

DIARY

Book 613

March 1 - 5, 1943

Africa, North
 See Occupied Territories

Airplanes
 See Lend-Lease: United Kingdom

Altschul, Frank
 See Post-War Planning

American Red Cross
 See Foreign Funds Control: France

Appropriations, Treasury Department
 Senator George thanked for appearance before Appropriations
 Committee in connection with Division of Tax Research,
 Office of Legislative Counsel, and Foreign Funds Control -
 3/3/43..... 613 262

Paul resumed of Senate Appropriations Committee - 3/9/43:
 See Book 617, page 315

Taber insists on cut; HMJr suggests strategy - 3/24/43:
 Book 619, page 3
 a) Gamble memorandum on results of HMJr's strategy -
 3/27/43: Book 620, page 71

Board of Economic Warfare
 Minutes for meetings January 23 and February 11 - 3/2/43.. 247
 a) Discussion of
 1) Report of Committee on Gold Mining
 2) Enemy oil position
 3) Axis blockade running
 Minutes for meeting held February 25 - 3/6/43: See Book 614,
 page 36
 a) Discussion of shipping to other American republics

Bone, Homer T. (Senator, Washington)
 See Potomac Electric Power Company

Brooklyn, New York
 See Revenue Revision

Business Conditions
 Haas memorandum on situation, week ending February 27, 1943 -
 3/1/43..... 38

Canada
 United States dollar reserves - report of committee appointed
 to consider on policy decisions arrived at - 3/2/43..... 204

China
 \$20 million transferred to account of Central Bank of China
 for purchase of bank notes and relative materials -
 3/2/43..... 253

Correspondence
 Mrs. Forbush's mail report - 3/5/43..... 358

- D -

	Book	Page
Doughton, Robert L. (Congressman, North Carolina)		
HMJr's conversation with after Doughton's return from hospital - 3/2/43.....	613	124

- E -

Exchange Stabilization
See Post-War Planning

- F -

Financing, Government

Public Debt Act: Senate will consider before House - 3/2/43.....		124,130,132
a) Congressman Sabath--HMJr conversation - 3/2/43..		190
b) FDR given progress report - 3/24/43: See Book 619, page 111		

War Savings Bonds:

Treasury Order setting up War Finance Committee and National Director discussed by Treasury group - 3/1/43.....		1
(Copy of Order 48, pages 19 and 185)		
a) Robbins (General Sales Manager, General Foods) to be Director		
1) Evaluation by HMJr.....		16
b) State organizations to communicate with Washington through presidents of Federal Reserve Banks		
c) War Savings organization to continue as usual		
d) Press release - 3/3/43.....		266
e) Clarification message on method of operation for Federal Reserve Bank presidents - 3/6/43: Book 614, page 15		
Luncheon conference of Federal Reserve presidents - 3/1/43.....		23
a) Eccles memorandum on Treasury war financing organization.....		24
Marshall (General George) asked to talk at luncheon for publishers on March 20 - 3/1/43.....		26
a) Gaston and HMJr discuss.....		28
b) Letter sent to publishers - 3/2/43.....		187,189
c) See HMJr's letter to Stimson: Book 618, page 17		
Conference; present: HMJr, Bell, Haas, Murphy, Tickton, and Lindow - 3/2/43.....		91
a) Cash position estimate to be re-examined because of withholding tax		
b) Estimates on savings in Commerce and Securities and Exchange Commission discussed by Harold Smith and HMJr - 3/2/43.....		104
1) HMJr would like estimating done in Treasury only		

- F - (Continued)

	Book	Page
Financing, Government (Continued)		
War Savings Bonds (Continued):		
Open Market Committee meeting - 3/2/43.....	613	150
a) Message to presidents of Federal Reserve Banks..		181
b) Message to State Administrators of War Savings Staff.....		183
Conference; present: HMJr, Robbins, Buffington, Bell, Graves, and Haas - 3/5/43.....		311
Army and Navy to be asked for list of relatives to speak on bond drives - 3/5/43.....		315
Budget: Resumé of present situation by Thompson - 3/1/43.....		51
Foreign Funds Control		
France: American Red Cross to be paid \$1,050,000 to finance purchase and shipment of 300,000 food parcels to French prisoners of war - 3/1/43.....		67
France		
See Foreign Funds Control		

- H -

Hobler, Atherton W.		
Richard Rothschild-HMJr conversation concerning connection with War Bond drive - 3/2/43.....		133

- I -

International Stabilization
See Post-War Planning

- L -

Land Army, Women's		
See United Kingdom		
LaRoche, Chester J. (Young and Rubican)		
Discusses with HMJr possible connection with War Bond drive - 3/5/43.....		318
Lend-Lease		
Report for week ending February 27, 1943 - 3/2/43.....		202
" " " " March 13, 1943 - 3/16/43: See Book 616, page 342		
" " " " March 20, 1943 - 3/23/43: Book 618, page 276		
" " " " March 27, 1943 - 3/30/43: Book 621, page 92		
U. S. S. R.: Soviet Protocol - copies to be sent to executives of Soviet Protocol Committee and Major General J. H. Burns - 3/5/43.....		373
United Kingdom:		
Aircraft despatched, week ending February 23, 1943 - British Air Commission report - 3/1/43.....		65
(See also Book 614, pages 294 and 296 - 3/2/43; and Book 615, page 119 - 3/6/43)		

	Book	Page
Lend-Lease (Continued)		
United Kingdom (Continued):		
Federal Reserve Bank of New York statements showing dollar disbursements, weeks ending February 17 and February 24, 1943 - 3/3/43, 3/5/43.....	613	264, 375 294
Gold and dollar assets, February 1943 - 3/4/43.....		
Lincoln Electric Company - Cleveland, Ohio		
Tax Liability: Taft (Senator, Ohio)--Paul conference reported to HMJr - 3/5/43.....		348
a) Paul resume of meeting with Lincoln; operation of company discussed		

- M -

Marshall, General George C.		
See Financing, Government: War Savings Bonds		

- N -

North Africa		
See Occupied Territories		

- O -

Occupied Territories

Interdepartmental Committee to decide questions of policy concerning personnel to follow and take over from Army:		
Draft of Executive Order presented by Welles at Cabinet meeting - 3/4/43.....		270
a) Discussed at 9:30 meeting - 3/5/43.....		304
North Africa:		
Reports of Purchases for Rehabilitation Program:		
February 1943 - 3/1/43.....		62
March 1-7, 1943 - 3/8/43: See Book 614, page 291		
" 8-14, 1943: Book 616, page 244		
" 15-21, 1943: Book 618, page 217		
" 22-28, 1943: Book 620, page 285		
Committee to deal with various monetary and financial questions: Discussion of letter to State Department concerning, written by White, which HMJr does not wish to send - 3/2/43.....		113 123 118, 128
a) Copy of letter.....		
b) Welles--HMJr conversations.....		
c) "Committee of Combined Boards of Civilian Affairs": Set-up described by White to HMJr - 3/5/43.....		303
"Yellow seal" currency - \$40 million-plus:		
Collection of and return to United States discussed at 9:30 meeting - 3/5/43.....		302
Expenses - allocation of between British and French forces discussed at 9:30 meeting - 3/5/43.....		302
Office of Economic Stabilization		
Minutes of Board meeting - 3/5/43.....		346-A
a) Discussion of		
1) 48-hour week		
2) Food situation		

