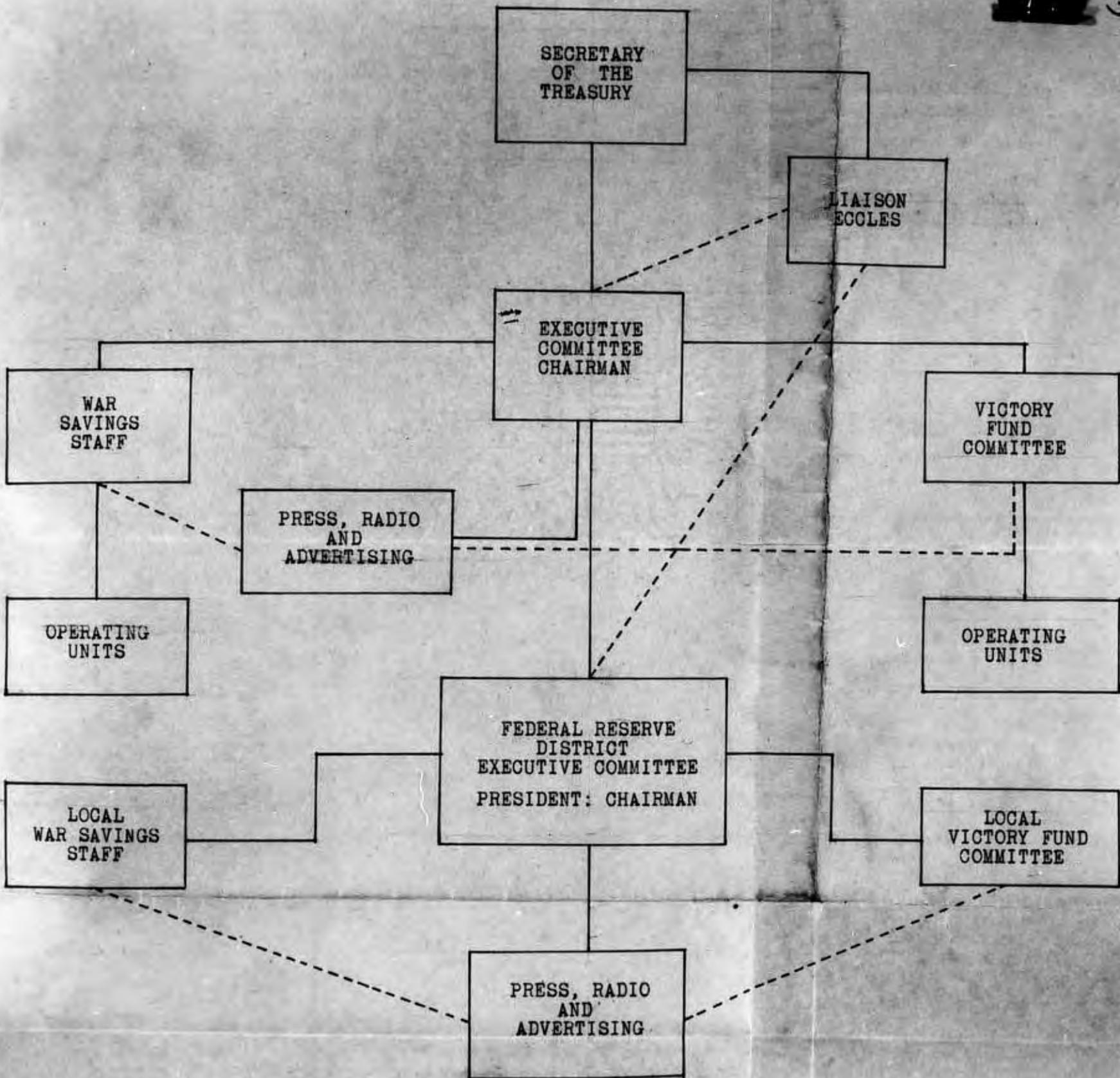
H.M.JR: (Reading) "Activities of the four institutions in a district are coordinated through the farm credit board and an executive called the general agent, who acts as joint officer for the four units. The general agent is responsible for the coordination of day-to-day activities and has supervision over certain personnel and facilities, with authority to direct the legal, accounting, informational, and statistical activities."

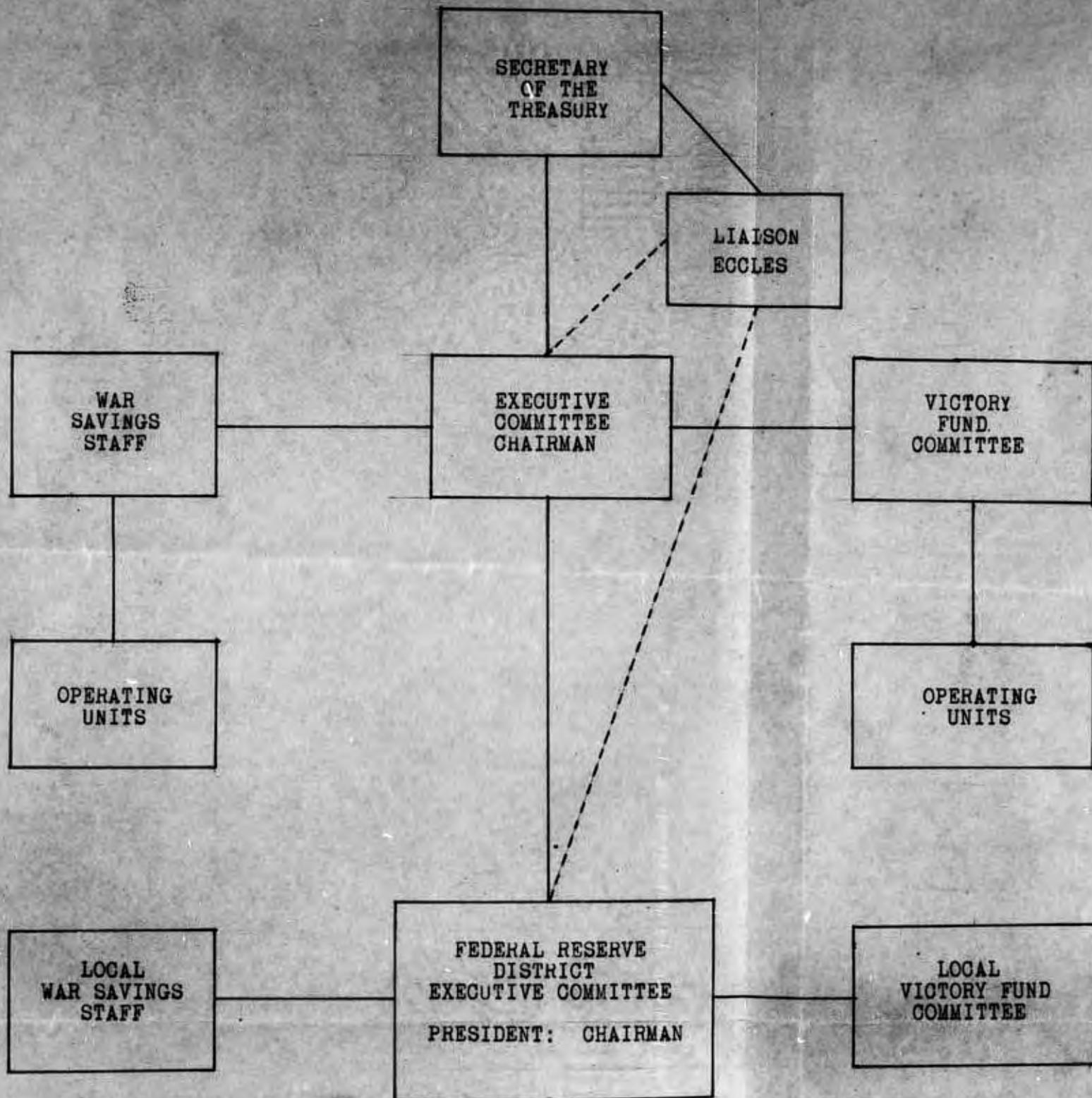
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That is about what we need. - a general agent in each district.

MR. GRAVES: Reporting to you.

H.M.JR: Yes.





Conference in Secretary Morgenthau's Office
February 15, 1943
11:00 A. M.

Present: Secretary Morgenthau
Mr. Herve Alphand, National French
Committee to the United States
Mr. H. D. White

The conference was arranged at the request of Mr. Alphand. Mr. Alphand, Director of economic financial studies relating to the post-war period for the National French Committee to the United States, said he was returning to London at the end of the week. He told the Secretary he greatly appreciated the discussions he had had with Mr. Bell, Mr. White and Mr. Bernstein on foreign exchange and other monetary problems in which his Government was keenly interested. He said there was a particular problem he would like to raise with the Secretary.

Prior to the completed occupation of France, arrangements had been made with the Treasury so that funds were unblocked for the purpose of supplying certain food packages, chiefly meat, to French prisoners in Germany. Since the complete occupation, that has been stopped. He said it was extremely important for France that such shipments be continued because the prisoners in Germany represented one-fourth of the entire French population of men from the ages of 20 to 40 and were, of course, not receiving nearly enough to eat. He hoped the Secretary would see his way clear to the resuming of the unblocking of the funds which he said amounted to a small sum — probably a half a million dollars a year. He also stated though the National French Committee to the United States was in favor of keeping intact the French funds until such time as there was a unified Government to deal with, he felt that all parties would be strongly in favor of the expenditure of French funds for supplying French prisoners in Germany with meat. He stated that the State Department was considering the matter and he hoped the Treasury would release the funds for the purpose. The Secretary replied that he was not informed as to the details but would take the matter up at once.

Mr. Alphand then stated he was going to see General de Gaulle next week and wondered whether there was any message he could carry back to General de Gaulle from the Secretary. The Secretary stated he had not met General de Gaulle but Mr. Alphand could carry back his kindest regards. Mr. Alphand replied that they felt deeply appreciative of the sympathetic hearings that he and his group had received at the Treasury.

H. D. White

February 15, 1943
11:22 a.m.

HMJr: Hello.

Operator: Mr. Welles has a foreign newspaper correspondent with him, and they wanted to know if you could wait until he's gone.

HMJr: Yes.

Operator: All right.

HMJr: But as soon as he's gone, if he'll call me.

Operator: Right. I'll do that.

11:39 a.m.

HMJr:his attention an article written by young Sulzberger from London in regard to Rumanian Jews, in which it said that the Rumanian Government was willing to help 70,000 Jews come out - hello?

Sumner Welles: Yes. I don't think I saw it, Henry.

HMJr: Well....

W: I was just making a note of it.

HMJr: It'll be - I sent it to you five minutes ago.

W: Oh, you have? Thanks.

HMJr: It ought to be there....

W: All right.

HMJr:in the next five minutes if you....

W: Right.

HMJr: Now the President didn't know anything about it, and he said -- I tried to get you and I - you were out -- and he said to talk to you about it, and the first time that you saw him, would you discuss it with him.

- 2 -

W: Yes, I will, indeed.

HMJr: And I - naturally, if there's a chance of getting 70,000 of these out - and the story says the Rumanian Government is willing to furnish the transportation.

W: Well, that seems almost unbelievably good.

HMJr: Right, and 70,000 souls are a lot of people.

W: Uh huh, I should say so.

HMJr: And....

W: Well, I hope to God there's some foundation of real truth in it.

HMJr: Yes.

W: He's pretty good, as a matter of fact, Sulzberger, about his stories. He has pretty good information usually.

HMJr: I suppose you'd have to cable to London, wouldn't you, to get - the thing - the story came out of London.

W: Well, it may be - it may be, on the other hand, that we could tell better through Ankara.

HMJr: I see.

W: In any event, as soon as I get the story I'll see what we can do to confirm it....

HMJr: Right.

W:and I'll talk to the President about it as soon as I can.

HMJr: And would you - would you keep me posted?

W: You bet.

HMJr: Thank you.

W: I'd be glad to, Henry.

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HMJr: Thank you so much.
W: Thanks for calling.
HMJr: Thank you.
W: Goodbye.

February 15, 1948
11:45 a.m.

FINANCING

Present: Mr. Bell
Mr. Graves
Mr. Haas
Mr. Tickton
Mr. Lindow
Mr. Buffington
Mrs. Klotz

H.M.JR: I was thinking something like this: supposing that for argument's sake we could agree on New York and Chicago. You say Cleveland is no good. All right, I would put in a coordinator in Detroit. Then I would put in one, say, maybe in Cincinnati, or some place like that. I am just using that as a suggestion. I would put one in in Detroit, then go down to Cincinnati where he might also look after that section.

MR. BELL: Leaving Cleveland to take care of itself?

H.M.JR: No, he would also take care of - Cincinnati would take care of Pittsburgh, Cleveland, and Louisville.

MR. BELL: One suggestion was made here that you might take--

H.M.JR: Or Indianapolis.

MR. BELL: -- You might take six of the Federal Reserve presidents and six of the top men of the War Savings Staff.

H.M.JR: I think you have got to do it by individuals. You have got to do it by territory - by cities. Cleveland is a bad section, anyway. Detroit is the important place.

