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February 18, 1943
9:35 a.m.

TAXES

Present: Mr. Bell
Mr. Paul
Mr. Gaston
Mr. Sullivan
Mr. Blough
Mr. White
Mr. Surrey

H.M.JR: What am I going to say in answer to the President's letter to Congressman Doughton? (Copy of letter attached.) Have you all read it?

What do you think, Herbert? Have you read the letter?

MR. GASTON: I haven't read the full letter, but I read the summary of it.

H.M.JR: I read it in full. He says two things. One is that we recommended in April a method of taxing through income tax, and he asks why they don't do something about it. Then he goes on and says that if they don't want to do that, they want a ninety-percent tax.

MR. PAUL: That is the new scheme that was submitted to Byrnes.

H.M.JR: Ninety percent, and a tax on the tax-exempts.

MR. PAUL: We submitted it to Byrnes both ways.

H.M.JR: Byrd?

MR. PAUL: Justice Byrnes.

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H.M.JR: I never agreed to that.

MR. PAUL: We just did a mechanical job of drafting the thing. He asked us for any substitute - I wrote you a memorandum about this - Ben called me one day and said, "Is there any substitute we can get together?"

So we came down, and Surrey and I worked out this substitute. I took it over and talked it over with Byrnes. I put the tax-exempts up to Byrnes and specifically said that it could be done either way.

MR. BLOUGH: This isn't Federal tax-exempts.

MR. PAUL: No, just State tax-exempts.

MR. BLOUGH: That is right. The letter doesn't say so.

MR. PAUL: That was pointed out to Byrnes.

H.M.JR: Yes, but it isn't in the President's letter. It says, "including income from tax-exempt securities."

MR. BLOUGH: That is what it says; I read it.

MR. PAUL: That was one of the points Byrnes muffed, I suppose. We gave him a draft of the law which states it exactly.

H.M.JR: I wouldn't necessarily say that Byrnes muffed it; I would say that this is something that the President has wanted off and on always - to sort of go around it.

Herbert, if they asked me, could I say, "I am sorry, but I have no comment. The first I saw the letter was when I read about it in the newspapers"?

MR. GASTON: I don't think so.

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H.M.JR: You mean that it just cheapens me?

MR. GASTON: I am afraid so. I just don't think it is any good. I think that now the thing is out we have to act as if we were in on it.

H.M.JR: Yes.

MR. BELL: Suppose he is asked the direct question, "Did you know about it before it went up"?

MR. PAUL: Technically we knew about it.

H.M.JR: You did? Don't misunderstand me. You did?

MR. PAUL: I didn't know it, Mr. Secretary.

H.M.JR: You didn't see the letter?

MR. PAUL: No, I got it from the Ways and Means clerk.

H.M.JR: You didn't see it?

MR. PAUL: I didn't see it.

MR. GASTON: Unless it is something that we feel as a matter of principle, we ought to disagree on - I don't think that is the case - I think we ought to say what is within the bounds of the truth, that the Treasury was consulted.

H.M.JR: No, I am not going to say that.

MR. GASTON: Weren't we?

H.M.JR: No, because they asked - I wasn't consulted by the President.

MR. SULLIVAN: Mr. Secretary, this went on as an amendment to the Gearhart amendment. It went on as an amendment to the Public Debt Act. When that first came

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up, I got in touch with Justice Byrnes, because we wanted to know whether this was his fight or ours, and if it was ours how strong a fight should we put up. They indicated all along that we should lay low, and we have. There was a hearing, and we made ourselves available. In the course of those conversations, about two weeks ago, Ben outlined to me the type of a letter the President was considering sending up, but there wasn't any discussion of this particular item at all.

H.M.JR: When they talk a bout taxing the income from tax-exempts, that opens up the whole thing, and I am on record as saying that I wouldn't do it by direction or indirection.

MR. PAUL: That is Federal.

H.M.JR: Well, this letter doesn't qualify. It just says "from tax-exempt securities," which would mean all securities.

MR. PAUL: I don't think the President meant that.

H.M.JR: I think he did. How else would you interpret it?

MR. PAUL: Well, considering what I know about the background, Byrnes probably wrote the letter and discussed it with us. He probably had in his files a statute all drawn which specified only State. I think that the President meant only what Byrnes meant.

H.M.JR: No one will interpret it that way who can read, I mean, that didn't know what went on behind the scenes. I didn't know what went on behind the scenes.

MR. PAUL: Those are the kinds of things that happened. If Byrnes had submitted that letter to us, we would have been able to correct that.

MR. GASTON: I think the reason that they say just tax-exempt securities is because they didn't

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want to complicate the issue. They didn't want it to be confusing.

MR. BLOUGH: It would have taken two lines.

H.M.JR: I am sorry, but I don't agree with you, knowing what has been going on the last three or four years. You have heard this discussion, Bell, haven't you? Haven't you heard the President on this?

MR. BELL: On tax-exempts?

H.M.JR: Yes.

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

H.M.JR: I mean, he has always been trying to inch up to it, you see, and we here have always felt that it was something you had to go through the courts on, through Congressional legislation.

MR. SULLIVAN: I can recall two conferences we had with him in which he brought that up and you said, "No," and immediately we dropped it.

H.M.JR: I made it flat - I know that when he knows I don't agree with him he just doesn't show me the thing.

MR. PAUL: We didn't think you needed to go through the courts on State.

H.M.JR: But Federal?

MR. PAUL: Yes, Federal.

H.M.JR: It is the whole question of the Government bond market, and good faith, and all the rest of it.

MR. PAUL: That is true; it is not a legal question.

MR. GASTON: That is the one serious question.

H.M.JR: You had better go.

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MR. PAUL: I can call you up in the middle of the session if you want.

H.M.JR: That won't help me; I have a press conference at ten-thirty. I had hoped you could be here. Let Roy stay behind.

MR. PAUL: Stanley Surrey could help you.

H.M.JR: This is just a question of public relations, Roy. You had better go on.

MR. PAUL: If you want any help on the salary, we can leave Stanley behind. He knows all about it. He worked through every bit of it with me. He was present at the conferences with Byrnes.

H.M.JR: O.K., send him in.

Where are you on your Ruml Plan today?

MR. PAUL: I don't know what the Chairman is going to spring on me at ten minutes of ten.

H.M.JR: All right.

(Mr. Paul and Mr. Blough left the conference.)

H.M.JR: Herbert, I just don't know - the only way is to argue the thing out; but if they ask me point-blank if I saw the letter before it went up, I don't see why I should - if I say I have no comment--

MR. GASTON: I don't know whether or not they will ask you that directly.

H.M.JR: Was I consulted?

Of course, I can answer the way I want to; "This is White House business, and you men know I can't discuss it."

MR. GASTON: They regarded it over there as a matter of salary regulation, rather than revenue taxation. Then the second--

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MR. BELL: In that respect, the Treasury is just an agent.

MR. GASTON: In that respect, the Treasury is just an agent. That is, it is following through, with the prospect of Congress knocking down the twenty-five thousand dollar limitation, as a matter of Executive Order under the salary regulation power.

Now he is asking them by regulation to accomplish the same thing, not as a matter of revenue but as a matter of salary regulation.

The record is that the subject was discussed generally with Mr. Sullivan and Mr. Paul as to the wording and as to the method of accomplishing the objective.

MR. SULLIVAN: I beg your pardon, it was not discussed. Just for your information, Ben told me that that was the type of letter the President was considering.

MR. GASTON: Yes. Well, Paul was asked as to the method of accomplishing it. Didn't he say here that they asked him how to do it?

(Mr. Surrey entered the conference.)

H.M.JR: I suppose, Herbert, the easiest thing to do when they ask me is to say, "Look, gentlemen, this is White House business. Any information you want about it, you will have to get from the White House."

I have been all through this. Should I write a letter to the President and say, "Why didn't you consult me before he sent it up?"

Then he will come back and say that this was something I wasn't to handle, or should handle, and all that. So, I think it best to leave it alone.

MR. GASTON: I certainly think we ought not to register any differences before the newspapermen here.

H.M.JR: If you are out of step with the President, why discuss it?

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MR. GASTON: That is the way I feel. There is one very substantial matter, that matter of the taxation of Federal Securities, which are by contract tax-exempt. They might get into that.

H.M.JR: Well, Surrey, Paul said you were - in these drafts that you sent over, were they for Federal or State securities?

MR. SURREY: It was only for the State securities, and that was pointed out to the people in Justice Byrnes' office that we were sticking to the policy which we had last year with respect to tax-exempt securities. We didn't touch the Federal.

H.M.JR: I am on record.

MR. SULLIVAN: That isn't just last year's policy; the Secretary's record has been clear all the way back.

H.M.JR: Back to the Cleveland speech.

MR. SURREY: Last year we drew a distinction between Federal securities. I mentioned that because of the contract, and that was pointed out to Justice Byrnes' people. We have the same distinction this year.

H.M.JR: Have you read the letter?

MR. SURREY: Yes, sir.

H.M.JR: How do you interpret it? What securities do you think they mean?

MR. SURREY: I would interpret it the same as what we urged last year.

H.M.JR: But it says that the revenue from tax-exempt securities should be included. It doesn't distinguish as between Federal and State.

MR. SURREY: No, but I got the impression that the term was used in its more popular sense - in other words,

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to describe the securities generally which the Administration has been seeking to tax.

H.M.JR: Why don't I call up Byrnes and ask him?

MR. SULLIVAN: If this reaction is any good to you, Mr. Secretary, I read the letter - and didn't know about this draft that had been sent over - and I assumed it was merely State securities.

H.M.JR: Let me call him up and ask him.

MR. GASTON: They are the only thing wholly tax-exempt, except for our notes and--

MR. SULLIVAN: He can authorize you to say it was perfectly clear that the White House and the Treasury had in mind merely the income from State and municipal securities. It seems to me that is your whole problem, Mr. Secretary.

H.M.JR: I will ask him.

MR. BELL: That might be a good place to give an interpretation of it, while it is fresh, if that is what they meant.

MR. GASTON: Yes, if you can get that interpretation.

H.M.JR: What is that?

MR. GASTON: Dan says it might be a good spot to give an interpretation now if they agree over there that they don't mean to tax the Federal.

H.M.JR: Does anybody want to bet me that they say Federal?

MR. SULLIVAN: I bet you a package of Spuds.

MR. WHITE: I bet they say Federal.

(The Secretary held a telephone conversation with Justice Byrnes' secretary.)

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H.M.JR: Does anybody have that letter?

MR. BELL: What letter?

MR. SURREY: I can get a copy of it. I have it upstairs.

(Mr. Surrey left the conference.)

H.M.JR: The only paper it is in is the "Times." I thought he would have a more accurate copy.

MR. WHITE: I think you could probably diminish the interest in it if in addition to your remark that that is a White House matter, you say, "But, of course, we have been discussing this matter for two years now" - something like that.

H.M.JR: If I say, "You men all know what my position is," then it puts me right into a fight with the White House, and I don't want any fights.

MR. BELL: Unless what you have said before agrees with what they have in mind.

H.M.JR: White, do you think that they meant all?

MR. WHITE: I should think so. I think that is the view of some of the men over there. I don't know whether their view has prevailed on Byrnes.

H.M.JR: I think that is where what's-his-name would be, wouldn't you - Ben Cohen - for taxing all?

MR. WHITE: I think so.

MR. BELL: Do you want to talk to Ben instead of--

H.M.JR: I think if I did it now, it could be interpreted as sort of sneaky, that I first tried to get him and then talked to Byrnes afterwards. If Byrnes doesn't call me back before my press conference, I will

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called Ben. But, having asked for him - don't you see what I mean - it is as though somebody put in a call for me and I wasn't there. He wanted to know what I was going to do on the bond market. So then he calls you up while waiting, and then talks to me.

I think I will get this. I will let you people know what they say. We may have another meeting.

(Mr. Surrey reentered the meeting.)

MR. SURREY: Mr. Russell is the one I spoke to on the tax-exempt.

MR. WHITE: Recently?

MR. SURREY: I pointed out the way it was drafted. He agreed at the time.

(Mr. Surrey handed to the Secretary a mimeographed copy of the President's letter to Chairman Doughton.)

H.M.JR: It says, "including income from tax-exempt securities."

What you had better do, Surrey, is this: You had better go right to work on the various things that I have said on this thing, not necessarily for my press conference, but I may have to write the President a letter saying, "This is the position - " and urge him very strongly that he back me up on my position if they have done it the other way. You had better get at it.

Miss Chauncey could help you on this thing. Do you know Miss Chauncey?

MR. SURREY: Yes.

H.M.JR: Then you had better have the memoranda that we submitted. In other words, prepare a case on this thing for me so that if I have to write the President

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and say, "What did you mean when you said to include the tax, was it only from States?" - I want you to give a clarified statement.

MR. GASTON: There is another point in connection with that, that our tax exemption does not cover surtaxes in any of the long-time securities, and this would be a surtax, so they would be exempt from it, except just for the bills and short-term notes.

MR. BELL: Not the bills; the bills are now out of the picture.

MR. WHITE: You will be the first one to comment publicly on that this morning. That is why it is important, I think.

H.M.JR: In thirty-five minutes.

MR. SURREY: Will it be all right if I check with Mr. Russell? He probably prepared this letter, and I could find out what he had in mind.

H.M.JR: No, wait until I get through talking to Byrnes. They have only four or five people over there, haven't they? They will say, "Morgenthau had Surrey call up." You know, I don't gain anything. I will ask Byrnes; he will know.

MR. WHITE: In any case, I think it is well to get Byrnes' statement. Even a subordinate statement will not be adequate.

H.M.JR: No, I will have to get Byrnes' statement, and then we may have to write him a letter and simply say, "Now, look, this thing has got to be straightened out, because this is my position."

MR. SURREY: I have a recollection that Mr. Paul or I mentioned that to Mr. Byrnes earlier, too, the first time we saw him.

H.M.JR: You had better get busy. I will let you all know.

February 17, 1943

Congressman Doughton, Chairman of the House Committee on Ways and Means, today made public a letter from the President, the text of which follows:

"Some days ago you wrote me that there was a proposal before your Committee to amend the Public Debt Bill by adding a provision nullifying the Executive Order issued by me under the Act of October 2, 1942, limiting salaries to \$25,000 after taxes, and asked if I cared to submit any views with reference to the proposal. In reply, I told you that I hoped the Public Debt Bill could be passed without adding amendments not related to the subject, but that if the Committee thought otherwise, I would later write you my views.

"In a message to the Congress on April 27, 1942, I stated, '... discrepancies between low personal incomes and very high personal incomes should be lessened; and I therefore believe that in time of this grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 a year.' Thereafter the Treasury advised the Committee, 'To implement the President's proposal, the Treasury now recommends the enactment of a 100% war supertax on that part of the net income after regular income tax which exceeds a personal exemption of \$25,000. * * * It is recommended that for the purpose of the supertax, joint returns be made mandatory and that a personal exemption of \$25,000 for each spouse be allowed, or in effect \$50,000 for the married couple.'

"So far as I know, neither House of the Congress acted upon the recommendation.

"When the Act of October 2, 1942 was passed, it authorized me to adjust wages or salaries whenever I found it necessary 'to correct gross inequities and also aid in the effective prosecution of the war.' Pursuant to this authority, I issued an Executive Order in which, among other things, it was provided that in order to correct gross inequities and to provide for greater equality in contributing to the war effort, no salary should be authorized to the extent that it exceeds \$25,000 net after the payment of taxes. Provision was made for certain allowances in order to prevent undue hardships.

"The legality of the Executive Order was attested by the Attorney General, prior to its issuance. No Executive Order is issued without such approval.

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"The regulation issued under this Order, with my approval, was so worded that it affected only gross salaries in excess of \$67,200, the amount of taxes due upon such salaries reducing them to approximately \$25,000 net. I could not exercise the discretion vested in me by the Congress to adjust salaries, without finding that it is a gross inequity in wartime to permit one man to receive a salary in excess of \$67,200 a year while the government is drafting another man and requiring him to serve with the armed forces for \$600 per year. I believed it a gross inequity for the President of a Corporation engaged in the production of materials for the government, to receive a salary and bonus of \$500,000 a year while the workers in the Corporation were denied an increase in wages under the provisions of the law and my Executive Order. The correction of such inequities, I believed, would aid in the effective prosecution of the war.

"I call your attention to the fact that the limitation of salaries was, by the language of the Order, limited to the war period; and that the law upon which the Order was based expires June 30, 1944, and can be continued only by the affirmative action of the Congress. Therefore, no fair argument can be made that the limitation was intended either by the Congress or by the Executive to become permanent law. The intention was made plain in my original message. I then and there affirmed my belief that this limitation should be made 'in time of this grave national danger when all excess income should go to win the war.'

"This desire to limit personal profits during wartime is no new thought. Its origin is neither alien nor obscure. It is in accord with the solemn pledges of the Republican Party and the Democratic Party.

"In 1924, just after our soldiers had returned from the first World War and the leaders of both parties were conscious of the views of the returning soldiers as to war profiteering, the Republican Party declared in its platform:

"We believe that in time of war the nation should draft for its defense not only its citizens but also every resource which may contribute to success. The country demands that should the United States ever again be called upon to defend itself by arms the President be empowered to draft such material resources and such services as may be required, and to stabilize the prices of services and essential commodities, whether utilized in actual warfare or private activity.'

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The Democratic Party platform the same year solemnly pledged:

'In the event of war in which the man power of the nation is drafted, all other resources should likewise be drafted. This will tend to discourage war by depriving it of its profits.'

I repeat, this was in 1924, not 1928, and that these were the platforms of the Republican and Democratic Parties.

"I agree with those who say that the limitation of salaries does not deal adequately with the problem of excessive personal profits and that the limitation should extend to all income. My Executive Order endeavored to correct the inequity to the extent of the power granted me. The Congress can, however, make the limitation adequate by extending it to the coupon clipper as well as the man who earns the salary.

"Therefore, I urge the Congress to levy a special war super-tax on net income from whatever source derived (including income from tax exempt securities) which, after payment of regular income taxes, exceeds \$25,000 in the case of a single person, and \$50,000 in the case of a married couple. If the Congress does not approve the recommendation submitted by the Treasury last June that a flat 100% supertax be imposed on such excess incomes, then I hope the Congress will provide a minimum tax of 50% with steeply graduated rates as high as 90%. The exact amount of the exemptions to be allowed and the exact rate of taxation to be applied are necessarily arbitrary and these are matters the Congress must decide.

"If taxes are levied, which substantially accomplish the purpose I have indicated, either in a separate bill or in the general Revenue Bill you are considering, I shall immediately rescind the section of the Executive Order in question. The Congress may appropriately provide that such taxes should take the place of the \$25,000 limitation imposed by Executive Order.

"I trust, however, that without such tax levies, the Congress will not rescind the limitation and permit the existence of inequities that seriously affect the morale of soldiers and sailors, farmers and workers, imperiling efforts to stabilize wages and prices, and thereby impairing the effective prosecution of the war."

February 18, 1943
9:48 a.m.

HMJr: Hello.

Operator: Justice Byrnes is out of his office for a few minutes.

HMJr: Well, is....

Operator: His secretary is on the wire.

HMJr: Let me talk to....

Operator: All right.

HMJr: Is it him or a her?

Operator: A lady.

HMJr: All right.

Operator: Go ahead.

Justice
Byrnes' Secy: Hello.

HMJr: Good morning.

S: Yes, Mr. Secretary.

HMJr: How long before Mr. Byrnes will be back?

S: I think in about ten minutes.

HMJr: Oh.

S: Shall I call you when he returns?

HMJr: Yeah, I'm very anxious to speak to him.

S: Fine. Well, I'll call you just as soon as he comes in.

HMJr: It's - all right - will - because I wanted to get some information before my press conference.

S: All right, fine. Will ten - will that - that'll be all right within about ten or fifteen minutes, will it? I'll call you just as soon as he comes anyway.

- 2 -

HMJr: Right.

S: Fine.

February 18, 1943
10:00 a.m.

HMJr: Hello.

Operator: Mr. Byrnes.

HMJr: Right.

Operator: Go ahead.

HMJr: Hello. Hello.

Justice J.
Byrnes: Hello.

HMJr: Henry talking.

B: Yes, Henry.

HMJr: How are you?

B: Fine.

HMJr: Jimmy, I'm at a disadvantage in two ways: one, I'm having a press conference at ten-thirty, so I'll be the first person to be asked publicly about this letter of the President's, which I read in the New York Times this morning for the first time. Now the thing that I don't understand is the thing where it says, "Therefore, I urge the Congress to levy a special war super-tax on net income from whatever source derived..." - now this is the point - "...including income from tax-exempt securities." Hello?

B: Yes.

HMJr: Now what does that mean - "including income from tax-exempt securities."

B: Well, that's the - that was the - what Paul in his message - I mean in his statement last year had been - had suggested, originally.

HMJr: No, well, of course, he....

B: Remember he had tax - he had a proposal of a hundred per cent.

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HMJr: Yeah, but he....

B: I think you ought to get your fellows to give you that....

HMJr: Well, I....

B:that recommendation.

HMJr: I had Paul, but he was referring to State securities, not Federal.

B: Well, it - the language - that language is, I think, copied from - from that message.

HMJr: Well, if that - if you used Paul's memorandum, then it was State securities.

B: Well, it was Paul's memorandum that we had, yes - had here. Why don't you say....

HMJr: Well, Paul - could I send Surrey over there to see somebody right away so I could....

B: Right. Send him right away.

HMJr: Could you see him?

B: Yes, because I - McPherson's here, but I'll see Surrey because you'll want to know before you get to that....

HMJr: Before ten....

B:press conference to that thing. He's got a - he suggested - I got Paul to draft - draft a proposal....

HMJr: Yeah.

B:with me and I'll give it to you. For this very thing, for this tax.

HMJr: Well, I've - I talked with Paul but Doughton sent for him to be up there at ten minutes of ten....

B: Yes. Well, now, I - I have that thing. I have Paul's memorandum....

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HMJr: Yeah.

B:and really, I think it was drawn by Surrey. Have you talked to Surrey?

HMJr: Yeah, he's been here too.

B: Well, it's - wait one second there. I think really Surrey drew the thing, and it may - it may save him.

HMJr: Well, what I want - hello?

B: Yes.

HMJr: I mean because we're on record here over three-four years....

B: (Talks aside: Where's that tax proposal that Paul and Surrey said - see whether it's in that thing and give to me.) Go ahead.

HMJr:and that neither by direction or indirection would we tax the income from Federal securities because the Federal Government had a contract outstanding, you see?

B: Yeah.

HMJr: And it's - that part is terribly important to me.

B: Yeah.

HMJr: So....

B: Now wait - I'll find it.

HMJr: Let - let me send Surrey over. He'd be there in a couple of minutes. May I do that?

B: Yes, I was just trying to find that - if he's got that....

HMJr: The memo that they furnished you?

B: Yeah, that's where it's supposed to come from.

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HMJr: I'll tell him to take it along with him.

B: Fine.

HMJr: Thank you.

February 18, 1943
10:04 a.m.

HMJr: Byrnes says, Surrey, that he - this thing was based on the memoranda which you furnished.

Stanley Surrey: Yes, sir.

HMJr: Now if you could lay your hands on them and rush across the street, he'll see you because he wants to help me out before ten-thirty.

S: I'll go right over there.

HMJr: Now the thing that I want -- (laughs) I forgot to mention the most important thing -- if possible, is to get something from him that I could use at ten-thirty clarifying this point, you see?

S: All right. I'll - I'll see if I can get that.

HMJr: Or either that I can do it, or say, refer the newspaper - it would be much better to - to get him to clarify it, you see?

S: I'll see what I can do on that.

HMJr: I mean if he would say to the newspapermen, "Well, if they'll come over, we'll clarify it," something so this thing can be cleared up, because from the bond market standpoint this is terrible, and the longer we wait, the worse it will grow. It's like a snowball going down hill.

S: Yes, sir. I'll see him right away..

HMJr: So rush over there, and - but I got to know before ten-thirty.

S: All right.

February 18, 1943
10:06 a.m.

HMJr: Hello.

Justice J.
Byrnes: Hello, Henry?

HMJr: Yes.

B: The - the bill which I have found - the proposed bill has this provision: "For the purpose of subsection (a) gross income computed under section 22 shall include interest received or accrued upon the obligations of the State or political subdivision thereof." So it did not refer to the Federal, and I'll send this over to you so you can have it.

HMJr: Well, Surrey's on his way over there now.

B: Fine, I'll just turn it over to Surrey, and then he'll have it.

HMJr: Well, now....

B: But that, as I say....

HMJr: Can I....

B: Yes.

HMJr: Can I say publicly - I mean to the press, or would you rather say it....

B: What? No, I don't give out press - it's - on this?

HMJr: Can I say that this sec.. - this thing was based - that that's what it meant?

B: Yeah, here's a - that's what - that's what the President meant, yes.

HMJr: And that's what the President meant?

B: Yes.

HMJr: You think it's all right to interpret - because the longer we wait, the worse it will get.

B: Well, why not say that it's very clear that from his statement that - what he meant - and that - that - why not say that at the - that a memorandum had been prepared of - by - by Mr. Paul and it specifically provided that.

HMJr: And that I just - that I discussed this thing with you this morning, and you say that's what it meant.

B: No, why not hand it to them? I don't think that it would help by saying that we were all discussing it, and say, "Why, I think that's very clear what's meant. It means nothing but State securities. I think the President acted on a memorandum, and here's the memorandum."

HMJr: I see.

B: And then read it to them....

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

B:for the purpose, and - and I'll give it to Surrey to give you, and it just shows it means nothing to you. I - I can know only that - what the President meant from this memorandum.

HMJr: I see, and....

B: And I'd dismiss it with that.

HMJr: What's that?

B: I'd dismiss it with that, because it's very clear that that's all that was meant, and there's no reason or justification for anybody saying anything else.

HMJr: Okay.

B: I'd shoot them right clean.

HMJr: Thank you.

B: Goodbye.

February 18, 1943
10:16 a.m.

HMJr: Hello.

Operator: Mr. Paul calling from the Capitol.

HMJr: Right.

Operator: Go ahead.

HMJr: (Talks aside: Well, it's this - he knows he's coming here. You better call him right up. He knows he's coming here.) Hello.

Randolph Paul: Hello, Mr. Secretary.

HMJr: Yes.

P: Randolph. I was afraid there was a little confusion as I got thinking about what we were discussing when I came up to the Hill, and I wanted to straighten it out....

HMJr: Yes.

P:in case Stanley Surrey didn't. There is a distinction, you know, on this - on this - President's new idea between wholly exempt - totally exempt and partially exempt. The partially exempt are only exempt from the normal tax, so there's no violation of - of contract when you subject partially exempts to this - to this supertax. It's just the wholly exempts that have to be let out. Do you have that distinction in mind?

HMJr: Well, I - I didn't because - but the - I talked to Justice Byrnes....

P: Yeah.

HMJr:and he said what they had in mind was entirely based on the memorandum which you furnished them.

P: Yeah, well, that's all right then.

HMJr: And that I could use that memorandum in explaining it.

P: Yeah, well, that's all right then....

HMJr: And I'm going to have Surrey at my press conference.

P: Oh, that'll be fine, because he understands it. I - I didn't want any confusion on that distinction between - because they - that sort of confusion can get all muddled through the press. But there is no reason in the world why - there's no violation of contract or any direct or indirect troub.. - invasion when you - when you subject partially exempts to this supertax.

HMJr: Well, I - he said we could use this memorandum and say, "This is what the letter was based on."

P: Well, that's per.. - that's fine, because the memorandum will be all right, but I was afraid - I didn't want you to - when I got coming up here I got thinking about it, and....

HMJr: Well, I was - I was mixed up.

P: Well, I was disturbed for fear - that's the reason I called you.

HMJr: But I'm going to have Surrey here.

P: Well, that'll be - he understands it perfectly.

HMJr: Because I think if we don't explain it, all the editorial writers and everything will begin to talk about breach of contract - breach of faith.

P: Well, I'm glad you're going to have Surrey there, because he understands it, and he's a very good man anyway.

HMJr: Right. Thank you.

P: Okay.

February 18, 1943
10:20 a.m.

TAXES

Present: Mr. Gaston
Mr. Sullivan
Mr. Bell
Mr. White
Mr. Surrey
Mr. Schwarz

H.M.JR: Since talking to you a couple of things have happened. I talked to Byrnes, and he said that whatever they did was based on the Treasury memorandum.

Then he got this memorandum out and read this part to me which says, "For the purpose of sub-section (a), gross income computed under section 22 shall include interest received or accrued upon obligation of the State or political subdivisions thereof, with the following adjustments." He said he was only referring to State.

MR. WHITE: That simplifies it.

H.M.JR: Then Paul called me up and said that they were going into the surtax and all that business.

Do you (Surrey) understand all of that? I am going to have you at my press conference.

MR. SURREY: Yes, sir, I understand it.

H.M.JR: I think what I am going to say is this: I will get Schwarz to have them ask me questions and then I will say - why not say that I have been assured by Justice Byrnes that the President's letter was based on a memorandum furnished by the Treasury, which says the following, and Mr. Surrey can explain the implications of it?

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MR. WHITE: Why not merely say, "It is based," instead of, "I have been assured"?

MR. GASTON: Say, "I interpret this to mean just what we have been working for - I have been working for - for the last year and a half, and that is, the taxation of the States and localities."

H.M.JR: You wouldn't say that Byrnes had a memorandum?

MR. GASTON: I don't think so.

MR. SULLIVAN: That indicates that we initiated the whole thing.

H.M.JR: How would you say it, Herbert?

MR. GASTON: "I understand this to mean the taxation of the State and local tax-exempt securities - the very thing for which I have been working for the last two years."

MR. BELL: Aren't they going to follow that with, "Were you consulted?"

H.M.JR: I can say we furnished a memorandum on that phase of it.