	Book	Page
Paul, Randolph		
For speech delivered before National Council of Jewish Women at Academy of Music, Brooklyn, New York, see Revenue Revision		
Post-War Planning		
Stabilization Fund of United and Associated Nations: State Department asked to send copies to list of nations (attached) - 3/1/43.....	613	73,75,340
International Exchange Stabilization: Frank Altschul's suggestion and memorandum thereon prepared by Treasury - 3/2/43.....		222,240
Potomac Electric Power Company		
Bone (Senator, Washington)--Treasury correspondence concerning Government account with - 3/5/43.....		353
Public Debt		
See Financing, Government		

Revenue Revision		
Pay-as-you-go Taxation: Paul speech delivered before National Council of Jewish Women at Academy of Music, Brooklyn, New York.....		34
a) Not good enough to send to Cabinet members, etc. - 3/1/43.....		33
b) HMJr tells Blough he didn't like Paul's speech - 3/13/43: See Book 616, page 90		
Ruml's counsel tells Sullivan Ruml will make statement urging taxpayers to file on March 15 - 3/2/43.....		195
Salaries of \$67,000 and over (income groups, 100 largest taxpayers, 10 largest taxpayers, etc.) and effect of Ruml plan: Memorandum prepared for FDR - 3/4/43.....		274,286,287
a) FDR--Paul conversation - 3/11/43: Book 615, page 295		
1943 bill--House Ways and Means Subcommittee completes: Paul memorandum - 3/5/43.....		347
Robbins, William M. (General Sales Manager, General Foods)		
See Financing, Government: War Savings Bonds		
Rubicam, Raymond (Young and Rubicam)		
Richard Rothschild and HMJr discuss connection with War Bond Drive - 3/2/43.....		135
Rubicam--HMJr conversation - 3/2/43.....		140
Rubicam's negative decision explained to HMJr by Robbins - 3/5/43.....		313
Rubicam--HMJr correspondence - 3/8/43: Book 614, page 266		

Silver		
Silver Purchase Act: Treasury 1944 Appropriation - amendment preventing expenditure of any part of for carrying out provisions of Silver Purchase Act discussed in correspondence with McCarran (Senator, Nevada) - 3/1/43.....		56

- S - (Continued)

	Book	Page
Stabilization, Exchange See Post-War Planning		
Stabilization Fund		
Extension discussed by HMJr, Bell, Sullivan, Gaston, White, and O'Connell; Henry III present - 3/5/43.....	613	328

- T -

Taft, Robert (Senator, Ohio) See Lincoln Electric Company		
Taxation See Revenue Revision		
Treasury Department Appropriations See Appropriations, Treasury Department		

- U -

U. S. S. R. See Lend-Lease		
United Kingdom See Lend-Lease		
Women's Land Army report sent to Mrs. FDR from Treasury Attaché Casaday, London - 3/5/43.....		380
a) Letter to Casaday - 11/18/42: See Book <u>620</u> , page 78		

- W -

War Savings Bonds See Financing, Government		
Women's Land Army See United Kingdom		

March 1, 1943
10:50 a.m.

FINANCING

Present: Mr. Bell
Mr. Thompson
Mr. Graves
Mr. Gaston
Mr. Buffington
Mr. Odegard
Mr. Gamble
Miss Elliott
Mrs. Klotz

H.M.JR: This, gentlemen, is the proposed order as far as Washington is concerned. (Copies of Treasury Department Order distributed - copy attached.)

When anybody is ready, I will be glad to hear comments and suggestions.

MR. ODEGARD: I should think George Buffington, Harold Graves, and Dan Bell are the people that ought to comment on this order.

H.M.JR: I am just waiting.

MR. BUFFINGTON: Is this committee advisory, or does it function with each organization under the direction of the committee here in Washington?

H.M.JR: Let me expound. I will put it in its worst light. The way I visualize this thing, the flow of authority is the Secretary of the Treasury first, strangely enough, and then Mr. Bell second, and then that man, third, and that would be the order.

- 2 -

MR. BUFFINGTON: I wasn't thinking about authority as much as I was the function of the members of that committee with these respective organizations which, to date, are still operating organizations in the district.

H.M.JR: I can answer that one. My understanding is this, that for the April drive in the districts - let's say the policy is laid down, whatever it is, and then Mr. Robbins, general sales manager for General Foods, will issue the directive to the president of the Federal Reserve Bank in whatever district - in all districts - and he, in turn, will issue the directives for his district to the combined forces of the Treasury in his district; and the thing would come back in reverse, in the same way.

If somebody on the Victory Fund Committee wasn't satisfied, and wanted to communicate with Washington, he would do it through the president of the Federal Reserve Bank, through Mr. Robbins, to Mr. Bell, to me; and then we would call a meeting of this committee, and we will take it up and discuss it.

Does that clarify it?

MR. ODEGARD: Communication between the field, say the War Savings organization, for example, State administrators, or the Victory Fund organization, the executive managers - communication with them from Washington would always be by way of the presidents of the Federal Reserve Banks?

H.M.JR: For this April drive.

MR. ODEGARD: And not directly?

H.M.JR: Leaving pay-roll deduction completely outside, as I understand it. Is that right?

MR. BELL: Yes, that is right.

- 3 -

H.M.JR: The president of the Federal Reserve will have nothing to do with pay-roll deduction.

MR. GRAVES: I think you have to leave other things outside. We have a great many things that require supervision in the War Savings organization that I don't think you intend shall be put under the direction of the presidents of the Federal Reserve Banks. For instance, the school work that is going on, and the work that is done by our colored groups. I can think of a good many activities that we are undertaking to supervise which go far beyond pay-roll savings, and which, it seems to me, should continue to be supervised outside the direction of the Federal Reserve Bank presidents.

MR. GASTON: I think that is all possible within the scope of that order. It would be a matter of convenience and arrangement between you and Kobbins, for instance, to be discussed in committee and decided what things--

MR. GRAVES: I was speaking with reference to the statement just made that it was everything except pay-roll savings.

H.M.JR: I didn't think of schools, but in the order - where is the order that goes to the field?

MISS ELLIOTT: May I ask a question right here that Mr. Gaston has introduced? I thought this means that this committee which will sit in an advisory capacity with this director, would be the committee where these details would be settled, and that that committee would have the authority.

MR. GASTON: It would be settled by the director after discussion with the members of the committee.

MISS ELLIOTT: There has to be someone, but I mean, that might be the place where these things would be ironed out - the relationship between the activities - as I understand it, which necessarily have to continue.

- 4 -

Take the women's program, for example; there are innumerable things that are going on, and if they were stopped dead in their tracks - now, they will assist, and it will be contributory to the April drive, but will they go on as they are going? Those are details which I thought from this (indicating Treasury Department Order) that that council would protect and see they were properly carried out to safeguard the director from making a mistake.

H.M.JR: Get the order to the field.

MR. BELL: It isn't ready.