- 2 -

MR. BELL: Detroit is in the Chicago district.

H.M.JR: Well, but it is so far away. I am just saying the way the thing could be done. Let's say that Eccles and everybody agrees Cleveland is no good. All right, what would you do? I would pick somebody. Let's say we have a good man in Ohio - all right, let's make him the coordinator.

MR. BELL: Haven't they got a good man in Ohio?

MR. GRAVES: Mr. Morgenthau knows. (Laughter)

H.M.JR: He is a cousin of mine. I don't know if he is any good or not. He is a nice fellow, anyway.

MR. GRAVES: He is very good.

H.M.JR: He gives it his full time.

I am just thinking how you might do that. That St. Louis district is crazy - I mean, I think you need one in Atlanta, one in Dallas. I think New Orleans ought to have one.

MR. GRAVES: I have never heard that we had any trouble of any kind in New Orleans.

MR. BELL: There are about twenty-five cities, Harold thought, that you ought to use - from twenty-five up.

(Mrs. Klotz entered the conference.)

MR. GRAVES: You wouldn't need a separate coordinator for each group. They could be grouped as Mr. Morgenthau is now suggesting.

H.M.JR: What would you think if I had Marriner come over here alone and talked to him about this, so he can think about it?

- 3 -

MR. BELL: I think it would be a little better than discussing it tomorrow at the meeting.

I am not so sure, if we could get the men, if it wouldn't be better to go outside of both organizations for the coordinator.

H.M.JR: I don't see how you can do it.

MR. BELL: You have the good men tied up in the two organizations. It is pretty difficult.

H.M.JR: I don't see why you shouldn't use these men. Certainly between now and April I can't break in a lot of people to do this thing. If these chairmen, these presidents of the Federal Reserve banks - is that what they are?

MR. BELL: Yes.

H.M.JR: If they were good, they would be the logical people to do this thing. They are responsible to me and they haven't given us any trouble, have they? I am going to say everything that is in my mind. So much depends upon the banking system in this thing - I mean, for the big sums. The bulk money has to come through the banks and their friends and their depositors. But some of these figures - how many people got fifteen thousand or more?

MR. LINDOW: Three hundred thousand. Then there are a hundred thousand corporations we added to that group.

H.M.JR: There is the other, then. This report has you down for somewhere - they say the maximum is between three to five thousand salesmen left in the industry. They say that is all there are.

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MR. BUFFINGTON: I don't know about salesmen, but I am thinking of the sales personnel, which would be a different figure than three thousand. That can't include partners.

H.M.JR: How many do you think there are?

MR. BUFFINGTON: I would say they are half right - ten thousand.

H.M.JR: Even that - that is a small figure over the country.

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

February 15, 1943
11:53 a.m.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: Marriner?

E: Hello there, stranger, how are you?

HMJr: All right. How are you?

E: Well, I feel pretty good. I hope you're feeling better.

HMJr: I - I am, much better.

E: Well, that's good.

HMJr: Marriner, are you busy around three?

E: Well, I've got a Board meeting today....

HMJr: Oh.

E:at two - the reason being - and we got - Mr. Giannini wants to come in and see us.

HMJr: The whole Board?

E: Yeah.

HMJr: God! Which one?

E: A. P. Oh, the real - the old boy himself.

HMJr: He's going to come in - the whole - the whole Board.

E: He wants to see us, and he's bringing no lawyers and we're having no lawyers. We couldn't refuse to see him, but he won't be there today. He's going to be here on Wednesday....

HMJr: Oh.

E: But we decided we'd better have a - a dress rehearsal (laughs) before - before he gets there, and review the situation.

HMJr: Yeah.

E: And we had set it for this afternoon.

HMJr: Yes.

E: Now - let's see, we're meeting with you tomorrow.

HMJr: Yeah.

E: Uh....

HMJr: You couldn't - you couldn't - I don't - well, I don't want to upset the whole Board.

E: Well, we could possibly meet - how - how long would I likely be over there?

HMJr: Oh, half an hour.

E: You - you couldn't make the meeting at - at two, could you?

HMJr: No, I can't do that, unfortunately.

E: Before - you can't make it before three-thirty - I mean three o'clock.

HMJr: That's the first I've got.

E: Well, I'll tell you what I'll do - I assume you want to discuss something about tomorrow's....

HMJr: Yes.

E:meeting?

HMJr: I wanted to give you a chance to think it over, you see?

E: Yeah, yeah, that's right. It'll be a help, and I think that's more important than this even if we put him off later. Well, I'll - I'll come over at three, and - and then we can meet later. We can meet at four - from four to six.

- 3 -

HMJr: Well, I'd appreciate that.

E: Well, I'll come over at three then.

HMJr: I can tell you what to say to Giannini - and just a two-letter word.

E: What's that?

HMJr: No.

E: Oh, well, there's no question about that. I mean we've been saying no all the time.

HMJr: Yes.

E: But the point is that - that when he - when he asked for a chance to be heard....

HMJr: Sure.

E:with all this fussing about bureaus and all the rest of it, we can't afford to have him say he can't even get a chance to see us, see?

HMJr: No. Well, let me know what happens.

E: So that so far as saying no - if we hadn't been saying no, he wouldn't want to see us.

HMJr: That's right.

E: (Laughs) So that's the trouble, we've been saying no for a couple of years and that's what he don't like. (Laughs)

HMJr: Well, I'll be curious to know what happens.

E: Okay.

HMJr: I'll look forward to seeing you at three.

E: All right.

HMJr: Thank you.

E: Goodbye.

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H.M.JR: I will get him to think about this thing.

MR. BELL: Do you think the Federal Reserve presidents would make good coordinators if you took them out of the Victory Fund Committees?

H.M.JR: How do you mean?

MR. BELL: Make your executive managers chairmen of the Victory Fund Committees in each district and eliminate the presidents from the Victory Fund and let them be the coordinators.

H.M.JR: Say that again.

MR. BELL: Eliminate the presidents of the Federal Reserve banks as chairmen of the Victory Fund Committees in each of the districts, and let the executive managers become chairmen, and have your Federal Reserve presidents as coordinators only - no other authority.

H.M.JR: The president of the Federal Reserve as the coordinator, and then it may be the Victory Fund or it may be one of the War Bond people?

MR. GRAVES: Would there be anything in having a committee that could be under the auspices of the twelve Federal Reserve presidents, which would include representatives of the Victory Fund and War Savings?

MR. BELL: Executive committee?

MR. GRAVES: Yes, executive committee of this campaign.

MR. BELL: There could very well be.

MR. GRAVES: Then I think you would pass over and get around many of the objections that might be raised to a one-man coordinator, who would be the Federal Reserve president. He would have to be chairman of this committee.

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H.M.JR: Would you call him a coordinator?

MR. GRAVES: You might call it a coordinating committee.

H.M.JR: I think we have to have a man.

MR. BELL: What?

H.M.JR: You have to have a person.

MR. BELL: You mean as chairman?

H.M.JR: Yes.

MR. BELL: That is all right. You could have an executive committee in each district, say, headed by the Federal Reserve president. He would be out as chairman of the Victory Fund Committee. He would be chairman of the executive committee composed of both Victory Fund people and War Savings people, and their job would be to coordinate all the activities of the two organizations in the district.

MR. BUFFINGTON: You have now in most of these districts executive committees over the district committee, and it would seem quite proper to include representatives of the War Savings group on those executive committees to function in the same capacity.

H.M.JR: But you see, the chairman - Sproul is now president?

MR. GRAVES: Yes, president.

H.M.JR: -- and chairman of the Victory Fund. We would lift him out of that position.

I want you here at three o'clock, Bell.

Did you (Mrs. Klotz) realize that these three men were all with us in Farm Credit?

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MRS. KLOTZ: Which three?

H.M.JR: Haas, Lindow, and Tickton. George dug up that I had a much more difficult thing in Farm Credit than this. I appointed a man called a coordinator. I am going to read this: (Reading from United States Government Manual.)

"District Organization. The United States is divided into 12 farm credit districts. In one city in each district are a Federal land bank, a Federal intermediate credit bank, a production credit corporation, and a bank for cooperatives. Each district also has a farm credit board, the members of which are ex officio directors of each of the four credit institutions in that district. Each separate organization has its own officers."

This is important: (Continuing) "Activities of the four institutions in a district are coordinated through the farm credit board and an executive called the general agent, who acts as joint officer for the four units. The general agent is responsible for the coordination of day-to-day activities and has supervision over certain personnel and facilities, with authority to direct the legal, accounting, informational, and statistical activities."

Give a man that kind of authority, with an executive committee to work with him from both groups, and I think - I am just thinking out loud, nothing has jelled - give the Federal Reserve presidents a chance and if any of them didn't work after the April drive we would just take them out and put our own man in. These men would be responsible to me. Then I would have a comparable committee here - a group at this end. But I still hope for Mr. "X", a new man to come in who would be the coordinator here.

MR. GRAVES: There is precedent beyond the Farm Credit administration for that. That is pretty nearly what you did on law enforcement.

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H.M.JR: That is right. I sort of feel as if I were living in a different era - "Morgenthau did this" and "Morgenthau did that." I used to have good ideas.

In that case, sometimes it would be the Coast Guard man; sometimes it would be an Alcohol Tax man; and sometimes a Secret Service man.

MR. GRAVES: That is right - in the field. They alternate, as a matter of fact.

H.M.JR: And a fellow by the name of Harold Graves headed it up here.

MR. GRAVES: That is right, until you fired me. (Laughter)

H.M.JR: Promoted you. (Laughter)

How do you mean, alternated?

MR. GRAVES: In the field now they rotate. One man is coordinator for six months from Secret Service and the next six months it will be Alcohol Tax, for example.

H.M.JR: What do you think about this thing the way we are talking now?

MR. BELL: I think it is coming around. I think it is better. It is not perfect, but then--

H.M.JR: Harold?

MR. GRAVES: I think this can be developed into a successful thing.

H.M.JR: What do you think, George?

MR. HAAS: I think it is moving along.

H.M.JR: Buffington?

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MR. BUFFINGTON: It has got possibilities. I still think going the full way would be the best.

H.M.JR: What is full way?

MR. BUFFINGTON: The two things, together.

H.M.JR: This is getting them together.

MR. LINDOW: I think this is going along the right way, and I think it would be about the same even if you had the organizations together. You would still need two different kinds of selling effort, one for the sixty million people that aren't in this large income group, and then a different campaign for the people who have the larger incomes.

MR. TICKTON: You still haven't met your problem in a place like Cleveland for your April drive.

H.M.JR: Well, that is different.

MR. TICKTON: You may postpone it until July - certain problems.

H.M.JR: No, no, I would tell what's-his-name - let's say Eccles agrees, then I would say, "What about Cleveland?" If he says that the man is go good, O.K. put somebody else in.

MR. GRAVES: I think as to Mr. Fleming in Cleveland, on this committee basis it would not be too bad, because both sides would have a day in court. They would be represented--

MR. BELL: The committee would do the work.

H.M.JR: Dan, can you give this a little bit more time now, or have you somebody waiting in your office?

MR. BELL: I can go back there and work.

H.M.JR: What I would like you fellows to do is

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to talk a little more about the coordination here in Washington, how the thing would be at this end. Can you do that?

MR. BELL: Yes.

H.M.JR, And we will have to tie in Eccles.

I think we have made a little progress this morning, don't you think so?

MR. BELL: Yes.

February 15, 1943
2:27 p.m.

John
Sullivan: Yes, Mr. Secretary.

HMJr: John, I can't remember whether I asked you or Paul or both of you, but sometime ago before I was taken ill, at Cabinet the President suggested we look into some of these contracts.

S: Yes, sir.

HMJr: Well, whatever happened to that?

S: Well, a great deal. I can tell you about it, if you wish me to.

HMJr: Well, are you handling it or what?

S: I have had it myself. Randolph has been busy on other things.

HMJr: Well, I'll see you between now and three.

S: All right, sir. Right.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Feb. 15, 1943.

TO Secretary Morgenthau

FROM Mr. Sullivan

JWS

As you know, the renegotiation of the Government business of the Aluminum Company of America for 1942 precipitated a series of discussions with War, Navy and Maritime on the treatment of amortization for purposes of determining excessive profits.

In that case, according to information supplied us by the War Department, the company had \$230,000,000 of facilities built pursuant to the certificates of necessity. The amount charged to the cost of Government business during the year was \$29,000,000 (which was less than 20 per cent of the total cost of the facilities because all the facilities were not completed until sometime during 1942). We do not know the amount that would have been allowed as a cost had only normal depreciation been permitted, but it is safe to say that in the neighborhood of \$20,000,000 was allowed in excess of normal depreciation.

In 1943, and in subsequent years, of course, the amount of amortization in this case would be substantially higher, probably as much as \$35,000,000 a year.