(Mr. Schwarz entered the conference.)

H.M.JR: What I want to do, Chick, is this: You see, the thing I have been working on for an hour is I have been bothered about this sentence, "... including income from tax-exempt securities." I want to have somebody ask me, "What does that mean? Does that mean Federal, or does that mean State?"

MR. SCHWARZ: They have asked us about it. I had better check to make sure.

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H.M.JR: They have been asking us?

MR. SCHWARZ: They asked us yesterday afternoon, yes, sir.

H.M.JR: Well, I am prepared, now.

Whom do I owe some cigarettes to?

MR. SULLIVAN: Me. I took both of them up.

H.M.JR: Harry didn't bet with you.

MR. SULLIVAN: Harry was betting with you against me.

H.M.JR: I bet you a package of Spuds. Harry can settle his own bets.

You and I didn't bet, did we, Harry?

MR. WHITE: No. I thought I knew how Ben Cohen felt and I thought--

H.M.JR: We are all right now, aren't we?

MR. GASTON: Yes. I think it is a good thing to get out.

H.M.JR: I think it is very good, and I think that Surrey should be here on the thing.

February 18, 1943
10:23 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

P.W.Meekins
(Doughton's
Secretary): Yes, sir, Mr. Secretary.

HMJr: Will you tell Mr. Doughton that I appreciate
very much that seat that he sent down?

M: Yes, sir. I'll be glad to, Mr. Secretary.

HMJr: Will you tell him I called up myself?

M: I will do it, and tell him you called per-
sonally.

HMJr: Yes.

M: And he did the very best he could, sir.

HMJr: Well, thank you so much.

M: Yes, sir, Mr. Secretary.

Miss Chauncey: The Secretary
has the only copy of Mr. Gamble's
chart.

February 18, 1943
11:40 a.m.

FINANCING

Present: Mr. Bell
Mr. Gamble

(First part of meeting not reported.)

H.M.JR: I have from now until quarter of twelve. I can't argue with you about that now, but I will some time later in the day because I don't agree with you.

MR. GAMBLE: That we should have a prominent man?

H.M.JR: I don't care whether he is prominent, but I think that - well, I might as well just stop at that. I look at this thing this way. I will be very frank.

I think that Mr. Bell - either Mr. Bell or I could do this job, but Mr. Bell and I should not be tied down on any one thing. I mean that we have so many irons in the fire. We have to have time to think.

MR. GAMBLE: I agree with that, that one man should do it, Mr. Secretary. My plan calls for that.

H.M.JR: Where is there one man in the organization, in the Treasury, now, who can do it?

MR. GAMBLE: It is all a part of this plan. This plan piecemeal is no good. I would like to start--

H.M.JR: I thought you were arguing against it.

MR. GAMBLE: No, I am arguing against going outside and bringing in a man for this. I know you have to have a man. If you don't do it today, you are going to have to do it two months from now.

- 2 -

H.M.JR: You are just arguing whether we should take him from the present organization or go outside?

MR. GAMBLE: Right.

H.M.JR: But you said there should be a man--

MR. GAMBLE: I have a man.

H.M.JR: From my standpoint, who the man is or where he comes from is unimportant.

MR. BELL: Yes, as long as you can get the right one.

MR. GAMBLE: That is why I prefaced my remarks as I did. I think you have some values you want to hold. The person you put in charge of this job is the one who can hold the most of those values for you.

I made a chart. I made it myself, so it is not as professional as the ones you have been looking at. I didn't want it to get out of my hands. (Chart handed to the Secretary.)

I started by setting up a war finance committee, which Mr. Bell would head, and it would involve people who represent some factor that is indispensable to you in this program.

I dropped down to what I think - and I might say in this connection that the reason I am talking to you alone about it is because our people don't agree with that. Mr. Graves does not agree with this, and he does not like any plan that is built on personalities, which I do believe in. I think we should take our whole organizations - and you can talk about coordination forever, and we aren't going to get anywhere until we get one organization. It has got to be one. Coordination is just going to bring about future problems, so I would put the whole thing under the Federal Reserve banks.

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I would make this so-called Victory Fund operation a special banking - a special drives committee, as a part of the War Savings organization.

I would have a planning board over here (indicating) to plan just those drives, headed by Mr. Buffington.

I would come down through my Federal Reserve banks for my whole War Bond operation, whether it be special drives or E Bond sales. Put the whole thing under him in the Seventh Federal Reserve District, or anywhere, and I would put the States following that district.

I would try to break away from the Federal Reserve splits so you could put the whole State of Pennsylvania, for instance, under one man. I think that is just a detail that could be worked out. One man would take Ohio and give up Pennsylvania, for instance, so that your Federal Reserve presidents would have, on the average, four States. It does not work out that way, but you would have those people heading up your operation. That is, they would have the supervision of all the States within their area.

MR. BELL: This is not entirely different from the executive committee idea that the Secretary had, except that you eliminate the one man.

MR. GAMBLE: Not only that, but you eliminate the one organization. You see, you are just going to patch up something, and two months later it is going to break out again.

First it was the F and G Bonds. The F and G Bond thing was just to build up the morale of these people. I don't criticize them for their complaints they made, but--

H.M. JR: Who?

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MR. GAMBLE: The Victory Fund people. And if it had not been the Victory Fund, it would have been us.

H.M.JR: The decision I made on F and G was - they were perfectly happy about it in the field. They weren't happy here. It worked out all right.

MR. GAMBLE: It worked out all right. First it was the F and G Bonds; and then it was the December drive that they didn't want; then it is some activity of ours which is going on at the time they are conducting their drive.

If you are ever going to get the maximum good out of your field forces you are going to have to put them together on some basis. When you put them together, someone has to give way and somebody has to take.

I have tried to take care of the banks by putting them in as supervisors of the whole operation.

H.M.JR: You have them under the forty-eight States. Can you get them somehow under the twelve?

MR. GAMBLE: Yes, but I put in the State lines because there is a sales value to it. We are not distributing automobiles. Hell's bells, in this Thomas report they set it up on the distribution of heavy manufacturing equipment.

We want competition between States. We want the City of Chicago to want to name a cruiser. We want everybody in the community interested. We want the governors interested. We want to decentralize. In fact, I would like to see us get down to counties and start talking about autonomous units instead of States.

MR. BELL: That is what the Thomas report did, and it seemed to have value. You get your counties competing on a Federal Reserve district basis.

MR. GAMBEL: But a county in Idaho competing with a county in Southern California, that does not work.

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H.M.JR: Take, for instance, New Jersey, which I happen to know. You don't think, for instance, that you could say that from Trenton south that could go to Philadelphia, and northern New Jersey - for instance, Newark, which is part of the metropolitan area - would go to New York?

MR. GAMBLE: Yes, you could.

H.M.JR: As Sproul said, what you will have is a State administrator for War Bonds and a deputy State administrator. Let's say the deputy would be in Newark and the State administrator would be down in Trenton where he is now.

MR. GAMBLE: Or vice versa.

H.M.JR: Wouldn't that be possible when you have a thing like Newark, which is so close to New York?

MR. GAMBLE: Yes.

MR. BELL: What would you do with New Jersey?

MR. GAMBLE: They could decide with us on the State line. I like the State lines, but it is not vital. It can be split if you want to do it.

But I think you would eliminate a lot of objections to this once you said to the Federal Reserve bank presidents, "Look, this is going to be your responsibility. You sit down and start--

H.M.JR: But they didn't want to face these fellows. They wanted me to say which States went which way. They didn't want to go up against the State administrators, and be unpopular in the field.

MR. BELL: They didn't think it could be done without some directions from Washington, and I think that is probably right.

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H.M.JR: Sure, we would have to sit down and get the man in, and in one day we could settle these things.

MR. GAMBLE: I have the man.

H.M.JR: Are they meeting now in the other room?

MR. BELL: I think not. Hap Young and the executive managers are down with Buffington going over what the discussion has been, but I don't think anybody else is meeting. Harold may have his group in.

MR. GAMBLE: He has the administrators in there.

H.M.JR: Today is only Thursday, isn't it?

MR. GAMBLE: Yes.

My idea is that before the Treasury is ever going to get any real good out of everything it has in the field, those at the local level - the so-called Victory Fund Committees - have got to be part and parcel of one organization.

To put it another way, the two have got to be the same crowd.

MR. BELL: Eventually we have to do this thing.

MR. GAMBLE: The longer you delay it, the more serious the problem will become because the more they will build local ties and the more they will strengthen their own organization. Therefore, the more difficult it will become to put the two together.

When you want to say it you will ring a bell and you will say, "I want everything put behind this operation." That is what I mean, that you will never get it put behind it until you put these people in the same family. It is just human nature, and you can't have two organizations, each paddling their own canoes in different directions.

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I have tried to set forth here something that takes care of all of the people who have to be taken care of.

That (indicating) represents a group - for example, I think it is important that the women and the farmers - that ultimately we are going to have a big job for them to do, and I think it is important that they sit in on this.

I think it is important that Mr. Bell head up this war finance committee here, which is the policy-making one.

Then I think, personally, that the best administrator for this kind of an operation (indicating) that I have ever known is Harold Graves. I think he would be the number one man.

I have reduced to writing something that I believe in, and something I believe will work and something I think we can sell everybody. I think we can sell everyone.

You will have a little difficulty - sure, somebody will want to know what you are going to do with this administrator and that executive manager, but you are going to have that problem to deal with whenever you get down to actually meeting this problem of coordination.

MR. BELL: How hard would it be to put the War Savings Staff on a Federal Reserve basis?

MR. GAMBLE: I don't think you would want to do it.

H.M.JR: Do what?

MR. BELL: Put the War Savings Staff on a basis of Federal Reserve districts like Thomas suggested, rather than a State basis.

MR. GAMBLE: If you do that you overlook the great number of volunteer people. You overlook a great number of people that are helping this program, like newspaper

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publishers, radio station managers, and motion picture operators, who think community and State-wise, but not Federal Reserve.

MR. BELL: Don't they think community-wise rather than State-wise?

MR. GAMBLE: You have a State pride. It has taken two years to set up a national organization on a State basis. Now--

MR. BELL: I am not arguing for it. I am just asking.

MR. GAMBLE: I am perfectly willing to see that organization adjusted to meet the Secretary's problem. But I don't think you would want to see - and I don't think the Federal Reserve bank presidents would want to see - if you sat down and said to them; "From now on you are not only going to have the problem of supervision, but you are part and parcel of the War Savings organization and you are going to supervise both" - so that you will know when your April drive comes along and your August and November, that you have got everyone in every community behind you in this operation - I don't think, then, that they would want to break it down, Mr. Bell.

Their problem is today that they just see half of it because they have only been charged with the responsibility of half of it. But if you charge them with the responsibility of more of it, I think they are going to start taking over the problem. I think they are going to look at it a little differently because I think most of them realize there is a value in our organization.

You solve your problems here in the Treasury with your war finance committee.

H.M.JR: Well, the important thing is, supposing you did this on this drive, who would sell what?

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MR. GAMBLE: These people - all it changes is their names, and we would immediately put behind them everything we can get our people to do. They would be told that we are not going to be able to do all of this and get this organization working in its final form before April, but that in the meantime we want everything put behind us in this April operation.

Now, you settle it all right here because you have everyone there (indicating) and here you have all of your immediate--

MR. BELL: You probably don't settle it unless somebody makes a decision. You add them all in at the last. Nothing has been settled.

MR. GAMBLE: That is because each is still talking about their own side of the road. This is on the assumption we all go down the same road. You know who makes the decision here.

MR. BELL: Somebody has to make decisions. It is the same in the other committee. Somebody had to have authority to make the decision after they heard full discussion of it. It comes back to one man making the decision anyhow.

MR. GAMBLE: That is right, you head up one group and Mr. Graves the other. He is the man that is going to put it in motion, and the decisions are going to be made in this war finance committee. The reason you want the decisions made there is because you have involved in that committee all phases of your operation.

H.M.JR: Let me stop now, and I will see you later on during the day. That is that for the minute. Anyway, it is a constructive suggestion.

MR. BELL: Yes, it is.

February 18, 1943
2:20 p.m.

FINANCING

Present: Mr. Bell
Mr. Graves
Mr. Buffington

H.M.JR: I just thought that I would have a minute or two with you gentlemen before I went across the hall.

Have you gotten anywhere?

MR. BUFFINGTON: This morning we started going through the plan which George Haas suggested in his memorandum. These three men, with Hap Young, do not feel that they can do the kind of a job that they think is required in April by doing it without a general solicitation.

They don't think the plan set out in that memorandum will work practically.

H.M.JR: Which memorandum?

MR. BUFFINGTON: In George Haas' memorandum - the plan of restricting the solicitation to the four hundred thousand names.

They have considered the possibility of the coordinator within each district. They don't think that is practical.

They think the question finally resolves itself into their having the opportunity or right for a general solicitation for the month of April, with the War Savings Staff directing its efforts during that period to pay-roll savings.

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MR. BELL: And with, as I understood it, the privilege of calling on the War Savings Staff for help in the drive.

MR. BUFFINGTON: That is right. Those not engaged in the pay-roll savings would help them in general solicitation.

H.M.JR: Who is here besides Hap Young?

MR. BELL: Hap Young is the only other president here.

MR. BUFFINGTON: Patton, Fleek, Young, Hall, Hobbs, George Haas, Lindow, and I met this morning first. Then Dan was with us for a few minutes.

H.M.JR: This is what I thought of doing, Dan. I thought I would tell Hap Young, and your man - what is his name?

MR. BUFFINGTON: Which one?

H.M.JR: The Victory Fund manager.

MR. BUFFINGTON: Francis Patton.

H.M.JR: Who is the State administrator?

MR. GRAVES: Collins.

H.M.JR: What I thought I would do is this. We don't seem to be getting anywhere here at the top, in Washington. I thought I would tell Young and Patton and Collins to sit down together, the three of them, and then tell them what I want.

Then when they are ready, I would like to see them without - alone. I mean, with you (Bell) and without you (Graves) and without you (Buffington).

I would do the same with Cleveland. I would tell these fellows what I want and see whether the three of

- 3 -

them in that territory couldn't get together and work out a plan for that district.

MR. BELL: Are your men here from Ohio and from New York?

MR. GRAVES: Yes.

MR. BELL: They would be paired off just right except that the presidents would not be here.

H.M.JR: But the other two could meet, and then I will meet with them by districts.

MR. GRAVES: Isbey should be in with Hap Young and Collins.

MR. BELL: He isn't here.

MR. GRAVES: Yes, he is.

H.M.JR: I will simply tell them I want them to resolve themselves into groups and tell them what I want. Then if they think they have something - when they have something they can come and see Bell and me.

I am not getting anywhere at the top here in Washington, unfortunately. So let me see if they can't get together on the community level.

Do you take any offense to that?

MR. GRAVES: No, sir.

H.M.JR: Do you?

MR. BUFFINGTON: No.

H.M.JR: I am not saying to you that they should not speak to you in their considerations, but when they come in here I want to see them as a district.

What do you think, Bell?

- 4 -

MR. BELL: I think that is all right.

H.M. JR: There seems to be friction around here which I was not cognizant of.

It is like the F and G's. If I had stayed around here I would have thought that I was committing hari-kari; then I go out to St. Louis and Kansas City, and everything is lovely.

So I just want to ask - I mean, I don't want to pop something which you might take offense to or object to.

MR. BUFFINGTON: No, we want the result.

H.M. JR: Do you think that is all right?

MR. BELL: Yes, from my angle. These (Graves and Buffington) are the boys involved. I think it is a good suggestion.

H.M. JR: I told them to lock themselves in a room, figuratively speaking, and nothing has happened. Now, let's try it this way.

MR. BELL: It is a smaller group. Maybe something will happen.

H.M. JR: Then I will meet with a smaller group. Maybe Cleveland or maybe Chicago can work out something. Maybe they have a pattern.

Now, Gamble came through with something which was helpful in the field. I take it he has told you.

MR. GRAVES: In a very general way.

H.M. JR: I think I will try it this way. I have got to put these fellows to work. They are sitting around and not doing anything, aren't they?

- 5 -

MR. BUFFINGTON: They are doing a lot of talking. They have been discussing it ever since they came in this morning.

MR. BELL: They have not been together. They have been discussing it all morning.

H.M. JR: The thing is gradually taking a plan in my mind.

Let's go in there.

February 18, 1943
2:30 p.m.

FINANCING

Present: Mr. Bell
Mr. Graves
Mr. Buffington
Mr. Sloan
Mr. Hobbs
Mr. Gamble
Mr. Haas
Mr. Coyne
Mr. Patterson
Mr. Isbey
Mr. Moore
Mr. Trounstine
Mr. Collins
Mr. Young
Mr. Fleek
Mr. Hall
Mr. Patton

H.M.JR: We have asked you gentlemen to come here to help us solve a problem which for the moment seems difficult, but I am sure solvable. It is this, that in the next drive which we are going to have, where we are going to have to raise somewhere from thirteen billion dollars up, Mr. Bell and I are desirous that everybody who is associated with the Treasury - that has anything to do with selling a war stamp or a bond - put his back to the wheel and help us.

Now, as far as Washington is concerned, while we haven't done it yet on paper, I don't think we will have any trouble here. Mr. Bell and I are the bosses, and we haven't had any trouble in being recognized in our capacity. What I am anxious for is to get in each State and in each county the combined forces working together for selling Treasury securities.

We have made some suggestions, but we haven't made much headway. The time is passing, and we have to get

- 2 -

over this organization phase and get down to business. We asked you people in, thinking that after all it is in the territory that this thing has to work, not here in Washington.

If we could get you together here, rather than have you go around from one district to another, which you won't have time to do, we might be able to work it out with you. What I would like to suggest is this: We have invited the presidents of the Federal Reserve for New York and Philadelphia. They are not here yet, but they will be here Saturday and Sunday. If you think well of this suggestion, for instance, to have Mr. Young, who is president of the Federal Reserve Bank in the Chicago District and who represents me there, both as fiscal agent and as my representative on Victory Fund, to sit down with Mr. Collins, our State chairman for Illinois, and any other State chairmen in his district, Mr. Isbey, and Mr. Patton, who is administrator for the Federal Reserve - I am just using that as an example. I would like you people to get together, and have the thing duplicated in each territory where there are opposite numbers, so to speak, with this in view: It has taken us since 1935 to work up this thing, first with Savings Bonds, and then we started just about two years ago to work up this War Savings thing on a State basis.

I think we have a grand organization in War Savings Bonds. They are enthusiastic. The majority of the people are volunteers, and they have done, against the most unfavorable publicity possible, an almost unbelievable job of getting twenty-five or thirty million people on the pay-roll allotment plan. It is the hardest kind of selling to do, because it is the greatest number of people, and it is in small units, but they have done it against constant unfavorable pressure, mostly here from Washington - unfortunately from some of my associates who work for Mr. Roosevelt - but, notwithstanding that they have done it. It is a dynamic thing, and I think it would be the height of stupidity to overlook it or to throw it away.

- 3 -

The Victory Fund people in December did an exceptionally good job. They sold the people in the upper brackets close to thirteen billion dollars, and they did it with salesmen giving their time. It is one of the greatest successes, I suppose, any company has ever seen. They are dealing with a special class of people, and a special class of corporations. I was very careful at the time to point out to them that I did not want them to go down into - for a better word - the masses. I limited the bonds to five hundred dollars, and so forth, and so on.

In many communities they are not organized at all, and it would be very difficult for them to get organized, because there are no security salesmen in a lot of these places. I mean, to use the extreme example, the States of Idaho and Nevada are very difficult to cover, but you might perfectly well in almost every county in Nevada or Idaho have a War Savings man.

The Red Cross, I suppose, is organized in every community. They have been able to do it, but they have one organization. It is the only organization in the country that contacts me every year.

Now, taking New York, which I know a little bit better geographically - I don't want to for this drive, say, divide New Jersey in half and lose the identity of the State. On the other hand, Newark is in the metropolitan area, and Trenton belongs to Philadelphia. We have a good organization in the State of New Jersey.

I don't know just how it can be worked out, but it certainly can't be insurmountable. It is one-thousandth as simple as moving several hundred thousand troops over a period of a month and getting them all through Gibraltar at the same hour. Now, if the Army and Navy can work out a logistics problem like that, we certainly ought to be able to work out a simple problem.

We are all human; we all have the same interest; we all want to sell Government securities; we all live in the same country; and we are all friends.

- 4 -

MR. BELL: We are all working for the Treasury.

H.M.JR: All working for the Treasury, whether it is New York, Chicago, or Philadelphia. If you sit down, with everybody realizing what the objective is - and that is that for this drive we all put our shoulders to the wheel and put this thing over.

As I say, in down-state Illinois you (Young) may perfectly well say, "I haven't any securities salesman in ten counties. Collins, will you take those ten counties off my hands? I don't want to go in - I haven't the time."

Northern Michigan may never have seen a security salesman; I don't know. There is money up in "them thar hills" around some of the copper mines where they are working, and there might not have been a security salesman there since 1929. I am just using these as examples.

I may be wrong, but Elmira, New York, may not have one, and, on the other hand, they may. But if you said, "The lower counties of New York State are covered by War Savings; for heaven's sake, take it, and we won't attempt to take it. Those counties are yours. We just can't go in there. The securities business has died out."

I am using general statements. There may be a swell little firm in Binghamton or Elmira, and they may have an active salesman; but, on the other hand, they may not. You might just say, "We can handle Buffalo, but when it comes to that lower territory in New York State, you, the War Savings Staff, can go in there exclusively."

Frank Knox had lunch with me today, and he was telling me about the drive he is putting on for a battleship - his paper - forty million dollars; Atlanta, thirty-five million dollars, or thirty-seven, to replace the Atlanta. Those kinds of things are all good. They are all helpful, and we don't want to discard them. We don't want the War Savings people to lose heart, because they shouldn't. They have done too good a job. I want the Victory Fund people on there, too.

- 5 -

I am looking to the twelve presidents of the Federal Reserve Banks as my coordinators in the District. After all, you are our best customer. I want to look to you as a coordinator, and not as chairman of the Victory Fund. I am looking to you (Young) as the Treasury fiscal agent in Chicago. You are my man as far as this goes. You are representing Bell and me in Chicago. I mean, you have all of these things. You are not Victory Fund; you are not Federal Reserve; you are not War Savings; you are there for the Treasury, which capacity is agreeable to the Federal Reserve Board here and to Mr. Eccles, as you know. We thrashed that all out.

I have a perfect right, and it is perfectly proper for me to ask you, or any of the other people, to represent me on this thing. Chicago may be easy, Chicago may be difficult, I don't know. But, it seems to me with this time running fast against us that with your people here - and if you want to send for any more, get them on the train tonight - if you want Indiana or any other place - I would like you to sit down and see whether you can't work it out in your district and come in with a plan.

Now, I am going to ask New York and Cleveland to do the same. I don't know whether everybody here in the room would fall into the group of New York, Cleveland, or Chicago - would they?

MR. BELL: Yes.

H.M. JR: Then, when any one of these groups are ready, Mr. Bell and I are going to see you alone. We are not going to allow either Buffington or Graves to come in. I asked them if they would take any offense at that, and they said, "No" - both of them. They said it was perfectly all right.

The reason I am doing that is because both of them are so loyal to their organizations that they both want to keep their organizations going. That is why I like them, and that is why I had them on the job. I mean, each fellow thinks it is his crowd and his bunch and he has to fight for them, which is right, and that is the kind of fellows I like to have around. But, when you come to putting - if you want to call it a shot-gun marriage - you have got to have a sheriff. I am going to be the sheriff. (Laughter)

- 6 -

We will leave the papas out, because they are too prejudiced in favor of their favorite child. I think that is a pretty good example at that. (Laughter) Each of these operations is the apple of their eye, and they have lived with it and for it, and each of them have done a swell job. They are doing what I would expect them to do, what I would do for the Treasury opposite another department.

So, if you men would be willing to take that on and divide up into districts, as soon as you are ready Bell and I will be ready to see you. What would you like to add?

MR. BELL: I think you have covered it very well.

H.M.JR: Young, you are the only fiscal agent here. What do you think?

MR. YOUNG: It will be all right. I can see Mr. Isbey and Mr. Collins.

MR. BELL: Mr. Fleek is here for Cleveland.

H.M.JR: Who else?

MR. BELL: Your man from Pennsylvania isn't here, is he, Harold?

MR. GRAVES: I can have him tomorrow.

H.M.JR: Who is here from New York?

MR. BELL: Williams won't be here until Saturday.

H.M.JR: Do you New York fellows want somebody else down?

MR. HALL: When did you say that Mr. Sproul was coming down?

H.M.JR: Saturday.

- 7 -

MR. HALL: What did you contemplate, Mr. Secretary, that I do, remain here and meet with him when he comes, go back to New York and meet with him there, or how?

H.M.JR: You had better stay here. If you want Friday in New York and will be back Saturday morning, it is all right with me.

MR. PATTERSON: I was thinking of this, Mr. Secretary, taking the thought of Perry Hall, that maybe we could trot back to work - start work tomorrow and come back Saturday.

MR. HALL: That was my thought.

H.M.JR: Look, it is up to you.

MR. PATTERSON: If that meets with your approval--

H.M.JR: Any way you want to work is all right with me.

If you are coming back Saturday, you had better have some other State than New York. Let's have New Jersey down.

MR. BELL: New Jersey and Pennsylvania are coming down with Al Williams. I think I had better call Al this afternoon and tell him what you told this group. Harold should tell the administrators of Pennsylvania and New Jersey the same thing.

MR. GRAVES: What do you want to do with the administrator of New Jersey, have him come here or go to New York?

H.M.JR: Have him here Saturday morning.

MR. GRAVES: The bulk of his business is in New York.

MR. PATTERSON: Could these others meet with Mr. Hall and me in New York tomorrow?

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H.M.JR: Any way that you want.

MR. PATTERSON: You want us to expedite this.

H.M.JR: I want to get a couple more State administrators in from War Bonds.

MR. GRAVES: Get Manning to go to work and have our Delaware people and Pennsylvania people meet here on Saturday.

H.M.JR: Should we bring in Richmond? It is so close.

MR. GRAVES: I can have my people easily enough.

MR. BELL: We could get them.

H.M.JR: It would make another district.

MR. BELL: We can do that very easily.

H.M.JR: Might I suggest that when this is over, Buffington - you decide with Graves what other districts you want to bring in.

MR. BELL: Let's have Philadelphia and Richmond.

MR. FLEEK: Mr. Secretary, the Fourth District president, Mr. Fleming, is in Florida and will not be home until next week. We want to do whatever you want us to do.

H.M.JR: We knew that.

MR. FLEEK: Did you want to have Mr. Einstein?

H.M.JR: I wanted you here on account of your activity in originally helping me to set this thing up.

MR. MOORE: Mr. Secretary, do you want us of Cleveland to work with Mr. Fleek, rather than Mr. Fleming?

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H.M.JR: Well, we discussed that, and we decided that since Fleming was ill there was no use bringing him in. But, if that district needs somebody else--

MR. BELL: You mean another State? We might talk about that, but I should think maybe you two gentlemen could discuss the matter, and then we could call Mr. Fleming on the telephone either Friday afternoon or Saturday and discuss it with him.

H.M.JR: Is everybody willing to have a try at this?

(Affirmative response.)

H.M.JR: You stay here and see what other ones they want.

MR. BELL: Yes, sir.

H.M.JR: Maybe you can't do anything with Fleming away.

MR. BELL: I think we can.

H.M.JR: I think you want more than just Ohio.

MR. FLEEK: Western Pennsylvania and eastern Kentucky.

H.M.JR: In view of what I am suggesting, you may want to bring in a few other people.

As I say, as soon as the first one hatches out, let me know. Get some maps, and when I see you I would like to have your maps and districts and what you are going to do. Write down whether or not you are going to meld the people, have everybody sell all securities, or is Victory Fund going to sell one group and War Bonds another. I mean, I would like to get a complete plan, you see.

I don't think - no one is arguing about pay-roll deduction, but are you going to use your (Patterson's) group? Are these fine women that you have in the booths in New York

- 10 -

going to sell everything, the whole basket, so to speak?

MR. PATTERSON: They would like to.

H.M.JR: I mean, you have thousands of women there doing a swell job. When you come in, I would like to have it as near sewed up as possible.

I think there is enough good will in the people so that before you go back home again we can have a plan. We have got to, gentlemen, because we have to get started. It isn't as though I were trying to amalgamate the Treasury with a Chancellor of the Exchequer in England. I mean, we are all in the same country, in the same Department.

MR. ISBEY: This is purely for April, Mr. Secretary?

H.M.JR: No. We have got to get together. I mean, I may not be able to go as far as I would like to in April, but I think what we do in April ought to be a step in the right direction so we don't have to take two steps backwards. We here feel that certainly in Washington it should be one place, one man, one boss, and that should be duplicated in each district.

Unfortunately the Federal Reserve is not on State lines, but I don't think that is insurmountable. I don't want to give up my fine State War Bond organizations and their enthusiasm.

MR. PATTERSON: I don't quite understand the job of the coordinator, Mr. Secretary.

H.M.JR: You don't understand the job?

MR. PATTERSON: Not quite, no sir.

H.M.JR: The way I see it he is going to represent the Secretary of the Treasury. He will be somebody under the Secretary of the Treasury who I give my authority to,

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and he will be the Treasury representative and the boss for so many States, let's say for four States or five States. He will be the boss.

MR. PATTERSON: In other words, in New York State, where I am the chairman, on policy must I go to Mr. Sproul?

H.M.JR: There will be a national policy laid down.

MR. PATTERSON: From Washington?

H.M.JR: I mean, it will be laid down from Washington, and then it will be turned over to Mr. Sproul. It will be up to Mr. Sproul to see in four or five States, whatever it is, that the thing is carried out.

MR. PATTERSON: In other words, is he in charge of operations from now on - I mean, Mr. Sproul?