MISS ELLIOTT: The question Mr. Graves brought up is very important because if we send an order out which gives the impression to the administrators that everything is to stop except pay-roll savings, it would be confusion confounded. But if they know that those things are contributory to the April drive in the selling of E Bonds, it will go on.

H.M.JR: Well, maybe the thing could be changed when the order goes to the field. I can only tell you what is in my mind. What I am trying to do is this: I am trying to amalgamate these two activities as far as the Treasury goes in Washington. I mean, what I am doing is - as I say, I am going to put my worst foot forward on all of this, so at least there can be no possible misunderstanding. Heretofore both of the things naturally came under me, but Bell paid very little attention to War Savings - largely Victory Fund. What I am doing under Bell and myself is bringing in a new person who will have his own assistant, and I am creating a council; and I am superimposing them on both of these organizations so that they will be amalgamated, certainly as far as Washington is concerned, and as far as the field is concerned for the April drive.

In other words, what I want to get out of both organizations for the April drive, is the best that both can give to sell this basket of securities.

- 5 -

I also want to continue the best in War Savings and encourage them as much as possible to continue the best that they have. Why should I want to kill it? Quite the contrary; I have spent too much time and given too much of my health - as have many of you - to try to kill it.

MR. GASTON: Better reasons than that, too. I think it is fundamental that it has to be continued, whatever happens.

H.M.JR: Right. And all of my instincts are for that. We have never had a council here, and we have never had a general staff that passes on these things. The council sets the policies and then these directives go out. That is what I am trying to do.

MR. GRAVES: I thought it was best to bring it up here.

H.M.JR: Bring up anything and everything.

In fairness to myself, I haven't ducked anybody's question. The only question I ducked was the one you (Buffington) asked me, and I said I would answer that Monday. Wasn't that right?

MR. BUFFINGTON: Yes.

Mr. Secretary, will this field memorandum or directive make clear that the executive managers are to no longer come in here direct, but come through the Federal Reserve presidents? I think Harold and I will both be in that position unless that is made clear.

The normal place - they have been doing it for months - is call in here directly. I think that should stop; it should go through the president, and the president communicate.

H.M.JR: I think it should, but I don't think that should be in a public statement. We are drafting here a statement for the press.

- 6 -

MR. GAMBLE: If it should be in a statement, that stops some programs from going through. For example, if you tell the State administrators they are to go through the Reserve presidents, with the exception of pay-roll savings, for the month of April - take a retail problem which might conceivably be of great help in this; the president of the Federal Reserve isn't going to know anything more about it than he knows of the problems in North Africa. He is going to be so weighted down with details that he won't have time to run the April drive.

MR. BELL: That is what we did - told them the War Savings organization will continue as usual during this period in pay-roll activities and any stamp promotions.

MR. GAMBLE: I know, but you are now going a step further and saying - I am only raising the question for the good of the cause, I am not quarreling with anybody about it - I don't think you want to shut off all these things. You certainly are going to if you funnel it through the president of the Federal Reserve Bank for the month of April. He won't have time to answer his mail.

MR. ODEGARD: You will unless the Federal Reserve bank president at that level simply says, "Sure, go on with that; I want that continued," and lets it go at that. If he undertakes then to decide that he doesn't want this kind of activity continued, or that kind of activity continued, then I assume it is up to him to say so.

MR. GAMBLE: My point is, Peter, that I think it is a little premature to make any open and shut decisions with respect to the Federal Reserve business in the district. I think you can do it in Washington all right.

- 7 -

H.M.JR: I am trying to be as practical as possible. Let's take some retail thing. The head of War Savings bonds of Illinois comes in and says, "Now, Mr. Young, we have got a battleship. The 'Chicago' is just getting under way." We are handling this completely, let's say, in the War Savings Staff. "Nothing is said in this memorandum, but do you want us to continue?" And the chances are nine to one that he will say yes.

On the other hand, if I don't give them the veto power for the April drive, he may find something that will cut right across what he wants to do.

I think - Ted, if you think I am wrong, come back at me - I think he should have the veto power, then this fellow can come in - if I was the president of the Federal Reserve, I would say, "All right, Mr. Collins, what is your program? Please go ahead with that - don't bother me."

But I think he ought to have the veto power as to whether he wants a battle ship drive - let's say the battleship drive was scheduled for the first of April. He would say, "Please hold it until after the 12th."

You have got a department store thing, with all the advertising. He will say, "I do" - or "I don't want it." I think he should have the veto power, just so these things don't cut across each other.

MR. GAMBLE: My only fear is that in this short period of time you are dropping a job in the laps of the Federal Reserve bank presidents they won't fully comprehend by the time this drive is over, let alone make an intelligent decision.

- 8 -

H.M.JR: Ted, you are right, and there will be some real blunders made, but these fellows have asked for the responsibility, and I can't give it to them if I don't also give them the veto power for the April drive.

Now, I will make it perfectly clear to the War Bond people that on anything they are not satisfied with they can file a protest, which will come to me through channels.

MR. GAMBLE: Wouldn't it be much better for the April drive for you or this committee, or the sales director, to say in a way that everybody is going to understand, what all these activities - how they shall head up, what they will point to for the April drive, and give the Federal Reserve bank president the authority to stop any of them that might come to his attention that he doesn't like. I am not objecting to his veto of them; I am objecting to stopping all of our people until they have cleared through someone who isn't going to have time to clear them all.

H.M.JR: Get out a pencil and paper and see what you can put down.

MR. GAMBLE: That is something that Mr. Bell should discuss with the Federal Reserve presidents while they are here.

H.M.JR: Put something down on paper. All I am trying to do is - there is no use - I'm rebuilding this thing, which I am doing, and superimposing a new skipper between Bell and myself, and these two organizations - which I am doing - and an advisory council to this man, on which I intend to sit when there is anything important.

- 9 -

I might just as well say this thing here, that what I am going to recommend to him, if it is agreeable to Odegard, is that Odegard go back to the very important work which he did when he first came here, of advising with me on propaganda and policy, and relieve him of administrative responsibility which he took on and didn't want, and did to help me out.

MR. ODEGARD: It would be wonderful for me.

H.M.JR: And Mr. Gaston told me this morning he wants Mr. Odegard to assist him in the job which he is doing. I would like Odegard to be on there, completely free of administrative responsibility, and as our New England conscience and a little dash of Ohio. (Laughter)

MR. GASTON: And Minnesota. (Laughter)

MR. ODEGARD: You know I have always said that my best function was a jiminy cricket.

H.M.JR: Is that synonymous with a kibitzer? (Laughter)

MR. ODEGARD: Conscience.

H.M.JR: I might as well do these things face up. If he is smart, which he is, I think he will welcome that suggestion.

But there is no use saying to these presidents of the Federal Reserve banks, "I am looking to you in each of the twelve districts," and then immediately making it possible for them to say, "If it hadn't been for such-and-such a thing cutting across, we would have made a success."