Allowing amortization as a cost, the Aluminum Company's gross profits on Government business were in the neighborhood of \$165,000,000 (the amount of Government business was slightly in excess of \$400,000,000). The renegotiation agreement provided for the repayment to the Government of \$76,000,000, leaving to the Aluminum Company before taxes, about \$89,000,000. After taxes and after renegotiation the Aluminum Company will have profits, for the year 1942, of approximately \$30,000,000. This amount is somewhat less than 1941, but more than most years prior to that time and is in excess of the average earnings after taxes during the previous five years.

Secretary Morgenthau,

2.

Using the Aluminum Company case as a "guinea pig" we ultimately arrived at an agreement with War, Navy and Maritime to the effect that amortization is not to be treated as an element of cost in determining profits for purposes of renegotiation. The understanding is that only normal depreciation will be allowed as a cost; that the excess depreciation represented by amortization will be treated as a non-excessive profit; and that for purposes of determining what amount of the total profits of the company so computed are excessive consideration will be given to the residual value of the emergency facilities.

Although the Aluminum Company case and other cases then in the mill had not been handled according to this understanding, it was felt that the agreement reached should not be retroactive, and that we should go along with the settlements already effected. Our judgment in this regard was bolstered, with particular reference to the Aluminum Company case, since we were assured by Mr. Karker, Chairman of the Price Adjustment Board in the War Department, that he very definitely took into account the fact of amortization in determining the excessive profits of the Aluminum Company.

February 15, 1943
3:36 p.m.

HMJr: Hello, Forster.

Rudolph
Forster: Tell me, is it legal to write across United States
currency?

HMJr: Well, as I understand - they tell me - I've been
endorsing a lot of dollar bills - they tell me
it's legal.

F: Well, if it's legal it's all right, but somebody's
gotten the Boss to write his name across a dollar
bill, this damn Short Snorter business.

HMJr: (Laughs) I....

F: No, I think it's - I think it's illegal myself.
I've always thought so.

HMJr: I think I....

F: Except, of course, you - you sign a bill and
that's legal....

HMJr: But you mean if the President of the United States....

F:because your name has to go in.

HMJr: You're worried about it?

F: Huh?

HMJr: Well, we'll find out.

F: Will you?

HMJr: I'm not a lawyer. I'll find out.

F: Thank you.

HMJr: I'll let you know.

F: Thank you, sir.

February 15, 1943
4:37 p.m.

HMJr: Hello.

Operator: Secretary Jones.

HMJr: Hello, Jesse?

Jesse Jones: Hello, Henry. How are you?

HMJr: Oh, I'm alive and kicking. How are you-all?

J: Oh, fine. Glad you're back. I called you about a little matter, but I got hold of Dan and I settled it with him.

HMJr: Oh - oh.

J: So - I know you're - I forgot for the moment that you were making a speech tonight.

HMJr: Oh.

J: It - it wasn't important.

HMJr: Okay.

J: It's just about selling a few little bonds we sell here from time to time.

HMJr: Okay, Jesse. Take care of your....

J: Are you feeling all right?

HMJr: You bet.

J: Good.

HMJr: Right.

J: Well, I'll listen to your speech.

HMJr: Well, it's not much.

J: Well, it's....

HMJr: It's just....

J: It's an interesting subject, I'll say that.

HMJr: (Laughs)

J: And you're sitting in a good spot.

HMJr: Okay.

J: I'd - or whether I'd say a good one or a spot -
I'll say you're sitting in a spot.

HMJr: That's right.

J: Okay.

HMJr: Thank you.

J: Goodbye.

February 15, 1943
5:41 p.m.

HMJr: This is Morgenthau talking.

Sec'y Wickard's
Secretary: Yes.

HMJr: I had a press conference in which they asked me a lot of questions about this R.A.C.C. or is that what you call it?

S: Yes, the Regional Agriculture Credit Corporation.

HMJr: Yeah, and I talked to them some, supposedly off the record, but they've put it on the ticker, and I explained to them at the time - I don't want to get into any controversy with anybody publicly. Hello?

S: Yes, sir.

HMJr: And I wish that - on this question I don't know - I know the A.B.A. was over to see Mr. Wickard Saturday....

S: Yes.

HMJr:and evidently they weren't satisfied.

S: No, no, I don't think they were.

HMJr: Now what I'm suggesting is this - because I explained to Mr. Wickard it's - it's important for us much more than it is for you, because there're about 7,000 rural banks involved. Hello?

S: Yes, sir.

HMJr: And it's very simple what we want, and according to Wickard he's willing to do it. Now I wonder if he - if Mr. Bell couldn't come over and see him some time tomorrow, and all we want is the same thing that the R.F.C. has that if - before you can get a loan from the R.F.C. we want them to give the banks a trial, and then if the banks can't do it, then let some Government agency do it. Hello?

S: Yes, sir. Well, let me see - he's going up at ten-thirty to this - he's being called up to testify in this investigation they say the Agriculture Committee is conducting.

HMJr: Was he handling this himself?

S: Yes, he's familiar with it.

HMJr: Well....

S: You could talk - I'll tell you what I would suggest....

HMJr: Well, I have talked to him once, but we - I thought we were together, but evidently we're not.

S: Well, I - I would suggest that Mr. Bell talk to Mr. Hutson and Mr. Townsend to see just what - to get into details.

HMJr: Hutchins?

S: Hutson - H-u-t-s-o-n.

HMJr: Hudson?

S: No, H-u-t-s-o-n.

HMJr: H-u-t-s-o-n.

S: I'll call - I'll be glad to arrange a conference and call Mr. Bell's office.

HMJr: Will you do that?

S: I think that would probably be better. Let them discuss details and see just how far....

HMJr: Yeah, because....

S:apart they are.

HMJr:just a sentence or two, and - and - would fix them up, and I - I'm - I thought that Mr. Wickard and I were together, namely, that we don't want the Government competing if private business can do it.

- 3 -

S: Well, I think you are together in spirit, so I -
I - it probably is a question of - of how the
regulations are working.

HMJr: Yeah.

S: Let me - I'll call Mr. Bell's office and make the
appointment.

HMJr: Well, give me a one minute headway so I can tell
Bell it's coming.

S: All right, sir, and then I'll....

HMJr: Will you?

S:if that - and later on we can arrange for him
to see the Secretary also.

HMJr: All right.

S: Thank you.

● First reading copy - changed and not used.

Secretary Morgenthau:

2115743 65

I welcome this opportunity to speak to so many of my fellow Americans on the vital problem of income tax collections in wartime. I welcome too the opportunity of sharing this program with my good friends, Walter F. George, the distinguished Chairman of the Senate Finance Committee, and Robert L. Doughton, the distinguished Chairman of the House Ways and Means Committee. As Chairmen of the Congressional Committees *entrusted* delegated with the task of drawing up revenue measures, these gentlemen have worked without stinting their time or their thought or their knowledge to give to the country the kind of tax program which will best fit a great nation's wartime needs.

-2-

Our income tax today is no longer a tax on the few; it is a tax on the many. In 1940 there were less than 8 million income tax returns; this year there will be an estimated 35 million returns. This gives ~~us~~^{you} some idea of the magnitude of the problem on which we are working.

Now that the income tax is really a people's tax, there is obvious need to re-examine it. Especially, there is need to make the tax payable on current earnings, not past earnings. The Treasury was one of the earliest advocates of pay-as-you-earn. For the past eighteen months the Treasury has advocated putting the income tax on a pay-as-you-earn basis.

But in the discussion of how to put taxpayers on a current basis, a misunderstanding has arisen over the question of the tax payment due on March 15th.

To help clear this up, I have asked Congressman Doughton and Senator George to join me in talking to you this evening.

And now I take great pleasure in introducing to you my old friend, Congressman Robert L. Doughton, Chairman of the Ways and Means Committee of the House of Representatives, the Committee in which all tax legislation originates.

CONGRESSMAN DOUGHTON:

(~~"over before that date"~~)

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SECRETARY MORGENTHAU:

After a distinguished career as a judge in his native State, Senator George for years has been giving ^{unsharingly} ~~unstintingly~~ of his great talents and abilities to the nation as a whole. I have the honor to present my good friend, Senator Walter F. George, Chairman of the Finance Committee of the Senate.

SENATOR GEORGE:

SECRETARY MORGENTHAU:

I want to express my thanks to Senator George and to Congressman Doughton for their remarks this evening. The country is indeed fortunate to have at this time two so able and distinguished public servants. All will agree, I am sure, that there should be no further doubt or hesitation about the obligation of every American to file a ^{return} ~~report~~ on his 1942 income before March 15th and to pay at least one-quarter of his tax at or before that time.

But I hope you won't wait until
~~May I urge you also not to delay filing ~~file~~~~
March 15th to file your return.
~~a return?~~ Delay can gain you nothing; ~~but~~ on the
contrary, ^{cause} it can cause you inconvenience, and your Government
 a lot of unnecessary trouble.

The longer you wait before you file, the longer you will have to wait in line at the Collector's Office if you have any questions to ask. And the longer you wait in line, the longer the man behind you will have to wait. He may very well be a war worker who is losing valuable time from his ^{job} ~~assembly line~~ because you delayed so long. In individual cases this may not seem serious, but in the aggregate -- ~~multiplied by many millions~~ it can add up to literally millions of man-hours ^{of} ~~of working time lost~~ working time thrown away. This is an extravagance we can ill afford in these days of total war.

Finally, the prompt filing of ^{your} ~~the~~ return --
tomorrow, if possible -- will be an immeasurable
help to the ^{men + women} ~~staffs~~ in the Collectors' Offices
throughout the country. The period just before
March 15th is a time of tremendous strain for ^{for all of us}
~~and especially for them.~~ ^{During the filing period}
~~them. From now until March 15th, it is nothing~~
^{it is not at all}
(unusual for them to work 12 or 14 or even 16 hours
a day, and from now until March 15th, the load
they will carry becomes heavier and heavier.

File your return, therefore, as soon as
you can. It will be a service both to yourself
and to your country.

2/15/43

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Secretary's reading copy with
Congressman Doughton and Senator
George's remarks included.

Broadcast was from Secretary
Morgenthau's office at 6:15 pm

SECRETARY MORGENTHAU:

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-2-

Our income tax today is no longer a tax on the few; it is a tax on the many. In 1940 there were about 4 million taxable individual income tax returns; this year there will be an estimated 35 million taxable returns. This gives you some idea of the magnitude of the problem on which we are working.

Now that the income tax is really a people's tax, there is obvious need to re-examine it. Especially, there is need to make the tax payable on current earnings, not past earnings. The Treasury was one of the earliest advocates of pay-as-you-earn. For the past eighteen months the Treasury has advocated putting the income tax on a pay-as-you-earn basis.

-3-

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And now I take great pleasure in introducing to you my old friend, Congressman Robert L. Doughton, Chairman of the Ways and Means Committee of the House of Representatives, the Committee in which all tax legislation originates.

CONGRESSMAN DOUGHTON:

Draft of Rep. Doughton's Speech

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A nation at war cannot discharge its proper functions when a large number of its people labor under confusion and misunderstanding about vital issues. Such misunderstandings play unwittingly into the hands of the enemy. Doubt and uncertainty in our ranks are just what the enemy is hoping for.

There has been misunderstanding on the part of large numbers of Americans in regard to income tax payments due on March 15th. Many people have gotten the idea that they will not have to make their first quarterly instalment payment on or before that date. This confusion is very embarrassing to the Government. Taxes are the lifeblood of a nation at war. The failure to pay taxes when due would interfere seriously with the

effective prosecution of the war. And no American wants to let that happen!

Let me make this fact clear. There has been no cancellation of taxes on 1942 income. There has been no postponement of taxes on 1942 income. There has been no change in the time or place of payment. The first quarterly instalment of the income tax is due on or before March 15th.

We all know what has given rise to the confusion and misunderstanding. There has been great interest in the country in making the income tax reflect more accurately the needs of the time.

The Ways and Means Committee of the House of Representatives is giving the most serious attention at the present time to various proposals for putting

taxpayers on a pay-as-you-earn basis. It is getting the advice and counsel of the Treasury. It is gathering testimony from witnesses. It is conducting its own independent investigations. As Chairman of the Ways and Means Committee, I can assure you the best plan for making the bulk of taxpayers current will be introduced at the earliest possible time.

Taxpayers -- and today that means practically all Americans -- will realize that the change-over from the present system of collections to pay-as-you-earn is no simple task. It represents a basic change in our machinery of collection. We must secure the best system for year-in year-out use. For when pay-as-you-earn is once introduced it will be the pattern of collections for many years to come, if not for all time. We are

not dealing with an immediate problem alone. We are dealing with a system of collections for permanent use.

Meanwhile, let there be no misunderstanding or confusion. The first quarterly income tax payment on 1942 income is due on or before March 15th. Tax returns must be filed on or before that date.

-oOo-

SECRETARY MORGENTHAU:

After a distinguished career as a judge in his native State, Senator George for years has been giving unsparingly of his great talents and abilities to the nation as a whole. I have the honor to present my good friend, Senator Walter F. George, Chairman of the Finance Committee of the Senate.