H.M.JR: I don't know. I asked Sproul - and he can tell you for himself - he doesn't want to do it this way.

What we did in Farm Credit - we had the same sort of thing, and we had four different lending agencies. I appointed twelve representatives of the Government in Farm Credit, gave them full authority to work in the forty-eight States, and we called them - what did we call them?

MR. BELL: General agents.

H.M.JR: And they had full publicity, legal, accounting - everything - and they were responsible for these four lending agencies as general agents of the Government for Farm Credit. We looked up the book the other day, and it is still that way.

MR. PATTERSON: I have just one final question, Mr. Secretary.

H.M.JR: Mind you, I talked to Sproul, and he doesn't like it this way. I have got to have somebody, and it is

- 12 -

too much from Washington to try to contact forty-eight State administrators or three thousand counties, and so forth, and so on, so somebody has to be the boss.

Now, the Federal Reserve presidents are fiscal agents of the Treasury, and as such they are directly responsible to me. They have all the contacts with the banks. We need the banks; we need what the banks can do for us. I am not saying that this is final, but this is a suggestion I am making, and I am emphasizing the fact that Sproul doesn't like it.

MR. BELL: You are asking them to get together on a plan of coordination and cooperation in each of the districts, and they are to work out--

MR. GAMBIE: Even if it means a merging of the two?

H.M.JR: Yes. I am not saying that the Federal Reserve agent has to be the representative, but it is the best suggestion I have had. I am asking you to come back. I made that suggestion to Sproul and Williams, and neither of them liked it.

MR. PATTERSON: Henceforth, Mr. Secretary, if that were to go through, then I would no longer contact Mr. Graves, Mr. Gamble, and Mr. Coyne, but contact Mr. Hall or Mr. Sproul.

H.M.JR: You would go through the Treasury coordinator, whoever he is?

MR. PATTERSON: In my district it is Allan Sproul. In other words, everything I do would be with his approval? In other words, he is my boss from now on?

MR. BELL: If this suggestion--

MR. PATTERSON: I mean if it goes through, that assumption--

H.M.JR: You people may come back and say, "Morgenthau, I am just throwing out a suggestion; this is the best I have."

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Now, I am not telling you this is the plan; I am saying this is the - I am telling you - in other words, Sproul, nor Williams, of Philadelphia, like it. But I still say that I haven't found anything better. Somebody has to represent us. We have to divide the country up, and somebody on the spot has to decide.

MR. PATTERSON: I agree with you that you have to have a boss.

H.M.JR: To answer your question - if I were writing the ticket today and Sproul was the State administrator, there would be an executive committee there; and if you wanted something, he would be the boss on promotion and advertising, and so forth, and so on.

MR. PATTERSON: Mr. Secretary, you must bear in mind that he had better resign what he is doing now if he is going to take this over. He can't do the job and accept the responsibility. He can't do it in New York State unless he resigns as president of the Federal Reserve Bank.

H.M.JR: Well, those are the kinds of discussions you fellows can have together. You can come in and say, "All right, he can't do it." That is O.K., but then you have to come back and say who can do it.

MR. PATTERSON: Perry Hall can do it.

H.M.JR: But, Dick, all I am saying to you gentlemen today is please get together in the district and come in with a constructive suggestion. That is all I am saying. I don't think there is anybody in this room who agrees but what for this drive and subsequently we have to get together.

MR. PATTERSON: All right, I am game, but I hate to lose the best boss I have had in a long time: This fellow here, Graves. I want that on the record.

H.M.JR: He is still here.

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MR. PATTERSON: Yes, but I am through with him if this business goes through.

H.M.JR: Only that he would be advising with me and with Bell on what we should do as to War Bonds. Then the thing would flow from here to the various districts, and you would not be in direct contact with him any more than the Buffalo branch of the Federal Reserve calls up Mr. Eccles to find out what they should do. The country is too big.

MR. COLLINS: Mr. Secretary, after we do bring in these plans from the various districts, out of all of the plans are you going to synchronize them and get them through one plan which will govern the country?

H.M.JR: That is right, we will pick the best one.

MR. COLLINS: Would there be a possibility of saying we will have the Federal Reserve submit one plan and the Victory Fund another and the War Savings another plan?

H.M.JR: Don't come to see me on that basis. (Laughter) No, I have had that, and I am full of it.

What I want is a Chicago District plan or a Philadelphia District plan. They may not be at all alike, but talk about it, and then we will take the best of each and get a plan. But I have to get going next week, and you fellows have to get to work. No, I have plenty of those.

In all sincerity, these fellows wouldn't be worth their salt if they didn't think that their organization was the best damned organization that there was. That is the kind of a fellow we have around here.

MR. ISBEY: I agree with you on that.

MR. PATTERSON: I agree with you provided the president of the Federal Reserve District resigns, and on no other basis - unless you request me. That is something different. (Laughter)

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H.M.JR: You remind me of when I first went up to Albany in the Conservation Department. I took Judge Roseman around the park and I said, "Sam, I just can't do this. I won't do this; it is absolutely wrong."

He looked at me and said, "Henry, when you are in politics never say you can't do anything, because you never know when you may have to." (Laughter)

So let's have a try; and just as soon as the first gang is ready, let me know. Anybody can talk to anybody else. It is one great big happy family, I hope. (Laughter)

I am available at any time.

FEB 18 1943

Dear Eleanor:

I have your note of February 12, 1943, enclosing the letter written you by Isabel G. Fellock, of New York City, regarding the taxation of pensioners.

The present provisions of the income tax law are designed to separate pension receipts into two parts. One part is considered to be a return of the pensioner's capital, the amount he or she put into the fund. The other includes any contributions made by the employer and the interest earned on the capital in the fund.

To make this separation, the statute now provides that out of each year's pension receipts an amount equal to 2 percent of the sum contributed to the fund by the pensioner shall be considered earnings of the pensioner's capital. These earnings, like interest and dividends on other investments, are taxable income. The additional amounts received are treated as the return of capital and excluded from income for tax purposes until the pensioner has received free of tax an amount equal to his total payments into the fund. Thereafter, all pension receipts are treated as taxable income, since the interest earnings on the fund and employer's contributions were not taxed over the years when the fund was accumulated.

Recipients of pensions are entitled to the personal exemptions allowed under the income tax, the earned income credit, and other allowable deductions. Generally these allowances represent a substantial portion of the pension income which is subject to tax. Miss Fellock mentions the cost of medical care and you may wish to call her attention to the new provision in the law which allows the deduction of expenditures for medical care in excess of 5 percent of net income (up to a maximum of \$1,200), and which may be of considerable benefit to her.

I hope this information will be helpful to you in considering Miss Fellock's letter, which is being returned to you.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt

The White House

Enclosure

62-3-2114
2-16-43

FILE COPY RB

C. L. Harris
Edw. - Ray

22 East 24 Street
New York City

Feb. 3, 1943

Mrs Franklin D. Roosevelt

My Day World Telegram Inc.

My dear Mrs Roosevelt -

I am writing regarding
the taxing of the pensions of elderly school teachers

These persons have earned their pensions hard -
now when their span of life is but a very few
years - their earning power past - they es-
pecially need their small pensions - Most
are in fine health - as a life of teaching
is wearing

In my own case I am 65 years old - after
41 years of teaching - in poor health - having
had a series of operations - My salary was

very small during most of my teaching career -
and so there are small savings. My
pension is barely enough for my simple needs
And now a large proportion is being deducted
for taxation

Anticipating this - I have applied for
employment at most of the teaching agencies
and the general agencies - to be told that
I am too old.

Is it fair to expect some exemption in
the cases of retired teachers over 65 years old

I am very much interested in the War Effort
My only brother was killed in action in the
World War.

Yours sincerely
L.H.P

W. H. Pollock - not for publication

THE WHITE HOUSE
WASHINGTON

February 12, 1945

Referred to Honorable Henry Morgenthau
by Mrs. Roosevelt

RECEIVED
FEB 15 1945
U.S. DEPARTMENT OF STATE

COPY

22 East 29 Street
New York City

Feb. 3, 1943

Mrs. Franklin D. Roosevelt
My Day World Telegram, N. Y.

My dear Mrs. Roosevelt -

I am writing regarding the taxing of the pensions of elderly school teachers. These persons have earned their pensions hard. Now when their span of life is but a very few years & their earning powers past - they especially need their small pensions - most are in feeble health - as a life of teaching is wearing.

In my own case I am 65 years old - after 41 years of teaching - in poor health - having had a series of operations - my salary was very small during most of my teaching career - and so there are small savings. My pension is barely enough for my simple needs.

And now a large proportion is being deducted for taxation.

Anticipating this - I have applied for employment at most of the teaching agencies and the general agencies - to be told that I am too old.

Isn't it fair to expect some exemption in the cases of retired teachers over 65 years old.

I am very much interested in the war effort. My only brother was killed in action in the World War.

Yours sincerely,

/s/ I. G. P.

(Isabel G. Pollock - not for publication)

Congress of Industrial Organizations



718 Jackson Place, N. W. • Washington, D. C.

OFFICE OF
THE PRESIDENT

February 18, 1943

EXECUTIVE 889

The Secretary of the Treasury
The Treasury Department
Washington, D. C.

Dear Mr. Secretary:

I have just received your letter of February 10, and the Treasury Department certificate for distinguished services in the War Savings Program rendered by the CIO, for which I express grateful acknowledgment.

It is a source of satisfaction for our organization to cooperate with the Treasury and the Government in these and all other matters affecting the successful prosecution of the war.

Sincerely yours,

W. L. Murray
President

FEB 23 1943

Congress
Industrial
Organizations

1/9/43 67

My dear Mr. Murray:

It gives me great pleasure to hand you herewith a citation recording the thanks and appreciation of the United States Treasury Department for the admirable service and cooperation of the Congress of Industrial Organizations in the War Savings Program. Neither the Treasury Department nor I personally have ever called upon your organization or yourself for help in the national war effort without being met with a most generous response. It has been one of the most encouraging features of our program to have had the wholehearted cooperation of the millions of officers and members of the great labor bodies which you represent. This citation is only a gesture of our recognition, but it is a sincere and wholehearted gesture.

Very cordially yours,

Philip Murray, Esq.,
President,
Congress of Industrial Organizations,
718 Jackson Place, N. W.,
Washington, D. C.

JLM:G

AMERICAN FEDERATION OF LABOR



FOR DISTANCE TELEPHONE NATIONAL 3870-1-2-3-4
CABLE ADDRESS AFEL.

Executive Council

President, WILLIAM GREEN
Secretary-Treasurer, GEORGE MEARS
A. F. of L. Building, Washington, D. C.

First Vice-President, WILLIAM L. HIRSHMAN,
Carpenters' Bldg., Indianapolis, Ind.
Second Vice-President, MARYANN WOOD,
420 Lexington Ave., New York, N. Y.
Third Vice-President, JEROME H. WEMME,
621 Alma Drive, Beverly Hills, Los Angeles, Calif.
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201 Verney Highway, East, Detroit, Mich.
Tenth Vice-President, FLOYD D. EMMERT,
427-428 Garment's Bldg., Kansas City, Mo.
Eleventh Vice-President, EDWARD FLORE,
422 Liberty Building, Buffalo, N. Y.
Twelfth Vice-President, HARVEY W. BROWN,
Manufacturers' Bldg., Washington, D. C.

Thirteenth Vice-President, W. C. HERRMANN,
Delaware at Twelfth Street, Indianapolis, Ind.

Washington, D. C.

February 18, 1943

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

My dear Mr. Secretary:

I am profoundly grateful to you for the citation which you sent me expressive of the appreciation of the United States for the service and cooperation of the American Federation of Labor in the War Savings Program. You honor the American Federation of Labor very greatly through the fine tribute you pay it.

It has ever been the purpose of the American Federation of Labor to give to you, as Secretary of the Treasury and to those associated with you in the development of the War Savings Program, a full and complete measure of support. Please rely upon us to continue giving to you the generous and wholehearted support of the American Federation of Labor. We will gladly respond to any call you may make for service and help.

Very sincerely yours,

President,
American Federation of Labor

ds

FEB 23
1943

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Feb. 24, 1943

TO: Mr. Horace Peters

FROM: Gilbert E. Hyatt

GGH

Here is another letter, a companion to the one received from Mr. Murray.

You may be aware that Mr. Houghteling is contemplating a ceremony at which Secretary Morgenthau will present these awards in a more formal manner. Perhaps a reply and acknowledgment can await such action on the part of Mr. Houghteling.

Enclosure

February 18, 1943

Dear Mr. Davis:

I acknowledge your letter of February 10th, informing me that Mr. James H. Brackett will become your Deputy Director for the Treasury Department.

I have informed those of the Treasury staff who are concerned with information matters of Mr. Brackett's appointment, and we shall be happy to work with him.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Elmer Davis,
Director,
Office of War Information,
Washington, D. C.

SBC/lk

Photo file in Diary
File to Thompson

OFFICE OF WAR INFORMATION
WASHINGTON

FEB 16 1943

February 10, 1943

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

Dear Mr. Secretary:

As you know, Mr. James Allen has been for some time representing me as Deputy Director for your department. Mr. Allen has been more and more taking on the duties of Assistant Director in the Domestic Branch until now we are asking him to devote himself entirely to that field.

Replacing him as the Office of War Information Deputy for your department will be Mr. James R. Brackett. Mr. Brackett comes to us with a wide background of experience in newspaper and government information work, having been for many years with newspapers in South Dakota, New York, and Paris, France; with the Associated Press, New York; later with the Securities and Exchange Commission; and as Executive-Secretary of the Temporary National Economic Committee. Most recently he has been Executive Assistant to the Trustees of the Associated Gas and Electric Corporation.

Mr. Brackett will represent me fully in your department on all matters of information policy. It will be his duty to keep this office thoroughly informed of all developments in your department which may affect information policy. Similarly he will be prepared to keep you and your staff advised of views of the Office of War Information, and to cooperate in making available to you the full assistance of our staff and the facilities of our office.

With kind personal regards, I am,

Cordially,

Elmer Davis
Elmer Davis
Director

RECEIVED
FEB 16 1943

February 18, 1943.

Dear Mr. President:

I am enclosing a suggested reply to the letter to you, dated February 5, from Senator James M. Tunnell of Delaware.

Faithfully,

(Signed) H. Morgenthau, Jr.

The President

The White House.

Del. by Mess. Brown 4:27 2/18/43

Photo file in Diary

File in Gaston's office

My dear Senator Tunnell:

I am sorry that I have not had an earlier chance to reply to your letter of February 5, in which you suggest the appointment of Norman Collison of Bridgeville, in place of James H. Latchum, as Collector of Internal Revenue in Delaware.

In view of the pressure that is now on the Bureau of Internal Revenue and all of the collectors' offices as the March 15 payment date approaches, I should like to defer for a time consideration of any change in the Delaware district.

Sincerely,

The Honorable James M. Tunnell,
United States Senate.

WSS

Jan 174

THE WHITE HOUSE
WASHINGTON

February 16, 1943

MEMORANDUM FOR

H. M. Jr.

For preparation of reply
for my signature.

F. D. R.

Enclosures

THE WHITE HOUSE
WASHINGTON

February 8, 1943

MEMORANDUM TO MISS TULLY:

Senator Tunnell of Delaware has asked that the attached letter to the President definitely reach him personally for his consideration.

Knowing that if I place it in your most capable hands, Senator Tunnell will receive the satisfaction he seeks, I am herewith turning same over to you.

Sincerely yours,



EUGENE CASEY
Special Executive Assistant
to the President

enc.

TOM DONOHUE, TEX., CHAIRMAN
E. M.
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T. M. W.
D. M. S.
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H. G. S. L.
F. M.
L. M. S.
L. M. S.
L. M. S.

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WALLACE H. WHITE, JR., MASS.
HENRIK SHIFFRIN, MINN.
BERNARD F. NYE, N. DAK.

United States Senate

COMMITTEE ON FOREIGN RELATIONS

February 5, 1944

ROLAND YOUNG, CLERK

Hon. Franklin D. Roosevelt
President of the United States
The White House
Washington, D. C.

Dear Mr. President:

I am writing with reference to the position of Internal Revenue Collector for the District of Delaware. The present Collector is James H. Latchum who has held this position for several years. He is a man of ability and a Democrat. However, I think a change is desirable. I suggest the name of Norman Collison from Bridgeville, Delaware, who is also of unimpeachable character, and is in my opinion capable of performing the duties of the office efficiently.

Thanking you for any consideration you may give to this matter, I remain

Very sincerely yours,


JAMES M. FUNNELL

JMT:F

February 17, 1943.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

There is attached a reply for your signature to the President's memorandum of February 16 and a suggested draft of reply for the President's signature to Senator Tunnell.

The present incumbent, Latchum, took office on July 1, 1938, on the recommendation of Senator Hughes, Tunnell's predecessor. Guy Helvering tells me that he is only a passable collector but that he would certainly not want to see any change made at this time and only later if there is a prospect of getting a substantially better man.

MS

Attachments.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

to Secretary Morgenthau

February 18, 1943

FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Salary Ceiling - In his letter to Rep. Doughton made public yesterday, President Roosevelt said that "the desire to limit personal profits during wartime is no new thought", and that while his executive order attempted to "correct the inequity to the extent of the power granted" him (and its legality was passed upon by the Attorney General, the President added), Congress could now "make the limitation adequate by extending it to the coupon clipper as well as the man who earns the salary". If, however, Congress would levy a special war super-tax on all income exceeding \$25,000 for a single person and \$50,000 for a married couple, regardless of source of income (including tax-exempt securities), it would "substantially accomplish" his purpose and consequently he would "immediately rescind" his salary limitation order. But if Congress does not pass such a tax, the President hoped that it would "not rescind the limitation and permit the existence of inequities that seriously affect the morale of soldiers and sailors, farmers and workers, imperiling efforts to stabilize prices, and thereby impairing the effective prosecution of the war." This is the second time President Roosevelt has urged the House Ways and Means Committee not to tack amendments on to the Debt Limitation Bill which, as he said, are "not related to the subject". Rep. McCormack, House majority leader, said afterwards that if Congress doesn't like the President's methods, it should accomplish his objective of preventing "a lot of blood millionaires as after the last war" in another way. Although Congressional momentum to nullify the President's Salary Order probably was slowed as a result of his appeal, leaders predicted that the Disney amendment will pass the House easily. In a meeting today of the House Ways and Means Committee, some members said a move will be made to reconsider the action, but others discounted the possibility.
2. War Loan Deposit Exemption Bill - The Senate Banking and

Currency Committee voted yesterday to report favorably on the Wagner Bill which would exempt for the duration banks from paying the FDIC assessment on War Loan Deposits, resulting from the sale of securities by the Treasury to the banks. Earlier the Committee had heard both Chairman Eccles and Crowley testify in favor of the bill. Eccles said passage of the bill would help the Treasury carry out its heavy April financing, by making it easier for the banks to participate in the handling of war loan deposits. He also added that he thought the United States was doing a "very bad" job of financing the war in comparison with other countries and claimed this country is doing more "borrowing through banks instead of directly from the people than other countries". He suggested that the inflation gap of \$40,000,000,000 between purchasing power and available goods be taken up through additional taxation and war bond purchases.

3. R.A.C.C. Hearings - General consensus of opinion, expressed in testimony before the Byrd Committee by banking and farm representatives yesterday, was decidedly against government farm loans and the proposed revival of the Regional Agricultural Credit Corporation. "It won't do the farmers any good to lend them more than they can pay back," said Albert Goss, the Grange head, and A. L. M. Wiggins, Vice President of the Bankers Ass'n., added that the new program under the RACC "will produce confusion, if not havoc, in the production credit field". Senator George also claimed that the Agriculture Department's new \$225,000,000 farm lending program "will torpedo the efforts of the Treasury to finance the war program through the sale of war bonds in country banks, and added that since "we are now facing the greatest financing operations in the nation's historyanything that will weaken the credit structure will weaken the whole Treasury financing program".
4. Independent Offices Appropriation Bill - After much debate, the House passed yesterday a \$2,616,972,913 Appropriation Bill for Independent Agencies, after trimming funds for the Budget Bureau, the Home Loan Bank, and the Federal Works Agency. Restoration of funds of the National Resources Planning Board, which was expected to be a major issue, was ruled out on the grounds that the House could not consider appropriations for an agency created by Executive order only. Elimination of funds for the FCC was narrowly avoided by Speaker Rayburn's plea that this is the only agency having control over the air.

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TREASURY DEPT. WASHINGTON
ASURY

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 56

Information received up to 7 A.M., 18th February, 1943.

1. NAVAL

HOME WATERS. 17th/18th. One of H.M. Destroyers sank one of 7 L-boats operating off LOWESTOFT.

MEDITERRANEAN. One of H.M. A.A. Ships previously reported torpedoed (OPTEL 34) capsized in BOUGIE Harbour on 13th.

2. MILITARY

TUNISIA. 1st Army. On 16th enemy attacked U.S. positions in Area SIDI BOUZID-SBEITLA using 40-60 tanks. Confused fighting continued all day. One U.S. infantry force was isolated north of SIDI BOUZID and withdrew leaving the major part of its transport. Another force isolated 5 miles southeast of SIDI BOUZID held its position during day and was still holding out on morning of 17th. During 16th/17th enemy attacked and penetrated Allied positions three miles east of SBEITLA from which U.S. troops were ordered to withdraw. Airfield at SBEITLA has been evacuated. On 17th a U.S. holding force covered evacuation of THELEPTE airfield (PERIANA). In order to conform to the situation in the south U.S. and French forces in OUSSALTA area are withdrawing to a chain of hills about ten miles east of MAKIAR. During last few days U.S. losses in tanks have been heavy. Casualties are reported heavy and considerable number of guns and vehicles have been lost.

Eighth Army. Patrols now astride BEN GARDANE-MCDONINA Road 17 miles west of BEN GARDANE.

3. AIR OPERATIONS

WESTERN FRONT. 16th/17th. About 985 tons of bombs were dropped on LORIENT. 17th. LMDEN and other adjacent targets bombed by five Wellingtons. Six locomotives damaged by fighters in Northern FRANCE. 7 enemy aircraft caused some damage to property on south and east coasts.

17th/18th. Aircraft were despatched - sea mining 12, anti-shipping 4, IJHR 2. One small ship destroyed, one probably destroyed.

TUNISIA. 15th/16th. Wellingtons dropped over 20 tons bombs on BIZERTA docks. 15 Bisleys attacked M.T. near KAIROUAN. 16th. Gun emplacements at SIDI BOUZID successfully attacked by 6 U.S. Bostons (A. 20).

CRETE. 16th/17th. Airfield Heraklion bombed by 5 Liberators (B. 24).

NOT TO BE RE-TRANSMITTED

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 62

Following is supplementary resume of operational reports covering the period 11th - 13th February, 1943.

1. NAVAL

HOME WATERS. On 10th evening an armed raider of about 5,000 tons was sighted off CALAIS steering down channel and subsequently put back into BOULOGNE. On 14th afternoon she was located in DUNKIRK. Light Naval forces tried unsuccessfully to intercept and aircraft made attacks on her both at BOULOGNE and DUNKIRK.

MEDITERRANEAN. 5 enemy merchant ships have been reported sunk by B.M. Submarines and 2 probably sunk in addition to small craft. Traffic from ITALY to TUNISIA decreased by about half upon last week.

SUBMARINE WARFARE. Believed that considerable force of U-boats is in the area between NEWFOUNDLAND and ICELAND (C) but so far little activity has developed. U-boats again appeared in the Cape area. During week ending 17th 16 attacks on U-boats made by aircraft and 11 by surface craft. 6 of these attacks are considered promising, 4 of them being by surface craft.

SHIPPING CASUALTIES. Only 3 ships were reported to have been torpedoed during the week 13th to 19th. A British ship was sunk S.W. of CAPE AGULHAS a U.S. ship was sunk South of POINT ELIZABETH and a Dutch tanker was torpedoed in the MEDITERRANEAN, but was beached and later refloated. 2 British ships, one a tanker, have been reported overdue in this country.

Trade imports in convoy into United Kingdom week ending 13th. 311,000 tons including 89,600 oil. After examination of all French controlled shipping in North and West African ports agreement has been reached as to those which shall be chartered to Allied C. in C. and those operated by French for their African economic requirements. 9 French liners totalling 96,000 tons and 172,000 tons of cargo shipping will be chartered and 198,000 tons of smaller ships (many reported at present unseaworthy) will remain under control of French authorities. French ships only will maintain services between North and West African ports.

2. MILITARY

TUNISIA. As result of German attack started dawn 14th our line evening 13th ran along hills north and west of OUSSALTA to SBIRA to which our forces had withdrawn to conform, thence along high ground northwest of railway SBAITLA-FERIANA. Since withdrawn further to hills on west side OUSSALTA valley strong British armoured and Infantry Forces have been brought south to hold north of SBAITLA and form an army reserve while Americans reorganize. U.S. casualties heavy and at least 100 medium tanks, 60 guns and much transport lost. Enemy forces employed PAID-SBAITLA operations estimated at least 1 German armoured division with battle groups of German infantry and 1 Italian battle group.

Eighth Army. Advance westward accelerated when causeway over marches TAGULEMIT area completed. One armoured division now pressing enemy into MARSATH position and 51st division moving up from TRIPOLI area where remainder Eighth Army concentrated. Reopening TRIPOLI port proceeding most satisfactorily.

PACIFIC. BURMA. Position north of AKYAB substantially unchanged. Our further attacks have made little progress against Japanese defences consisting of well concealed weapon pits in great depth. Minor engagements have taken place north of MYITKYINA and north of KALMYO.

AIR OPERATIONS

WESTERN FRONT. Day. High level attack by 65 U.S. Fortresses on W. WAZAIRS docks. R.A.F. attacks on shipping, power stations, war industry and railway communications. At least 19 locomotives damaged. Enemy losses 17, 6, 9. Ours, 16 missing. Night. Out of 2,093 sorties 44 bombers missing. 2 heavy attacks on LORIENT when about 5,122 tons of bombs dropped. Results very successful, whole town virtually devastated, water works destroyed, communications and power supplies seriously affected. Other attacks on COLOGNE, MILAN and WILHELMSHAVEN twice. 235 sea mines laid.

Regraded Unclassified

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SECURITY
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ASIAN
TREASURY DEPARTMENT

BRITISH MOST SECRET
U.S. SECRET

OPTCL No. 62

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- 2 -

RUSSIA. DONETS Area. Successful Russian attacks on airfields near KRAMATORSKAYA and GORLOVKA.

CAUCASUS. Russians appear still to be concentrating their main activity on this front where weather has been good. Attacks were made on airfields at SLAVYANSKAYA and TIMOSHEVSKAYA and also KERCHY and BAGEMOVO in the CRIMEA. Russian Air Force also supported their bridgehead near NOVROSSISK by incessant attacks on German positions. Increased bombing by Germans reported between KURSK and OREL where some reinforcement seems to have taken place, probably from the MOSCOW/SMOLENSK sector where air activity has been quiet.

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

HAMBURG. 30th/31st January. Considerable damage in docks to shipping alongside shipyards and oil tanks. Interruption electricity supply.

DUSSELDORF. 27th/28th January. Opera house burnt out, main railway station hit.

WILHELMSHAVEN. 11th/12th February. Blind bombing attack - see OPTEL No. 50. Ammunition depot of naval docks completely destroyed, area of 150 acres completely devastated and explosion affected Deutsche Werke, other workshops and 3 oil tanks.

TURIN. 4th/5th February. Photographs confirm fresh damage. Notably Fiat Aero Engine Works, Fiat Steel Works, 4 other unidentified factories, one of which still burning next day, several commercial and residential buildings damaged, road viaduct over railway broken.

BERLIN. Reports on 2 night raids state Brosig Rhein metal works hit, Templehof hangar destroyed, Opel repair depot and goods station badly damaged, power station West Berlin hit resulting in failure some hours. Daylight raid 30th January caused panic in streets.

5. HOME SECURITY

Extensive damage Swansea General Hospital by U.X.B. after evacuation. Estimated civilian casualties week ending 17th. Killed 113, seriously wounded 202.

February 19, 1943
10:10 a.m.

FINANCING

Present: Mr. Bell
Mr. Young
Mr. Collins
Mr. Isbey
Mr. Patton
Mrs. Klotz

MR. YOUNG: We met last night, and there was substantial agreement on everything.

This was our suggestion: That the War Savings organization continue and even intensify the pay-roll savings plan.

Second, that the War Savings shall have a directive issued by the Secretary of the Treasury to the State administrators, that they offer their staff and workers to the fiscal agent of the Treasury, the president of the Federal Reserve of Chicago; that as soon as this drive gets under way, they shall offer the services of all the employees other than those on the pay-roll plan for the two weeks before and during the drive.

We suggest that a national quota be established - an over-all quota, rather than a quota for E Bonds and a quota for the others. They agreed to having just one quota so they could sell everything and there wouldn't be any fights for this quota or that quota. Then also we suggest that the national advertising be correlated so that the objective is the quota - amount you want. They all agreed to that. I finally got hold of Mr. Collins this morning.

MR. BELL: There is one thing you didn't tell the Secretary: That the directives from you would go through the administrator in each State rather than to--

- 2 -

MR. YOUNG: Yes, we would map out the policy. The State administrator of each State and his deputies would meet with Mr. Patton and myself and we would work out the policy and the working arrangement. And then the directives to their own workers would be signed by them so there would not be any absorption or any feeling that they were losing out.

We would know what they were doing and map out the policy. They would instruct their workers over their own signatures, as before, for the month of April. So, to all intents and purposes they are just working with us and are still issuing the orders, and so there wouldn't be any confusion.

This morning I finally got hold of Mr. Collins. He said they had a meeting last night.

H.M.JR: Who is "they"?