- 10 -

MR. GAMBLE: We don't want that either, Mr. Secretary. Not only the authority, but the responsibility - when you give authority, you should give responsibility. We are just as interested in that--

H.M.JR: That telegram is there, and there are two separate orders. The one is for the Washington administration, which, quite frankly, I feel - I mean, instead of trying to cut the dog's tail off in inches, I might just as well lop it off and get it settled so we can all get down to work. I know how much everybody in the room is disturbed. You add that all together, and that is how much I have been disturbed.

It is very difficult, particularly working with you fellows and being friends with all of you, and all of you having done this on my personal invitation, and so forth, and so on. I would like to get the thing settled, not just for the April drive, but as far as Washington is concerned, let's settle it.

I don't think that anybody in this room here is in disagreement with that. Do you think so, Harold?

MR. GRAVES: No.

H.M.JR: We might just as well get this thing settled.

MR. GRAVES: One thing - I think the point I raised is a little simpler than it has been made to seem. As an illustration, Miss Elliott is constantly sending out suggestions to the women's organizations. They now go through our State administrators. I should suppose that it would not be advisable or necessary to accomplish what we are after here to send such things as that through the presidents of the Federal Reserve Banks to be disseminated by them down to the--

H.M.JR: I shouldn't think so.

MR. GRAVES: So there are certain kinds of things that relate only very remotely to this fund-raising operation in April, which, in my opinion, ought to follow the old channels.

- 11 -

H.M.JR: Well, Harold, you as a former Bureau of Efficiency man, know that the way to start is to have the thing completely sewed up, and then let this board make exceptions as they go along.

MR. GRAVES: Herbert, I think, gave the answers to all of that.

MR. GASTON: These are concrete matters to be taken up at the first meeting of this committee.

H.M.JR: But the first thing is to sew it up tight, and then make exceptions as you go along.

MR. GRAVES: I think we can do it all right.

MISS ELLIOTT: I think in view of that, it is very important not to pick out any one function of the War Savings Staff and mention it in this, because I think that is where the confusion will come. I think it is a great deal better not to mention pay-roll savings in the telegram, but to let it be understood and work that out later. I think the moment you mention that in the telegram it seems to exclude everything else. It is going to make the people in the States feel that everybody is stopped in his tracks.

Then the pay-roll savings people will begin to say, "How far can we help in this if everything we are doing is stopped?" So if you don't mention pay-roll savings in the telegram but let the details be worked out with the sales manager and the council, it won't be confusing. That is the only thing I see in it that will be confusing.

MR. BELL: We should put in here a sentence that there may be activities now carried on by the War Savings Staff which will be desirable to keep outside--

MISS ELLIOTT: I wouldn't say anything about it. The moment you say it, they will send a lot of telegrams back, and there will be confusion in the States which don't understand it. It should be worded in such a way that the

- 12 -

sales manager and the people who are going to advise with him understand what the Secretary means, and that is the important thing.

MR. BELL: Then we should tell the presidents of the Federal Reserve Banks that they will have to consult with the Staff as to what should continue.

MISS ELLIOTT: They don't know all these details anyhow, and they will have to be explained to them anyway.

MR. GASTON: You are setting up here a committee to direct the April drive, and I think that is made very plain. I agree with Miss Elliott's suggestion, that if you strike out this one sentence here, it is more logical and more comprehensive and a better telegram.

H.M. JR: I think she is right.

MR. GASTON: Then you have a plain, clear directive that they are coordinated for the purpose of this April drive under the head of the Federal Reserve Bank.

H.M. JR: Then if there are no exceptions, it doesn't raise the question in their minds--

MR. GRAVES: That is right.

H.M. JR: Is it pay-roll savings? Is it women's activities? Is it schools? They will take it for granted that those are out until they hear to the contrary.

MR. GRAVES: There would be unless we are careful, and I think nobody intends to stop what we are doing, for instance, in the schools.

MISS ELLIOTT: What we are doing, Mr. Graves, in the schools and in the women's committee and the labor committee, the Negro section, the farm section, is going to help. That will be our contribution, and intensifying that activity will sell more bonds, you see. But we won't get in each

- 13 -

other's way if this council and sales director advise on where there is conflict. It seems a very simple thing then.

MR. GRAVES: I think it can be very readily worked out in this committee so that it will be satisfactory to everybody.

MR. ODEGARD: If that sentence concerning pay-roll savings were taken out and also, I should think, in view of the general - in addition to the sentence concerning pay-roll savings in this telegram it would seem to me also logical to take out references to organized labor and women's groups, because that again raises the question as to inclusion and exclusion, because the sentence above it says, "In every possible instance these" - that is referring to the activities already going ahead - "should with the approval of the Treasury War Finance Committee be tied into the forthcoming campaign." It infers that they will continue unless some other action is taken. I would see no objection to those two sentences being taken out.

MR. BELL: The Secretary particularly wanted labor mentioned in this telegram.

~~The~~ Now, you remember, the suggested draft you got from Allan Sproul expanded that word. He said that business, finance, labor, agriculture, and women's groups will be integrated in every productive way in preparation for and during the April drive. He expanded it to include business, finance, labor, agriculture, and women's groups, which seems to me important.

MISS ELLIOTT: But when you say War Savings Staff you say all of that.

MR. BELL: Yes, but the Secretary - this is to be made public, and he particularly wanted to stress some of these things, particularly labor, agriculture, and women's groups.

H.M.JR: If they are going to list them all, I don't think it is necessary.

- 14 -

MR. ODEGARD: I wouldn't list any of them.

MR. GAMBLE: That is my question - I would leave them all out.

H.M.JR: I think they are right.

MR. BELL: All right.

H.M.JR: Now, where are we?

MR. THOMPSON: The question of the order.

H.M.JR: It is the so-called Washington order. Is there any question about that?

Mr. Robbins hasn't seen either of these. Does anybody have any question on the Washington order?

Have you read it, Harold?

MR. GRAVES: Yes, sir.

H.M.JR: Do you have any suggestions?

MR. GRAVES: I think it is all right.

H.M.JR: Who has any suggestions on what I call the Washington order? Would that be made public?

MR. GRAVES: I think not.

MR. BELL: Yes, I think it ought to be made public.

MR. GRAVES: We have never made any such things public.

MR. THOMPSON: Yes, we generally have publicized orders of that type. I think this should be.

MR. GASTON: I think you are talking about two different things. We want a release as soon as the man comes on the job. We want a press release, and it will be based on this order.

- 15 -

H.M.JR: Paraphrasing it?

MR. GASTON: Yes.

MR. BELL: This is really an amendment to your circular, which is a public document. But as a press release, it is all right with me. Sooner or later it will get out if you don't put something out. It will be in George Riley's column or Jerry Kluttz' column.

MR. GRAVES: I assumed there would be an announcement of the scheme of management of the financing.

H.M.JR: I think there has to be, because it will leak out anyway. Any suggestions?

MR. ODEGARD: No.

H.M.JR: Ted?

MR. GAMBLE: No, sir.

H.M.JR: George?

MR. BUFFINGTON: No, sir.

H.M.JR: Miss Elliott?

MISS ELLIOTT: No, sir.

H.M.JR: Then the Washington order is all right. The other one is going--

MR. BELL: ... will have to be revised.