SENATOR GEORGE:

Draft of Sen. George's Speech

I want to endorse completely the remarks that have just been made by Congressman Doughton and Secretary Morgenthau. The Senate Finance Committee and the House Ways and Means Committee recently adopted unanimously identical resolutions informing 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 instalment on March 15th. There should be no further grounds for doubt or hesitation.

I do not pretend to know what Congress will do about all -- and I emphasize the word all -- of our 1942 tax liabilities. I do know this, however. Congress has not cancelled, and will not cancel, the first instalment on those liabilities due March 15th. They must be paid on or before that date. The House Ways and Means Committee

and the Senate Finance Committee have already gone on record to that effect.

It may be that Congress later on may readjust 1942 tax liabilities. But by paying your taxes on or before March 15th you have nothing to fear. Your payment will be credited to your account, reducing by so much the taxes you will later have to pay. This is an important consideration to keep in mind. The more you pay up now, the less you will have to pay in the future. You have everything to gain by paying; and you have everything to lose by not paying.

Unfortunately, there are some people who do not realize this. They have gotten the false and erroneous idea that pay-as-you-earn will reduce -- some way, somehow -- the amount of taxes they have to pay. Nothing could be

farther from the truth. Pay-as-you-earn will make the payment of taxes more convenient, to be sure. But it is precisely because taxes are high and, what is more, going higher, that the need for ^{an} a more convenient method of payment is today so great. It is day-dreaming to believe that a change-over in our method of tax collections means paying less taxes. The change-over will undoubtedly be followed by still higher taxes. It is of the utmost importance, therefore, that you make as large a payment as you possibly can on 1942 liabilities. Every dollar credited to your account on March 15th means so much less to pay later on when the burden will undoubtedly be greater.

This is certainly no time for illusions -- especially for illusions on the subject of taxes. With war expenditures

increasing from day to day, the Government needs more, not less, revenues. Even cancellation in whole or in part of 1942 liabilities will only make it so much more necessary to increase taxes on 1943 incomes.

Our country today is fighting for its life. Our fellow citizens in the Armed Services are giving all they have to make this a better world for you and me. To Americans in coming weeks the payment of taxes will not be a burden or a responsibility. It will be, as the President has so well said, a privilege.

-oOo-

SECRETARY MORGENTHAU:

I want to express my thanks to Senator George and to Congressman Doughton for their remarks this evening. The country is indeed fortunate to have at this time two so able and distinguished public servants. All will agree, I am sure, that there should be no further doubt or hesitation about the obligation of every American to file a return on his 1942 income before March 15th and to pay at least one-quarter of his tax at or before that time.

But I hope you won't wait until March 15th to file your return. Delay can gain you nothing; on the contrary, it can cause you inconvenience, and cause your Government a lot of unnecessary trouble.

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The longer you wait before you file, the longer you will have to wait in line at the Collector's Office if you have any questions to ask. And the longer you wait in line, the longer the man behind you will have to wait. He may very well be a war worker who is losing valuable time from his job because you delayed so long. In individual cases this may not seem serious, but in the aggregate it can add up to literally millions of man-hours of working time thrown away. This is an extravagance we can ill afford in these days of total war.

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Finally, the prompt filing of your return -- tomorrow, if possible -- will be an immeasurable help to the men and women in the Collectors' Offices throughout the country. The period just before March 15th is a time of tremendous strain for all of us and especially for them. During the filing period it is not at all unusual for them to work 12 or 14 or even 16 hours a day, and from now until March 15th, the load they will carry becomes heavier and heavier.

File your return, therefore, as soon as you can. It will be a service both to yourself and to your country.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

AM

DATE

TO Secretary Morgenthau
FROM Randolph Paul

February 15, 1943

Pursuant to your request for a review of the communications between the Treasury Department and Mr. Byrnes in respect to the \$25,000 limitation, I would like to call your attention to the following conferences.

1. On Friday, January 29, when I was at home, Ben Cohen called me and asked me to submit an alternative plan to the \$25,000 plan now contained in Byrnes' Executive Order and the Treasury regulations. That afternoon I therefore changed my plans about staying home, came to the office and Mr. Surrey and I saw Justice Byrnes for about an hour at which time we went over in detail an alternative plan, a copy of which is attached hereto. In this conference, Justice Byrnes asked us to submit certain further data which was later done.
2. On Friday, February 5, thinking that the salary limitation would come before the Committee in Executive Session on the following day (Saturday), I called Mr. Cohen and offered the help of the Treasury in any respect Justice Byrnes should require. Ben said he would call if it developed he needed any help.
3. On Tuesday, February 9, Mr. Surrey, who has been working with me on salary limitations from the beginning, discussed with me, and submitted upon my instructions to Mr. Russell in Justice Byrnes' office, a detailed plan alternate to the \$25,000 plan. Attached to this plan was a draft of a proposed statute, copy of which is attached hereto.
4. On Thursday, February 11, Mr. Disney discussed with me at length in the back of the Ways and Means hearing room the alternate Byrnes plan saying that it was too late to get this plan in, that it could be handled in the Senate, and that he was going ahead with his plan. I telephoned Mr. Cohen later that day and gave him this information.

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5. Throughout the period of the last three weeks, Mr. Surrey has been advising with me from time to time in connection with the \$25,000 limitation and has been in touch with Mr. Russell of Byrnes' office with respect to any help that could be furnished by the Treasury.

I understand that Mr. Sullivan has also offered help to Justice Byrnes' office on behalf of the Treasury and I will leave it to him to detail what he has done.

A handwritten signature in dark ink, appearing to be 'W. J. Sullivan', is written below the typed text.

Attachments

Limitation of income through special taxBase of tax:

Net income as defined for income tax purposes, plus wholly tax-exempt interest, less Federal income taxes.

Exemptions:

Single person or married person filing separate return	\$25,000
Married couple filing joint return	50,000

Rates:

Income in excess of taxes and special exemption		Bracket rate	
Single person or separate return	Married couple	Complete limitation plan	Partial limitation plan
0 - \$25,000	0 - \$50,000	100%	50%
\$25 - 50,000	50 - 100,000	100%	75%
Over 50,000	Over 100,000	100%	90%

Breaking point:

The special tax would affect single persons with more than about \$64,000 net income before taxes, and married couples with no dependents with more than \$400,000 net income before taxes.

The table below shows the estimated number of returns (broken down as to single persons or separate returns and married couples filing joint returns) affected by each rate of the proposed special tax to limit individual incomes. These estimates are at levels of income estimated for calendar year 1948.

Income in excess of Federal income taxes and special exemption	Proposed bracket rates of tax	Number of returns affected by each rate of the proposed special tax	
		With tax-exempt interest included in the base	With tax-exempt interest excluded from the base
(Percent)			
Single persons or separate returns (special exemption of \$25,000):			
\$ 0 - \$25,000	50	8,411	7,411
25,000 - 50,000	75	492	307
Over 50,000	90	87	87
Married couples filing joint returns (special exemption of \$50,000):			
\$ 0 - \$50,000	50	2,042	1,100
50,000 - 100,000	75	217	207
Over 100,000	90	150	150
Total		10,483	8,511

The revenue effect of this proposal, under the 1942 Revenue Act, is shown on the following page.

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	<u>With tax-exempt interest included in the base</u>	<u>With tax-exempt interest excluded from the base</u>
	(Million dollars)	
Single persons	28	27
Married persons	<u>54</u>	<u>42</u>
Total yield of supertax	92	69
Reduction in income taxes due to assumed additional contributions	<u>50</u>	<u>42</u>
Net revenue yield	<u>42</u>	<u>27</u>

SEC. 1 VICTORY SURTAX ON INDIVIDUALS.

(a) The Internal Revenue Code is amended by inserting at the end of Chapter 1 the following new subchapter:

***SUBCHAPTER B - VICTORY SURTAX ON INDIVIDUALS**

***SEC. 477. Imposition of Tax.**

"There shall be levied, collected, and paid for each taxable year beginning after December 31, 1942, upon the victory surtax net income of the following individuals the surtax shown in the following table:

(a) In the case of every individual making a separate return,

If the victory surtax net income is: The victory surtax shall be:

Not over \$25,000	50% of the victory surtax net income
Over \$25,000 but not over \$50,000	\$12,500, plus 75% of excess over \$25,000
Over \$50,000	\$31,250, plus 90% of excess over \$50,000

(b) In the case of individuals making a joint return under section 432 (b),

If the victory surtax net income is: The victory surtax shall be:

Not over \$50,000	50% of the victory surtax net income
Over \$50,000 but not over \$100,000	\$25,000, plus 75% of excess over \$50,000
Over \$100,000	\$62,500, plus 90% of excess over \$100,000

"SEC. 478. - VICTORY SURTAX NET INCOME.

"(a) The term 'victory ^{surtax} net income' means the gross income computed under section 23 minus the sum of the deductions allowable under section 23, Federal income taxes (but not including the tax imposed by this subchapter) imposed for the taxable year, and the amount of income ~~war~~-profits and excess-profits taxes disallowed as a credit by reason of section 131 (b). The deduction in respect of the tax imposed by section 450 shall be limited to such tax less the credit allowable under section 454."

"(b) For the purposes of subsection (a) gross income computed under section 23 shall include interest received or accrued upon the obligations of a State or political subdivision thereof, with the following adjustments:

(1) Such interest shall be reduced by the amount of interest paid or accrued within the taxable year on indebtedness incurred or continued to purchase or carry such obligations.

(2) Such interest, in the case of each obligation, shall be increased by an amount equal to one-half of one percent of the maturity value of such obligation; provided, however, that if such obligation is held for a period less than the entire taxable year, such amount shall be equal to a sum which bears the same proportion to one-half of one percent of the maturity value of such obligation as the number of months of the taxable year during which such obligation was held by the taxpayer bears to twelve months. For the purpose of such apportionment a fractional part of the month shall be disregarded unless it

- 2 -

amounts to more than half a month in which case it shall be considered as a month."

"(e) Credit in Respect of Interest upon Obligations of a State, etc. - For credit in respect of interest upon obligations of a State or a political subdivision thereof see section 481."

SEC. 479. CAPITAL GAINS.

"If for any taxable year the net long-term capital gain exceeds the net short-term capital loss, there shall be levied, collected, and paid in lieu of the tax imposed by section 477, a tax determined as follows:

"A partial tax shall first be computed, at the rates and in the manner as if this section had not been enacted, upon the victory surtax net income reduced by the amount of such excess and increased by the tax computed upon such excess by applying section 117 (c) (3), and the total tax shall be the partial tax plus 50 per centum of such excess as reduced by the tax computed upon such excess by applying section 117 (c) (2)."

SEC. 480. Specific Exemption.

"There shall be allowed as a credit against victory surtax net income in the case of a person filing a separate return a specific exemption of \$25,000, or in the case of a husband and wife filing a joint return under section 482 (b) a specific exemption of \$50,000."

**"SEC. 481. CREDIT IN RESPECT OF INTEREST UPON OBLIGATIONS OF STATE,
ETC. --**

"The tax imposed by this subchapter shall be credited with an amount equal to the amount of the increase provided in section 476 (b) (2)."

***SEC. 422. Returns.**

"(a) Requirement. - Every individual having a victory surtax net income for the taxable year of \$25,000 or over, and if no joint return is made under subsection (b), shall make a return, which shall contain or be verified by a written declaration that it is made under the penalties of perjury, stating specifically the ~~items~~ of his gross income and the deductions and credits allowed under this subchapter and such other information for the purpose of carrying out the provisions of this subchapter as the Commissioner with the approval of the Secretary may by regulations prescribe."

"(b) Husband and Wife. - In the case of a husband and wife living together the income of each (even though one has no gross income) may be included in a single return made by them jointly, in which case the tax shall be computed on the aggregate income, and the liability with respect to the tax shall be joint and several."

"(c) Different Accounting Periods. - If the accounting period of a husband or wife filing a joint return is different from that of the other spouse filing such return, the time for filing such return and the items of gross income, deductions and credits to be included therein shall be determined and adjusted in accordance with such method as in the opinion of the Commissioner shall properly reflect the tax due from said husband and wife."

"SEC. 483. Expiration Date.

"The taxes imposed by this subchapter shall not apply with respect to any taxable year commencing after the date of cessation of hostilities in the present war. For the purposes of this section, the term 'date of cessation of hostilities in the present war' means the date on which hostilities in the present war between the United States and the governments of Germany, Japan, and Italy cease, as fixed by proclamation of the President or by concurrent resolution of the two Houses of Congress whichever date is earlier, or in the case the hostilities between the United States and such governments do not cease at the same time, such date as may be so fixed as an appropriate date for the purposes of this subchapter."

(b) **Classification of Provisions.** - Section 3 is amended by adding at the end thereof the following new paragraph:

"SUBCHAPTER E - VICTORY SURTAX ON INDIVIDUALS."

(c) **Foreign Tax Credit.** - Section 151 (a) is amended by striking out "or section 450" and inserting ", section 450 or section 477" and section 151 (b) is amended by striking out "and section 35 (c) (1)" and inserting ", section 23 (c) (1) and section 478."

(d) The Internal Revenue Code is amended by adding after section 35 the following new section:

"36. CREDIT IN RESPECT OF INTEREST ON STATE OBLIGATIONS."