MR. YOUNG: He meant all the War Savings administrators. He said, "Well, that is all off. We decided as a unit that we are not going to be for it." Those were the words he used. "We will go our way and you go your way, and the only thing that we are in favor of, of what we have heard, is the Haas plan about you calling on people of fifteen thousand and over and we taking the rest. We will go our way, but we will go to you if we have any differences of opinion. If we quarrel with the Victory Fund, you iron out the dispute."

Cleveland apparently was - they copied Chicago's statement and apparently there was an agreement there. Mr. Fleek called Mr. Fleming this morning and read it to him, and Fleming said that was all right with him.

H.M.JR: What time had you come to an agreement - up to when?

MR. YOUNG: Yesterday afternoon - just our group, of course, the two administrators and Mr. Patton and myself.

- 3 -

H.M.JR: Who are the two?

MR. YOUNG: Isbey from Michigan and Collins from Chicago.

MR. PATTON: It didn't take us fifteen minutes to come to an agreement with those two fellows. They were very nice about it.

H.M.JR: Let me see if I understand this thing, because this looks pretty much like this (indicating Bell's chart).

MR. BELL: Exactly like that, Mr. Secretary, only on an informal basis rather than formalizing.

H.M.JR: Let me see if I understand it. What you were saying was that I should get up a directive to you as fiscal agent--

MR. YOUNG: And to the State administrators telling them to report to me and offer the services of their staff and workers other than those employed on the pay-roll savings plan for the month of April.

(Mr. Isbey entered the conference.)

H.M.JR: Let me see where we were. I am to issue, as you say - the understanding is that I am to issue a directive to you as fiscal agent, not as chairman of the Victory Fund. Is that right?

MR. YOUNG: The fiscal agent and to the State administrators.

H.M.JR: Saying that I want the State administrators to cooperate with the fiscal agent, both before and during the drive, and make everything available that they have.

MR. YOUNG: With the exception of the pay-roll division.

- 4 -

H.M.JR: Now, let's just say, for a minute, that that was done. Then what was your idea? I mean, what use would you make of the people that the State administrator made available?

MR. YOUNG: For example, take Mr. Isbey's State, the State of Michigan. Mr. Isbey, the State administrator, Walter McLucas as chairman of the National Bank of Detroit, and the manager for the Detroit area would get together with Mr. Hoover and myself and map out a policy as to the procedure and as to methods.

Then Mr. Isbey would go right ahead with his workers and issue his own instructions, and they wouldn't come from me or Mr. McLucas. They would come from Isbey.

He would work and we would know what he was doing, and we would keep him acquainted with what we were doing. So there would just be a working out of this original plan informally between us.

H.M.JR: Would you still keep your position as chairman of the Victory Fund?

MR. YOUNG: Yes.

H.M.JR: But you would also be my coordinator in your capacity as fiscal agent?

MR. YOUNG: That is right.

(Mr. Collins entered the conference.)

H.M.JR: Would you use these people? Would you give them everything to sell?

MR. YOUNG: Yes, everything - E, F, and G - whatever we had - the entire basket, short, medium, or long - whatever you decided on.

- 5 -

H.M.JR: How would you - for instance, take Chicago - I mean, how would you divide up as between, let's say, people that Collins had available - let's say he had a lot of women available--

MR. YOUNG: We would work it out to the best advantage and he would issue the instructions.

MR. PATTON: The women are working for us, now.

MR. YOUNG: We could have a working arrangement with all of our State administrators. There would not be any trouble, and there would not be any so-called face-saving.

They would be working as they always have, only they would be coordinated and he would discuss things every morning on policy.

H.M.JR: You wouldn't need anything more than that from Washington?

MR. YOUNG: That is an informal directive to the State administrators asking them to go to the president of the Federal Reserve bank and offer the services of their staff and their workers for this campaign in April, and making it very definite that they should cooperate to the fullest extent, looking towards obtaining this quota, then leaving it to us.

H.M.JR: Do you mean a quota in your Federal Reserve district?

MR. YOUNG: The over-all quota, then a quota for our district, rather than a separate quota for each, and so forth.

H.M.JR: But fifteen billion - so much of it is--

MR. YOUNG: Say a billion and a half for the Seventh District. Then we could decide with Mr. Isbey - he has excellent ideas as to what the quota should be for

- 6 -

Michigan. We could have a self-imposed quota, and as far as the county organization is concerned, we could discuss that with him. If he has a better chairman in some county than we have - we could work that out. It doesn't make any difference because the object is to sell the bonds for that drive. They would be selling everything, and the over-all quota is so they won't have to strive for that individual quota on the E Bonds.

MR. PATTON: That would only be for April, Mr. Secretary.

H.M.JR: I understand.

MR. YOUNG: Definite instructions would not have to be given. We could work that out between us. That was my idea.

H.M.JR: I understand that after supper you had a meeting and something else happened.

MR. COLLINS: We did discuss it somewhat.

H.M.JR: Who did you meet with, Mr. Collins?

MR. COLLINS: Mr. Isbey and Mr. Moore.

H.M.JR: Who is Mr. Moore?

MR. COLLINS: He is from Ohio - and Mr. Trounstine, and we had dinner with Mr. Gamble and Mr. Graves and one other. But we just had dinner with them; we didn't discuss it except from the War Savings Staff point of view. But I don't think that had any bearing on what our action would be, Mr. Secretary.

H.M.JR: Where are you right now, at the moment?

MR. COLLINS: We are in disagreement and, I think, subject to another conference.

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H.M.JR: Because I got word from Mr. Bell that he thought that you people were together.

MR. BELL: That is, when I went home last night about half past six I understood you were pretty well in agreement.

MR. ISBEY: We discussed it, Mr. Secretary. There is no question about getting along all right, but I don't think anybody here in Washington, or any State administrator, or any State chairman, can deliver his organization lock, stock, and barrel, like chattel goods, and I have got too many fine men in our organization that have worked for eighteen months.

I can't say that I am going to take the retail program of Michigan under Mr. Webber, who is putting in three thousand dollars worth of newspaper ads a week, plus spending about sixty thousand dollars in cash of his money, and say, "Now you are going to do this."

Take all the rest of our organization - because they have been upset three or four times in this picture with Victory Tax and a lot of other things. As you said yesterday, "Keep it going along fighting."

I think that, as chairman, I have to consult - we want to make this goal. I don't say I failed in Michigan, and I am not going to accept that.

H.M.JR: Who said you failed?

MR. ISBEY: This would look like we have failed.

H.M.JR: Why?

MR. ISBEY: Because you can't take a group for thirty days and superimpose somebody else's boss; it would be better off to get out of the picture and let somebody else have it. We have sold all the L Bonds that we have been asked to sell and--

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H.M.JR: That's no - now, don't tell me that kind of stuff like that, because you people - if you want it straight, the War Savings Staff hasn't once come up to what they said they would do - not once.

MR. ISBEY: I have in Michigan.

H.M.JR: Not the War Savings Staff. I am Secretary of the Treasury - gawd damn it, they sit there and tell me this bunk. I mean, what is the use of kidding me? Now, they haven't once come up - I have had to sit here and take it from Congress and take it from the press, that we haven't once made the quota. It is Henry Morgenthau, Jr. - it isn't you and it isn't this fellow, but when a thing misses, who gets it in "Time" magazine - who gets it all the time? I do.

MR. ISBEY: That is right. I want to help you do this over-all job.

H.M.JR: All right then, don't tell me - the War Savings Staff hasn't once come up to its promises - not a single time. They told me they would have twenty million. I am Secretary of the Treasury - I am not administrator for the State of Michigan - and there hasn't once - I don't know whether you have or whether you haven't - I haven't examined the thing, but I haven't seen a single State that has made its quota.

MR. ISBEY: We have. We made six percent more than our quota.

H.M.JR: I would have to see it. Every month?

MR. ISBEY: Every month. We have never taken a cut, Mr. Secretary.

H.M.JR: All right, but the War Savings Staff for the United States hasn't once come up to its quota. Am I right, Bell?

MR. BELL: I think you are.

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H.M.JR: What is the use of sitting there - you are down for a billion and a half for April. I have got to get it. All this pretty talk about this - who do they do it for? They do it for the Government - this man that does this retail, he doesn't do it for you - he doesn't do it for me--

MR. ISBEY: He wants to do it for you, and I do, too.

H.M.JR: They go on because they want to win the war.

The one thing that we have got to do is to raise the money. We can't bother the Commander-in-Chief about this stuff. I can't go around and whine - and these people - it is all impersonal. I am asking the people to get together and you talk as though they were your chattels.

MR. ISBEY: No, no, I just say, as a matter of cooperation--

H.M.JR: All right.

MR. ISBEY: I would rather say "We are going to do" - thus and so.

H.M.JR: But I am talking now in the room. I haven't said anything about failure, and so forth and so on, but I relied on the War Savings Staff for the United States - the forty-eight States - and they haven't once made good.

MR. ISBEY: I would get a new War Savings Staff, then.

H.M.JR: They haven't once made good - not once. What is the good of kidding ourselves on dollars? They promise me that and they always fall flat, and I have got to stand here before the representatives of the press of the United States and I take it on the

- 10 -

chin because somebody told me they would have eight hundred, nine hundred, or a billion dollars, or they would have so many thousand people on the pay roll, and never once have they come up to what they told me they would.

MR. ISBEY: That is right. I will take that responsibility for Michigan.

H.M.JR: But I have got to take it. All you have got to do is read the papers, and it is always Henry Morgenthau, Junior. It isn't Marriner Eccles, it isn't the Federal Reserve, and it isn't Hap Young; it is always Henry Morgenthau, Junior, and I have always taken it. I have always taken it, and I have always defended the War Savings Staff in public, and I always will.

MR. ISBEY: That is right. I have told them that you said you would take it three or four times and then you wouldn't any more and they had better get busy.

H.M.JR: Now, gawd damn it, we are going to get together.

MR. ISBEY: I don't think there is any question about Mr. Young and our group getting together.

H.M.JR: I am going to sit around here until Sunday night and if you fellows can't get together I have told them I am going to write the directives. There isn't going to be any face-saving about this thing. It isn't a question of saving faces, it is a question of continuing to deliver the money to the Commander-in-Chief; that is what it amounts to. So that fellow doesn't have to worry about this end of the thing the way he has to worry about every other end. My gawd, whether it is Wilson or Aberstadt or Nelson - all this stuff in the papers. I wouldn't have anything like that in the papers, and he doesn't have to worry. All he does, he

- 11 -

gets a piece of paper and he signs it, and that is the only thing; or else he helps me by buying a bond before the moving pictures, and that is the way it is going to stay as long as I continue to sit here. We are all of age.

MR. ISBEY: You are taking a different attitude at me, sir.

H.M.JR: Taking it at you because you are the toughest one of the bunch. If I can crack you, I can crack anybody.

MR. ISBEY: If I had had anything to do with it at the start, I would have been tougher than you have been. You have been very considerate.

H.M.JR: You are one of the tough guys. If I can crack you I can crack anybody.

You told me the other day, you said that as far as the Victory Fund in Detroit, you could be chairman of it.

MR. ISBEY: We could get along fine.

H.M.JR: O.K. Let's get along now.

MR. ISBEY: I wanted to come and discuss it some more. I said to Hap that I would call at eight; I called around eight-thirty and couldn't get him.

H.M.JR: But up to supper time everything was lovely; then after supper all bets were off.

MR. ISBEY: No, no, the only discussion - nobody can change my mind.

H.M.JR: What is your mind, now?

MR. ISBEY: First of all, you want to sell bonds. Nobody is going to kid me about the bond selling business.

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I know something about that in Michigan. I haven't seen anybody yet that has sold as many bonds as Frank Isbey in Michigan, so I am the authority in Michigan to sell War Bonds. Right?

H.M.JR: All right.

MR. ISBEY: I put in a retail sales program which was started in Michigan and was my idea, and it went across the United States. I started the school program, and that went across the United States. There wasn't anything I started that failed. I am not egotistical about that. I know what happened on the pay-roll savings. I called in the thirty-seven industrialists in '41 and got them to put it in en masse.

H.M.JR: I know. I have given you credit publicly and privately, and I pulled you down here to teach the other boys to do it.

MR. ISBEY: You are the chief and I will do whatever you say. I just want to sit down and plan a little bit further. I said yesterday, "How would we get down to the counties? Who is going to be the boss there?"

You can't take an organization for thirty days. Is this going to be a permanent arrangement? We have got men that have been boss of F and G and haven't been told to sell anything else. We have sold the F and G Bonds, Mr. Secretary, in cooperation with the Victory Fund Committee. We never stopped at any one time. There is no dividing line in Michigan. You have got to have the money; that is all. I believe, like you do, that this is just like losing a battle. We have to get this fifteen billion dollars, and I have - I am--

H.M.JR: Just remember that the man in the county - the man who works - he is working because we want to win the war and not because he likes you or he likes me.

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MR. ISBEY: But you have to start out to build an organization. You built one, believe me! You started this organization. You started it better than anyone started anything down here.

H.M.JR: But I told you in the room there, I put it right on the line - I want to keep my State War Savings Staffs; I want to keep my State administrators, and I can do it.

MR. ISBEY: All right, sir.

H.M.JR: I can do that; it can be done. Excuse me if I pace. I think that before we get done we may have to bend some of the lines in the Federal Reserve. The Federal Reserve Districts, if they had their choice, I will bet you there isn't one that wouldn't want to change the thing - do a little gerrymandering.

I mean, some of them just don't make sense today, now that we have got airplanes and so forth and so on. I mean, if I had to do it - I mean the way Detroit has grown - I think Detroit should be chopped off and made another district. I mean, it is a community entirely by itself. Right?

MR. YOUNG: Sure.

H.M.JR: There is no reason why that shouldn't be the thirteenth Federal Reserve District.

MR. YOUNG: It is, to all intents and purposes. We just made it one last week.

H.M.JR: I am just using that as an example. There is no reason why - I think State lines are good; it gives you competition; it gives you your quotas, and it gives you a lot of things. It gives you a lot of fine people. I don't want to give it up. My gawd, we sweat hard enough for two years to build this thing up.

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MR. ISBEY: That is what I thought you said yesterday: "I am planning so it doesn't disintegrate and overnight go to pieces."

H.M.JR: But I cannot - if I bring in as assistant here to Bell and me the greatest organizer and salesman in the world, he still - the United States is too big for any one man to cover, and you have to break it down. You said so yourself the other day.

MR. ISBEY: I believe in the decentralization a hundred percent.

H.M.JR: You have to break it down into districts.

MR. YOUNG: It is only thirty days, and what difference does it make whether John Jones is chairman, or Jim Smith? Make them co-chairmen - we can work that out.

MR. ISBEY: Let's go back and finish our ordeal. I want to finish it. I have got my fighting--

H.M.JR: Ordeal, or New Deal? (Laughter)

MR. ISBEY: You certainly have stood back of the War Savings Staff, and I have been the fellow that has said, "The Secretary has taken it on the nose, and you had better wake up."

MR. COLLINS: Let's not go into details, Mr. Secretary. Give us five or ten minutes and we may be able to come back.

MR. ISBEY: A half an hour, or an hour.

H.M.JR: Go ahead, and when you are ready, give me a ring.

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MR. COLLINS: We did this thing in reverse last July. The Victory Fund went to work under the State administrator and sold F and G Bonds. It worked very nicely in our district.

MR. YOUNG: We can work together.

H.M.JR: No, what I said in here, when I got a little excited, I don't want magnified or blown up, but I just had to shock you a little bit. (Laughter)

MR. BELL: I think we should have sent these men back to Chicago last night and kept them out of the Washington atmosphere. (Laughter)

MR. COLLINS: We would have been in agreement.

MR. ISBEY: I say this - we have to get the fifteen billion dollars, whatever the quotas in Michigan.

H.M.JR: I don't care who they talk to because if they made an agreement now and then these other people talked to them they would be unhappy. Let them talk to anybody.

MR. PATTON: May I ask one question? My understanding was that all we were to do - the four of us - was to say what we thought would work in the Seventh Federal Reserve District. We are not interested in the rest of it. We are not supposed to say what should be done in New York.

H.M.JR: No, no.

MR. PATTON: That was my understanding. That is the only part of the country we can speak for.

H.M.JR: How can this family get along in the Seventh Federal Reserve District?

MR. ISBEY: You can look up the record for Michigan, and when the Seventh District comes back they will still lead.

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H.M.JR: The Seventh District?

MR. ISBEY: Yes, sir.

MR. COLLINS: Do you want a temporary plan or a permanent plan from us? I think we have been in dis-agreement in that, also.

MR. PATTON: The April drive plan, only?

H.M.JR: I think so, to see us through the April drive successfully.

When you are ready, you let Bell know.

February 19, 1943
11:30 a.m.

FINANCING

Present: Mr. Young
Mr. Collins
Mr. Isbey
Mr. Patton

H.M.JR: Are you all smiling?

MR. YOUNG: We have all agreed to this (indicating Seventh District memorandum, copy attached). We typed it in a hurry.

H.M.JR: Let's put a few initials on this thing.

MR. ISBEY: Can't you take our word? (Laughter)

H.M.JR: I can take it, backed up by the stenotype report and your signatures. (Laughter)

I haven't even read it. Maybe you are firing me - I haven't read it. (Laughter)

MR. COLLINS: We are all resigning. (Laughter)

H.M.JR: That is all right. We will all resign together. (Laughter)

(The Secretary read the Seventh District memorandum.)

H.M.JR: By number six do you mean a national advertising policy?

MR. ISBEY: We mean a local advertising policy which in our case in Michigan is equal to what the national advertising policy has been.

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H.M.JR: That is all right.

MR. ISBEY: That is the volunteer ads, Mr. Secretary.

H.M.JR: That is all right. I didn't understand it.

MR. ISBEY: I will explain number seven. I wouldn't want any directive to go out of here before we could get our key men in the War Savings Staff, the first part of the week, together and say, "This is what is going to happen," and then your directive goes out. Otherwise it goes out ahead of time.

MR. YOUNG: It won't come as a surprise to them.

MR. ISBEY: We have to take the labor unions into the picture, and a few more. They are on our staff.

H.M.JR: That is good. That is what I am trying to do. I want to get your cooperation - I don't seem to be getting it now.

I think this memorandum is splendid.

MR. YOUNG: The Victory Fund won't be getting credit for all this? In any of our publicity or release we will say the Victory Fund Committee and the War Savings?

H.M.JR: Or the Treasury Department - just the Treasury Department.

MR. YOUNG: So there won't be any--

H.M.JR: The only thing you didn't put in here - this is very encouraging. It pays to get mad, sometimes. (Laughter)

MR. ISBEY: We have to hold you sometimes. You get mad at the right time. (Laughter)

MR. PATTON: There is such a thing as righteous indignation.

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H.M.JR: The other thing which I would like to have in here, unless it is self-understood, is that you (Young) will act as fiscal agent in this, and not as chairman of any one committee. I mean you are the direct representative. You are not a member of the Victory Fund nor the War Savings. You are my fiscal agent. That is not in here.

MR. YOUNG: In the preamble, Mr. Secretary, I didn't spell it out, but I said--

H.M.JR: Oh, "... such bank acting as Fiscal Agent for the Treasury." Yes.

MR. YOUNG: I was trying to tie it in, in that statement, but it wasn't very clear.

H.M.JR: You ought to resign as chairman of the Victory Fund Committee.

MR. PATTON: That doesn't maintain, in view of the original setup--

H.M.JR: What?

MR. PATTON: If the Federal Reserve bank presidents were to resign as chairmen of the Victory Fund Committees, it doesn't preserve the identity of the Victory Fund Committees unless you immediately substitute somebody else.

H.M.JR: What I am thinking of is this. Have I got this picture right - that in the field there will be Mr. Young, there will be yourself (Patton), and each of the State administrators, who will form an executive committee to decide everything on the spot?

MR. YOUNG: That is right.

H.M.JR: Now, all these other committees and everything else will have to be subordinate to this.

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MR. PATTON: Suspended for thirty days.

MR. YOUNG: That is the way we talked about.

MR. ISBEY: Yes, I thought we would get together not to lose our identity as a War Savings Staff, but stay and operate where we are.

H.M.JR: No, let's say the quota for the Seventh Federal Reserve is one billion. Mr. Young represents me, and he has an executive committee composed of the State administrators and the Victory Fund. They settle everything on the spot; they divide up the territory, and so forth. This group sells everything except pay-roll savings.

MR. YOUNG: That is right. The only thing is, I don't think it would be necessary for any resignations as chairmen of the committees. It would just be an understanding between us that I am acting as your fiscal agent.

MR. PATTON: And not in the capacity of chairman.

MR. YOUNG: And the two organizations are going to work together.

MR. ISBEY: He is the neutral chairman.

H.M.JR: He is a direct representative of the Secretary of the Treasury and speaks for the Secretary of the Treasury. If I have any communication that I want to get into that district, I send it to my chairman and then, in turn, if he wants anything in War Savings he does it through the State administrator or chairman of each State.

MR. PATTON: That is correct.

H.M.JR: Or if he wants to send something to the Victory Fund. Then we would have an executive committee

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here that would meet, and if we wanted to do something we would send a communication out from this office. We would have a corresponding group here - somebody in the War Savings Staff, somebody from the Victory Fund, and Mr. Eccles representing the Federal Reserve Board, and Mr. "X", if I can find him.

MR. PATTON: That would work beautifully in our district.

H.M.JR: Then when we get out any directives they would come from this committee.

MR. YOUNG: That is satisfactory, isn't it, Frank?

MR. ISBEY: Yes.

MR COLLINS: How about Mr. Harrison, for thirty days, to assist you as the Mr. "X"?

H.M.JR: Harrison?

MR. ISBEY: I object to that, Mr. Secretary.

H.M.JR: Who is he?

MR. COLLINS: President of the New York Life Insurance Company.

H.M.JR: To assist and help for this? That suggestion has been made before. No.

MR. ISBEY: I think you are a pretty good director of the War Savings program, Mr. Secretary.

H.M.JR: No, I need help. Without going in to George - George never sold anything in his life.

MR. COLLINS: No, but he has a feel of the market; he has a pulse for the feel of salesmanship.

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H.M.JR: That isn't what we need, if you don't mind. We have got plenty of pulse takers on the Federal Security market.

MR. PATTON: We need audit takers.

H.M.JR: That is just why I used this excellent man from the Manufacturers' Trust - what was his name? Who did that swell job in New York?

MR. PATTON: Johnson did a grand job.

H.M.JR: The man that did all that organizing - organized the house-to-house campaign.

MR. PATTON: There was a man who did a grand job for the manufacturers.

H.M.JR: I meant before that on the house-to-house - that small stuff.

MR. ISBEY: You mean the pledge drive?

H.M.JR: Yes.

Now, what I would like to do is - this is very encouraging. Mr. Gamble is, as near as I can make out, ninety percent with us on this thing. He just left the room. He would like a chance to sit down and talk with you on the field end, and see how it will work out with the War Savings Staff. So as the next step, I would like the four of you to get together with Mr. Gamble, right now. After you have talked with Gamble, I would like to see the five of you. I have got a plan here from Gamble which he gave me a couple of days ago, which is practically this plan. I have got to do it this way because some of the War Savings Staff are with me, and so on. Gamble is entirely on his own; he has come in with this plan. So, would the four of you meet with him?

MR. ISBEY: That is a good suggestion.

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H.M.JR: The four of you. After you meet with Mr. Gamble, alone, then meet with Mr. Buffington and see what faults he can find with the thing. Then, after Cabinet, I will see you again, but I won't be able to see you until then. It will be after four o'clock.

O.K.

Feb 19, 1943

11.30 P. M. 106

Mr. Frank Isbey, State Administrator for the State of Michigan; Mr. Norman B. Collins, State Administrator for the State of Illinois; Mr. Francis F. Patton, Executive Manager for the Seventh Federal Reserve District, Mr. C. S. Young, President of the Federal Reserve Bank of Chicago, such bank acting as Fiscal Agent for the Treasury; met and discussed methods of procedure and cooperation for the April Drive.

The following suggestions, in order to be helpful, are offered to the Secretary of the Treasury:

1. We believe that time does not permit, prior to April 1, to consolidate or merge the War Savings organization and Victory Fund Committees.
2. Prompt appointment of National Sales Director responsible to the Secretary of the Treasury.
3. War Savings organization should continue their efforts on Payroll Savings plans.
4. A Directive be issued by the Secretary of the Treasury to each State Administrator of War Savings organization to offer to the President of each Federal Reserve Bank the services of the staff and workers who are not employed on Payroll Savings plan.
5. That over-all quota be established for month of April.
6. The objective of all advertising should be the obtaining of over-all quota.
7. Such Directive should not be issued until the State Administrators have had sufficient time to contact and inform their organization of the contemplated action for the April Drive.
8. War Savings organization and Victory Fund Committees shall maintain their identities.
9. All publicity should make it clear that this is a joint ~~effort~~ ^{undertaking} of the two organizations.

W. B. Collins
F. J. Patton

C. S. Young
Frank M. Isbey

Feb 19, 1943

11.30 P.M. 107

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Mr. Norman B. Collins, State Administrator for the State of Illinois;
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W. B. Bennett

F. S. Tattini

W. A. Young
Frank Isbey

Feb 19, 1943
11.30 P.M.

109

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M. Collins
F. F. Patton

C. S. Young
Frank Isbey

February 19, 1948
4:15 p.m.

SPECIAL GROUP

Present: Mr. Bell
Mr. White
Mr. Gaston
Mr. Paul

H.M.JR: What I am doing is this, I thought I would let you people know that I am alive. I have got fifteen minutes.

What I am working at is that Mr. Bell and I are trying to reorganize our security sales organization. We are having quite a battle, but we are making a little headway.

MR. PAUL: With whom?

H.M.JR: We are reorganizing our whole method of selling securities between this Victory Fund and War Savings and Federal Reserve and the field, and here. We still want to keep the control of it here, and we still want the cooperation of the bankers and the Federal Reserve and the War Savings Staff. We have had quite a battle, but I think so far we are all right. We got the Chicago District to agree, anyway.

MR. BELL: We got one out of twelve.

H.M.JR: I just didn't want you fellows to think I was loafing these days.

I think it will be all right, but it is quite a battle. It runs pretty deep.

MR. GASTON: I am glad it is your job and not mine.

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H.M.JR: I told them all that I would give them a chance to get together. I have each group working by territory. I told them that if they didn't do it by Sunday night, I would do it Monday morning. I just want to let you know. If I get this done, then the people can go into the field, and they have got a month and a half to get ready for this next drive.

The thing is, they are trying again to take it from the Treasury, but I don't think they will. After ten years I don't think they will, will they?

MR. BELL: No.

H.M.JR: Paul?

MR. PAUL: They are voting now - that is the reason I am here so early - they are voting on the various pay-as-you-go plans. There are so many leaks about how each man votes that I asked the Committee to excuse us in order that it could never be said that we leaked, so we are down here. We will get the vote, however, from some of the members very promptly after the session.

MR. GASTON: After the newspapers have printed it.
(Laughter)

H.M.JR: If you can get it as quick as the "Wall Street Journal," you are good. (Laughter)

MR. PAUL: I can get it about as quick as anybody.

MR. BELL: Will they come out with a plan tonight?

MR. PAUL: They may. They will vote down Ruml, I am sure. They may vote for the chairman's fifty-percent Ruml Plan. I doubt it, though.

H.M.JR: At Cabinet the President asked me if I had anything. I said, "No."

He said, "I don't suppose you will have anything until April on your financing."

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I said, "That is right." So, I don't--

MR. PAUL: I didn't know for sure whether they were going to vote or not.

H.M.JR: But they are voting?

MR. PAUL: They are spending the afternoon on it.

H.M.JR: What is a vote worth?

MR. BELL: Eight hundred thousand to a million dollar man. (Laughter)

H.M.JR: I will say this here and on the record, that I don't think anybody could have done as well or more than you have.

MR. PAUL: Thanks.

H.M.JR: Anything else, particularly? I am going to try to work you in tomorrow if I can, but this thing - you see, we brought these people in for Saturday and Sunday.

I gave you your increases. You tell the boys.

MR. PAUL: I did as soon as I heard. I have done that.

H.M.JR: I will try my best to work you in, but Bell and I have to work with this crowd Saturday and Sunday.

Harry?:

MR. WHITE: There are a few things, but I am sure they are not urgent. One you might want to settle outside. We are now ready for Pehle's group and Paul's and ourselves.

H.M.JR: Do you want to take me outside and each take our coat off? (Laughter)

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MR. WHITE: No, it is one of the things we may not want to get into. We are ready with all the material for the taking of a census of foreign property owned by Americans. It is a very laborious and difficult job to get agreement upon among all the departments.

H.M.JR: I approved that in principle.

MR. WHITE: Yes, you did. Since then there has been a little disturbance on the Hill about getting questionnaires, but there apparently will be support for this one. The next step is with the Budget. If we get the Budget approval, it is allright to go ahead?

H.M.JR: Sure.

MR. PAUL: We appeared at the Appropriations Committee--

H.M.JR: I read your memorandum about Senator Lodge saying you should get an E flag - you mean on Foreign Funds?

MR. PAUL: No. We appeared again on Roy Blough and Stanley Surrey this morning, and Senator George attended and gave us quite a boost - not only he, but Senator Lodge put it on the record about what a good job we were doing.

H.M.JR: George has been all right, hasn't he?

MR. PAUL: He certainly acted swell this morning. I will show you his remarks on the record.

MR. BELL: Lodge seems to be getting friendly. He was friendly to Harold Graves, too.

MR. PAUL: He was very friendly; he went out of his way. He said that he didn't see how we got the work done.

MR. BELL: So was Tydings friendly to the Treasury.

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H.M.JR: I think some of the - you have to give some credit to these State War Bond organizations. I think that they have had influence within the State which we just can't throw away - if for no other reason - well, that sounds good.