H.M.JR: But we don't have to show the Washington order to the Federal Reserve Bank presidents. That is our business, but naturally Robbins has to see that. I think you are going to like Robbins. I would like to say this about his training - he has got very much the same sort of training as a military person has. He has worked in a very strict organization where everything is on an organizational basis. He is accustomed to taking

- 16 -

orders from the top, and giving them and having them accepted. He doesn't pretend to know anything other than selling, and that has been his life. I am staking my reputation on this move, just as he is staking his reputation on coming in and trying to sell something which he has never sold before.

Right from the beginning I have always said that I think there is something - a sixth sense of a salesman - whether it is a bond or whether it is a barrel of flour, you have to know how to sell.

With your full cooperation, time will tell whether I am right or wrong. I hope I am right - I have got to be right. But we are all human. One thing about the man is, he is not cocksure; that isn't his attitude. We will see. He is forty-one.

MR. ODEGARD: He is an Amherst man? (Laughter)

H.M.JR: Yale.

MR. BUFFINGTON: When is he coming in?

H.M.JR: He is supposed to show up at one o'clock. Until he shows up at one o'clock, I am not definite. He went up to talk with his people. He went to the Hill School and then he went to Yale.

MR. ODEGARD: He is an associate of Clarence Francis, isn't he?

H.M.JR: Yes. Incidentally, Mr. Francis' attitude is that whatever he has, personally or anybody he can get, is at our disposal for this drive.

Do you know Francis?

MR. ODEGARD: He is an Amherst man; I know him.

H.M.JR: I hope you like him.

MISS ELLIOTT: Mr. Secretary, may I ask this one question here. The sales manager is to be given the

- 17 -

barrel of flour that he is to sell, the securities and the types of securities. In other words, as I understand this, he is to come here as your director for this general sales effort, but he isn't to decide on what kind of flour he is selling?

H.M.JR: No, Mr. Bell and I decide that. I don't know how to compare it, but anyway, we decide what the thing is.

MR. BELL: We decide what we are going to produce, and he sells it.

H.M.JR: And we also manufacture it.

MISS ELLIOTT: In other words, if anyone should have the fear that he might not completely understand War Savings, and so forth - but he isn't to decide whether War Savings are to be sold or not. That is a Treasury policy.

H.M.JR: No, the Treasury policy is laid down, as I said the other day, and I say again, I don't care what kind of stuff - there is still a place for the volunteer plan. I mean, I think we have to continue it, just as long as there are any savings left in the pockets of the people.

For those of you who didn't see it in yesterday's New York Times magazine section, they got some Englishman to write an article on how to lick inflation - go out - what do you call it, allotment - where you appropriate the money?

MR. BELL: Quotas.

H.M.JR: No.

MR. ODEGARD: Expenditure rationing.

H.M.JR: Expenditure rationing. They recommend it from England. Then Fortune magazine has come out for it, too.

- 18 -

MR. ODEGARD: Spendings tax.

H.M.JR: I mean the spendings tax.

MR. BELL: Not expenditure taxing.

H.M.JR: I mean the spendings tax.

MR. GASTON: You want to look out for that.

MR. ODEGARD: They say the spendings tax is politically impossible, although very good, and therefore we ought to have a sales tax - general sales tax. (Laughter)

H.M.JR: The point that I am getting - I haven't changed one iota. The only place I have changed is that I feel that the impact of the job of doing the selling on the people who are here now is so terrific that I have to strengthen my hands, and that is what I am doing.

But as to my philosophy or my ideas or what I started with when I came here, or my attitude, it hasn't changed one iota. But I am simply strengthening my hand on the sales end.

Certainly my attitude on labor, the colored people, schools, or the volunteer plan, or anything else, is just the same as it always was, but I have to have help. I can't take it alone, and neither can Mr. Bell. I don't think the other people here in the room can, either. That is my opinion. You may disagree with me, but that is my opinion. At the top side of this organization I am strengthening it. If I am wrong, I am wrong, but I hope I am right. That is the whole thing.

TREASURY DEPARTMENT ORDER NO.

There is hereby created in the Treasury Department a United States Treasury War Finance Committee under the direction of an Assistant to the Secretary, who will serve as Chairman of the Committee and will function with the operating title of National Director of Sales. Other members of the Committee shall consist of the Assistant to the Secretary in charge of the War Savings Staff, the Assistant to the Secretary in charge of the Victory Fund Committees, and such other member or members as may be designated by the Secretary of the Treasury. The Committee will act in an advisory capacity to the National Director in the formulation and execution of plans for the sale of Government securities.

The National Director shall formulate plans for the sale of Government securities and shall supervise the execution of such sales programs as may be determined upon with the approval of the Secretary of the Treasury.

The National Director is authorized to deal directly with the Federal Reserve Banks as fiscal agents of the United States in all matters relating to the promotion of sales of Government securities, and in that connection he shall have full authority to utilize all facilities of the War Savings Staff and Victory Fund Committees, coordinating their respective activities as he may direct.

The National Director will report to the Secretary through the Under Secretary.

Secretary of the Treasury.

March 1stFinancing

(In millions)

	Feb.	Mar.	Apr.	May	June	July
Balance at beginning	6,024	3,984	3,976 ✓	12,199	8,735	7,653
Borrowings:						
Drive	-	-	12,000	-	-	-
Certificates (net)	600*	-	-	500*	2,000	-
Savings bonds	1,000	800	800	800	800	1,000
Tax notes	700	600	600	600	600	600
Treasury bills (net)	800	1,000	800	800	1,000	600
Trust funds, etc.	600	100	150	400	15	150
	3,700	2,500	14,350	3,100	4,415	2,350
Balance at end	3,984	3,976	12,199	8,735	7,653	3,259

*) Excludes maturing issues of \$1,588M in February and \$1,506M in May.

February 15, 1943.

UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	February daily sales	Cumulative sales by business days			February as percent of January
		February	January	December	
February 1943					
1	\$ 6,746	\$ 6,746	\$ 12,810	\$ 4,116	52.7 ⁶
2	15,068	21,814	15,621	8,605	139.6
3	5,470	27,284	31,021	18,647	88.0
4	25,646	52,930	47,128	58,337	112.3
5	31,917	84,847	69,173	74,984	122.7
6	31,665	116,513	101,696	121,408	114.6
8	34,296	150,809	137,214	133,295	109.9
9	27,345	178,154	174,074	151,152	102.3
10	23,033	201,187	219,267	164,759	91.8
11	21,784	222,972	275,292	203,423	81.0
12	24,713	247,684	299,033	220,903	82.8
13	22,325	270,009	334,496	272,959	80.7
15	28,187	298,196	368,901	288,488	80.8
16	27,345	325,541	399,974	311,252	81.4
17	19,160	344,701	442,974	336,100	77.8
18	37,181	381,882	467,638	361,359	81.7
19	21,249	403,131	482,446	379,266	83.6
20	28,709	431,840	521,869	424,982	82.7
22	41,100	472,939	555,213	443,065	85.2
23	23,344	496,283	577,518	459,751	85.9
24	16,608	512,890	619,257	478,693	82.8
25	32,316	545,207	654,194	532,891	83.3
26	38,398	583,605	680,776	580,925	85.7
27	49,967	633,572	715,030	604,479	-
-	-	-	756,439	664,588	-
Total for the month		633,572	814,928	725,777	77.7