For credit against the tax imposed by section 477 for interest in respect of obligations of a state or a political subdivision thereof, see section 461.

SEC. 2

No provision of law heretofore enacted authorizing the stabilization or adjustment of wages and salaries shall be construed to authorize a maximum limitation of specified amount upon the salaries of all persons or of any class or classes of persons determined solely by reference to their salaries or other income, whether such limitation be made with or without provision for deductions, credits or other allowances. The provisions of this section shall not be construed to authorize any other adjustment, stabilization or limitation not otherwise authorized.

FEB 15 1943

Dear Mr. Ludlow:

I have your letter of February 11th with regard to former Congressman Schulte. I believe a position can be found for Mr. Schulte in that part of our War Savings organization dealing with organized labor, at a salary, including the established overtime pay, of \$5,000 a year. It is a rule of the Department that persons under consideration for appointment must undergo a character investigation.

If Mr. Schulte is interested in this possibility and you will let me know, I shall be glad to give directions for the character investigation to be promptly undertaken.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Louis Ludlow,
House of Representatives,
Washington, D. C.

Enveloped marked "Personal"

Photo file in Diary

File to Thompson

WNT:cf
2-13-43

LOUIS LUDLOW
12th District Indiana

Question

SUBCOMMITTEE
TREASURY AND POST OFFICE
CHAIRMAN
DEFICIENCY

COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES
WASHINGTON, D. C.

PERSONAL

February 11, 1943.

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

Dear Mr. Secretary:

When I called on you recently to express interest in a friend, former Congressman William T. Schulte of Indiana, you very graciously suggested that it might be possible to find a position for him. You indicated that you would be quite willing to look into the prospects.

I have since seen Mr. Schulte and I am sure that a position with salary of \$5000 or better would be very acceptable to him. He would like to have an executive position, associated with the handling of men, as that would fit his qualifications very well.

Mr. Schulte is a man of excellent ability and a very strong standing with organized labor and is the type of personality that gets along well with men and is quite capable of commanding discipline.

I will be grateful if at your leisure you will make such investigation as you can conveniently, to see if there may be a place for Mr. Schulte in your organization and I thank you in advance for the courteous consideration I know you will give to him. Very sincerely,

Louis Ludlow

February 10, 1948

TO: Mr. Bell ✓
Mr. Gaston ✓
Mr. Thompson

FROM: The Secretary

Congressman Ludlow, of Indiana, came in to see me today and said that a couple of people from the Bureau of Engraving and Printing had been over to see him and had told him that a change in Mr. Hall's position was imminent and, if that was so, he wanted to recommend ex-Congressman William Schulte, of Indiana, for Mr. Hall's place. He then went on to say that he had no complaint against Mr. Hall, but if there was going to be a vacancy he would like to have the place go to Mr. Schulte.

I assured Congressman Ludlow that no change was imminent; that Mr. Hall was giving entire satisfaction.

I also told Congressman Ludlow that we would look around and see if we had any place for Mr. Schulte. I gather Mr. Schulte carries a Union card. How about making use of him in War Bonds?

Let me hear from the three of you.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE 2/15/43

TO Mr. Morgenthau

FROM Mr. Callahan

Attached is a newspaper ad which is designed to bridge the gap between our current 10% copy and the new campaign starting March 1st.

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One of the greatest success stories of 1942

About a year ago, America was being asked to increase, substantially, its investment in War Bonds.

And no one knew, definitely, just what America's answer to that plea would be.

Today, America's answer is clear—written down in black and white for any one to read. And the reading makes as heart-warming and inspiring a story as anything that has come out of this war. Here are some highlights...

In December 1941, there were 3½ million Americans who owned War Bonds. Today, there are over 50 million. A year ago that figure would have seemed fantastic. There is nothing in all history to match that record. Never before have so many people owned such a tremendous stake in their nation and its government.

In December 1941, some 700,000 people were investing about four and one-half percent of their earnings in War Bonds

through the Pay-Roll Savings Plan. Today, the 700,000 has swelled to 26 million—the four and one-half percent to nine percent. The MONTHLY investment in War Bonds through the Pay-Roll Savings Plan has grown, in one year, from 8 to 400 million dollars.

Figures like that need little comment. They tell, better than any words, what happened when a free people decided among themselves to lend their government money. Money to help pay for fighting equipment—money to help keep prices down—money to insure peacetime goods and peacetime jobs and a generally decent world to which our fighting men can return.

Peacetime goods and jobs? A decent world? Think what 12 BILLION dollars' worth of War Bonds owned by Americans *right now* can mean in buying power to be released in the years after the war is won. Buying power that can set factories

full of men to making millions of cars and radios and washing machines. Buying power that can set multitudes of other men to building a million new homes for impatient owners. Buying power that can mean better, richer living for every one of us.

And that 12 billion dollars is only a beginning.

For what we have done in '42 to win this war will not be enough to do in '43. Our whole war effort must be expanded. Not a one of us but knows that in the year ahead we must send more men—we must do more fighting—we must build more planes, more ships, more guns—more everything.

And to do this, we must buy *more* and *more* War Bonds.

Enough more so that when the record is in for 1943, America's War Bond buying will once again be one of the greatest success stories of the year.

You've Done Your Bit  **Now Do Your Best!**

This space is a contribution to America's all-out war effort by
YOUR NAME HERE

UNITED STATES SAVINGS BONDS - SERIES B

Comparison of February sales to date with sales during the same number of business days in January 1943 and December 1942

(At issue price in thousands of dollars)

Date	February daily sales	Cumulative sales by business days				February as percent of January
		February	January	December	February as percent of January	
February 1943						
1	\$ 6,746	\$ 6,746	\$ 12,810	\$ 4,116		52.7%
2	15,068	21,814	15,621	8,605		139.6
3	5,470	27,284	31,021	18,647		88.0
4	25,646	52,930	47,128	58,337		112.3
5	31,917	84,847	69,173	74,984		122.7
6	31,665	116,513	101,696	121,408		114.6
8	34,296	150,809	137,214	133,295		109.9
9	27,345	178,154	174,074	151,152		102.3
10	23,033	201,187	219,267	164,759		91.8
11	21,784	222,972	275,292	203,423		81.0
12	24,713	247,684	299,033	220,903		82.8
13	22,325	270,009	334,496	272,959		80.7

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

February 15, 1943.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of February sales to date with sales during the same number of business days in January 1943 and December 1942

(At issue price in thousands of dollars)

Date	February daily sales	Cumulative sales by business days				February as percent of January
		February	January	December		
February 1943						
1	\$ 806	\$ 806	\$ 2,716	\$ 197		29.7%
2	8,915	9,720	3,036	527		320.2
3	1,570	11,290	6,137	3,214		184.0
4	16,907	28,198	14,820	17,161		190.3
5	20,067	48,264	18,428	29,464		261.9
6	16,842	65,106	29,726	46,986		219.0
8	10,420	75,526	47,612	49,858		158.6
9	16,629	92,154	63,556	59,434		145.0
10	8,698	100,852	91,679	65,085		110.0
11	9,579	110,431	115,896	79,359		95.3
12	12,654	123,086	129,017	86,495		95.4
13	8,371	131,457	149,603	101,924		87.9

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

February 15, 1943.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 15, 1943

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending February 13, 1943.

Summary

Wages and hours: While the recent order instituting the 48 hour week should lead to a better utilization of available manpower, it will tend to make price control more difficult by increasing workers' earnings and raising production costs. However, only 32 areas are affected initially, and substantial exceptions may be granted even in those areas.

Commodity prices: The BLS all-commodity price index in the first week in February rose 0.2 percent to a new high at 102.0, which is 36 percent above the pre-war level of August 1939. However, the BLS index of basic commodity prices was unchanged last week despite new war-time highs in prices of some commodities.

Farm prices: Congressional pressure for higher farm prices continues. The Senate Agriculture Committee has approved the Bankhead bill which would prevent deducting benefit and other Government payments in calculating parity or ceiling prices, while the House Agriculture Committee has reported favorably on the Pace bill to redefine parity by including farm labor costs.

Dairy industry: The Government has taken steps recently to bolster milk production while stabilizing retail milk prices. A nation-wide ceiling on milk prices paid to farmers is expected to be issued shortly by the OPA.

Retail trade: The recent order rationing shoes touched off another wave of advance buying last week as consumers feared an extension of rationing to include clothing. Department store sales in the first week in February were 19 percent above 1942 levels, in contrast to the very small gain shown in January.

Stock market: Stock prices showed further moderate gains last week, as activity in low-priced stocks swelled trading volume to the highest levels since December 1941.

Some inflationary aspects of 48 hour week

The establishing of a 48-hour week, under last week's executive order, should further the war effort by a more effective utilization of available manpower. This will be accomplished, however, at the expense of some additional difficulty in stabilizing commodity prices, owing to the higher payrolls and the increased production costs which will result from applying the time-and-one-half provision of the Wage-Hour Act to all hours worked above 40.

A mitigating influence is the fact that by October (latest BLS data available) the average weekly hours worked in all manufacturing industries had already risen to 43.6 hours, with various war industries working 48 hours or more. On the other hand, the textile industry averaged only 39.3 hours and the blast furnace, steel works and rolling mills group averaged only 41.0 hours.

Much will depend on how the WMC administers the order, since initially it applies only to 32 labor-shortage areas, and the WMC may see fit to make substantial exceptions even in these areas. Moreover, in announcing the 48-hour week, OES Director Byrnes reaffirmed the "Little Steel" wage formula, which has been sharply attacked by labor groups recently. Labor agitation against the "Little Steel" formula may quiet down as a result of recent developments, although neither of the two largest groups now demanding substantial wage increases, the railroad workers and coal miners, are thus far directly affected by the 48-hour week order.

Aside from the pressure on price ceilings from a resulting rise in production costs, the order will undoubtedly cause a noticeable increase in aggregate wage payments and a consequent augmenting of consumer purchasing power. The longer work week should be somewhat offset by an expected decline of workers in some industries, but further aggregate payroll gains appear inevitable. Such gains will be superimposed on the long rise in workers' earnings, which by December had carried factory payrolls 178.9 percent above the 1939 average.

Continued Congressional pressure for higher farm prices

After commenting in his speech last Tuesday on the favorable relationship of farm product prices to farm costs, Director Byrnes stated,

"In a year of total war, we cannot iron out all the inequalities in the wage structure nor remove all the imperfections, real or fancied, in the farm parity formula. Certainly it would not be in the real interest of the farmers to introduce any change in this formula which would give him a temporary and illusory advantage during the war, and which would, if applied year in and year out, actually reduce parity prices to the farmer."

Nevertheless, members of Congress from the farm states continue to work on legislation which would raise farm product prices. The Senate Agriculture Committee has promptly approved the Bankhead bill, which would prevent the deducting of benefit and other Government payments in calculating parity or ceiling prices for farm products. Were the bill to be enacted, the recent ceiling on corn prices would be nullified. Wheat prices would probably rise, since the below-parity flour ceiling would have to be raised. On the other hand, prices for cotton, hogs, and steers would not be affected, since they are already above parity.

Other pending Congressional action bearing on farm product prices and farm production include the following:

(1) An affirmative vote was taken by a sub-committee of the Senate Agriculture Committee to investigate the "situation in regard to the food supply [which] has reached an alarming point owing to lack of farm labor, low farm prices, shortages of machinery, fertilizer and feed," and is "further aggravated by policies of the Executive Departments...." Hearings will begin this week.

(2) A resolution was introduced by Senator Reed to investigate actions by the Executive Branch of the Government in respect to establishment of maximum prices for pork, beef, bread, and bakery products. These actions, the resolution charges, violated legislation in not allowing processors fair and equitable margins, or in not allowing producers the reflection of parity or highest prices between January 1 and September 15, 1942.

(3) The Pace bill, to redefine the parity formula to include farm labor costs, has been favorably reported by the House Agriculture Committee.

Commodity prices firm at high level

Although the BLS price index of 28 basic commodities remained unchanged at its record level of a week ago, considerable

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pressure was exerted last week by prices of the seven uncontrolled commodities in the index. (See Chart 1.) Prices for steers touched a new high since August 1939, as Federally-inspected slaughter continued below last year for the eleventh successive week. Wheat prices held close to their highest in the war period. Flaxseed prices again were at a new war-time high as they continued to respond to the Government's support program.

The BLS all-commodity index of wholesale prices advanced 0.2 percent in the week ended February 6, as a result of increases in farm products and in coal and fuel oil. At a level of 102.0, the index stands 36.0 percent above the pre-war level of August 1939.

Proposed policies of new Price Control Administration

Price Administrator Brown has laid down a "rigorous policy of the firmest possible control of prices", according to a press report of policies outlined to OPA officials. The report states that his policies will include a correction of some of the "inflation" which occurred before the initiation of controls, possibly by rolling back prices deemed out of line with the general price structure.

Removal of certain luxury items from price control is under consideration by the Price Administrator, according to an interview reported by the press. Arguments advanced for such exemption suggest that it would help to close the inflationary gap, and simplify overall price control. Luxury items have been exempted from price control in England.