MR. WHITE: The Canadian thing is ready to go. It should go before that Wallace Committee.

H.M.JR: What is the Canadian thing?

MR. WHITE: You remember we were going to make a recommendation with respect to their dollar assets. The next step is to submit it to that committee.

H.M.JR: I would do it.

MR. WHITE: All right. There are the International Stabilization Fund letters which are ready for you to send. We haven't heard from Berle. It is a matter they have made almost no progress on in seven or eight weeks. I think we ought to go ahead and just send them.

MR. BELL: They were to have them ready two weeks ago last Tuesday.

H.M.JR: Who signs the letters?

MR. WHITE: You ought to sign them. What I would suggest we do is to just take the certain ones; leave out the uncertain ones until the later date, the uncertain ones being the exiled governments.

H.M.JR: Would Mr. Hull - don't they have to go through Mr. Hull's office?

MR. WHITE: Not this letter signed by you. It is a letter which keeps - you remember--

H.M.JR: Couldn't I do something--

MR. WHITE: They agreed on the letter.

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H.M.JR: Mr. Hull has?

MR. WHITE: Berle did, and before Berle came I asked him whether he was speaking for Mr. Hull or not.

H.M.JR: You write a letter like this: "Dear Cordell: I am sending the attached letter to the following people. Just so there could be no misunderstanding, would you mind indicating your approval and returning this letter to me."

MR. BELL: Before you went away, you asked me to get in touch with Hull and have that meeting. I did, and he sent Berle as his representative. We had that meeting. Berle said that he would informally discuss this memorandum with the British, the Chinese--

MR. WHITE: Which he did.

MR. BELL: ... and the Russians.

MR. WHITE: He sent them a letter very much like--

MR. BELL: One week after that he said we could send this letter to those governments on that list. That is the last we have heard.

H.M.JR: Just so there can be no possible misunderstanding, I simply would send this little note to Cordell, "I would appreciate your approving this thing, so there can be no possible misunderstanding between our two departments." Then we make the record and it comes back. Do you gentlemen approve of that?

MR. WHITE: Yes.

H.M.JR: You fix that up for me, and I will send it to him.

MR. WHITE: There is a third item, which I think has been taken care of. You asked me to show you this memorandum by Phillips on the exchange values of currency of various invaded countries. Now, Dan is

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calling a meeting for Monday or Tuesday, at which there are a number of other questions that are coming up, as well as that. That takes care of that.

There is a third matter which is more important to me. Three months ago I asked your permission to give E. M. Bernstein an increase, to give him seventy-five hundred. At that time you told me to see you within another month. He very richly merits it.

H.M.JR: It hasn't come to me. Do you mind waiting until Norman Thompson comes back?

MR. BELL: That will be Monday.

H.M.JR: We have arrived at a sort of rule which we are following now. If it is just a question of increase and not creating a new position, it is all right; but if has to create a new position, we don't want to do it.

MR. WHITE: It is an increase.

MR. BELL: What does he get?

MR. WHITE: Sixty-five hundred.

MR. BELL: That is a thousand-dollar promotion. That will be the difficulty of going over the steps.

H.M.JR: See Norman. Then if you don't get what you want, see Norman and me together. I took care of Paul's where I didn't have to create a new position.

MR. WHITE: No, there is no new position. We have three assistant directors, and two of them are gone. He is the only one left.

H.M.JR: There won't be any trouble; but if you have to create a new position, there will be trouble. That is the procedure I am following.

MR. GASTON: The difficulty will be that jump from one grade to another.

MR. PAUL: I suppose that is why you held Pehle down.

H.M.JR: No, Pehle is under Civil Service.

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MR. PAUL: I know, but there seemed to be some dispute if you had to limit him to that.

MR. BELL: He only got a one-step promotion there, two hundred and fifty dollars. That is what this fellow should get unless he hasn't had a promotion for some time.

H.M.JR: Norman felt very strongly about Pehle. He showed me the increases and thought it would be difficult to defend it.

MR. WHITE: A one-jump promotion would be fifteen hundred dollars; that is the trouble.

H.M.JR: The Pehle thing sounded reasonable to me, but Norman--

MR. PAUL: There is a lot to be said on the other side.

H.M.JR: What I normally do is have the man in, but you weren't around. You told me the night before that you were in such a hurry, so I moved.

MR. PAUL: It doesn't harm anything to put this one through, does it?

H.M.JR: Who, Pehle?

MR. PAUL: As it stands.

H.M.JR: The two hundred and fifty is all right; I approved that.

MR. PAUL: I know you did.

H.M.JR: Norman isn't here. I put through the two hundred and fifty, but he recommended against the other on account of the Civil Service status. And having to go through Civil Service, he said it would stick out like a sore thumb. I gave you your thousand and fifteen hundred on the others.

MR. PAUL: I know you did, that is fine.

H.M.JR: You got three out of four.

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MR. PAUL: What was the fourth?

H.M.JR: The Pehle - I didn't give you the full thing.

MR. PAUL: Two out of three.

H.M.JR: And Norman has to go up and defend these things, but if you have a vacancy there won't be any trouble; but if I have to create a new position it is difficult.

MR. WHITE: It isn't a new position - just an increase. He can't get a promotion--

H.M.JR: But if you have a vacancy, what title do you want to give him on the new thing?

MR. WHITE: What time?

H.M.JR: What title?

MR. WHITE: The same title. He is assistant director.

MR. BELL: You want to raise his grade, that is what you want to do - from thirteen to fourteen.

MR. WHITE: Fourteen is eight thousand dollars.

H.M.JR: Look, go see Norman and then I will see the two of you.

MR. WHITE: All right.

H.M.JR: That is what I normally do, but I have been trying to move on your front and still keep the hours that you keep here, which is a little difficult for both of us. (To Paul)

MR. PAUL: I sent you in two or three names for Procurement.

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H.M.JR: I just haven't done anything. We will sit tight on that.

What are we giving Pehle now with the two-fifty?

MR. PAUL: Eight thousand, two-fifty.

MR. WHITE: He gets that now and you want more?

H.M.JR: He got eight and he wanted to promote him to nine. I gave him two hundred and fifty.

MR. PAUL: He did a marvelous job on this appropriation that practically got us by.

H.M.JR: I think eighty-two fifty is a pretty good salary.

MR. PAUL: All our men - I don't know how we are holding some of our men.

H.M.JR: But he has Civil Service status, now.

MR. PAUL: I know. A lot of these fellows are getting offers every day up to twenty thousand dollars - in the tax field, particularly.

H.M.JR: Whether I give him eighty-two fifty or nine thousand, we can still have that.

MR. PAUL: We will wait on that discussion?

H.M.JR: Let's wait - I am at a disadvantage.

MR. PAUL: So am I. I don't remember all the story.

H.M.JR: I am at a disadvantage. Normally-what I did in your case was very unusual. Usually I have the man in with Norman and I have a chance, but you told me in such a hurry, so I moved.

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MR. PAUL: It is very difficult for me to get down here until about five o'clock.

H.M.JR: I am not complaining, much. I can't have you in two places at the same time and I can't go up on the Hill and talk to you there. All you can do is to give me eighteen hours a day. (Laughter)

MR. GASTON: I don't know whether Ted Gamble has been in touch with you or not, but he has that Georgia situation well in hand. I talked to him this morning. It is going to work out all right. There is some doubt about whether Senator George will go or not, but he is going to have Knox give him a very fervent invitation to go. It is his show.

You sent me a letter from George Milton. I imagine you want to do that, and it is a question of selecting the material that he is to look at.

H.M.JR: That is right.

MR. GASTON: Shall I go ahead with it through - shall I write him a note and go ahead with it through Mrs. Klotz?

H.M.JR: That is right.

MR. GASTON: O.K.

You are not interested in Truman Cash, are you?

H.M.JR: Truman Cash?

MR. GASTON: He is Radcliffe's candidate for collector in Maryland.

H.M.JR: No.

MR. GASTON: I got a bad preliminary report and am sending it over to Frank Walker and thrashing it out with him.

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H.M.JR: All right otherwise?

MR. GASTON: You had my note about the Secret Service men going to Africa?

H.M.JR: I didn't read it.

MR. GASTON: I think it is very, very important, and we are lining up two men to go over there.

H.M.JR: I thought if you thought it was important that that was enough. I just didn't read it.

MR. WHITE: As a point of interest, we also have a man going to Lisbon.

H.M.JR: I approved that. They said it was my suggestion when we came on the plane.

I want you to know that Mrs. Klotz brought it to my attention. I said, "If Gaston approves it, it is all right."

MR. GASTON: We got two French-speaking men.

H.M.JR: What the hell are they going to do? (Laughter)

MR. BELL: He didn't think he would have to justify it. (Laughter)

MR. GASTON: The counterfeit situation is getting rather bad there. I anticipated it might.

H.M.JR: My father, when he was a lawyer - practicing as a lawyer - he used to go before the bar, and the judge one day said to him, "Morgenthau, when you have won your case, quit arguing - I may change my mind." He always told me - he said, "When you have won your case, quit arguing."

MR. PAUL: That is like Tilden's maxim, "Never change a winning game."

H.M.JR: Anything else, Herbert?

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MR. GASTON: No, not unless you have something. Personal matters are still unadjusted, but they can float along.

H.M.JR: Dan?

MR. BELL: I saw the gentleman, Mr. Todd, who wired you this week to come down and see you, and I believe he saw that you got some nice theater tickets last Saturday night.

H.M.JR: Oh my gawd. He is the manager - he owns the show - "Something for the Boys."

MR. BELL: Apparently. If what he says is true, he has made an awful lot of money the last year.

H.M.JR: What did he want?

MR. BELL: He wants to put on a colossal show for the next drive in April - put it on Saturday night or Sunday night before the drive, or the following Saturday or Sunday night after the drive.

H.M.JR: I paid cash for those tickets. All I got was two good seats, but I paid cash. He didn't imply that he gave them to me, did he?

MR. BELL: No, he said that the show was all sold out. Once in a while he has to get tickets for people like yourself, but he said that this is a show that he has been dreaming about for a long time, and he thought this would be a nice time to do it. It wouldn't cost the Treasury a cent, and the admission to the show would be a Treasury bond - a thousand dollars for standing room and twenty-five thousand for a seat, and he says he is sure he can sell twenty-five million dollars in bonds the night before you open your drive. He has a scheme whereby--

H.M.JR: Look, turn it over to Ted Gamble, will you? That is right down his alley.

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MR. BELL: This is a drive thing.

H.M.JR: Still, give it to Ted Gamble.

MR. GASTON: They can't buy twenty-five thousand dollars worth of War Savings; it has to be another type of security.

MR. BELL: It is for the drive in April.

H.M.JR: Give it to Ted.

MR. BELL: He has to know by Tuesday in order to get started.

H.M.JR: He has a wonderful show there.

MR. BELL: Apparently he has made a lot of money if what he says is true.

H.M.JR: He is making a lot of money?

MR. BELL: Yes. He said, "If you don't believe it, look at my income tax return I am filing."

H.M.JR: Should I write him a little note?

MR. BELL: Later on, maybe.

February 19, 1943
4:45 p.m.

FINANCING

Present: Mr. Bell
Mr. Buffington
Mr. Trounstone
Mr. Moore
Mr. Fleek

H.M.JR: Are you all together?

MR. MOORE: We are sitting together - speaking together. (Laughter)

H.M.JR: Will one of you talk?

MR. FLEEK: Mr. Secretary, I don't know who should start, or where. I spoke yesterday of the fact that Mr. Fleming was away. I talked with him last night and again this morning, so that I would feel, if I did any acting, that I was authorized by him so to represent him. Consequently, I have his authorization to act in his place and stead as far as any recommendations which we have are concerned.

I should say that this morning we had a very pleasant meeting. Yesterday Mr. Trounstone, Mr. Moore, and I met. It was a very pleasant, friendly meeting. We had another one this morning.

We found, however, we did not resolve our differences of opinion and that we would agree to disagree, and each one has with him what he had in mind. So I have here what Mr. Fleming and I have worked out; and Mr. Trounstone and Mr. Moore have their memoranda.

H.M.JR: But you are not together?

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MR. FLEEK: No, sir.

H.M.JR: Well, it is awfully hard. Let me do this: Let me give you a signed memorandum from all interested parties in the Seventh Federal Reserve, where they have agreed. I might say that this is pretty much along the alley that I want. Why don't you people take ^{me} this - and they are here in town - and see if you can't get together somewhere along that line. It is a signed agreement from War Savings, the president of the Federal Reserve Bank, and the head of the Victory Fund. They have come to an agreement that is acceptable to me.

MR. FLEEK: Yes, sir.

H.M.JR: They are here if you want to consult with them. But frankly, I don't want to get befuddled by hearing more differences - you see? There is a group that has gotten together.

MR. FLEEK: You would rather, then, for the time being, that we hold our separate memoranda and give this study.

H.M.JR: Yes. These gentlemen are in town and you can talk to them. You can talk to Collins, you can talk to Frank Isbey, you can talk to Patton and Hap Young.

MR. TROUNSTINE: We have talked to them, Mr. Secretary.

MR. FLEEK: I have talked to Mr. Young, also.

H.M.JR: Since they have signed this?

MR. FLEEK: Yes.

H.M.JR: Have another go at it, will you?

MR. MOORE: I don't think we know what you want us to do.

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H.M.JR: It is very simple, what I want. I want everybody that is working for the Treasury to get together and help put over a drive in April. I have been asking how they can do it in the different districts. The Seventh District has gotten together and has given me a program.

MR. TROUNSTINE: We don't believe that is the answer. Now, of course, you are the judge. We are trying to be honest.

H.M.JR: Why isn't it the answer?

MR. TROUNSTINE: We believe the two organizations can work side by side.

H.M.JR: How?

MR. TROUNSTINE: Providing each is given a definite, specific field in which to work.

MR. BELL: Do you think that field can be divided?

MR. TROUNSTINE: I think that field must be determined by the Secretary. We can't determine that field.

MR. BELL: Even if he determines it, can you draw that line in the district?

MR. TROUNSTINE: I would think so.

MR. BELL: You think so, but I mean, can you (Moore) draw it?

MR. MOORE: We can't draw it alone.

H.M.JR: I have to stop. What are you doing right now, Dan? You sat in on this thing.

MR. BELL: I have an appointment at five o'clock. I can delay that, though.

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MR. TROUNSTINE: Do you want to hear the memorandum?

MR. BELL: Do you want to go ahead with something else?

H.M.JR: See if you could shoot Hap Young in here. I want to see what has happened since he has been with Gamble.

Do you mind swapping districts with me? You take the Cleveland bunch and let me have back the Seventh.

Bell and I are just one on this thing.

MR. MOORE: Mr. Secretary, we don't want to be stubborn and obstinate about this, and we don't want to go into something we think is wrong without your knowing we think so.

H.M.JR: Do you mind pouring it on Bell? He is a young fellow. (Laughter)

Washington, D. C.,
February 19, 1943.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

Pursuant to your request, representatives of the Ohio War Savings Staff and the Federal Reserve Bank of Cleveland, have twice met and have tried to reach an agreement as to coordination of their respective activities in the April drive. It was found that their difference could not be resolved and that each would submit his own recommendations. The undersigned, as authorized by Mr. M. J. Fleming, President of the Federal Reserve Bank of Cleveland, respectfully submits the following recommendations for the purpose of accomplishing a coordinated and effective effort to produce maximum sales of Government securities in the April drive.

1. The War Savings Staff will continue to function independently in the following:
 - (a) Payroll allotment plans and promotion.
 - (b) War stamp sales and promotion.
 - (c) Other special situations now in operation, such as radio station, department store, and other special issuing agents, except banks and savings and loan associations.
2. The Presidents of the Federal Reserve Banks as representatives as well as fiscal agents of the Secretary of the Treasury will have charge of solicitations for and sale of all Government securities, except in those fields listed above, during the month of April.
3. An over-all quota for the District will be established for an aggregate of all issues, including Series E.
4. Publicity and advertising will be directed to the achievement of the over-all quota.
5. A Directive is to be issued by the Secretary of the Treasury, to all State Administrators of the War Savings Staff, to cover the foregoing and to instruct them to offer the services of their personnel residing in the counties within the boundaries of their district, not engaged in the work set forth in paragraph one, to the Presidents of their respective Federal Reserve Banks; and these Presidents may use them wherever they think best, in collaboration with and through the channels of such State Administrators.

John S. Fleck

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John S. Fleck

February 19, 1943
4:55 p.m.

FINANCING

Present: Mr. Buffington
Mr. Young
Mr. Patton
Mr. Isbey
Mr. Collins
Mr. Gamble

H.M.JR: I asked you gentlemen - you are my Exhibit A - I just sent Cleveland out.

Have you had a conference with Buffington?

MR. YOUNG: Yes.

H.M.JR: Let's just start with George. George, what criticism have you got? Where do you think, my Washington manager of the Victory Fund, that this won't work?

MR. BUFFINGTON: I think this plan will work. I am sure it will work in the Seventh District.

H.M.JR: If it will work in the Seventh, why won't it work in the other eleven?

MR. BUFFINGTON: Personally, I can't see any reason why it shouldn't work in all districts. You know of the difference in some of the other places.

H.M.JR: But from your standpoint, it looks all right?

MR. BUFFINGTON: It looks practical and looks as though it should work.

H.M.JR: Can you gentlemen stay in town a little bit longer? I need you as an exhibit. Have you got a place to sleep?

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MR. YOUNG: Yes, sir.

H.M.JR: Do you mind sticking around for a day or so? It is pretty important to me.

MR. ISBEY: One day - I have been here since Monday.

H.M.JR: Since Monday? Stay around one more day, anyway. Can some of you stay Saturday and Sunday if necessary? It will save you a lot of time in the long run, because what I am trying to do is get the thing settled.

MR. ISBEY: I would do everything I could, except in Holland we have seven plants on Monday. Maybe until Sunday if I can get up there Monday morning.

H.M.JR: I want to save everybody's time. I want to get this thing settled and then send you home and let you go to work, and then Washington won't bother you any more - much. (Laughter)

MR. YOUNG: We have our reservations for Sunday afternoon, Mr. Secretary.

H.M.JR: I don't see why that won't be all right.

I am going to try to delay this at least until the middle of April. While waiting, one of the things we can do, we can go to the banks on that first two billion dollar loan the beginning of April instead of the end of April, which would give us - we could run almost to the end of April if we wanted to.

(Mr. Gamble entered the conference.)

MR. YOUNG: Would you have two maturities?

H.M.JR: We are talking of two. Supposing we sold a seven-eighths note again something like that - if we do that we can go to the end of April - we can go certainly to the end of April.

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MR. YOUNG: The 15th would be better than the 5th if you have the bank drive first - put it off, give us more time to organize and get busy.

H.M.JR: Give you until when?

MR. YOUNG: Say the 15th of April.

H.M.JR: I told OWI we wouldn't start until the middle of April and I think we may not start until the first of May. I will give you all the time I can.

Ted, I have asked Buffington whether he had any suggestion to make after talking with these people, and he said no, that he was satisfied.

Now I ask you to talk with them, and I would like to get the benefit of your suggestions.

MR. GAMBLE: I have suggested to them, Mr. Secretary, that I thought that to accomplish the good that I know you want to accomplish - and I think that it is essential that we have everybody's spirit in this, and we have a green light all the way down the line - that it would be well to go a step further than this and try to set a pattern for the future as well as this month. I don't think a temporary arrangement will work out.

H.M.JR: How much further would you go?

MR. GAMBLE: I would go all the way. I would settle it.

H.M.JR: How?

MR. GAMBLE: I recommended the plan for it.

I went over it with Mr. Young. I think he thinks it would work. I think Mr. Patton thinks it would work.

H.M.JR: What is that? I haven't talked to anybody.

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MR. GAMBLE: I recommended we go ahead and put these two organizations together now, and that we put them in charge of the Federal Reserve people so that we are assured that we have everybody's help.

Now, you will find as you talk to these other States, Mr. Secretary, that I think Chicago is a little bit of an exception. I think we have a particularly friendly relationship out there between Mr. Young, Mr. Collins, and Mr. Patton, and Mr. Isbey. All of them are working very well together. I think it is easier for them to adjust themselves to a temporary program than other sections of the country. I am not thinking alone of their particular problem in the Seventh District, because if they are the only people who have a plan that works, it isn't going to help the program. I am thinking of something that will work for all of them. I think you are going to have to settle the problem of putting these two organizations together.

H.M.JR: How would you put them together?

MR. GAMBLE: In the manner that I recommended.

H.M.JR: I don't see - you will have to explain it to me - refresh my memory.

MR. GAMBLE: My recommendation was that we set up an executive director here, and under the executive director the presidents of the twelve Federal Reserve Districts as supervisors of all the War Bond operations both as to special drives and as to continuing operations; that under the twelve Federal Reserve presidents that we have an administrator in every State.

The problem of whether it would be confined strictly to the State lines or whether there would have to be some division of lines within a Federal Reserve district, I left open because I think the presidents are better qualified to answer that problem. But under them they would have an administrator who would have all of these forces united twelve months in the year. When you came

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up to one of these drives, then turn the whole organization loose on it. Then you would have the special drives which would, in effect, be the same thing as the Victory Fund Committee, today, headed up by some sales head, and he would spend all of his time from one drive to another planning with all of the people in War Savings, or War Bond, or War Financing, or whatever you call it, for the big jobs that lie ahead.

H.M.JR: You may be right, but I am a little fearful that if I try to force that now, I would just have too much trouble, that is all.

MR. GAMBLE: I think it is the only way you are going to get these people to really work, Mr. Secretary.

H.M.JR: Here is the only Federal Reserve district I have been able to get to come to a volunteer agreement.

Now, Coyne made a suggestion - I am just thinking out loud - which was a little bit different. He said to make the president of the Federal Reserve the Treasury representative, and then have a State organization for the Treasury and go back to, say, the way it was in New York, where Perry Hall used to be a section under our War Bond administrator. That is the way he was last May. Is that what you have in mind?

MR. GAMBLE: Not the same. I think you have to set a pattern for this job. In other words, I think that the special drives committee, which would be set up alongside of the War Savings organization, has to take on more importance than we have ever given to any particular operation because I think one recognizes, Mr. Secretary, that on them falls the big responsibility for financing the war.

H.M.JR: On whom?

MR. GAMBLE: On the special drives committee which would take the place of the Victory Fund. But for them to do their job now or later they are going to have to have the help of the retailers, they are going to have to have the help of the farmers, and of everybody in the community.

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Now you have an organization today that spent two years organizing these various groups. If you want to get the real benefit of those groups - you may not need to in April, but certainly before we get through - you ought to put them together.

H.M.JR: Let me sleep on that.

MR. GAMBLE: I went through this in detail with Mr. Young and Mr. Patton, at your suggestion. They, I think, agree on it. Mr. Isbey doesn't.

H.M.JR: Let's go left to right.

MR. PATTON: I agree on it, with some modifications. In the first place, I agree with Mr. Gamble, entirely, that there ought to be one organization. I think if you were going to ask the Federal Reserve bank presidents to take the responsibility of managing that organization, they ought to have the decision as to how it is going to be set up. I wouldn't diagram it for the new management quite the same as Mr. Gamble has.

MR. GAMBLE: You have the organization, Mr. Patton - you don't mind my answering this as we go along? We have the organization. Mr. Patton is going on the assumption that we would organize an entirely new group like the Thomas recommendation. I think that the war will be over before we get them all organized.

I think we ought to take advantage of what we now have. I think it is up to the president of the Federal Reserve district to adjust himself and his organization as quickly as he can to the job he has to do. Certainly, if he starts with something, he is going to do it faster than if he started with nothing.

MR. PATTON: Pardon me for differing with you, but I only mean to make myself clear. I only mean I would certainly expect them to take advantage of what exists. I wouldn't tell them exactly how they were to take advantage of it. I wouldn't put a new management under

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the Secretary's direction and say to do it this way or that way.

MR. GAMBLE: That wasn't a part of the plan.

MR. PATTON: In other words, my diagram wouldn't come down as far as yours.

MR. GAMBLE: It would go down to the Federal Reserve bank and stop. I am interested in what we have been doing for two years and not throw it out the window.

MR. PATTON: They have a chance to find it out and wouldn't throw it out the window.

MR. GAMBLE: We would be guilty of folly, to do that. That is something I think they would determine themselves. You can't give them a job and tie them up; I agree on that.

MR. PATTON: That is all I am saying.

MR. GAMBLE: That is not part of my recommendation.

MR. PATTON: It is part of the chart.

MR. GAMBLE: The chart takes advantage of what I now have. I don't think you can say you are going to throw this or that away, or anything else. You have to work it out.

MR. PATTON: You don't have to tell them just how they are going to use it.

H.M.JR: Did I interrupt you?

MR. PATTON: No, sir. I just want to make it clear that Mr. Gamble and I are in exact agreement that there ought to be one organization and it would be much superior to a patchwork job. That is my own personal opinion.

H.M.JR: But for the April drive?

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MR. PATTON: Of course, I was encouraged by having Mr. Gamble agree with what I have felt right along, that if the thing could be done and could be on a permanent basis, that it could be effective for the April drive. That is my own feeling, but lots of people down here have told me it couldn't be done. Mr. Gamble thinks it could, and so do I.

MR. ISBEY: I think that we ought to go all out together on this drive, and that we can make the quota and that you ought to give it serious consideration, because there are other things involved here than just we can settle as an over-all picture, and to see this drive function together, now, I think that you would get into the same thing we are talking of here between Mr. Gamble and Patton - of who is good and who is bad.

Your orders as a directive is to everybody. Both groups are to get in and pitch and do this job. You could see how they function, and certainly know they are delivering the goods.

H.M.JR: George, do you want to get in on this?

MR. BUFFINGTON: I believe in the one organization, but I question that you have the time between now and the April drive to consolidate and work out a permanent organization. I think the plan that we have now, if it will work in all districts as well as in the Seventh, or as well as I know it will work in the Seventh, I think we ought to work it out and if it proves to be a good plan, then later give that responsibility to the Federal Reserve presidents and let them decide how they would best utilize all the available personnel that is now working for the Treasury.

H.M.JR: Mr. Young?

MR. YOUNG: I went over this plan with Mr. Gamble, and I agree substantially with him. But my only thought

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about this was that we didn't have sufficient time. I agree with Mr. Buffington. This agreement we drew up here was, as far as our district is concerned - I believe that is the only feasible plan, right now.

Maybe Mr. Gamble is right that we could do it now. That would be desirable, of course, if we could, but I just question whether we have sufficient time.

H.M.JR: Mr. Collins?

MR. COLLINS: I believe we have to have such a plan, Mr. Secretary, and I am agreeable to putting it in as soon as we can. As long as we can't sell Mr. Patton on the last plan, I think Mr. Gamble's plan works out very well. I question whether we have enough time to do it. I would like to see it done.

H.M.JR: Well, I think we all feel that eventually we are going to have to have a Treasury sales organization. That isn't a very good name, but I can't think of a better one for the moment. Somebody can. But I mean a Treasury bond selling organization.

MR. ISBEY: War Finance.

MR. GAMBLE: I think that is very reasonable that you have to adopt some plan right now, because in the minds of these people is going to be the thought that there is going to be something, and they are going to be confused and say, "What is it going to be? Is this something we are going to be doing temporarily, or something we are going to continue to do?"

H.M.JR: As of tonight, if I could put this across I would be satisfied. I can put it across because if I want to ask the people, I am sure they will do it. I am hesitant about going the whole way at this time because I am not sure enough.

I don't think, even if I drew a directive from this memorandum and then gave it out, I wouldn't expect

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that each Federal Reserve bank president - each of the twelve districts - would carry it out the same way, any more than the twelve districts or the Victory Fund, all use the same tactics.

MR. GAMBLE: Not expect them to be generally embarked on the same kind of a program?

H.M. JR: Yes, lay down a directive, and if necessary, in a week or so if it didn't go, I would fly to the district and sit with the people and get the thing straightened out. But just the way the Victory Fund used certain tactics in New York, and in Chicago they used others. In New York they have teams of banks, as I don't think you did. Each bank had a team by the name of the bank. That didn't mean that Chicago had to have a team. I believe it worked, and they had competition between the banks. Isn't that the way it worked?

MR. PATTON: Each bank went out against the other.

H.M. JR: It seemed to work in New York, but not in Chicago. It wouldn't have to be completely tight, but they would know that this man, as the fiscal agent for the Treasury, was the boss of the district.

MR. BUFFINGTON: That is why you want to stop with leaving that responsibility with the Treasury. He knows conditions in his district.

H.M. JR: He would have the authority to ask each State administrator to cooperate with him. Then it would be up to the State administrator of War Bonds to see that they came through.

MR. GAMBLE: I think that is fine, as far as that goes, and the State administrator would, but he can't deliver the people to the president of the Federal Reserve unless he can tell them where they are going.

H.M. JR: Well, he will have to work it out. Let this thing - he will be able to tell them.

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MR. GAMBLE: Of course, I think probably you will want to discuss this after you have heard from all your districts, because you are going - as I understand, you are going to take a composite.

H.M.JR: Yes, I have to hear from New York and Philadelphia, tomorrow.

I don't think I can go much further tonight.

Thank you all, and if you will be on hand in the morning--

MINUTES OF MEETING

140-A

February 19, 1943, 11:00 A. M.
Economic Stabilization Board
East Wing, White House

Present: The Director (Presiding)
Mr. Wickard
Mr. Jones
Miss Perkins
Mr. Bell (Acting Secretary of Treasury)
Mr. Smith
Mr. Brown
Mr. Davis
Mr. Eccles
Mr. McNutt
Mr. Flanders
Mr. Green

1. The Director announced that, between December 15, 1942 and January 15, 1943, the cost of living had risen .2 of one percent, the smallest increase in many months. Miss Perkins stated that this increase was due principally to the rise in price of milk and fuels. The Director expressed the opinion that this reduction in the rate of increase was a favorable sign. Miss Perkins also remarked that newspapers had all increased their prices recently, and Mr. Brown stated that the news print industry is requesting an increase in price of their commodity.