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

March 1, 1943.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	February daily sales	Cumulative sales by business days			February as percent of January
		February	January	December	
February 1943					
1	\$ 806	\$ 806	\$ 2,716	\$ 197	29.7%
2	8,915	9,720	3,036	527	320.2
3	1,570	11,290	6,137	3,214	184.0
4	16,907	28,198	14,820	17,161	190.3
5	20,067	48,264	18,428	29,464	261.9
6	16,842	65,106	29,726	46,986	219.0
8	10,420	75,526	47,612	49,858	158.6
9	16,629	92,154	63,556	59,434	145.0
10	8,698	100,852	91,679	65,085	110.0
11	9,579	110,431	115,896	79,359	95.3
12	12,654	123,086	129,017	86,495	95.4
13	8,371	131,457	149,603	101,924	87.9
15	8,928	140,385	167,385	109,644	83.9
16	8,604	148,989	181,245	114,789	82.2
17	7,932	156,921	198,750	126,443	79.0
18	7,909	164,831	220,263	132,909	74.8
19	6,470	171,301	227,892	140,901	75.2
20	10,795	182,096	248,246	154,352	73.4
22	10,303	192,398	271,851	166,429	70.8
23	5,734	198,132	285,143	174,682	69.5
24	4,646	202,778	302,286	182,536	67.1
25	13,590	216,367	327,084	203,052	66.2
26	19,948	236,316	340,664	222,629	69.4
27	17,307	253,623	367,657	233,807	-
-	-	-	396,137	256,539	-
Total for the month		253,623	425,516	288,392	59.6

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

March 1, 1943.

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

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

OFFICE OF
THE SECRETARY OF THE TREASURY

Luncheon Guests - 3/1/43

Chairman Eccles

Federal Reserve Presidents:

W. W. Paddock - Boston
 Allan Spraul - New York
 Alfred H. Williams - Phila
 W. J. Fleming - Cleveland
 Hugh Leach - Richmond
 W. J. Mc Lavin, Jr. - Atlanta
 Chester Davis, St. Louis
 C. S. Young, Chicago
 J. W. Peyton, Minneapolis
 H. G. Leedy, Kansas City
 R. R. Gilbert, Dallas
 Wm A. Day, San Francisco

W. M. Robbins

Dwight
 Graves
 Babington

Submitted by
Mr. Eccles
March 1, 1943

TREASURY WAR FINANCING ORGANIZATION

Responsibility of Federal Reserve System:

The Federal Reserve System has a direct and inescapable responsibility to contribute to the successful financing of the war. It must see to it that the reserve funds are available which will make possible the continued purchase of Government securities in the tremendous amounts required by the war effort.

At the same time, as the responsible agency for the control of credit policy, it is incumbent upon the Federal Reserve System to develop by every means the widest possible distribution of Government securities outside the banking system. Only by reducing to the minimum the amount of Government securities which must be purchased by the banks, can it discharge its obligation to reduce the inflationary pressure of wartime financing and to promote post-war economic stability.

The interest of the Federal Reserve System in the kind of organization set up to sell Government securities is, therefore, a mandatory interest which is an integral part of its responsibility for credit policy. If the sales organization is equal to the task of selling the largest possible amount of Government securities to non-bank investors, the credit policy of the Federal Reserve System may be an effective part of the anti-inflation program of the Government. If the sales organization is not equal to its task, the Federal Reserve System will be forced into a credit policy which invites inflationary developments.

Permanent Organization:

The Federal Reserve System has advocated the organization of a single national committee for the sale of Government securities which would mobilize the national spirit in support of financing the war, and financing it in the right way, just as it is now mobilized in support of the military effort and the production program. The System believes that this organization can be most effective, and thus public spirit most readily developed, if the principal Treasury borrowing is concentrated in two or three large campaigns each year. At the national level, such a program has suggested a national director of all sales of Government securities and a national publicity program in scale with the job to be done and directed toward promoting the sale of all Government securities, particularly during the periodic drives.

If the Secretary of the Treasury, to whom the National Director will be directly responsible, should establish a Policy Committee as distinguished from an Operating Committee, it is suggested that the Chairman of the Board of Governors and one Federal Reserve Bank President be included in its membership.

As we work from the April setup toward a permanent form of organization, the aim should be to drop the use of the term "Victory Fund Committee" and "War Savings Staff", leaving only the U. S. Treasury War Financing Committee to occupy the field. This new organization should be built on the existing organizations using those parts of each which can best be assimilated. The Presidents of the Federal Reserve Banks, as Chairmen of the War Finance Committees in their respective districts, would have sole executive responsibility for the district sales organizations. The new organization would be concerned first with periodic drives for funds but, presumably, a division of the organization would carry on a continuous educational campaign to promote national thrift and an extension of the payroll savings program.

March 1, 1943
2:10 p.m.

HMJr: Hello.
Operator: General Marshall has not returned from lunch, but they expect him any minute.
HMJr: Thank you.
Operator: Right.

2:33 p.m.

HMJr: Hello.
Gen. George Marshall: Hello, Mr. Secretary. General Marshall.
HMJr: Fine. How are you, General?
M: Fine, thank you.
HMJr: I wonder if I can get a little help from you.
M: What is it you'd like?
HMJr: Well, on the 20th of March, which is a Saturday, at the suggestion of Mike Cowles of O.W.I., I'm inviting the ten leading newspaper publishers to come in here for the day to ask them whether they won't help me with other publishers for our April War Bonds drive....
M: Yes.
HMJr:and Cowles made the suggestion, and I thought it was an excellent one, that as a drawing card we'd like to suggest that you'd come in and talk to these gentlemen off-the-record a little bit before lunch and then have lunch with us. Do you....
M: What - this was on March 20, Saturday?
HMJr: Yes. He said you did such a beautiful job with the editors that he'd like to see you do this again with these publishers. These are the representative....

(cont.)

- 2 -

HMJr:publishers of America. We're picking the
(cont.) ten leading ones.

M: I see, I see. Well, I tell you, if I'm here
I'll be very happy to do it. I - I'd rather
expected to be on the West Coast, and I can't
tell yet.

HMJr: Well....

M: If I'm here and I can just go into it informally,
I'll be glad to do it.

HMJr: Could I say this, in the letter, that if you
are here you'll do it?

M: Yes.

HMJr: And if for any reason that you're not, you'd send
a substitute?

M: Yes.

HMJr: Is that all right?

M: Yeah, that's all right.

HMJr: I'd like to use you as a drawing card.

M: Oh, well, I don't know as I'm a drawing card,
but I'll be very glad to do that.

HMJr: Well, I'm ever so much obliged.

M: All right.

HMJr: And that's - hello?

March 1, 1943
2:44 p.m.