Government buying programs being coordinated

Increased coordination of procurement and price policies by the principal Government agencies buying food and equipment is currently indicated. Recent moves toward this end, which may tend to remove some competitive pressure on prices, are as follows:

- (1) An inter-agency food procurement committee, composed of representatives of the principal Government agencies buying food for war purposes, has been created at the direction of Secretary Wickard. The committee will deal with purchase policies, procurement methods and procedures, packaging, transportation, shipping, warehousing, specifications, and price policies. It will not centralize Government food buying.

(2) The Army and Navy are merging much of their food and equipment purchases, thus eliminating considerable competition. Specifications for equipment also are being standardized for use by both services.

(3) A policy of using fixed-price contracts wherever possible in preference to cost-plus-fixed-fee contracts, announced by the Navy, is being followed by the Army. The intention is to make the contractor responsible for controlling costs and to lessen the need for inspection forces.

Dairy situation tightens

The maintenance of an adequate production of dairy products remains one of the major food problems. Milk production continues below our expanded requirements, although the seasonal period of rising production is beginning. (See Chart 2, upper section.) Supplies of manufactured dairy products continue to tighten. Cold storage holdings of butter on January 1 were lower than on that date in any year since 1933, and were barely 22 percent of holdings at the beginning of 1942. (Lower section of Chart 2.) Stocks of cheese were 35 percent below stocks a year earlier. Factory butter production in December was about the same as in December 1941, but cheese production was one-fourth lower.

Beginning February 1, the Government is taking 30 percent of all butter produced---20 percent for the armed forces, and 10 percent for lend-lease. In addition, as of today, every producer of more than 5,000 pounds a month of cheddar (American) cheese must set aside 50 percent of his monthly production for direct war purposes. Of this amount, about two-thirds is expected to be needed for shipment to the United Nations.

In an attempt to equalize butter distribution in all markets, the OPA has set specific price maximums on butter, effective February 16. In Washington the retail price ceiling for retail outlets buying in less than carload lots is 57 cents a pound for 93-score butter.

Various measures are being taken in the difficult problem of maintaining dairy production without increasing retail prices. Marketing practices are being modified and simplified to reduce distribution costs. The Secretary of Agriculture has been asked to permit the elimination of competition in milk distribution in the New York market, in order to effect a 1½ cent reduction in the retail price.

A nation-wide ceiling on fluid milk prices paid to farmers will be issued shortly by the OPA, "to prevent further rises in the cost to the public for this essential food". At the same time the OPA has moved to cut prices for alfalfa hay in California, Oregon, and Washington, where prices had risen above parity.

Feed supply situation

Although supplies of feed grain per animal unit are estimated as slightly larger this year than last, a highly competitive demand has developed for mixed feed and high-protein feeds. The situation is further complicated by the limited supply of chemical nitrogen allowed for fertilizer, which has increased the demand for such nitrogenous feedstuffs as cottonseed meal and tankage for use as fertilizer. Secretary Wickard has issued orders giving priority on chemical nitrogen fertilizers to essential war food and fiber crops.

One result of the huge feed requirements this year is the rapid sale by the CCC of the wheat authorized by Congress on July 22 to be sold for feed during the current fiscal year. Since July, at least 60 million bushels have been sold of the 125 million bushels authorized.

Livestock supplies continue short

The growing strain on the country's food production facilities continues to be reflected in livestock and meat markets. Last week prices for various types of hogs rose to their highest levels in 24 years, and were substantially above the equivalent ceiling prices on pork.

Packers' gross margins, as calculated by the Department of Agriculture, have become even narrower than at the time of the pork-price squeeze last year. (See Chart 3.)

Department store sales rise

After showing only a very slight gain over 1942 levels in January, department store sales in the first week in February jumped 19 percent above the corresponding week a year ago. (See Chart 4.) Furthermore, preliminary reports indicate that the recent shoe rationing order touched off another heavy wave of advance buying last week, with consumers apparently fearful that rationing would be extended to clothing.

In an effort to halt the buying rush for clothing, the heads of the WPB and the OPA in a joint statement on Tuesday

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indicated that rationing of clothing was not contemplated. The effect of this announcement, however, was somewhat offset by the subsequent revelation that, on February 4, Mr. Nelson of the WPB had testified in an executive session of the Senate Military Affairs Committee that clothing would have to be rationed if as many workers were withdrawn from civilian industry in 1943 as the WMO forecast. Despite this testimony, Mr. Nelson near the end of the week reiterated the hope that rationing of cotton and woolen clothing would not be necessary, and emphasized the fact that any threat to clothing supplies toward the end of this year and in 1944 stems from lack of manpower rather than materials.

In contrast to the slight gain over 1942 levels shown by department store sales last month, the leading mail order houses reported declines in sales, reflecting the continuing loss in volume of so-called hard goods. Montgomery Ward and Company's sales in January were 4.5 percent below the corresponding month last year, while Sears, Roebuck sales declined 18.6 percent during the same period.

Stock prices and trading gains

Stock prices continued to show further strength last week, while trading activity on Wednesday and again on Saturday was at the highest level since December 1941. At the end of the week the Dow-Jones industrial average was up about 2 points from the previous week's close, while the railroad and utility averages showed fractional gains. On a percentage basis, however, the utilities group showed the biggest advance with a gain of more than 3 percent. (See Chart 5.)

Trading activity during the week was swelled by heavy trading in low priced stocks, particularly utilities. Thus on Saturday the average price of the ten most actively traded stocks was only \$3.59--an unusually low figure. This probably indicates increased public participation in the rise, and an increasing emphasis on speculative as distinguished from investment activity in the market.

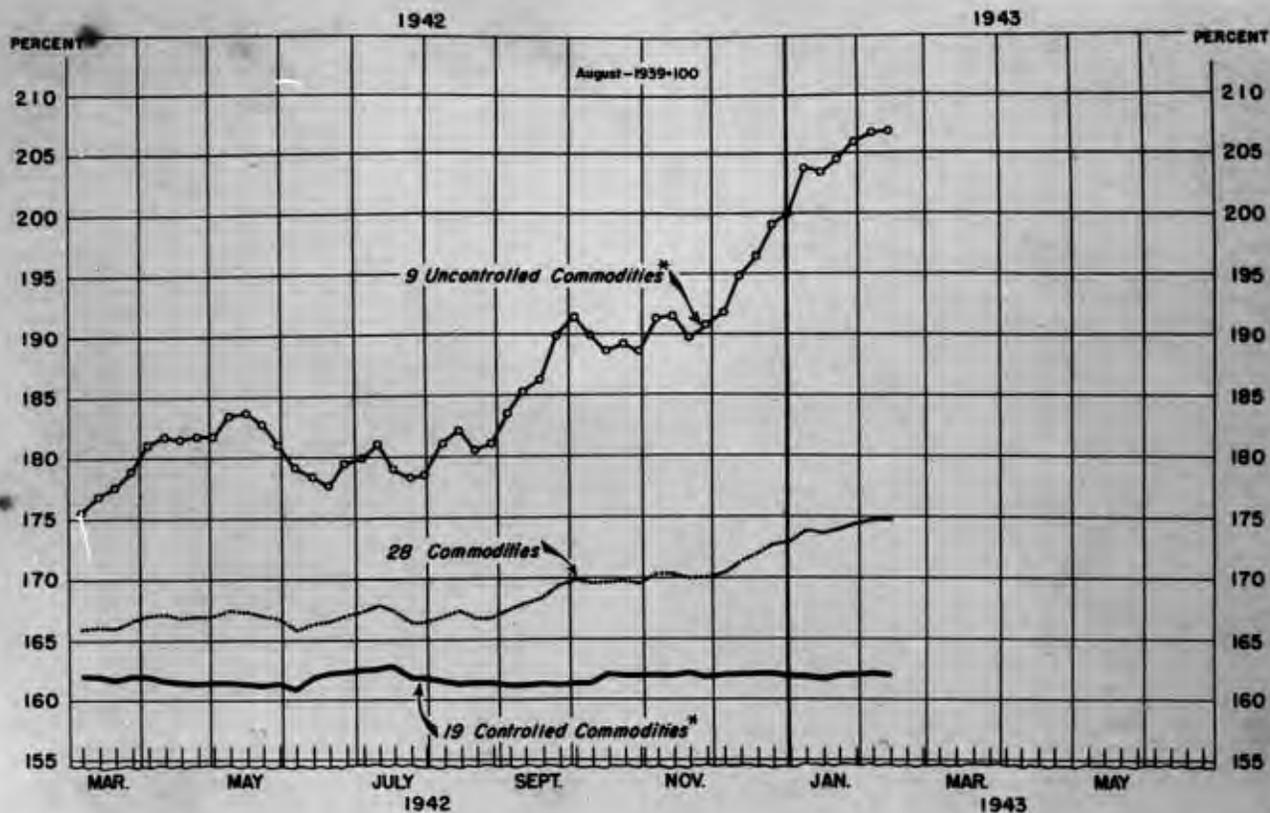
Inasmuch as stock prices have shown an extended rising trend since the war-time low was reached near the end of April 1942, various advisory services and commentators have for some time been expecting a rather sizeable reaction. In connection with this viewpoint it may be noted that the short interest in the market rose in January to the highest level since June 30, 1939, and on the 29th of the month stood at 579,000 shares as compared with 502,000 shares at the end of December.

Post-war prospects weighed by investors and business men

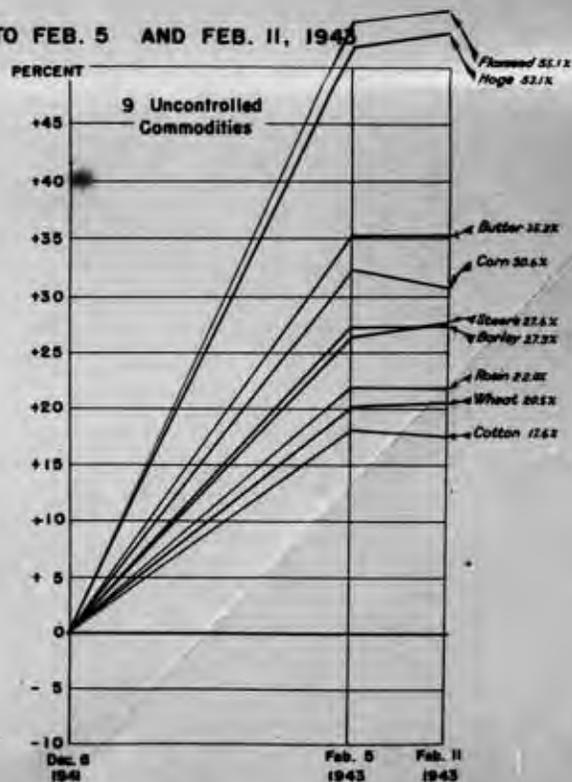
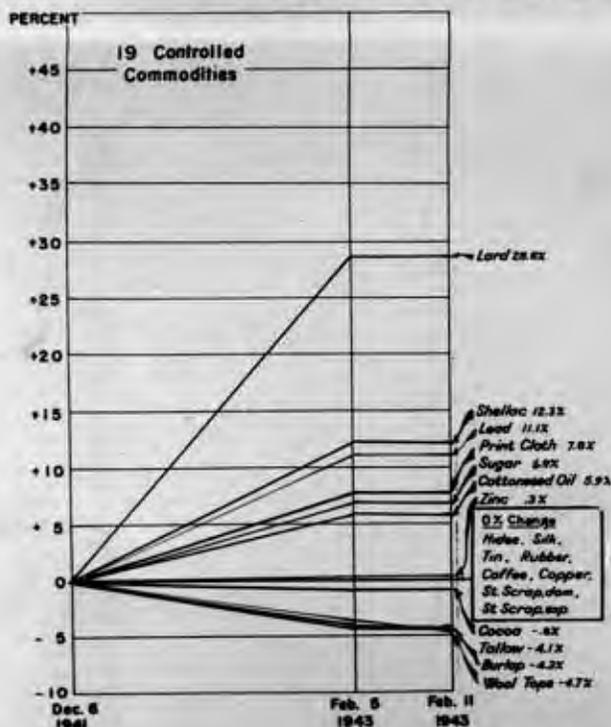
The favorable war news of recent months undoubtedly has been one of the dominant factors in the rise in stock prices. Investors and speculators have shown a marked preference for stocks with supposed favorable post-war prospects. At the same time there has been a noticeable disinclination to bid up prices of war-time beneficiaries, such as the railroads, whose stocks continue to lag and sell at unusually low price-earnings ratios.

In connection with post-war prospects, Alfred P. Sloan of the General Motors Corporation predicted last week that when peace comes there will be an initial business lull of from 5 to 7 months, followed by 2 or 3 years of intense industrial activity. He also stated that the first post-war automobile will be a 1942 model car rather than the radically revised model expected by some. The Vice President of the Ford Motor Company is reported to have said recently that his company could be back in automobile production within 30 days if present dies were used, and within 6 months if new dies and tools were used.