2. Mr. Brown summarized a statement, later circulated among the members of the Board, with reference to the effect of the President's 48 hour week Order upon the cost of living. He stated that, in general, the profits of industry were ample to absorb whatever cost increases would be entailed by the increased overtime payments. The total increase in costs will not amount to more than \$1,100,000,000, and probably less than this sum, since most of the retail and service industries are not subject to the overtime requirements of the Fair Labor Standards Act. On the other hand, industrial profits for 1942 were about \$19,000,000,000. Mr. Flanders commented upon the misleading interpretation which the New York Times and other newspapers had placed upon this Executive Order. Mr. Davis commented that often there might be an increase in the utilization of existing plant and the existing labor supply which would in part compensate for the increased overtime payments. Miss Perkins expressed the opinion that the inflationary effect of the Executive Order will be very small; and that the real problem is the increased purchasing power already created by increased employment.

Mr. Eccles stated that, while industrial profits in general may be higher, there may be a number of consumer goods industries in which the margins are not sufficient to absorb the increased overtime payments. Mr. Wickard shared this apprehension, and felt that in the

food industry there might be some danger that the increased cost would be rolled back upon the farmer. The Director stated that, on the other hand, application of the 48 hour work week would release more than a million workers, thereby easing the pressure on the agricultural labor supply.

Mr. Green also called the board's attention to the fact that the resourcefulness and skill of management and labor would uncover ways and means of increasing efficiency so as to absorb a measure of the cost increase necessitated by overtime payments. Mr. Flanders stated that the problem of overtime in connection with the increased work week is not essentially a wage problem. A large number of workers in heavy industry have already been working 48 hours or more, so that elimination of the overtime pay would constitute for them a sharp cut in the weekly pay envelope. Mr. Flanders expressed the opinion that the elimination of overtime in his own plant, for instance, would have a very unfavorable effect upon morale and production.

Mr. Sciles agreed that it would be impossible to eliminate overtime pay at the present time when so many workers are already receiving it. Therefore, he suggested the payment of premium wages in war bonds, and the deduction of 60 percent of overtime pay from income taxes by those employers who are not in the excess profits bracket. This, he felt, would sterilize the increased purchasing power, and overcome the resistance of employers to increased costs. Mr. Davis replied that the proposal of Mr. Sciles might simply result in the reduction of existing War Bond purchases by workers. Mr. Sciles stated that British and Canadian experience might give rise to a contrary inference.

Mr. McNutt read to the Board a general description of the manner in which the War Manpower Commission proposed to apply the 48 hour work week in the various industries and regions. This memorandum was later circulated among the members of the Board.

The Board adjourned at 1:10 to meet again on March 5, 1943.

February 18, 1943

**THE EFFECT OF A MANDATORY 48-HOUR WORK WEEK
ON PRICE CEILINGS IN CIVILIAN INDUSTRIES**

A mandatory 48-hour work week with time-and-a-half for all hours in excess of 40 would increase average hourly earnings in all industries in which the scheduled work week is less than 48 hours. If output per man-hour remains unchanged, this would result in an increase in labor cost per unit of output. Whether price ceilings would be affected depends upon the profit position of the industry affected—its ability to absorb the increase in cost of production.

In the durable goods industries generally the scheduled work week with few exceptions is currently above 48 hours. In these industries, therefore, average hourly earnings and labor costs of production would not be affected by the institution of the longer work week. In the nondurable industries, on the other hand, the scheduled work week is generally below 48 hours. In these industries the 48-hour week would result in an increase in labor costs. The profit position in the nondurable industries, however, apart from individual firms and industries whose output will be sharply curtailed, is so favorable that the increase in labor costs could be absorbed without undue impairment of profits.

Effects Upon Average Hourly Earnings and Annual Payrolls

In estimating the effects of a 48-hour week, it is important to distinguish between the length of the scheduled work week and the BLS measurements of average weekly hours of employment. The former refers to the number of hours which the employee is expected to work; the latter, to the average hours actually worked per week by all wage earners on the payroll for any part of the pay period. Because of such factors as labor turnover and absenteeism, average weekly hours of employment in general fall short of the scheduled work week by about 2 hours.

Table 1, attached, shows for all important segments of nonagricultural industries, as of October 1942, annual payrolls, average weekly hours of employment, and the percentage increase in average hourly earnings and the dollar increase in total payrolls which would result from application of a 48-hour work week.

Durable Manufacturing

In the field of durable manufacturing, average weekly hours of employment stood at 45.7 in October 1942. Taking account of the factors of absenteeism and labor turnover, a 48-hour work week applied in October would have increased average hourly earnings by 1 percent and would have increased annual payrolls by \$157 million. While the figures are

not available on a current basis, average hours worked per week in the durable industries have increased since October. The cost of a 48-hour work week today would, therefore, be substantially below the figure cited.

Nondurable Manufacturing

In the nondurable field, average weekly hours of employment in October were 40.6. A 48-hour work week applied in that month would have increased average hourly earnings by 4.2 percent and would have added \$346 million to annual payrolls. Here again, although the precise amount cannot be estimated, the present cost would fall considerably short of this figure.

Retail and Wholesale Trade

Concern is frequently expressed that a 48-hour week would exert acute pressure upon costs in the fields of wholesale and retail trade. In October 1942, average weekly hours in wholesale trade were 41.7. Had a 48-hour week been instituted in October, it would have resulted in an increase of 3.7 percent in average hourly earnings and an increase of \$105 million in annual payrolls. In the case of retail trade, the comparable figures are 4.4 percent increase in average hourly earnings and \$193 million increase in annual payrolls.

There are two factors, apart from the increase since October in average weekly hours of employment, which would cut the cost substantially below these estimates. First is the fact that 25 percent of the workers in trade work for firms employing 8 or fewer. Inasmuch as the employees of such firms would probably be exempt, the cost would be reduced by approximately one-quarter. Second, in retail trade average weekly hours of employment stand at a low figure for the reason that a considerable fraction of the working force is employed upon a part-time basis, to meet the pressure of peak shopping loads. While the scheduled hours of employment in retailing can be raised, the pressure of peak loads places definite limits upon the extent to which part-time work can be eliminated. Furthermore, the workers engaged in this part-time work are to a large extent available only upon that basis.

In the field of mining, particularly anthracite and bituminous coal, average weekly hours of employment are low. In both these cases the scheduled work week in October was 35 hours. This work week will be increased to 42 hours when current negotiations with the coal industry and the mine workers are completed. The result will be an increase in average hourly earnings of 8.3 percent and an increase in payrolls of \$9 million for anthracite and \$60 million in the case of bituminous coal.

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While profits in this industry have increased enormously from peacetime levels, the existence of a very large number of high-cost marginal mines has induced the QPA to undertake to raise the price of coal to cover the increase in labor costs.

A scheduled 42-hour work week in the field of coal mining, it should be noted, is the equivalent of a scheduled 48-hour work week in other industries because of the time required getting down to and up from the working levels of a mine.

The Absorbability of the Labor Cost Increase

The increase in labor cost per unit of output which would result from the general application of a 48-hour week will present little threat to price ceilings. This is indicated by the profit developments of recent years, which are shown in Table 2.

While specific profit data, industry by industry, on a basis strictly comparable to the industrial breakdown shown in Table 1 are not available at this time, the over-all profit position, together with such profit data for major industries as are available, leave little room for doubt on this score. Strictly comparable profit data are now being prepared.

The major fields in which increased labor costs will present a problem are those in which output or sales will be sharply curtailed. These include the fields of retail and wholesale trade, paper and pulp, and pottery. In these fields and possibly others as the manpower shortage becomes more acute, price relief may be required before the end of 1943. Even in these cases the outcome, however, is open to doubt. It should be noted that increase in the length of the working week will reduce the pressure on manpower and therefore the need to reduce output for this reason.

While there is little likelihood that price ceilings will be threatened by the 48-hour week, there will, of course, be many individual firms, the high-cost marginal producers in almost every field, which will require relief. At this time it is difficult to say how large this number may be.

Attachments 2

Table 1. Estimated Maximum Additional Costs of Overtime Premiums Under
A 48-Hour Work week in Non-Agricultural Industries

Industry	Payrolls (annual rate in millions of dollars)	Average Weekly Hours	Percent Increase in Average Hourly Earnings if Hours are Increased to 48 ^b	Increase in Payrolls (annual rate in millions of dollars)
All manufacturing	24,524	43.6	2.1	503
Affected	17,643	-	2.9	503
Not affected	6,881	-	- 2/	-
Durable goods	16,284	45.7	1.0	157
Affected	9,517	-	2.3	157
Not affected	6,767	-	- 2/	-
Non-durable goods	8,240	40.6	4.2	346
Affected	8,126	-	4.3	346
Not affected	114	-	- 2/	-
Iron and steel and their products	3,546	43.4	2.3	81
Electrical machinery	1,263	40.4	- 2/	-
Machinery except electrical	2,760	48.6	.1	2
Transportation equipment ex- cept automobiles	4,932	47.1	-	-
Automobiles	1,294	44.9	.8	10
Non-ferrous metals and their products	802	45.6	.5	4
Lumber and timber basic products	649	42.5	3.0	20
Furniture and finished lumber products	498	42.8	2.6	13
Stone, clay and glass products	580	39.8	4.6	27
Textile mill products and other fiber manufacturers	1,632	40.4	4.7	76
Apparel and other finished tex- tile products	1,006	36.8	6.6	67
Leather and leather products	457	38.9	5.6	25
Food and kindred products	1,596	41.9	3.6	57
Tobacco manufactures	113	40.4	4.6	5
Paper and allied products	485	43.4	2.0	16
Printing, publishing, and allied industries	568	38.5	5.9	33
Chemical and allied products	1,224	40.3	3.4	42
Products of petroleum and coal	377	40.5	4.8	13
Rubber products	313	42.7	3.0	9
Miscellaneous manufacturing industries	569	44.1	1.6	9
Construction				
Non-federal	1,348	38.0	1.3	82
Federal	2,600	40.8	2.7	114

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Industry	Payrolls (annual rate in millions of dollars) ^{a/}	Average Weekly Hours	Percent Increase In Average Hourly Earnings if Hours are Increased to 48 ^{b/}	Payrolls (annual rate in millions of dollars)
Railroads, Class I	3,392	48.3	- 2/	-
Public utilities, not in- cluding railroads	1,785	42.6	3.5	62
Trade				
Wholesale	2,847	41.7	3.7	105
Retail	4,393	40.9	4.4	189
Mining				
Anthracite coal	111	35.1	8.3	9
Bituminous coal	717	34.2	8.3	58
Metalliferous	178	44.0	1.8	3
Quarrying and Nonmetallic	80	43.7	.1	-
Crude petroleum	162	39.8	5.1	6
Services	619	44.0	1.6	18

- ^{a/} Based on average weekly wages in non-agricultural industries as of October 1942.
- ^{b/} Percent increase in average hourly earnings was computed on the assumption that a scheduled 48-hour work week means an average work week of 46 hours.
- ^{c/} Excess of average work week of 46 hours.

Source: Except for railroad data which were derived from Interstate Commerce Commission M-900, October 1942, the figures were derived from Bureau of Labor Statistics, Employment and Payrolls, and Hours and Earnings, December 1942.

Office of Price Administration
Division of Research
February 18, 1943

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TABLE 2

PROFITS BEFORE FEDERAL INCOME TAXES, 1936-1942

	1936-39 Average	1936	1937	1938	1939	1940	1941	1942 (Est.)
	(dollars in billions)							
Mining and Manufacturing.....	\$2.83	\$3.29	\$3.41	\$1.29	\$3.31	\$5.11	\$9.50	\$13.50
Trade and Service.....	0.68	0.79	0.72	0.39	0.81	1.13	2.20	2.50
Transportation and Public Utilities...	0.69	0.69	0.78	0.40	0.87	1.18	2.00	3.30
	Indices 1936-39 = 100							
Mining and Manufacturing.....	100	116	120	46	117	181	336	477
Trade and Service.....	100	116	106	57	119	166	324	368
Transportation and Public Utilities...	100	100	113	58	126	171	290	478

Source: From 1936 to 1940, inclusive — Statistics of Income, Bureau of Internal Revenue; 1941 and 1942 estimated by OPA Statistical Branch.

U. S. DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
WASHINGTON

February 18, 1943

MEMORANDUM

To: The Secretary
From: A. F. Hinrichs
Subject: Significance of the 48-Hour Standard Workweek for the Problem of Economic Stabilization

1. The Executive Order establishing a 48-hour schedule as the standard workweek in the United States was limited in its application, by authority of the War Manpower Commission, to only a small segment of industry. Not only was its application restricted to 32 designated labor market areas, but provision was made for exemption - generally on an establishment basis - wherever the War Manpower Commission deemed its application inexpedient or unnecessary.
2. The potential inflationary effect of the overtime premium upon wage payments is, therefore, rather negligible because of the restricted geographic application of the Executive Order and industry or establishment exemption within tight labor market areas; because the overtime provisions of the Fair Labor Standards Act do not cover broad areas of employment; and because a large part of industry (manufacturing, particularly) was already working beyond 40-hours and paying overtime.
3. Weekly hours actually worked in the durable manufacturing industries averaged 46.2 in December 1942. The scheduled workweek in these industries, therefore, generally averaged 48 hours or more - actual hours reported necessarily average less than scheduled hours because of new hires, separations, and absenteeism. Even in the nondurable goods industries, which averaged 42.1 hours of actual work in December, many establishments were operating on 44 and 48-hour schedules.
4. How small the potential increase in pay rolls in manufacturing would be is indicated by an estimate of the Bureau of Labor Statistics, which shows that if the Executive Order was enforced in all areas of the country, without any exemptions, factory pay rolls would rise by less than 3 percent, or less than \$750 million on an annual basis. (See attached table).
5. Therefore, while it is true that an individual formerly working 40 hours would receive a pay increase of 30 percent if he worked 48 hours and received time and a half overtime, the figure of 30 percent is not significant either from the cost point of view of the producer or from the point of view of the problem of inflation.

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6. There is not even a prima facie case for the argument that the payment of overtime will necessarily require an adjustment of price ceilings now in effect. At most, wage payments for a manufacturer would be increased by $8\frac{1}{3}$ percent - on the assumption that previously he was operating 40 hours and paying no overtime and, under the Executive Order, would now pay time-and-one-half on 8 additional hours. The effect of the overtime wage premium would be considerably smaller percentagewise because of the fact that labor costs are only a fraction of total costs of production. Detailed studies of individual industries and firms would be necessary to prove that commodity price ceilings would need to be increased in any particular case.
7. The mere fact that many plants preferred to remain on a 40-hour schedule is not conclusive proof that the overtime provision of the Fair Labor Standards Act was prohibitive from the point of view of production costs. Many other factors accounted for the decision of firms to remain on a 40-hour schedule. In an increasingly tight labor market, many firms wanted to retain a labor reserve to cover future losses to the armed services or to other industries. Many firms were not under pressure to extend hours because, even though they were losing workers to industries offering higher weekly earnings, their volume of output was declining. In many instances, workers were willing to remain in such establishments because, especially in the case of women, considerations of health and household responsibilities made overtime work undesirable. Further, in many establishments, the operating process was adjusted to a 40-hour schedule and it was convenient to continue on that basis as long as possible. (The continuous-process industries are special examples; more typical cases are to be found in the nondurable manufacturing group).
8. The amount of overtime premium to be paid because of the impact of the Executive Order is so negligible that it is a minor consideration in the general problem of inflation. It was the curtailment of consumer goods (in a situation of mounting wage payments) which gave rise to the inflationary gap, now estimated at between fifteen and twenty billion dollars. Further curtailment of consumer goods will intensify the inflationary danger more than the increased wage payments attributable to the Executive Order. Hence the argument that the Order is inflationary because individual workers will receive 30 percent additional wage payments for producing (approximately) 20 percent more output is not particularly relevant because it is highly unlikely that the volume of consumer goods will be maintained. The inflationary effect of the Order could be immobilized by payment of the overtime in the form of war bonds. But the general problem of inflation is little changed by the Order. Taxation, rationing, compulsory savings, cost subsidies and other devices are the measures of control by which the general problem of inflation is (and should be) approached.

February 19, 1943

ECONOMIC EFFECTS OF MANDATORY 48-HOUR WEEK

Marriner S. Eccles

Manpower Aspects:

It is essential that the 48-hour order be applied flexibly in each locality, if its inflationary potentialities are to be minimized. War Manpower Commission apparently is in agreement on this. Plans call for:

1. Exempting firms with less than 8 employees;
2. Exempting self-employed workers and domestic servants;
3. Allowing for technical production problems involved in balancing departments and maintaining smooth plant operations;
4. Allowing time for reaching a full 48-hour basis gradually;
5. Applying the order immediately only to the 32 labor shortage areas in which the Manpower Commission is prepared to utilize in other jobs workers released by the extension of hours; and
6. Exempting part-time workers.

In each case, the basic tests should be whether increasing hours to 48 will release manpower which can be transferred to good advantage or will increase output of war or essential civilian goods and services. If neither of these things is to be accomplished, hours should not be lengthened since longer hours may drive from the labor force workers (housewives, handicapped or older persons) who cannot work long hours, and premium rates for overtime will raise labor costs unnecessarily, reduce profits, and intensify pressure on price ceilings.

As a practical matter, forced reductions in hours should be made in some lines. Retail stores in some areas, for example, should be prohibited from working more than 30 hours. Such a limitation would force the stores affected to obtain their labor from among the pool of persons who can work part-time but who cannot work full-time. The growing necessity for bringing married women into the labor force in large numbers makes it imperative that opportunities for part-time employment be increased. This is entirely consistent with the requirement that the regular full-time labor force lengthen its hours of work.

The following estimates, obtained for confidential use, show the current pattern of hours worked by all persons engaged in nonagricultural activities (excluding armed forces). Average hours worked in January for all nonfarm persons was 44.8.

HOURS WORKED IN NONAGRICULTURAL ACTIVITIES
January 1943

	<u>Millions of nonfarm workers</u>	<u>Per cent of total nonfarm workers</u>
Total employed	42.3	100.0
Under 30 hours	3.8	9.0
30-34	1.4	3.3
35-39	1.5	3.5
40	8.8	20.8
41-47	5.1	12.1
48	11.5	27.2
49 and over	10.2	24.1

Similar data showing the distribution of hours are not available by industry. However, other figures available provide rough indications of the areas affected by the 48-hour order. Most industries manufacturing durable goods are already operating close to or above 48 hours. The only important exceptions are blast furnaces, steel works, and rolling mills, lumber, and furniture. As a group, industries producing nondurable goods average around 41 hours. Textiles of all kinds, leather goods, canning and preserving, tobacco, and printing and publishing average about 40 or less. Few nondurable industries average above 43 hours.

Several large nonmanufacturing industries work around 40 hours or less. Coal mining recently concluded agreements which will increase hours from 35 to 42. Telephone and telegraph, electric light and power, retail trade, and construction are all around 40 hours or less.

In general, the 48-hour order will affect nonwar industries and those whose products or services enter directly into the cost of living. Hourly wages in these industries are, on the average, somewhat below those in the industries already working overtime.

Reference to the table on page 2 shows that of the 42 million persons engaged in nonagricultural activities, nearly 22 million are already working 48 hours or more. An additional 5 million are working less than 35 hours and are mainly part-time workers who are unable to work full schedules. These two groups total 27 million. This number, at least, will not be affected by the 48-hour order. About 15 million persons are left whose hours might be increased. However, of the 15 million, it is estimated

6 million are exempt because they are self-employed, domestic servants, State and local government employees, or employed in establishments with less than 8 workers.

Therefore, if the order is applied throughout the country to all covered persons in surplus as well as in shortage areas and if no exemptions are made other than those listed above, about 9 million persons will increase their hours of work. On the average the 9 million affected will have to work 7 hours or 16 per cent more than in January to reach 48 hours. If total man hours, and presumably production, are held the same, this increase theoretically would make possible the release of about 1.3 million workers for service in the armed forces.

As a practical matter, it is unlikely that as many as 1 million workers will actually be released as a result of the order. Labor market frictions, such as geographic and skill immobilities, ability to transfer workers, etc., will limit materially the number released.

Cost-Price Aspects:

Not all of the 9 million workers whose hours will be increased are entitled by law to premium rates of overtime. However, collective bargaining agreements in some cases and the pressure of competition with firms paying premium rates will probably result in a large proportion of the 9 million receiving overtime rates.

Of the 9 million, it is estimated that about 3 million will increase their work week 9 per cent (4 hours), their average hourly earnings 4 per cent, and their weekly earnings 13 per cent. About 6 million will increase their work week 20 per cent (8 hours), their average hourly earnings 8 1/3 per cent, and their weekly earnings 30 per cent.

On the average, the 9 million will work a 16 per cent (7 hours) longer week, will earn 7 per cent more per hour and 24 per cent per week.

The average cost to the employers affected is a rise in unit labor costs of 7 per cent, if productivity per hour remains unchanged. If employers do not release any workers, their payroll will increase 24 per cent but this will be offset by a 16 per cent increase in output. If employers release an equivalent number of workers, the higher weekly wages paid will apply to a smaller number of workers.

If employers' labor costs represent one-fourth of total costs and other costs remain the same, employers' total costs will rise about 1.7 per cent. Unless costs can be cut, profits will be reduced, prices will have to increase, or direct or indirect subsidies paid to cover the rise in labor costs.

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The workers affected constitute a little over one-fifth of all nonfarm workers. An average hourly wage increase of 7 per cent for these workers represents an increase of about 1.5 per cent when it is spread over all nonagricultural wages and salaries. In terms of an \$80 billion wage and salary bill, this means a total increase, resulting from the 48-hour order, of around \$1.2 billion.

If total production and man hours are increased and all of the 9 million workers receive increases in weekly earnings averaging 24 per cent, the increase will amount to around \$4.5 billion. Except for the \$1.3 billion caused by payment of overtime rates, however, this amount is not attributable to the 48-hour order but to the fact that more man hours are worked. Except for premium rates it makes no difference whether total man hours are increased by longer hours for some persons or by shorter hours for more people.

On the whole, the net effect of the order is probably deflationary. Given a labor situation which is becoming increasingly tight, the 48-hour order creates more man hours than would have been available otherwise. If no action had been taken, employers would have been faced with hiring more untrained workers. Pressure for higher basic wages, both from employers seeking to hold or attract workers, and from workers, would have been intensified and might well have resulted in substantially higher basic wage rates and costs than those occasioned by this order.

Policies Required:

The rise in unit labor costs will be concentrated in those industries and services the prices of which enter directly into the cost of living. These industries and services are already being faced with higher costs because of sharp curtailment of supplies and equipment available to them. There is real danger that the higher costs will result in higher prices with consequent demands for wage increases. Strong action is required now to prevent the beginning of a new price-wage spiral.

On the income side, the increase in wage and salary income resulting from payment of premium rates for overtime, must not be allowed to increase further the disparity between spendable income and purchasable goods. To neutralize the inflationary effects of longer hours at overtime rates, workers should be required to accept in the form of war saving bonds, which are not redeemable until after the war, that portion of their weekly earnings which is attributable to overtime premiums. It would be unfair to apply this requirement only to those workers who receive premium pay as a result of the 48-hour order. For the most part, wages of workers whose hours are now being lengthened are below the wages of workers who worked long hours before the order. On equity as well as administrative grounds, it is undesirable to discriminate between persons receiving premium pay for overtime before and after the order. Therefore, it will be necessary to require all workers to accept war bonds for the amounts due them as premium wages for overtime.

On the cost side, it is clear that this order imposes higher costs on employers producing civilian goods and services. The extra costs of overtime rates are required because of the national interest in releasing manpower, in maintaining stable labor relations, and in preventing inflationary increases in basic wages. Employers in war industries who were working longer hours before the order have had the opportunity of including extra costs of overtime premiums in their cost-price structures and in their Government contracts. Therefore, employers whose labor costs increase as a result of the 48-hour order should be accorded similar consideration.

The best way to prevent hardship to employers whose labor costs advance is to allow adjustments in their tax liabilities. In most cases the Government will automatically absorb a sizeable share of premium payments. Net incomes will decline by the amount of increased labor costs and tax liabilities will fall accordingly -- by up to 90 per cent of premium payments in the case of excess profits corporations and by up to 40 per cent in other cases. Procedures should be devised to take care of the remaining portion of premium payments when relief is needed. One way of doing this is to grant additional relief to corporations without excess profits income. These would be allowed to deduct from their normal and surtax liability an amount equal to that part of their premium payments not already reflected in lowered tax liability.

The cost to the Government of granting these tax deductions to all corporations without excess profits that pay overtime is difficult to estimate. Such an estimate depends not only on the aggregate amount of premium payments but also on the way premium payments are distributed between corporations making excess profits and other corporations. In any case, it appears that the resulting reduction in tax receipts would be small relative to the costs of permitting prices to rise or of failing to utilize fully manpower available. The attached memorandum explains in more detail the proposal for tax relief to cover, where needed, the extra costs of overtime payments.

Conclusion:

The 48-hour order has come at a critical point in the battle to prevent inflation. It is important that the order not be allowed to become an instrument for breaking down the economic stabilization program. These suggestions if put into operation will neutralize the effect of premium payments on income, minimize the pressure on costs, and reduce resistance to the extension of hours at premium rates.

Attachment

AttachmentTax Relief to Offset Premium Wage Payments

The government will have to provide some relief for increased labor costs due to premium payments on overtime. The granting of tax credit is the best way to do it. It is simpler and less inflationary than an upward adjustment of price ceilings would be; it is less cumbersome than cash subsidies and less provocative a precedent for future subsidies. By providing relief through tax reduction, use is made of existing administrative machinery. Moreover, the tax method offers a relatively simple if approximate way of adjusting the amount of relief granted to the need of the corporations receiving it.

There is a clear case for selective and against general relief. To minimize the inflationary force of the relief provision, it should be restricted to those firms which have a real need for it. That is, only those corporations should be given relief whose net income after taxes has been depressed most. Desirable though it may be, it is impossible to handle the problem on an individual firm basis. Some general demarkation line must be drawn and an obvious way to draw it is between corporations with and corporations without excess profits income. The criterion should be established that premiums for overtime should be absorbed in excess profits income if possible, but that they should not be permitted to reduce normal corporate net income after tax. If premium payments result in a reduced normal income after tax the Treasury should assume the burden by way of tax reduction.

The distinction between excess profits corporations and others is admittedly arbitrary. However, it is convenient because it coincides with that drawn in the tax law and it is no more arbitrary than any other demarkation would be. Against applying this distinction here it may be held that the relief thus provided would be too liberal in many cases. Surely, it could not be held that the relief would be insufficient and that excess profits corporations should be given similar credits. Excess profits corporations will be reimbursed automatically and without specific relief provisions for up to 90 per cent of premium payments due to reduced excess profits tax liabilities.

Tax Relief for Corporations

a. A corporation with no excess profits income would be permitted to deduct from its normal and surtax liability such part of premium payments as is not absorbed automatically in a reduced corporate income tax liability. A corporation with net income above \$50,000 and a combined normal and surtax rate of 40%, would thus be permitted to offset 60% of its premium payments against its tax liability. Thereby net income after tax would be restored to exactly the amount obtained prior to premium payments (see attached illustration). Clearly, it would be excessive to permit the deduction of the full amount of premium payments, since taxes are automatically reduced by 40 per cent of premium payments (or by a smaller percentage if a lower surtax rate applies) due to a reduction in surtax net income by the amount of premium payments.

Attachment - page 2

One major exception to this rule would be necessary. If the sum of premium payments and net income exceeds the excess profits credit, it follows that the corporation would have had net income subject to excess profits tax had no premium been paid. ^{1/} A part of the premium cost equal to the amount of this potential excess profits income is automatically offset by a reduced excess profits tax liability; no additional relief is required against it. The offset against normal and surtax liability should, therefore, be 60 per cent (or less, if a lower surtax rate applies) of residual premium payments only, i.e., total premiums minus the potential excess profits income thus computed.

In most cases, normal and surtax liability would be sufficiently large to permit the full offset of the premium credit (i.e., that part of overtime payments not automatically reflected in a lower tax liability). Where the tax liability would not suffice, the corporation should be permitted to carry the offset credit forward for a number of years. If it were desired to limit the credit more narrowly, provisions along these lines might be included: (1) Relief might be restricted to an amount which does not raise net income after taxes above last year's figure; (2) Relief might be restricted to an amount which, if added to surtax net income does not raise the total above, say, 80 per cent of the statutory excess profits credit.

b. A corporation with excess profits income would be given no relief beyond that provided automatically through reduction in excess profits liability. Had premium payments not been made, excess profits would have been increased by the amount of premium payments and excess profits tax liability would have exceeded actual liability by up to 90 per cent of this amount. ^{1/}

Tax Relief for Noncorporate Business

The above plan applies to incorporated business only. It might be supplemented by a corresponding credit against personal income tax liability on income arising from business sources. A provision of this kind would be more difficult, however, and perhaps less necessary. If establishments employing less than eight persons are to be exempted from the 48-hour requirement, a relief provision applicable to corporations should cover the large majority of cases. Also, it is likely that many small businesses have been on a 48-hour basis for some time and have therefore had an opportunity to adjust their price-cost structure accordingly.

^{1/} It is assumed that prices and hence sales receipts would have been the same, notwithstanding the lower labor cost.

Attachment - page 3

If tax relief was to be provided to non-incorporated business the line between needy and other cases would be difficult to draw. No existing statutory distinction between normal and excess income could be referred to. Possibly a tax credit (for premium payments not automatically reflected in a lower personal income tax liability) could be made dependent on and be adjusted to a decline in the ratio of net profits from business to total business receipts below the ratio shown for the preceding (or another base) year. Cases of greatest hardship might be met more simply by permitting partial offset of premium payments against income tax liability if a net loss is shown from business income.