Operator: Mr. Gaston.
HMJr: Herbert?
Herbert Gaston: Yes.
HMJr: I spoke to General Marshall....
G: Yes.
HMJr:and he said that if he was here he'd be glad to come over at noon and talk to these people off the record and then stay for lunch.
G: Fine.
HMJr: If he's not here, he will give us a substitute.
G: Uh huh.
HMJr: So that there can be no misunderstanding, I would say in the letter that General - that if General Marshall is in Washington....
G: Yes.
HMJr:he will come over and talk informally off the record to them.
G: Yes, yes.
HMJr: If for any reason that he's not here, he - he'll be glad - he'll send a - a substitute.
G: Yes.
HMJr: Because I don't want them, you know, to feel, well....
G: Yes.
HMJr:I got them here under false - so if those letters would be ready tomorrow, I'd be glad to sign them.

-2-

- G: Well, the only - the idea was - Mike Cowles' suggestion was that it be not a letter but a telegram.
- HMJr: Well, look - listen, I don't agree with Mike Cowles. We sent a telegram to these Congressmen to come in and Harry Byrd wanted to know why did we telegraph them.
- G: Uh huh.
- HMJr: And I think if it's on my stationery, over my signature, it's more impressive than a telegram.
- G: Yeah, all right.
- HMJr: We can send it air mail.
- G: Yeah.
- HMJr: And - and they sent telegrams so far in advance. Why does he have to telegram and throw the money away?
- G: Well, it's just the old idea that a telegram gets more attention than a letter, but I - I - I think rather - I think you're right, after all.
- HMJr: Well, I'm not - I'm not going to telegraph them and throw the money away.
- G: Yes. Yes, I - in talking it over with Peter, I may want to suggest some changes to include a few prominent publishers instead of this - instead of the Hearst and Gannett people. Wouldn't you think that was all right?
- HMJr: You wouldn't put in - you'd leave Hearst and Gannett out?
- G: Why, I don't see any particular need for them.
- HMJr: Both Hearst and Gannett are very friendly to me personally.
- G: Uh huh. Well, we can....
- HMJr: I can stomach them better than I can Roy Howard.

- 3 -

G: Yeah, I know. I'm wondering if we ought not to get - well, what about men like - well, Peter Odegard suggested men like Arthur Sulzberger and Joe Pulitzer and James M. Cox.

HMJr: Well, Herbert, I - it's all right - that's all right with me, if you'll talk it over the phone with Cowles, will you?

G: Yeah, and I'll - yeah, sure, I'll bring in - I'll bring in the letters tomorrow.

HMJr: And I think that Frank Knox should be invited.

G: Yes, Peter also suggested - well, he suggested Mowrer rather than Knox.

HMJr: No, no, no.

G: Do you think Frank Knox? He's Secretary of the Navy. You see, he wouldn't come as a publisher.

HMJr: Oh, well then - then....

G: Paul Mowrer is - is his - is editor.

HMJr: Well, he's a good man. He's a good man. Talk it over with - and you'll have to talk it over with -- so that he knows what's going on and from the beginning....

G: Oh....

HMJr:with Robbins. Hello?

G: Is he here?

HMJr: He's here. He's in with Bell now.

G: Yeah. All right. I - I'd better let Mike Cowles at least know of any changes we make in the list.

HMJr: Yeah.

G: Yes.

HMJr: Yeah.

- 4 -

G: All right.

HMJr: But I'd like to get it out - well, it's either -
I either got to do it tomorrow or not till Friday.

G: I see. Well, I think that we ought to send them
tomorrow then, because these days they need two
weeks to get reservations.

HMJr: All right.

G: Yeah.

HMJr: Right.

G: March 12 is the date.

HMJr: 20th is the date I told....

G: I mean....

HMJr: 20th.

G: Yes, March 20th.

HMJr: April 12 is the date we start the drive.

G: Yes, March 20 is the date, yes.

HMJr: Yeah.

G: Yeah.

HMJr: Yeah.

G: Right.

HMJr: Okay.

G: All right.

Paul's office was preparing these letters, and we have notified them that the Secretary changed his mind about sending them.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE
March 1, 1943

TO Mrs. Klotz
FROM Secretary Morgenthau

I have just read this speech by Randolph Paul that he delivered last week, and after reading it I have decided that I don't want to send it around to the Cabinet or the heads of the other agencies. It isn't good enough.

TREASURY DEPARTMENT
Washington

(The following address by Randolph E. Paul, General Counsel for the Treasury, is scheduled to be delivered before the Forum on World Affairs arranged by the Brooklyn Section of the National Council of Jewish Women in the Academy of Music, Brooklyn, N. Y., at 11:15 a. m., Eastern War Time, Wednesday, February 24, 1943, and is for release upon delivery at that time.)

PAY-AS-YOU-GO TAXATION

I had the opportunity of participating in your Forum a year ago, and it was with genuine pleasure that I accepted your chairman's invitation to join you again this year.

Some of you will recall that last year I discussed with you the Government's critical need for raising \$9 billion in additional taxes. Today the Government's revenue needs are even more critical.

The reason is not far to seek. While our war effort has been greatly intensified during the past 12 months, the strain upon our economy has been correspondingly aggravated. Immediately after Pearl Harbor we were spending for war at the rate of \$2 billion a month. Our war expenditures have now reached the rate of \$6-1/2 billion a month. In the next fiscal year average monthly expenditures will top \$8 billion. In early 1942 our revenue goal, as set forth by the President, was an additional \$9 billion. Today our sights are set by the President's budget message for an additional \$16 billion of collections. This increase is necessary to raise annual collections to \$50 billion. I review these figures deliberately. It is only in the light of these urgent revenue necessities that I can intelligently approach my subject of this morning — pay-as-you-go taxation.

At the outset of my discussion, I want to make it clear that the Treasury is in complete agreement with the objective of putting our tax system on a pay-as-you-go basis. Indeed, the Treasury has been recommending pay-as-you-go taxation for a long time. Congress has been awake to the same need for a long time. Public interest has not lagged far behind and has recently acquired great momentum. Today the question is not whether we should have pay-as-you-go taxation, but how we shall get to such a system.

The growing interest in this subject is very natural. The income tax reaches ten times as many people today as it reached five years ago, and the rates are higher than they have ever been in American

- 2 -

history. Under the existing method of income tax payment the tax for any year is paid in four installments during the following year. Paying in quarterly installments is obsolete for an income tax which is imposed on millions of individuals who base their budgeting on weekly, semi-monthly, or monthly pay checks. Paying in the year following receipt of income is likewise obsolete when the tax is imposed on millions of people whose incomes fluctuate violently from one year to another, and who may have no income when the tax has to be paid.

To meet the needs of these millions of people we need a system which will collect income taxes bit by bit as the income is earned. We need a system which will collect the taxes on 1943 income in 1943, and which will to a large extent collect it out of each paycheck. This is the heart of pay-as-you-go taxation. This is what we need to make the income tax a more flexible instrument in combating inflation. This is what the taxpayer needs to make the payment of the income tax convenient. Most of us are agreed up to this point. Differences of opinion center upon the question: How can we get such a system started?

You may ask the question: Why not start the system by collecting 1943 taxes in 1943? This would mean that in 1943 we would pay taxes on 1943 income and also taxes on 1942 income. This we might do without difficulty if rates were lower than they are. Indeed, our pressing revenue necessities are a strong argument for doing so. However, it must be recognized that many of our taxpayers failed to accumulate funds out of 1942 income for the payment of tax on that income. The level of rates is such that considerable hardship might result from paying in full two years' taxes out of 1943 income, particularly in the case of those taxpayers whose incomes will have declined in 1943.