MOVEMENT OF BASIC COMMODITY PRICES

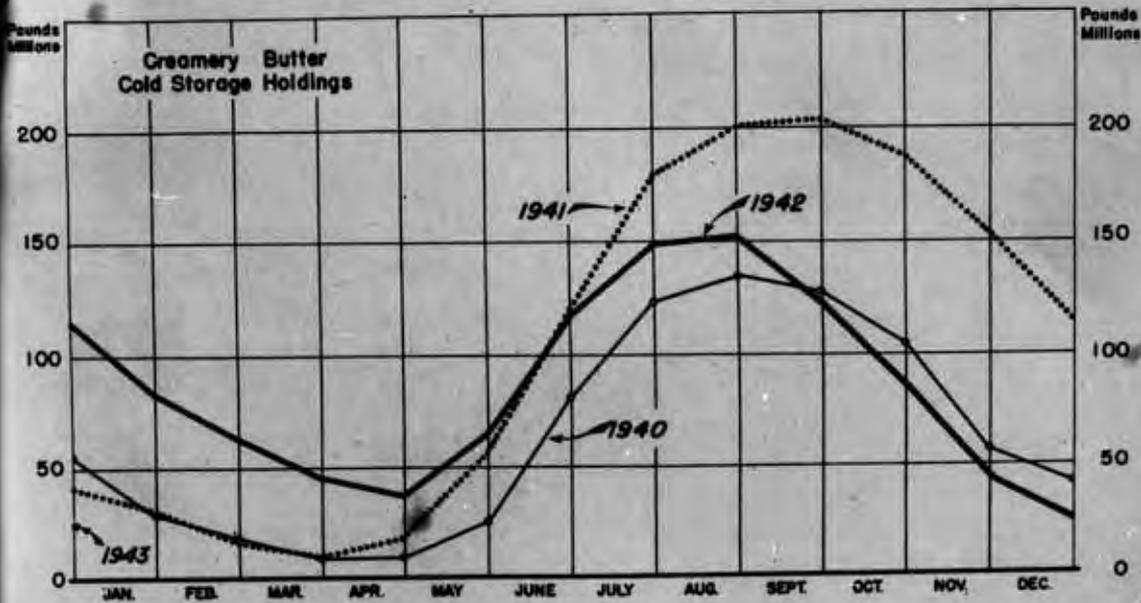
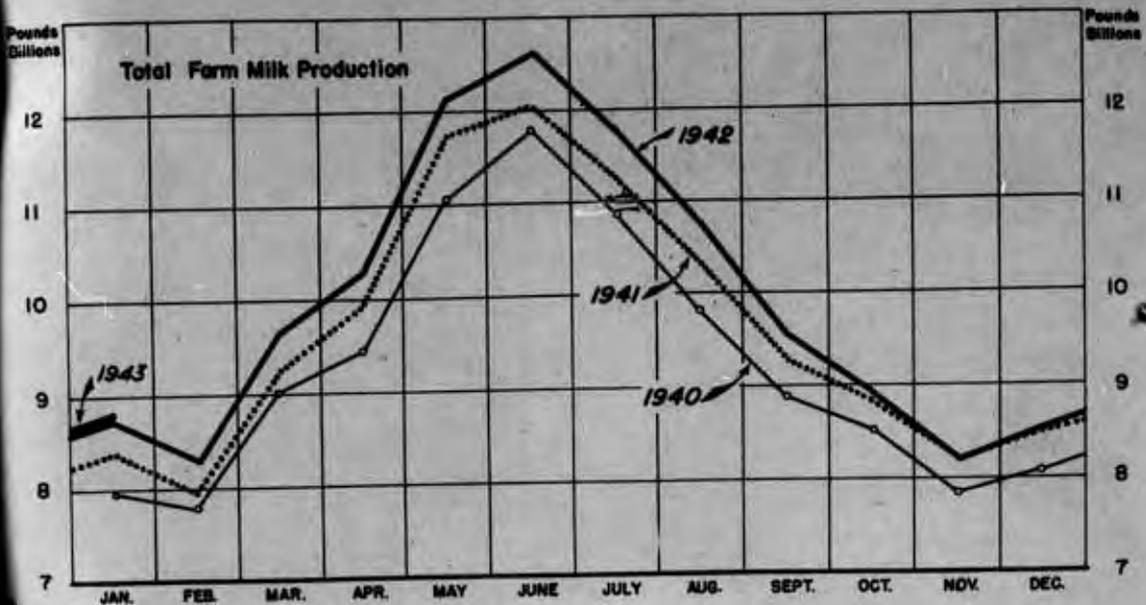


PERCENTAGE CHANGE DEC. 6, 1941 TO FEB. 5 AND FEB. 11, 1943



*20 Controlled and 9 Uncontrolled previous to Jan 26

MILK PRODUCTION AND BUTTER STOCKS

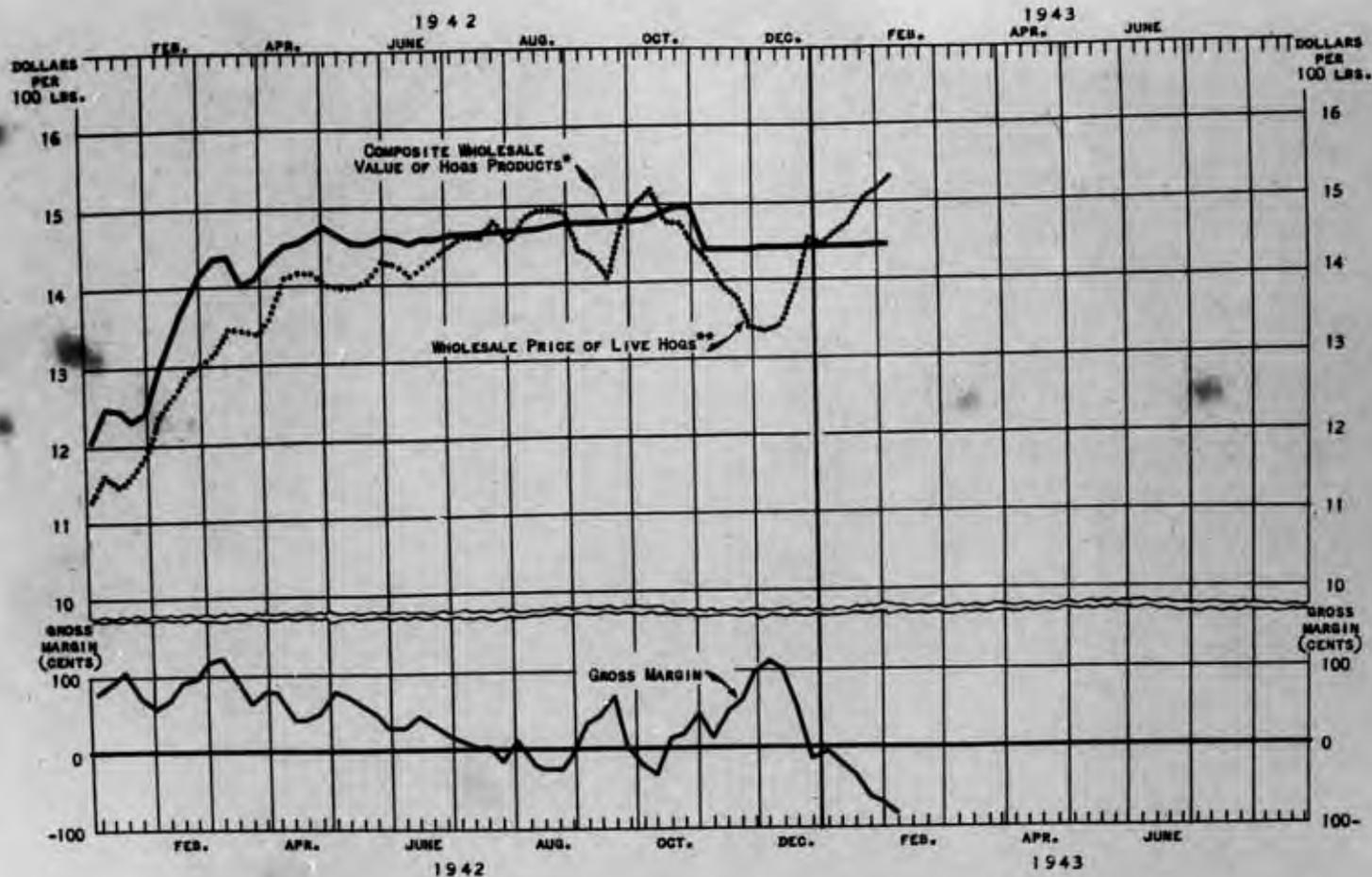


Source: U.S. Dept. of Agriculture

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

C-445

HOG PRICES, VALUE OF PORK PRODUCTS, AND GROSS MARGINS
Weekly, January 1942 to date



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

SOURCE: U.S.D.A

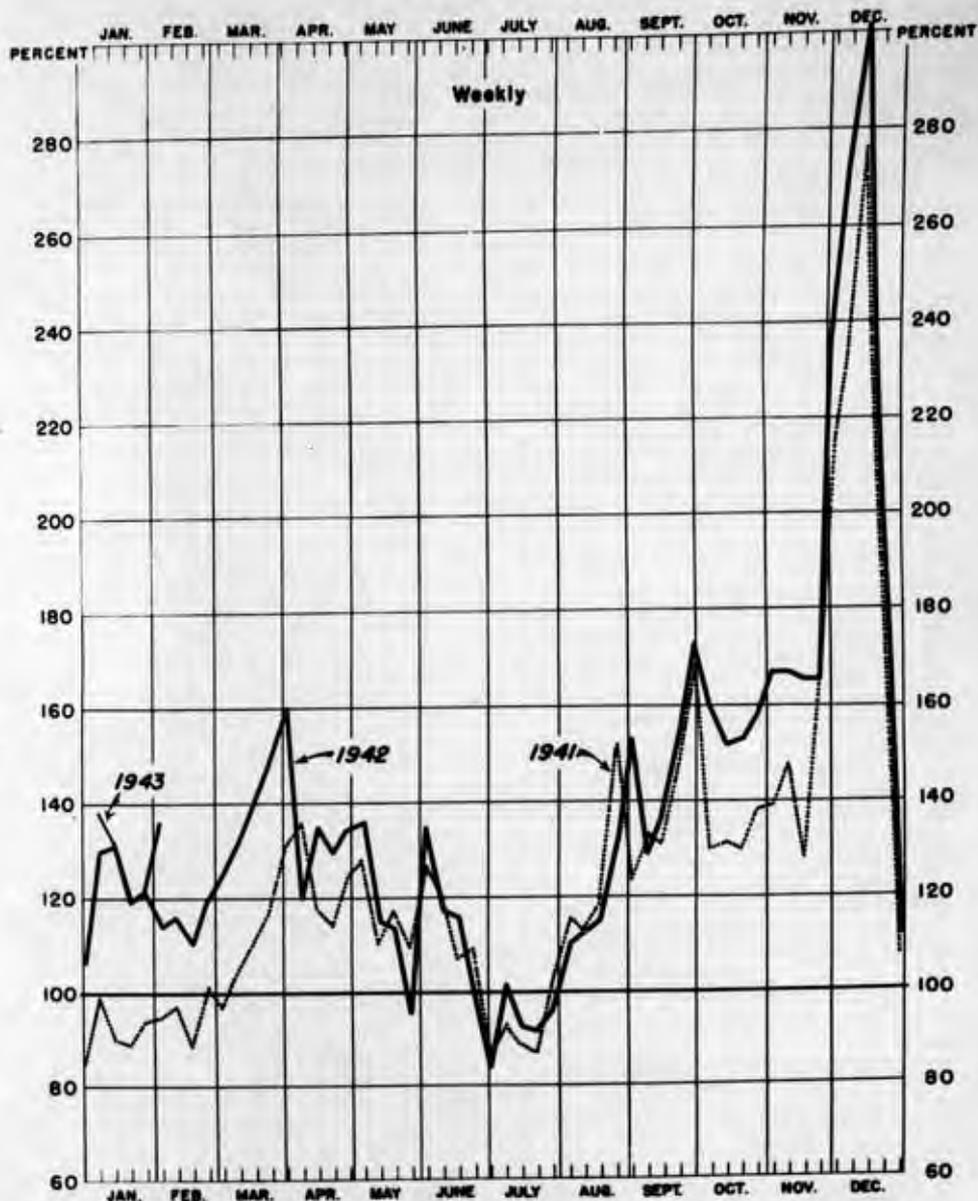
Office of the Secretary of the Treasury
Division of Economic and Financial Statistics