ILLUSTRATION

TAX RELIEF FOR PREMIUM WAGE PAYMENTS

Corporation Income Tax	With 40 hour week	After change to 48 hours ^{1/}	
		Present law	Proposal
1. Gross sales	1,000,000	1,000,000	1,000,000
2. Cost of goods sold			
a. Wage cost (basic rate)	300,000	300,000	300,000
b. Wage cost (premium)	--	25,000	25,000
c. Other cost	300,000	300,000	300,000
d. Total (a + b + c)	600,000	625,000	625,000
3. Gross profit from sale (1 - 2d)	400,000	375,000	375,000
4. Deductions	300,000	300,000	300,000
5. Net income (3 - 4)	100,000	75,000	75,000
6. Partially tax exempt income	5,000	5,000	5,000
7. Adjusted net income (5 - 6)	95,000	70,000	70,000
8. Income subject to excess profits tax ^{2/}	--	--	--
9. Normal tax net income (7 - 8)	95,000	70,000	70,000
10. Surtax net income (5 - 8)	100,000	75,000	75,000
11. Tax:			
a. Normal tax (24% of 9)	22,800	16,800	16,800
b. Surtax (16% of 10)	16,000	12,000	12,000
c. Total tax	38,800	28,800	28,800
12. Net income after tax (5 - 11)	61,200	46,200	46,200
13. Tax credit (60% of 2b)	--	--	15,000
14. Adjusted tax (11 - 13)	--	--	13,800
15. Net income after adjusted tax (5 - 14)	--	--	61,200

^{1/} Total hours of employment remain unchanged but workers previously employed at 40 hours are shifted to a 48-hour week; the labor force is thus reduced by 1/6. Time-and-a-half is paid for overtime.

^{2/} It is assumed that the statutory excess profits credit exceeds \$100,000 (item 5) plus \$15,000 (item 13).

OFFICE FOR EMERGENCY MANAGEMENT
WAR MANPOWER COMMISSION

WASHINGTON, D. C.
 February 18, 1943

Chairman
PAUL V. McNUTT
 FEDERAL SECURITY ADMINISTRATOR

MEMORANDUM

TO: **Mr. James F. Byrnes**
 Director, Office of Economic Stabilization

FROM: **Paul V. McNutt**
 Chairman, War Manpower Commission

SUBJECT: **Executive Order 9301**

I. Steps Taken to Effectuate the Order

A. Scope of Application

In taking steps to carry out the President's Order, I have interpreted the purpose of the Order to be the conservation of manpower for purposes essential to the war. Accordingly, I have taken steps immediately to provide for application of the Order in those areas and those industries in which the shortages of labor warrant such action. Furthermore, I have delegated to the Regional Directors of the War Manpower Commission the authority to extend the application of the order to areas and industries where in their judgment the 48 hour week will aid in alleviating labor shortages that are impeding the war program. In formulating regulations and procedures to carry out the order, I have specifically avoided applying it immediately in areas and industries where its net effect would be merely to release workers who could not be readily absorbed in employment and who would, therefore, remain unemployed.

Similarly, I intend to issue specific orders, applying the 48 hour week to essential industries, whose operations are impeded by labor shortage but which, because of the nature of their activities, are usually not located in industrial areas and would, therefore, not be covered by the application of the order to such areas. Typical of these industries are lumbering, coal mining, metal mining, mica mining, and fluorospar mining. In general, the extractive industries (other than agriculture) will be dealt with in this way; other industries will be covered insofar as they occur in areas of labor shortage and share the manpower problems of such areas.



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B. Coverage and Exclusions

The regulations specify that the order is applicable to all employment within the designated areas and industries except certain types of employment which are specified for exclusion. These are:

- 1) Agriculture, because in most cases it is difficult to measure the employee workweek in this industry, and because most agricultural workers are already working more than 48 hours a week.
- 2) Employment in establishments employing seven persons or less, because of the administrative difficulties involved and because it is assumed that the application of a minimum workweek to any such establishment would not significantly effect its labor requirements.
- 3) Employees of States and their politically subdivisions and wholly owned instrumentalities thereof, because of the legal and administrative questions which they present.
- 4) Employment of persons less than sixteen years old, because a long workweek might be injurious to the health and welfare of such persons.
- 5) Employment of individuals who for some good reason are not available for full-time work, but whose part-time participation in the labor market should be encouraged because it will help to alleviate labor shortages.

C. General Procedures

In order to permit the orderly transfer of released workers, I have specified that in cases where the lengthening of the workweek will permit the release of employees who cannot readily be placed in other jobs, such action shall be taken only at such time as approved by the Regional Manager Director or his representative and shall not be required prior to April 1. In areas or industries to be designated hereafter, in general, I expect to allow one month after the announcement of the application of the Order.

In those areas in which the Order has been invoked, employers who would adopt the minimum workweek without releasing any labor are required to do so as soon as practicable. In those cases the lengthening of the workweek will permit the expansion of production and reduce the need for additional employees. Employers who will find it necessary to release labor as a result of the adoption of the minimum workweek may be required

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to adopt it as soon as possible and release such workers if the workers so released can be expected to find suitable employment promptly. If the workers to be released would not be readily absorbed, the employer is to adopt the minimum workweek when he has filed with the War Manpower Commission a schedule of releases from his employment and has been notified by the War Manpower Commission to proceed with these releases. This is intended to give the War Manpower Commission an opportunity to find new employment for such workers in essential work, and thereby facilitate orderly transfer.

If an employer is not complying with these provisions, he is prohibited from hiring additional workers.

D. Provision for Exceptions

I am fully aware that there are many kinds of employment in which the adoption of a minimum 48-hour workweek would not be feasible or would not effectuate the purposes of the Order. In the course of drafting our regulations and procedures, we have explored many industrial situations in which the uniform adoption of a 48-hour minimum workweek would not only contribute nothing to the alleviation of labor shortage but might actually be detrimental to the war effort. I have, therefore, specified that the regulations shall be designed to obtain compliance with "a minimum wartime workweek" which will under most circumstances be 48 hours but which may be less for good reasons.

In general, three classes of reasons are recognized and are specified in the regulations as justifying a workweek of less than 48 hours:

- 1) Where a workweek of 48 hours would be impracticable in view of the nature of the operations; e.g., where a plant is operating three shifts of eight hours minus a meal period. In such cases, the minimum wartime workweek of 46 hours might be considered in compliance.
- 2) Where a workweek of 48 hours would not contribute to the reduction of labor requirements; e.g., where the pressmen in a newspaper establishment need work only long enough each day to print the daily required number of copies of the paper and if no useful purpose would be served by keeping them any longer.
- 3) Where a workweek of 48 hours would conflict with any Federal, State or local law or regulation limiting the hours of work as specified in Section 5 of the Executive Order.

Mr. James F. Byrnes

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While I expect that there will be many exceptions under one or another of these conditions, I have specified that in these cases there shall be no blanket release from the provisions of the Order but that the workweek shall always be the greatest number of hours less than 48 feasible in the light of the above conditions.

For your information, I am attaching a copy of the regulations and of the areas to which the Order is being initially applied. These are areas found by the War Manpower Commission to be areas of critical labor shortage in which all measures for the mobilization and conservation of labor (including the withdrawal of war contracts) are being undertaken.

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Mr. F. Byrnes

II. General Affect Upon Labor Costs

The affect of the lengthened workweek upon unit labor costs depends three factors: first, whether the industries to which the order is applied pay a premium rate for hours in excess of some specified number (generally 40); second, the extent to which the application of the Order will actually increase the number of hours to be compensated at the premium rate; and, third, the effect of possible longer hours on average production per hour. In establishments which do not pay overtime at a premium rate, the longer workweek may have no affect on labor costs: presumably, the additional pay will be compensation exactly for additional work. If there is no change in hourly production, costs will be unchanged.

In establishments which pay time-and-a-half for hours over 40, if workers affected by the order previously worked exactly 40 hours, and if as a result of the Order, they have increased their hours of work to exactly 48, labor costs (assuming no change in hourly efficiency) would be increased by 8.33 per cent (52 hours' pay for 48 hours of work). This is the greatest possible effect which the Order could have on any establishment if efficiency is not changed (except in those rare instances where overtime rates begin below 40 hours).

It should be noted, however, that a 48-hour scheduled workweek is commonly reduced by normal absenteeism and turnover to about 46 hours. In this case, the labor costs would be increased by 6.50 per cent (49 hours' pay for 46 hours' work).

Further, many establishments are already working well over 48 hours. The latest data of the Bureau of Labor Statistics indicate that the average number of hours actually worked in all manufacturing industries was 44.0 in November 1942. This average, of course, includes many industries maintaining scheduled workweeks of 48 hours and above. For example, the latest reports of the War Production Board show that the average worker in selected metal industries worked 47.9 hours per week in January—equivalent to a scheduled workweek of 50 hours or more. On the other hand, hours in non-durable manufacturing are much less, averaging in some industries less than 40. Raising all manufacturing industries to a minimum 48-hour scheduled workweek would raise the average hours worked well above 46—probably between 47 and 48. The Bureau of Labor Statistics has estimated that a 46-hour actual workweek for all employees in manufacturing who worked less than 46 hours in November 1942 (leaving unchanged the hours of those who worked 46 or more) would increase labor costs per hour by 2.71 per cent.

As a matter of fact the change in costs will vary from industry to industry and from establishment to establishment. The attached table prepared by the Bureau of Labor Statistics, shows, for manufacturing industries the amount of additional overtime premium that would have

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resulted from a minimum 46-hour workweek for all manufacturing employees in November 1942, and the corresponding increase in labor costs. It may be assumed that establishments in these industries located in the shortage areas, where the Executive Order is to be invoked, were already working longer than the average for the entire industry and that the increase would be correspondingly less.

It should be noted that these estimates refer specifically to increases in unit labor costs. It has been repeatedly pointed out that increases in the earnings of individual workers will be substantially greater. On the other hand, the increase in the total costs of an industry or establishment will be materially less, depending on the ratio of labor costs to total costs. If, for example, labor costs were 25 per cent of all costs in an industry, the effect of the lengthened workweek on cost would be only one-fourth as great as the effect on labor costs alone. Of course, the effect on earnings after taxes would, in most cases, be still less.

LIST OF AREAS DESIGNATED FOR THE APPLICATION OF EXECUTIVE ORDER 9301

Bath, Maine	Manitowoc, Wis.
Bridgeport, Conn.	Sterling, Ill.
Hartford, Conn.	Brunswick, Ga.
New Britain, Conn.	Charleston, S. C.
Portsmouth, N. H.	Macon, Ga.
Springfield, Mass.	Mobile, Ala.
Waterbury, Conn.	Panama City, Fla.
Buffalo, N. Y.	Pascagoula, Miss.
Somerville, N. J.	Wichita, Kans.
Baltimore, Md.	Beaumont, Tex.
Elkton, Md.	Cheyenne, Wyo.
Hampton Roads, Va. (Norfolk Newport News Portsmouth)	Ogden, Utah
Washington, D. C.	Las Vegas, Nev.
Akron, Ohio	Portland, Ore.
Dayton, Ohio	San Diego, Calif.
Detroit, Mich.	Seattle, Wash.

Estimated Increase in Weekly Manufacturing Payrolls Caused by Additional Overtime Premium if Plant Average Weekly Hours are Raised to a Minimum of 46 (Scheduled 46)

Industry Group	November 1943		Amount of increase in payrolls (thousands of dollars)	Percent increase in payrolls
	Weekly payrolls (thousands of dollars)	Average weekly hours		
All manufacturing	506,366.0		13,713.8	2.71
Durable goods	341,723.0		5,733.8	1.68
Iron and steel and their products	70,002.6	44.7	1,606.6	2.29
Electrical machinery	26,289.2	47.0	302.3	1.13
Machinery, except electrical	55,478.8	49.5	236.1	.41
Transportation equipment	105,855.3	47.7	925.2	.87
Automobiles	32,775.1	46.5	565.4	1.73
Nonferrous metals and their products	16,855.0	46.0	270.9	1.61
Lumber and timber basic products	13,128.2	41.7	759.3	5.73
Stone, clay, and glass products	11,696.5	41.4	664.0	5.73
Furniture	9,742.4	42.8	411.0	4.22
Non-durable goods	164,633.0		7,980.0	4.85
Textile mill products	32,379.8	40.8	1,909.0	5.90
Apparel and other finished textile products	20,133.9	37.0	1,306.4	6.47
Leather and leather products	9,190.6	39.0	603.2	6.56
Tobacco manufactures	2,210.8	40.6	141.5	6.40
Paper and allied products	9,767.5	44.0	283.7	2.90
Printing, publishing and allied industries	11,735.2	39.5	733.7	6.25
Chemicals and allied products	25,123.7	43.9	735.2	2.93
Products of petroleum and coal	5,549.3	41.8	261.6	4.68
Rubber products	6,634.8	43.4	232.8	3.51
Miscellaneous industries	12,603.2	45.0	283.1	2.25
Food and kindred products	29,253.4	42.4	1,434.6	4.90

Prepared by: Bureau of Labor Statistics
Occupational Outlook Division
February 16, 1943

TITLE 29 - LABOR

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CHAPTER VII - WAR MANPOWER COMMISSION

PART 903 - MINIMUM WARTIME WORKWEEK OF 48 HOURS

By virtue of authority vested in me as Chairman of the War Manpower Commission by Executive Order No. 9301 establishing a Minimum Wartime Workweek of 48 hours, and by Executive Orders Nos. 9139 and 9279, I hereby prescribe the following Regulations:

903.1. General Policy for Interpretation and Application of Executive Order. Executive Order No. 9301 shall be so construed and applied as best to effectuate its fundamental purpose, which is to aid in meeting the manpower requirements of our armed forces and our expanding war production program by a fuller utilization of our available manpower. Effectuation of this purpose requires that in situations of labor shortage employers do not hire new workers when their manpower needs can effectively be met by a fuller utilization of their current labor force, and that workers who can be released by an extension of the workweek are released under circumstances which will permit and facilitate their effective utilization elsewhere in the war effort.

903.2. Application to Areas and Activities. The Chairman of the War Manpower Commission will from time to time by order designate areas and activities as subject to the provisions of Executive Order No. 9301. Regional Manpower Directors may designate additional areas and activities within their respective regions as subject to the provisions of Executive Order No. 9301, if they find and by appropriate public notice

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so declare, that such action will aid in alleviating labor shortages which are impeding the war effort. Unless and until an area or activity has been so designated, employers therein will not be required to extend their workweek.

903.3. Delegation of Authority. Regional and Area Manpower Directors are authorized and directed to determine all questions arising within their respective regions and areas with respect to the interpretation and application of these Regulations, in conformity with such procedures and instructions as the Executive Director of the War Manpower Commission may issue in implementation thereof.

903.4. Minimum Wartime Workweek. "Minimum Wartime Workweek" as used in these Regulations means a workweek of 48 hours, except in cases where a workweek of 48 hours (a) would be impracticable in view of the nature of the operations, (b) would not contribute to the reduction of labor requirements, or (c) would conflict with any Federal, State or local law or regulation limiting hours of work. In such cases "Minimum Wartime Workweek" means the greatest number of hours (less than 48) feasible in the light of the nature of the operations, the reduction of labor requirements or the applicable Federal, State and local law or regulation, as the case may be.

903.5. Extension of Workweek in Designated Areas and Activities. If the workweek applicable to any worker employed in any plant, factory or other place of employment in an area or an activity designated as subject to the provisions of

of either Director a statement as to the number of workers whose release would be involved and their occupational classification, together with a proposed schedule for the timing of such releases. The Regional or Area Manpower Director or designated representative will authorize a schedule for the extension of the workweek to the Minimum wartime workweek and for the release of workers in terms of labor market needs and the employer shall thereupon proceed to extend the workweek in accordance with such schedule.

903.6. Restriction Upon Hiring of Workers. No employer shall hire any worker in an area or activity designated as subject to the provisions of Executive Order No. 9301, if the employer has failed in any manner to comply with the provisions of Section 903.5 of these Regulations in the plant, factory or other place of employment in which the worker would be employed.

903.7. Evaluations. No provision of these Regulations shall be construed or applied so as to require the extension of a workweek;

- (a) in any establishment or other place of employment in which less than eight workers are regularly employed;
- (b) in any establishment or place of employment principally engaged in agriculture;
- (c) of persons in the employ of any State or any political subdivision thereof, or any instrumentality of any one or more of the foregoing;

Executive Order No. 9301, is less than the Minimum Wartime Workweek, such workweek shall be extended to the Minimum Wartime Workweek as follows:

- (a) Whenever extension of such workweek to the Minimum Wartime Workweek would not involve the release of any workers, the affected employer shall proceed promptly to extend the workweek to the Minimum Wartime Workweek.
- (b) Whenever the Regional or Area Employment Director or a designated representative of either determines that extension of such workweek to the Minimum Wartime Workweek would involve the release only of workers who can be promptly placed in suitable employment with other employers, the affected employer will be notified of such determination and thereupon shall proceed promptly to extend the workweek to the Minimum Wartime Workweek.
- (c) If extension of such workweek to the Minimum Wartime Workweek would involve the release of such workers and the Regional or Area Employment Director or designated representative has not determined and notified the employer that such workers can promptly be placed in suitable employment with other employers, the workweek shall not be extended except as authorized below. On or before April 1, 1943, the affected employer shall submit to the Regional or Area Employment Director or the designated representative

- (a) of youth under the age of sixteen years; or
- (c) of individuals who on account of other employment, household responsibilities, or physical limitations, are not available for full time work.

903.8. Definitions. As used in these Regulations:

- (a) "Workweek" means the number of hours within a period of seven successive days, beginning with the same calendar day each week, during which workers are normally required to be on duty.
- (b) "Agriculture" means those farm activities carried on by farm owners or tenants on farms in connection with the cultivation of the soil, the harvesting of crops, or the raising, feeding, or management of livestock, bees, and poultry, and shall not include any packing, canning, processing, transportation or marketing of articles produced on farms unless performed or carried on as an incident to ordinary farming operations as distinguished from manufacturing or commercial operations.

Chairman,
War Manpower Commission

February , 1943

TREASURY DEPARTMENT
WASHINGTON

Mrs. Klatz
2141
OWB

February 19, 1943.

MEMORANDUM ON MEETING OF THE JOINT
COMMITTEE ON REDUCTION OF NON-DEFENSE EXPENDITURES

A meeting was called at 10:30 A.M., Friday, February 19, 1943, in the Senate Finance Committee Room in the Senate Office Building. There were present:

Senators:	Department of Agriculture:
Byrd	Governor Black, FCA
Wherry	Mr. Wells, RACC
George	Mr. McConaughy
Bureau of the Budget:	
Mr. Lawton	

The meeting opened at 10:30. Senator George did not arrive until 12:05 and left at 12:50. The Committee reporter made a stenographic transcript of the meeting. Reporters were present.

Senator Byrd opened the meeting and said that Governor Black, representing the Secretary of Agriculture, would furnish information relative to the reestablishment of the Regional Agricultural Credit Corporation.

Governor Black read for the record a short statement summarizing the authority under which the Regional Agricultural Credit Corporation was organized and previous activities with respect to the establishment and dissolution of RACC's. He explained that everyone was familiar with the possibility of shortage occurring in available feed supply and said it was recognized that numerous factors enter into this picture, namely, manpower, availability of equipment and credit. He said the Department of Agriculture had explored the available credit resources and had determined to reestablish the RACC so there could be no question of lack of credit facilities. He said loans would be made through this agency which would be general liens on the credit of the borrower and non-recourse loans would be made which would be secured solely by the proceeds of the crops. He explained in more detail the manner in which the new organization would operate and said that loans would be made at 5% to cover operations for one season. He also said the plan was not intended to compete with other sources of agricultural

FOR DEFENSE

BUY
UNITED STATES
SAVINGS BONDS
AND STAMPS

- 2 -

credit and that they had explored plans to interest local banks in extending credit on the basis of governmental guarantees. In this connection he said that the attorneys had advised that there was no legislation under which such loans could be made on the basis of Federal guarantees. Mr. Black pointed out that the RACC can sell the notes which it takes from farmers to commercial banking institutions and would be prepared to sell such notes at 1/2 of 1% without recourse. He also said that specific instructions had been given to field agents not to compete with other sources of agricultural credit and that the Department of Agriculture had been somewhat surprised at the attitude taken by banking institutions after the new program had been announced.

Senator Wherry then undertook a general interrogation of Governor Black and asked a number of questions concerning different types of agricultural credit being made available by the Government and particularly with reference to the FSA. Governor Black denied having knowledge of any information concerning FSA activities and for a short while it appeared that he would be a hostile witness. This situation, however, cleared up when Senator Wherry shifted his line of questioning to agencies under the FCA. During this discussion Governor Black insisted there was a need for the RACC and when Senator Wherry insisted that the same class of loans could be made through the FSA, Governor Black stated that Mr. Baldwin, head of the FSA, had told him sometime ago that all the funds available to that agency had been committed. Governor Black also stated that the PCA's were local cooperative organizations and could not undertake the classes of loans proposed to be handled by the RACC. Governor Black also said there were indications that the food production program will be hindered if the RACC is not set up.

Senator Byrd pointed out that the 1944 budget estimate included substantial sums for the continuation of FSA. Governor Black said that FSA loans were primarily to cover the low income group and PCA loans were to cover the higher income group. He said there was a need for credit facilities for the farmers in the intermediate class, those for whom FSA loans were not available but who could not meet the high credit standard of the PCA. Governor Black said in his opinion most loans of the RACC will go to farmers not in the FSA group and Senators Byrd and Wherry countered with the statement that FSA is contending as a basis of its right to be continued that it is a war agency engaged in increasing food production.

Senator Wherry said in his opinion the action sought to be reached could probably be covered by some form of Federal guarantee to banks carrying these loans and Governor Black agreed this could be done but such action would require legislation. Governor Black also admitted that credit was not the primary factor in the food program and only was the factor in some instances. He said, in general,

manpower and availability of equipment were the prime factors.

There was a general discussion as to the extent of the organization to be set up by the RACC and Governor Black pointed out that existing personnel in the FGA, National Farm Loan Associations, FSA and AAA would be utilized. Senator Byrd pointed out that there was a large reservoir of personnel in these agencies which are at present overstaffed. Governor Black insisted that Secretary Wickard had given instructions to have the additional work of RACC absorbed by existing organizations and to confine the employment of additional personnel to the minimum.

Senator Byrd inquired whether any consideration had been given to expanding the Emergency Crop and Feed Loan organization which he claimed was doing a good job in making loans to farmers. Governor Black said this could not be done without change in legislation and time did not permit this action. He pointed out that the present loan limit for emergency crop and feed loans is \$400 and legislation would also be necessary to broaden the purposes for which such loans could be made. Senator Byrd said in his opinion the existing Emergency Crop and Feed Loan organization should be used and asked why legislation had not been submitted to Congress along these lines. Governor Black pointed out that obtaining legislation is a time-consuming operation and that the crop season was here.

In reply to Senator Byrd's inquiry as to what changes Governor Black would recommend in existing legislation to extend the Emergency Crop and Feed Loan organization, Governor Black pointed out 4 details, as follows:

- (1) Loan limit must be raised;
- (2) Purposes for which funds may be used must be broadened;
- (3) The amount available for lending must be increased; and
- (4) Interest rates should be made more flexible inasmuch as the rates are fixed under present law at 4%.

Senator Byrd asked whether legislation had ever been recommended for the purpose of simplifying the agricultural credit agencies setup and Governor Black said recommendations have been made from time to time to the agricultural committees. Governor Black said in his opinion considerable simplification could be made in the existing setup.

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Senator Byrd requested Governor Black to furnish a great deal of information for the record, such as the number of employees in the various agencies under the jurisdiction of the FCA and the amount of over-all expenditures for administrative purposes. Governor Black was also requested to submit a statement as to how he thought the FCA could be streamlined.

There was a general discussion as to the need for reviving the RACC and Governor Black said this was apparent some 2 or 3 months ago, in December, 1942.

There was a general discussion of the purposes for which loans would be made and the distinction between the two classes of the loans and the activities of the county committees, particularly with respect to the charges that such committees were soliciting loans. During a discussion of the propriety of making loans through the RACC to farmers for the purpose of paying their income taxes, Governor Black said he saw nothing unusual in this practice.

During a discussion of the county organizations Governor Black pointed out that the county organizations are composed of the Chairman of each of the County War Boards. It also developed that generally the Chairman of the County War Board is Chairman of the County AAA organization. In addition to the Chairman of the War Board the county committees include one other agent. This other agent is designated by the RACC to represent it. Information shows that to date the agents designated by the RACC include 725 representatives of PCAs; 688 Farm Security supervisors; 742 AAA representatives, usually those handling paper for the COG; 86 employees from the Emergency Crop and Feed Loan offices, and 188 from other agricultural agencies. Of the total designated to date about 1/3 come from agencies under the FCA, 1/3 from FSA and 1/3 from AAA.

Governor Black, in reply to inquiries as to whether any study had been made as to the need for additional credit facilities to be extended through RACC, stated that the Central Agency of the Agricultural War Board in Washington had furnished a figure of \$160,000,000 as the amount of credit that would be needed and which could not be furnished through existing agencies.

Senator George made a few observations. He said if there could be shown a need for the revival of the RACC he would support it, but in his opinion no need had been shown and from personal observation in his own district he was not satisfied that any need could be shown. Senator George asked to whom it was contemplated loans would be made and Governor Black replied that the County War Boards are checking each farm plan in every county and determine whether credit is needed. Senator George contended that he thought

- 5 -

the main problem was the lack of manpower, machinery and fertilizer. He particularly referred to the program to encourage the growing of Spanish peanuts and pointed out that in his home county 40,000 acres of this crop were planted last year. Senator George contended that the net result of making RACC loans to stimulate additional planting in his county would result in a decrease of production over what was accomplished last year. He also contended that RACC operations would weaken country banks.

Mr. Wells, President of RACC, testified that the Agricultural War Board in Washington had estimated that it would be necessary to make 400,000 loans through RACC, in the amount of \$160,000,000. He said this was an estimate and he did not know on what basis it was made, but that 10 days ago the Washington office had wired each State and requested the State organization to obtain from each County War Board the number of loans which would be needed in each county. He said this information was due in Washington on Saturday, February 20, and would be available in a week as it would take that long to compile the information. Mr. Wells insisted that if there is a need for credit to stimulate war crops, the Department of Agriculture wanted to be in a position to be ready to meet such need.

Senator Wherry said that if FGA can show him that there is a need for credit through RACC, he would support the present proposal, but he was not satisfied that such a need had been shown up to this point.

The meeting adjourned at 12:55 P.M.

Wells



TREASURY DEPARTMENT

WASHINGTON

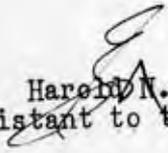
February 19, 1943.

MEMORANDUM FOR THE SECRETARY:Re: Attached Clipping.

This project is one which has been handled by Peter Odegard, and I am not familiar with the details.

Mr. Odegard is not here and will not be here until Monday.

If satisfactory to you, Mr. Odegard and I will come in to see you Monday.


Harold N. Graves
Assistant to the Secretary.



War Bond Drive Started by Newspapers

Big Integrated Advertising Campaign to Get Under Way Here on March 15

A large, integrated newspaper advertising campaign on behalf of war bonds and stamps will be started in eight Manhattan newspapers about March 15, it was announced yesterday by Nevil Ford, New York State Administrator for Treasury War Savings Staff. The program calls for at least one 1,000-line advertisement in each daily each week, and might reach a maximum of three such advertisements in each newspaper weekly.

The eight newspapers which have banded together for the joint effort, at the request of the Treasury Department, are "The Daily Mirror," "The Daily News," "The New York Journal-American," "The New York Post," "The New York Sun," "The New York Times," "The New York World-Telegram," and the New York Herald Tribune.

Under the name of the War Bond Advertising Representatives New York, the eight newspapers have formed a separate organization for the sole purpose of obtaining pledges for this war bond advertising campaign. Walter J. Merrill, newspaper advertising executive, has been named director of the co-operative group and has opened headquarters in the R. K. O. Building, adjacent to the office of the New York War Savings Staff.

A staff of six men has been recruited to call on New York stores, banks, and business firms to explain the plan and obtain sponsors. These men include William H. Mann, formerly general manager of Marshall Field & Co., Chicago; Bernard Palmado, for many years with various New York dailies; Arthur E. Geiss, a manufacturers' representative; Porter Caruthers, former local advertising manager of the New York Herald Tribune; A. D. B. Palmer, former advertising manager of the National Sugar Refining Co., and George A. Hammer, a former advertising executive with leading magazines.

Launching of the program in
(Continued on page 17, column 6)



TREASURY DEPARTMENT
WASHINGTON

February 19, 1943.

MEMORANDUM FOR THE SECRETARY:

Mr. Odegard has given me the following information regarding the story in this morning's TIMES concerning newspaper advertising of war bonds in New York City.

A month or six weeks ago, the advertising managers of the eight New York daily papers collectively presented to the War Savings Staff a plan to increase the quantity of sponsored war-bond advertising in the newspaper columns. The plan involved the use of a standardized and uniform technique by the advertising solicitors of the cooperating newspapers, under which commercial advertisers would be asked to join together in a regular program providing at least one full-page war-bond advertisement each week in each newspaper, names of sponsors to appear in a credit line, which might, for example, include 75 sponsors for one such advertisement.

There has been only an incidental discussion of copy in the conferences which have taken place regarding the plan, which, as I understand, has now been perfected and agreed to between the newspapers and ourselves. The plan involved only the matter of methods to be used by advertising solicitors in asking their clients to sponsor our advertisements.

In talking with Mr. Odegard today, I asked him whether the advertisements which might develop under this plan could be used for the general financing drive in April. He said this:

"One of the things we talked about yesterday at the meeting was precisely that point. The Treasury is faced in April with the job of another major financing. We would



Memo. for the Secretary--2

probably want to have that space devoted to the over-all plan. Everyone agreed that this would make it possible for us to develop a hard-hitting, consistent, over-all appeal on a general financing plan."

At the conclusion of our discussion, I said this to Mr. Odegard:

"The Secretary was worried that this was strictly a War Bond thing, and that it would exclude the use of these newspapers for the general financing."

His reply was as follows:

"You can tell him that not only is that not true, but that the April and subsequent Treasury financings were specifically discussed, and everyone was not only agreeable to including that, but very glad."

I enclose a transcript of my conversation with Mr. Odegard, which touched on some further details of the proposed operation, which probably are not significant.


GRAVES.

For the period beginning July 1941 through November 1942, sales of Series "E" War Savings Bonds are reported as follows:

City	Sales	Per Capita Sales
Detroit	\$154,528,000	95.18
Cleveland	82,639,000	94.09
New York	623,043,000	83.57
Chicago	266,420,000	78.43
Philadelphia	133,406,000	69.07
Los Angeles	102,528,000	68.12

Detroit in December sold approximately \$14.36 per capita.

Series "E" War Savings Bond Sales Summary
 from May 1, 1942 to January 31, 1943
 For All States having a Monthly Quota in Excess of
 \$15,000,000.00

(in thousands of dollars)

<u>State</u>	<u>Quota</u>	<u>Sales</u>	<u>Percent</u>
Michigan	\$ 311,746	\$ 277,200	88.92
Indiana	164,802	129,770	78.74
Ohio	394,543	300,962	76.28
Texas	242,173	176,637	72.94
California	621,389	372,352	71.42
Wisconsin	151,113	107,490	71.13
Connecticut	164,743	113,992	69.19
Illinois	543,134	370,519	68.22
Pennsylvania	569,948	384,951	67.54
New Jersey	286,086	191,853	67.06
Missouri	176,110	117,350	66.63
Massachusetts	293,554	182,754	62.25
New York	<u>1,235,591</u>	<u>656,907</u>	<u>53.17</u>
Grand Total	\$5,054,932	\$3,382,737	66.92

Quotas used are based on the total dollar sales expected from all series of War Bonds, that is, E, F and G. Sales credited on this sheet are for "E" Bonds only at issue price -- percentage is sale of "E's" against states total quota for all bonds.

War Savings Bond Sales Summary
 From May 1, 1942 to January 31, 1943
 For All States having a Monthly Quota in Excess of
 \$15,000,000.00

(in thousands of dollars)

<u>State</u>	<u>Quota</u>	<u>Sales</u>	<u>Percent</u>
Michigan	\$ 311,746	\$ 328,526	105.38
Indiana	164,802	170,081	103.2
Ohio	394,543	394,436	99.97
Wisconsin	151,113	145,369	96.2
Pennsylvania	569,948	547,307	96.03
Connecticut	164,743	156,226	94.83
Massachusetts	293,554	277,487	94.53
Texas	242,173	228,550	94.37
Illinois	543,134	512,234	94.31
Missouri	176,110	161,439	91.67
California	521,389	470,465	90.23
New Jersey	286,086	256,077	89.51
New York	<u>1,235,591</u>	<u>1,015,894</u>	<u>82.22</u>
Grand Total	\$5,054,932	\$4,664,091	92.27

The above 13 states account for more than 70% of the National quota.

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PCO ATLANTA GA 1046A FEB 19 1943

HONORABLE HERNY MORGANTHAU

SECRETARY OF THE TREASURY TREASURY BLDG WASHN DC

I HAVE GIVEN EARNEST AND CONSCIENTIOUS CONSIDERATION TO YOUR TELEPHONE REQUEST. DUE TO PERSONAL AND FAMILY CONSIDERATIONS I AM FORCED TO DECLINE. THIS I DO WITH KEENEST REGRET FIRST BECAUSE OF THE IMPORTANCE OF THE TASK AND SECOND BECAUSE OF YOUR EVIDENT CONFIDENCE IN ME BUT NO OTHER DECISION IS POSSIBLE
REGARDS

HARRISON JONES.

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February 19, 1943

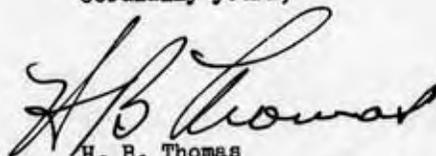
Secretary Henry Morgenthau, Jr.
Treasury Department
Washington, D. C.

Dear Mr. Secretary:

Herewith is the list of names of men that have been recommended to us as being top marketing men. As understood, you have ready means to check in detail as to their qualifications.

As you know, we are meeting with the Grant Committee on Monday, and are looking forward to seeing you at your convenience.

Cordially yours,



H. B. Thomas
H. M. Stevens
J. H. Wood

MM

NATIONAL SALES MANAGER FOR MASS MARKET

William A. Packer	Vice-President and General Sales Manager Packard Motor Company, Detroit, Michigan
Roy P. Peed	Vice-President De Soto Division, Chrysler Corp., formerly sales manager
George Mason	President, Nash Kelvinator, Chicago, Ill. formerly top sales executive of Chrysler
Mervin Cotes	Vice-President, Motor Wheel Corp., Detroit, Mich.
Thomas McCabe	President, Scott Paper Company, Philadelphia, Pa.

NATIONAL DIRECTOR OF SALES FOR WAR FINANCING

Clarence Francis	President, General Foods, New York Up through Sales to President
Will Dodge	Marketing Vice-President of Texas Company, New York
C. R. Palmer	President, Cluett Peabody, New York Up through Sales to President
Robert W. Woodruff	Chairman of Coca Cola, Atlanta Head man of very smart marketing company Formerly President of White Motors

ADMINISTRATIVE ASSISTANT TO NATIONAL DIRECTOR OF SALES

Harold Graves

W. S. S., Washington, D. C.

NATIONAL MANAGER WOMEN'S DEPARTMENT

Miss Harriet Elliot

W.S.S., Washington, D. C.

NATIONAL SALES MANAGER FOR PAYROLL MARKET

Theodore Gamble

W.S.S., Washington, D. C.

John A. Stevenson

President, Pennsylvania Mutual Life
Insurance Company, Philadelphia, Pa.

NATIONAL MANAGER FOR ADVERTISING AND PROMOTION DEPARTMENT

Raymond Rubicam

Chairman Executive Committee
Young & Rubicam, New York

Neil McElroy

Member Executive Committee
Proctor and Gamble, Cincinnati, Ohio

James Gamble Rodgers

Office of War Information
Former Executive Vice-President of
Denton and Bowles, New York

NATIONAL SALES MANAGER FOR BANK MARKET

Robert Strickland

President, Trust Company of Georgia,
Atlanta, Georgia

Thomas K. Smith

President, Boatman's National Bank
St. Louis, Missouri

James M. Kemper

President, Commerce Trust Company
Kansas City, Missouri

NATIONAL SALES MANAGER FOR LARGE INVESTOR MARKET

Joseph Ripley	Partner, Harriman-Ripley, New York (Averell Harriman's firm)
Charles McCain	Dillon-Read, New York
B. A. Tompkins	Vice-President, Bankers Trust Company, New York

List of names suggested by Harold Thomas
and phoned in advance of receipt of his letter.

2/19/42

NATIONAL DIRECTOR OF SALES FOR WAR FINANCING

Clarence Frances,
 President,
 General Foods, New York.
 (Up through sales to President)

Will Dodge,
 Marketing Vice President,
 Texas Company,
 New York.

C. R. Palmer,
 President,
 Clewett Peabody.
 (Up through sales to President)

Robert W. Woodruff,
 Chairman,
 Coca-Cola,
 Former President White Motors.

Alexander Patterson,
 Executive Vice President of Mutual Life.

Dwight Armstrong,
 Vice President of Armstrong Cork.

Harry Bullitt,
 President of General Mills.

Donald L. Hayes
W. P. B.

William O'Neill,
 President of General Tire and Rubber.

John Stevenson,
 President of Penn Mutual Life.

*William
 Toffins
 General Foods - W.P.A.*

NATIONAL SALES MANAGER FOR LARGE INVESTORS' MARKET

Joseph Ripley,
Harriman, Ripley & Co., New York.
(Averill Harriman's firm)

Charles McCain,
Dillon Reed,
New York.

B. A. Tompkins,
Vice President of Bankers Trust.

NATIONAL SALES MANAGER FOR GENERAL MARKET

Robert Strickland,
President of Trust Company of Georgia,
Atlanta, Georgia.

Thomas K. Smith,
President,
Boatman's National Bank, St. Louis.

James Kemper,
President,
Commerce Trust Company,
Kansas City.

NATIONAL SALES MANAGER FOR MASS MARKET

William A. Packer,
Vice President and General Sales Manager,
Packard Company.

Roy Reed,
Vice President of DeSoto Division,
Chrysler Company.
(former sales manager)

George Mason,
President of Nash Kelvinator,
(Former top sales executive of Chrysler)

Mervin Cotes,
Vice President,
Motor Wheel Corporation, Detroit.

Thomas McCabe,
President, Scott Paper Company,
Philadelphia.

NATIONAL SALES MANAGER FOR FARM MARKET

J. L. McCaffrey,
Vice President and Sales Manager,
International Harvester Company,
Chicago.

J. Y. Williams,
Vice President and Sales Manager,
American Agricultural Chemical Company,
New York.

A. F. McGraw,
General Sales Manager,
Tractor Division,
Allis Chalmers,
Milwaukee.

C. L. Reisner,
Sales Manager,
DeLaval Separator,
New York.

NATIONAL MANAGER FOR ADVERTISING AND PROMOTION

Raymond Rubicam,
Chairman of Executive Committee,
Young & Rubicam,
New York.

Neil McElroy,
Member of Executive Committee,
Proctor & Gamble.

James Gamble Rodgers,
O.W.I.,
Washington, D.C.
(Former Executive Vice President of
Benton & Bowles, New York)

San Francisco

NATIONAL SALES MANAGER FOR PAYROLL MARKET

Theodore Gamble,
War Savings Staff,
Washington, D.C.

John A. Stevenson,
President of Penn Mutual Life,
Philadelphia.

ADMINISTRATIVE ASSISTANT

Harold Graves,
War Savings Staff,
Washington, D.C.

NATIONAL MANAGER OF WOMEN'S DEPARTMENT

Miss Harriet Elliott,
War Savings Staff,
Washington, D.C.

FEB 19 1943

Dear Governor Arnall:

Thank you for your very gracious invitation to be your guest when Secretary Knox and I come to Atlanta on March 12.

It is our plan at this writing to be there over night, and I will be very happy to be your guest on this occasion.

I understand Secretary Knox has written you an acceptance today.

With cordial best wishes, I am

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Ellis Arnall
Governor of the State of Georgia
Atlanta, Georgia

TRG:esa

File in Diary

FEB 19 1943

Dear Governor Arnall:

Thank you for your very gracious invitation to be your guest when Secretary Knox and I come to Atlanta on March 12.

It is our plan at this writing to be there over night, and I will be very happy to be your guest on this occasion.

I understand Secretary Knox has written you an acceptance today.

With cordial best wishes, I am

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Ellis Arnall
Governor of the State of Georgia
Atlanta, Georgia

TRG:esa

File in Diary

172
9/15/43



Office of the Governor
Atlanta

ELLIS ARNALL
GOVERNOR

GRACE CANNINGTON
SECRETARY

February 15, 1943

*Franklin -
L. Knox*

Dear Mr. Secretary:

I sincerely hope that you and Mr. Knox will be my house guests when you come to Atlanta to attend the dinner and celebration on March 12th in connection with war bond sales for the construction of the new cruiser "Atlanta."

We are delighted that it will be possible for you to be in Georgia at that time.

With every good wish, I am

Sincerely yours,

Ellis Arnall
Governor

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

FEB 19 1943

My dear Mr. President:

I have prepared for your signature the enclosed letter to Mr. R. G. Leffingwell which you requested February 16, 1943.

I am returning Mr. Leffingwell's letter with its enclosures to you.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President

The White House

Enclosures

File in Diary
Del. by Harmon 5:00 2/19/43

R-R:CLH:eb
2/18/43

Po-175

**THE WHITE HOUSE
WASHINGTON**

February 16, 1943

MEMORANDUM FOR

H. M. Jr.

For preparation of reply
for my signature.

F. D. R.

Enclosures

C
O
P
Y23 WALL STREET
NEW YORK

R. G. Leffingwell

February 8, 1943

Dear Mr. President:

When I heard you had gone I had a good laugh at myself for having bothered you again about inflation. Of course you had no time to see me. What a grand thing it was you did, and what a new impetus you gave to everything. It was a gorgeous adventure. How glad I am you got back safe. That thought leads me to send you this little clipping from the tail end of a string of financial paragraphs in Thursday's Sun in so obscure a corner that your press clipper will not have bothered you with it probably. It is terribly funny, though a bit sacrilegious. I feel sure that it will give you a laugh. I don't know how sound the Vice-President's sense of humor is and whether this would amuse him. I have only met him once or twice -- once at Morris Ernst's.

Now the African expedition and your own journey to Casablanca have confounded your critics. As I told you then, I was against a third term. I have known a long time that I was mistaken. You have been a great war leader, a great Commander-in-Chief; and by deeds you have confuted those who called for a second front and about India and against Darlan and whatnot. Sorry I was wrong.

As a matter of fact, I did not see Secretary Morgenthau who was away ill, and I was not able to keep the appointment which Undersecretary Bell gave me because I myself was ill in turn. However I shall try to see them both as soon as I can. I hope to see you too again some time to talk about inflation once more, because as I said to you it is your third front.

I am, my dear Mr. President, with great respect

Faithfully yours,

S./ R. G. LEFFINGWELL

The President
The White House
Washington, D. C.

Enclosures

P.S. (Handwritten) The Real plan is a phoney. You yourself have endorsed pay-as-you-go. Here's a plan for doing it: 1. monthly instead of quarterly payments, 2. relief for those who died or go to war. Details attached.

Pay as you go

From 1913 to 1917 inclusive the incomes of each year ended December 31st were reported March 1st following and payable in one lump sum in June next (June 30th at first, later June 15th). In the last war, improvement was made, in the interest of the taxpayers and the Treasury, and income taxes (still computed on the basis of the previous year's income) were made payable in four quarterly instalments on the 15th day of March, June, September and December. Further improvement should be made now, in view of the immense amount of taxes and great number of taxpayers.

In the case of a steeply graduated income tax such as ours, it is impossible to know at what rate of surtax a taxpayer's income is to be taxed until the year's income has been received. Some people die, some lose their jobs, others get better jobs and higher pay. Some business men's profits and losses are seasonal, some speculative. Farmers and professional men have uncertain and fluctuating income. Investment income is uncertain. So it seems undesirable to attempt to collect, currently, graduated supertaxes on estimates of the current year's income. What would such estimates have been worth, for instance, in 1920, 1929, or 1937? Then, many taxpayers lost their jobs, and some their shirts, in the last quarter of the year.

We shall be, as nearly as may be, on a pay-as-you-go basis, I suggest, if we require the income of each year ended December 31st to be reported as promptly as possible thereafter (perhaps February 15th next year instead of March 15th), and the tax thereon to be paid in twelve equal monthly instalments

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beginning with the filing of the return.

It would seem practicable to give direct relief to those who die or resign or lose their jobs, by forgiving them outright their last year's taxes, or a part of them, if it is thought fair to do so, without shifting the whole tax structure a year, and basing supertaxes on estimates.

It is undesirable to require deduction at the source of a graduated supertax. That would involve every taxpayer's making a return not only to the Treasury but to every one who makes him a payment of income, to every employer, to every tenant, and to every company that pays him interest or dividends. This would be a violation of the decent privacy of the taxpayer, and would involve a lot of paper work and duplication of effort.

FEB 19 1943

My dear Mr. President:

Pursuant to subsection (a) of section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended by the Act of June 30, 1941, I have the honor to submit this annual report for the fiscal year ending June 30, 1942, of the Exchange Stabilization Fund created by section 10(b) of that Act, including a summary of operations of the Fund from its establishment to June 30, 1942.

Section 10(b) of the Gold Reserve Act of 1934 appropriated the sum of \$2,000,000,000 from the receipts representing the increment resulting from the reduction in the weight of the gold dollar, which was covered into the Treasury as miscellaneous receipts in accordance with section 7 of the Act. Section 10(a) of the Gold Reserve Act of 1934 authorized the Secretary of the Treasury, with the approval of the President, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary for the purpose of stabilizing the exchange value of the dollar.

The Fund was set up on the books of the Treasury on March 9, 1934, and on April 27, 1934, \$2,000,000,000 in gold from the increment resulting from the reduction in the weight of the gold dollar was transferred to the Fund. Simultaneously \$300,000,000 was transferred from the principal account of the Fund to accounts with the Treasurer of the United States and the Federal Reserve Bank of New York to be used as working capital.

As originally provided, the Fund was to have a life of two years from January 30, 1934, unless sooner terminated by the President. However, the President was authorized to extend such period for not more than one additional year. On January 10, 1936, the President issued a Proclamation extending the Fund for one additional year from January 30, 1936. In January, 1937, (Public No. 1, 75th Congress, approved January 23, 1937) Congress extended the life of the Fund to June 30, 1939. In July, 1939, (Public No. 145, 76th Congress, approved July 6, 1939) Congress extended its life to June 30, 1941; and again in June, 1941, (Public No. 143, 77th Congress, approved June 30, 1941) its life was extended by Congress to June 30, 1943, unless sooner terminated by the President.

There are enclosed the following tables showing the condition as of June 30, 1942, and giving summaries of transactions in all of the accounts of the Exchange Stabilization Fund for the period April 26, 1934 to June 30, 1935, and for each fiscal year thereafter to June 30, 1942:

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- Exhibit A - Statement of condition as of June 30, 1942.
- Exhibit B - Recapitulation of profit from April 26, 1934 to June 30, 1942.
- Exhibit B-1 - Analysis of profit from April 26, 1934 to June 30, 1942.
- Exhibit C - Transactions in gold from April 26, 1934 to June 30, 1942.
- Exhibit D - Transactions in silver from April 26, 1934 to June 30, 1942.
- Exhibit E - Transactions in British sterling from April 26, 1934 to June 30, 1942.
- Exhibit F - Transactions in French francs from April 26, 1934 to June 30, 1942.
- Exhibit G - Transactions in Mexican pesos from April 26, 1934 to June 30, 1942.
- Exhibit H - Transactions in Chinese yuan from April 26, 1934 to June 30, 1942.
- Exhibit I - Transactions in Netherlands guilders from April 26, 1934 to June 30, 1942.
- Exhibit J - Transactions in Belgian belgas from April 26, 1934 to June 30, 1942.
- Exhibit K - Transactions in Swiss francs from April 26, 1934 to June 30, 1942.
- Exhibit L - Transactions in Brazilian milreis from April 26, 1934 to June 30, 1942.
- Exhibit M - Transactions in investments in United States securities from April 26, 1934 to June 30, 1942.
- Exhibit N - Transactions conducted by the Federal Reserve
- O - Bank of New York as Fiscal Agent of the United States on behalf of and for account of the Bank of France, Bank of England, and Bank of Netherlands, respectively, under the tripartite arrangement.
- P -

Exhibit A shows the condition of the Fund as of June 30, 1942.
Exhibits B and B-1 are a recapitulation and analysis of the profits of the

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Stabilization Fund from April 30, 1934 to June 30, 1942. These two exhibits show that the operations of the Stabilization Fund have resulted in a net profit of \$29,157,651.60. The net profit for the fiscal year 1942 was \$2,270,496.58.

As shown by Exhibit C, the Stabilization Fund acquired \$632,146,440.97 in gold and disposed of \$715,135,919.70 in gold during the fiscal year 1942, thus reducing the gold balance of the Fund from \$88,918,836.28 at the close of the fiscal year 1941 to \$7,936,915.47 at the close of the fiscal year 1942.

During the fiscal year 1942, the Secretary of the Treasury entered into three special agreements with the Government of the Union of Soviet Socialist Republics providing for the purchase of gold by the Stabilization Fund. The first of these agreements, entered into on August 15, 1941, provided for the purchase of 301,000 fine ounces of gold, valued at \$10,335,000, to be delivered within 90 days, and an advance payment of \$10,000,000 to the U.S.S.R. by the Stabilization Fund for the purchased gold. The second agreement, which was signed on October 10, 1941, provided for the purchase of 903,000 fine ounces of gold, valued at \$31,605,000, to be delivered within 180 days, and an advance payment of \$30,000,000 to the U.S.S.R. by the Stabilization Fund for the purchased gold. The delivery date was later extended for an additional 60 days. The third agreement, which was signed on January 3, 1942, provided for the purchase of 602,000 fine ounces of gold, valued at \$21,070,000, to be delivered within 180 days and an advance payment of \$20,000,000 to the U.S.S.R. by the Stabilization Fund for the purchased gold. The delivery date was later extended an additional 180 days. The U.S.S.R. complied with its obligations under the first two agreements prior to the delivery dates and had delivered sufficient gold under the third agreement by the end of the fiscal year 1942 to reduce the balance of the \$20,000,000 advance payment to \$11,886,732.26. The delivery date of the third agreement is December 29, 1942.

As shown by Exhibit D, the Stabilization Fund engaged in no silver transactions during the fiscal year 1942.

Exhibits K to L inclusive summarize the transactions of the Stabilization Fund in foreign currencies from the establishment of the Fund to June 30, 1942. During the fiscal year 1942 the Stabilization Fund acquired one million Swiss francs valued at \$222,629.79 and still held these Swiss francs at the close of the fiscal year 1942. In addition, the Stabilization Fund engaged in transactions under the Stabilization Agreement with Brazil and the 1937 Stabilization Agreement with China. The amounts of foreign currency, exclusive of Chinese yuan and Swiss francs, held on June 30, 1942 had a dollar value of approximately \$3,900.

Under the agreement of July 14, 1937, covering the purchase of yuan from China, which that country agreed to repurchase at the same rate at which the yuan were sold to the Fund, there were held an

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June 30, 1942, 65,000,000 yuan with a dollar value of \$19,112,500, secured by gold collateral deposited with the Federal Reserve Bank of New York for the account of the Stabilization Fund, having a dollar value of \$19,379,015.65. These yuan were acquired on various dates prior to the fiscal year 1942. The agreement was extended for additional six-month periods on December 31, 1941, and on June 30, 1942.

On April 25, 1941, the Secretary of the Treasury entered into an agreement with the Republic of China and the Central Bank of China for the purpose of stabilizing the exchange value of the Chinese yuan with respect to the United States dollar. This arrangement called for the establishment by China of a United States Dollar-Chinese Yuan Stabilization Fund, the transfer to this Fund's account by Chinese Government banks of at least \$20,000,000, and the purchase of Chinese yuan by the United States Stabilization Fund up to the equivalent of \$50,000,000 exclusive of accrued interest. China agreed to repurchase the yuan upon request at the same rate as that at which such yuan were sold to the Fund. The agreement was extended for one year on June 30, 1941, and for another year on June 30, 1942. There had been no purchases of yuan under this agreement by the end of the fiscal year.

On July 15, 1937, the United States entered into an agreement with Brazil under which the United States undertakes (1) to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000 and (2) to make dollar exchange available to the Government of Brazil or its fiscal agent under conditions which safeguard the interests of both countries for the purpose of promoting exchange stability. In accordance with the first part of the agreement, the Fund sold to Brazil \$9,975,059.92 in gold during the fiscal year 1942, making a total of \$34,453,301.04 sold since the inception of the agreement. Under the second part of the agreement, the Fund purchased 160,000,000 milreis from Brazil during the fiscal year 1942, making \$4,000,000 available to the Government of Brazil. These milreis were repurchased before the end of the fiscal year. The expiration date of this agreement is July 15, 1942, and negotiations were in progress at the end of the fiscal year for a renewal of the agreement.

Three new agreements were signed in the fiscal year 1942. The agreement signed on November 19, 1941, by the Secretary of the Treasury, the Bank of Mexico, and the Government of the Republic of Mexico for the purpose of stabilizing the United States dollar-Mexican peso rate of exchange provided for the purchase of Mexican pesos by the United States Stabilization Fund up to the equivalent of \$40,000,000, exclusive of accrued interest. This agreement was not operative at the end of the fiscal year as Mexico had not yet ratified it.

The agreement signed on February 27, 1942, by the Secretary of the Treasury and the Government of the Republic of Ecuador for the purpose of stabilizing the United States dollar-Ecuadoran sucre rate

June 30, 1942, 65,000,000 yuan with a dollar value of \$19,112,500, secured by gold collateral deposited with the Federal Reserve Bank at New York for the account of the Stabilization Fund, having a dollar value of \$10,379,013.65. These yuan were required on various dates prior to the fiscal year 1942. The agreement was extended for additional nine-month periods on December 31, 1941, and on June 30, 1942.

On April 25, 1941, the Secretary of the Treasury entered into an agreement with the Republic of China and the Central Bank of China for the purpose of stabilizing the exchange value of the Chinese yuan with respect to the United States dollar. This arrangement called for the establishment by China of a United States Dollar-Chinese Yuan Stabilization Fund, the transfer to this Fund's account by Chinese Government banks of at least \$20,000,000, and the purchase of Chinese yuan by the United States Stabilization Fund up to the equivalent of \$50,000,000 exclusive of accrued interest. China agreed to repurchase the yuan upon request at the same rate as that at which such yuan were sold to the Fund. The agreement was extended for one year on June 30, 1941 and for another year on June 30, 1942. There had been no purchases of yuan under this agreement by the end of the fiscal year.

On July 15, 1937, the United States entered into an agreement with Brazil under which the United States undertakes (1) to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000 and (2) to make dollar exchange available to the Government of Brazil or its fiscal agent under conditions which safeguard the interests of both countries for the purpose of promoting exchange stability. In accordance with the first part of the agreement, the Fund sold to Brazil \$9,975,059.08 in gold during the fiscal year 1942, making a total of \$24,452,301.04 sold since the inception of the agreement. Under the second part of the agreement, the Fund purchased 160,000,000 milreis from Brazil during the fiscal year 1942, making 64,000,000 available to the Government of Brazil. These milreis were repurchased before the end of the fiscal year. The expiration date of this agreement is July 15, 1942, and negotiations were in progress at the end of the fiscal year for a renewal of the agreement.

Three non-agreements were signed in the fiscal year 1942. The agreement signed on November 19, 1941, by the Secretary of the Treasury, the Bank of Mexico, and the Government of the Republic of Mexico for the purpose of stabilizing the United States dollar-Mexican peso rate of exchange provided for the purchase of Mexican pesos by the United States Stabilization Fund up to the equivalent of \$40,000,000, exclusive of accrued interest. This agreement was not operative at the end of the fiscal year as Mexico had not yet ratified it.

The agreement signed on February 27, 1942, by the Secretary of the Treasury and the Government of the Republic of Ecuador for the purpose of stabilizing the United States dollar-Ecuadorian sucre rate

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of exchange provided for the purchase of Icelandic euros by the United States Stabilization Fund up to the equivalent of \$5,000,000 exclusive of accrued interest. This agreement was not operative at the end of the fiscal year as Iceland had not yet ratified it.

On May 5, 1942, the Secretary of the Treasury entered into an agreement with the Government of Iceland and the National Bank of Iceland for the purpose of stabilizing the United States dollar-Icelandic krona rate of exchange. This arrangement provided for the purchase of Icelandic krona by the United States Stabilization Fund up to the equivalent of \$2,000,000 exclusive of accrued interest. This agreement was not operative at the end of the fiscal year as Iceland had not yet ratified it.

The Stabilization agreement with the Government of the Argentine Republic, which was signed during the fiscal year 1941, expired without being ratified by Argentina.

As indicated by Exhibit N, there were no transactions in investments in United States securities during the fiscal year 1942.

The accompanying Exhibits N, O and P summarize the transactions conducted by the Federal Reserve Bank of New York as fiscal agent of the United States on behalf of and for account of the Bank of France, the Bank of England and the Bank of the Netherlands, respectively, under the Tripartite arrangement of September, 1936. Transactions with England and France under the Tripartite arrangement were suspended following the outbreak of hostilities in 1939. Operations under the arrangement were, of course, not possible with the German occupied countries of Belgium and the Netherlands. No transactions have been made with Switzerland under the arrangement since the outbreak of war in 1939.

The Gold Reserve Act of 1934, as originally enacted, requires that an annual audit of the operations of the Fund be made and a report thereof be submitted to the President. The amendment of July 6, 1939, extending the life of the Fund to June 30, 1941, provides that a report should also be made to the Congress. In view of the confidential nature of the transactions of the Fund, it was not deemed advisable to permit documents covering these transactions to leave the Treasury or to permit any outside auditors to come into the Treasury to review the records. It was decided, therefore, that the audit should be made by a committee composed of three Treasury officials who are not in any way connected with the operations of the Fund and who have served in the Treasury for periods ranging from twenty-five to thirty years. They are thoroughly conversant with Treasury fiscal operations. Each year this committee, together with employees working under their immediate jurisdiction, have audited every transaction of the Fund, and the committee's reports and accompanying certifications have been

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submitted to the President as required by the Gold Reserve Act of 1934. No statements showing the position of the Fund were published prior to March, 1939. Since that date arrangements have been made for the publication of quarterly balance sheets of the Fund.

Similar reports are being submitted to the Congress.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

Enclosures.

Report was too voluminous to att to this copy.

(similar letter sent to Rayburn and Wallace)

Copy in Diary

Copies to White's office

Del. by Harmon 5:00 2/19/43

JMO/gro
1/25/43