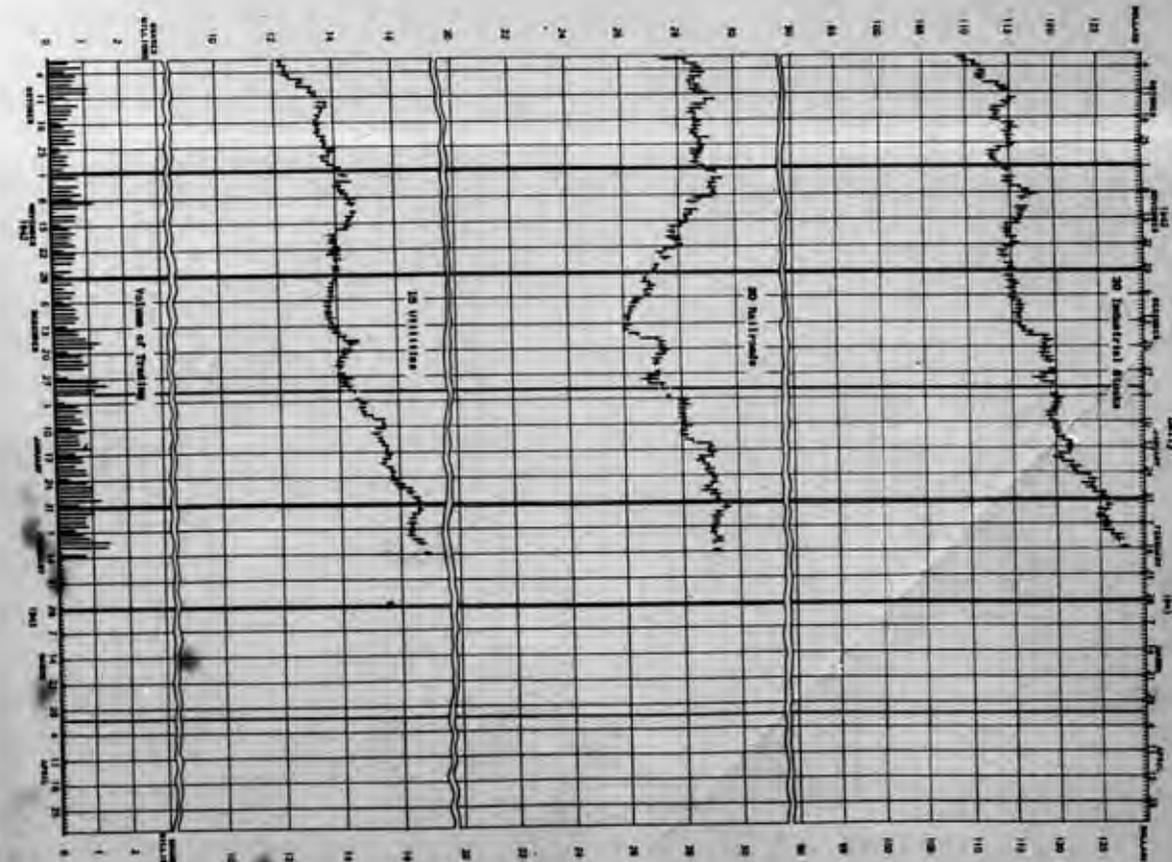
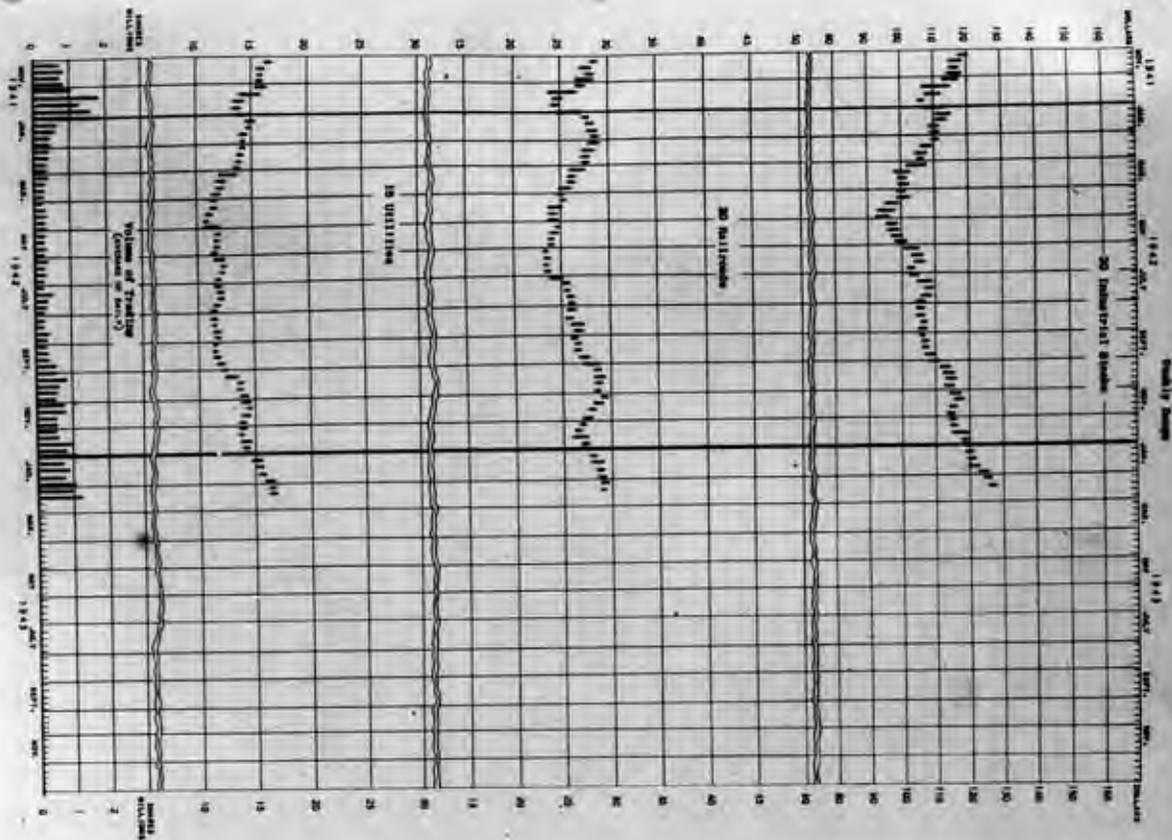
120

Chart 3

DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted





TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

to Secretary Morgenthau

February 15, 1943

FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. \$25,000 Salary Ceiling - Rep. Doughton, ordered by the House Ways and Means Committee to report favorably the Disney substitute Debt Limit Bill (which he voted against), said he did not know how soon the measure would be taken up by the House. An early report is expected, however, along with a demand for immediate action. On Saturday 5 Democratic members of the House Ways and Means Committee joined the 10 Republicans to approve this legislation which, besides raising the debt limit to \$210,000,000,000, contains a rider nullifying the President's \$25,000 salary limitation and replacing it with a limitation which would freeze upper bracket salaries as of December 7, 1941. Thus anyone receiving more than \$25,000 before Pearl Harbor could continue to do so, but no future salaries would be permitted to rise above that mark. The bill would be retroactive to October 2, 1942, the date the Second Price Control Act was enacted. Although the salary ceiling issue is not germane to the Debt Limit Bill, a majority of the Committee members were determined to join the two for several reasons. Firstly, since the Treasury figures it will be necessary to have a higher debt limit by April in order to finance the war, they believed the President would not veto the bill. Secondly, they believed the President's salary order would result in a loss of \$110,000,000 in income tax revenue. Rep. Disney described his amendment as the opening of a drive on "Government by directive". Similarly Rep. Woodruff said, "The House Ways and Means Committee has given definite notice to the President that the usurpation of powers granted to Congress by the Constitution must stop." Claiming that the Second Price Control Act did not include salary limitation powers, he added, "The day after the act became law this executive order was issued by the President in direct conflict with the intention of Congress." Rep. Knutson called the action one of constitutional law rather than policy since "the President had unlawfully usurped the functions of Congress".

2. Tax: Pay-as-you-go - With Treasury General Counsel Paul and Colin Stam, Chief of the Congressional Tax Staff, as the final witnesses, the House Ways and Means will end its hearings today and begin work in executive session on the next Revenue Bill. According to a U.P. ticker story Saturday, the majority of the Committee, believing that it will be virtually impossible to meet President Roosevelt's request to further reduce public buying by \$16,000,000,000 through additional taxes or forced savings, are "loathe to give up any more of 1942's estimated \$10,000,000,000 income tax total than would be absolutely necessary" and consequently "have turned thumbs down on the Ruml plan for skipping 1942 taxes in order to place income tax collection on a current basis". According to a N.Y. Times editorial this morning, however, a result of the open hearings is that "Everyone now agrees that the taxpayers must be put on a pay-as-you-go basis", the only question being the method of doing it.
3. Manpower - Influential farm state senators, headed by Nye and Thomas of a Senate Appropriations sub-committee, threatened to fight appropriations for a combined army and navy of 11,000,000 men unless steps are taken immediately to ease the labor shortage in food-raising areas. The Army, however, has flatly rejected these appeals to furlough skilled farm workers during the planting and harvesting of crops as "utterly impossible". In retaliation several Senate sub-committee members have termed Administration plans to call 11,000,000 men to the colors before the end of 1943 "frightful" and "disruptive" and said they planned to wield a pruning knife on bills in order to prevent such a policy.
4. Farm Parity - Senator Bankhead said he may call up on Thursday his bill to end the present deduction of subsidies, conservation payment, and other benefits in determining parity prices. Sen. Thomas suggested, however, that the Bankhead bill might be attached as an amendment to a bill by Rep. Stephen Pace for the inclusion of farm labor costs in parity prices. In any event, all statements from the farm bloc indicate that they will attempt to revise existing farm parity prices despite the Administration's urgent request for stabilization at present levels.
- C. Post-War Planning - The establishment of a special Senate

committee of 5 Democrats and 4 Republicans to study post-war economic problems will be proposed in the Senate today by Sen. George. One phase to be considered is the planning for post-war expansion of commercial aviation as provided in the Lea Bill (to amend the Civil Aeronautics Act of 1938) which will be favorably presented by the Commerce Committee today. Opposing the Administration's opinion of the need for post-war planning now, Rep. Steagall called it "dream stuff about the Utopia we're going to have after the war" and added, "You can't skin a cat before you catch it and we haven't won the war yet."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Feb. 15, 1943.

TO Secretary Morgenthau
FROM Randolph Paul

To bring you up to date on the
Question of Diplomatic Passports
for Treasury men in Africa.

During your recent absence, six of our men left for Africa by surface convoy to serve as civilian assistants to Bernard Bernstein. These men were Glasser and Patterson from Harry White's office, Hoffman and Saxon from Pehle's office, and Rains and Murphy of the Legal Division.

On January 7 D. W. Bell sent a letter to the State Department setting forth our expectation that these men would receive diplomatic passports. After January 7 we had a number of informal talks with State expressing our strong view that these men should be given the maximum passport protection since they would not have the protection of a uniform in the event they fell into enemy hands. State had indicated that only Glasser and Hoffman would be given diplomatic passports. On January 30, State wrote to us that Glasser would receive a diplomatic passport but the others would receive only "special" transports. State pointed out that Lend-Lease and the Board of Economic Warfare and other agencies were willing to have their men go on "special" passports.

We did not want to be chargeable with interfering with the war effort, and accordingly wrote State on February 1 that we would let our men go without diplomatic passports. At the same time we restated our objection to "special" passports and asked State to make a study of the legal and practical differences between special and diplomatic passports and advise us of their further views.

AS



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

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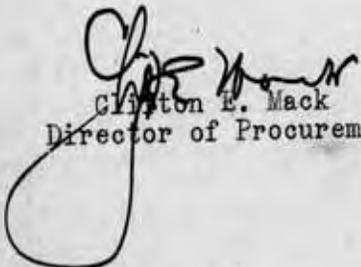
February 15, 1943

SECRET

MEMORANDUM TO THE SECRETARY:

Supplementing my report to you of February 8, 1943, the purchases against the North African Rehabilitation Program from February 8, 1943, to February 14, 1943, totaled \$5,788,383.13, or a total of purchases for the program thus far of \$19,302,311.34.

Attached is report giving status of shipping against these purchases.


Clayton E. Mack
Director of Procurement



<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
New & used clothing	1544	133.25	330	106.33
Cotton piece goods	3398	210	1213.25	414
Shoes	141	73	46	85
Refined sugar	4196.5			
Raw sugar	1545			
Powdered milk	119.5			
Tea	171.5			
Matches	191.75	174.75		
Copper sulphate	3913			
Drugs	6.067			
Books & booklets	2			
Nails	100	5		
Lamp chimneys			17	
Newsprint	305	57	100	210
Printer's ink	.045	.044		
Mach. finished book paper		2		
Cordage & twine	225	5	75	
Cotton Thread	19	12	81	
Lactose	1	1		
Cotton hose	15	2	28	3
Nipples, bottles, eye cups			9	
Phonograph records			1000 Each	
Tooth brushes			.75	
Wash basins			7	
Spark plugs			2	
Storage batteries			45	
Acetone			14	
Benzol			44.5	
Tires & tubes	10	76		
Parts for autos, tractors & harvesters	4		43	269

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Tin plate			946	
Coal cutters		12		72
Fullers earth				57
Flake caustic potash				1
Gelatin				89
Wire rope				
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	15,907.362	763.044	3,001.5	1,326.33