One plausible solution that has been offered is to forgive taxes on 1942 income. Why not let bygones be bygones, it is argued, and forget about taxes on 1942 income? Since in 1943 an individual will be paying a tax on his 1943 income, why require him to pay a tax as well on his 1942 income? Why not skip a year's taxes?

This solution has deceptive appeal. Most of us are human enough to be pleased at the prospect of escaping tax on one year's income. The appeal is deceptive because over a period of years the Government has to raise a given amount of taxes; either the same people will have to pay the same amounts despite the forgiveness or the forgiveness will require that some pay more and others pay less. If we cancel a year's taxes in getting to a pay-as-you-go system, the important question is: How will that affect individual taxpayers, and who will pay the additional taxes we need?

- 3 -

While the effect of forgiveness on an individual's tax payments is not felt until his income declines or ceases, it has a significant immediate effect on his economic status. The amount of taxes cancelled represents an immediate addition to the taxpayer's wealth. This addition, which would depend on his income in 1942, varies widely from individual to individual. Cancellation would not improve the position of the individual who had no income in 1942 and was not subject to tax. A married person without dependents with a net income of \$2,000 would gain \$140 if the entire tax were cancelled. If he had a net income of \$100,000, he would gain \$64,000. If he had a net income of \$1,000,000, he would gain \$850,000.

The cancellation of taxes on 1942 income would in effect wipe out much of the tax increases imposed to finance the war. In the case of a person with a \$2,000 net income, it would wipe out 77% of the tax increases imposed in the last three years. At the \$100,000 level, the amount forgiven equals 102 percent of these tax increases and at the \$1,000,000 level, 320 percent.

Another way to judge the effect of cancellation on the individual's economic status is in terms of the income he has left after taxes. This is the amount he may spend or save each year. For the individual with \$2,000 income the forgiven tax would be the equivalent of less than one month's income. For the individual with a \$100,000 income, the forgiven tax would be the equivalent of almost two years' income after taxes. In the case of a million dollar income, the forgiveness of a year's taxes would add to the taxpayer's wealth at one stroke as much as he could add in nearly 6 years by saving every dollar he had left after paying taxes and spending nothing.

Is it reasonable to suppose that certain individuals can gain while nobody loses? Can we add to the wealth of one taxpayer the equivalent of 6 years' income after taxes without being obliged as a consequence to impose additional taxation on other taxpayers? I think we all know enough about arithmetic to know that this is impossible. When some people get something from the Government other people must pay for it.

We can see this by turning to the question of how we can get the additional revenue that we so badly need, if we cancel 1942 taxes. We will, of course, have to raise income tax rates. But, it may be asked, what difference does it make whether we raise additional revenue by collecting the taxes we have already imposed or by cancelling these taxes and imposing others? There are two important ways in which our choice of method will affect the distribution of the tax burden. In the first place, if we cancel 1942 taxes, the additional revenue will be raised solely on the basis of the incomes of 1943 and subsequent years without regard at all to the 1942 income. Those who had substantial

- 4 -

income in 1942, but who receive little or no income in 1943 and subsequent years, will contribute much less to the war costs than those whose position is reversed. In the second place, and more important, rates on the higher incomes are already so high that they can scarcely be increased sufficiently to make up for the amount of 1942 taxes forgiven. The greater part of any increase in tax rates will have to fall on taxpayers in the low and middle income groups. It is not difficult to recover the taxes forgiven at the bottom, but it is practically impossible to recover from the top incomes the amounts they would be forgiven.

These are the reasons why it has not been possible for the Treasury to recommend to the Congress the complete cancellation of taxes on 1942 incomes. It has not been possible for the Treasury to recommend legislation which will benefit a few at the expense of the many.

In discussions of this problem some consideration has been given to partial cancellation of 1942 taxes. In so far as such partial cancellation bestows benefits on substantially all taxpayers, and distributes those benefits among taxpayers equitably, some of the objections to complete cancellation do not apply. The revenue which would be lost by the Government could be made up by increased taxation from substantially the same individuals who benefited by cancellation.

In conclusion, let me restate in exact terms the issue involved in forgiveness of taxes on 1942 incomes. There is no issue between the Treasury and taxpayers. There is an issue between different taxpayers. It concerns their share of the tax burden. We have to maintain our revenues. Indeed, we are faced with the necessity of raising additional revenue in a time of national peril. Should we forgive taxes on persons who had 1942 incomes when we shall be obliged to increase greatly the taxes to be paid out of the incomes of 1943 and subsequent years? The decision we make on this question will determine to a considerable extent who will pay this increase in taxes.

- 2 -

Inflationary tendencies becoming more apparent

The war-time tendency of consumers to bid competitively for dwindling supplies of goods and commodities has become distinctly evident lately. Meanwhile, the increasing volume of surplus purchasing power of individuals is being reflected in a growing interest in the stock market as an outlet for investment funds. These tendencies were high-lighted last week by advances to new highs in commodity prices, featured by a sharp rise in grain prices, by additional evidence of unseasonal expansion in department store sales, and by broadening activity in the stock market at rising prices. Legislative developments pointing toward higher prices for farm products, and public uneasiness over rationing developments, have been major influences in the new wave of commodity buying, while the unexpected declaration of a \$2 dividend by Southern Railway on Tuesday touched off a volume of buying in railroad securities, which broadened to encompass a wide list of stocks.

Commodity prices were pushed upward as traders interpreted Senate passage of the Bankhead bill, banning use of Government payments in computing farm product ceilings, as further confirmation of the farm bloc's power to override Administration efforts to stabilize prices. Approval by the House Banking Committee of the newly-introduced Brown bill to include all farm labor costs in computing parity was an additional bullish influence. In consequence, the Dow-Jones index of futures commodity prices, which is heavily weighted by wheat, cotton, and corn, rose to a new record high, and Moody's index of cash commodity prices reached its highest level in 14 years. (See Chart 1.)

Stock prices at new highs

A new wave of stock buying got under way last week as railroad securities responded sharply to the first dividend payment on Southern Railway common since 1931. The timing and amount (\$2) of the dividend declaration were unexpected, and induced heavy buying of railroad securities followed by renewed buying of other stocks. By Thursday, trading had expanded to the second highest level of the year at 1,800,000 shares, and 325 stocks made new highs for 1942-43. The Dow-Jones averages of industrial and utilities stocks touched new highs since 1941, while the railroad average was at a new high since 1940. (See Chart 2.) However, the net advance for the week in the industrial average was less than 2 percent.

- 3 -

Railroad stock prices lag behind earnings

Although railroad stock prices last week rose about 7 percent, this relatively large percentage gain partly reflects the recent low levels of the Dow-Jones railroad average. At the end of the week the average was still only 32.06, as compared with a 1937 high of 64.46 and a 1929 high of 189.11.

Despite the marked improvement in railroad earnings since the outbreak of war, railroad stock prices have shown only relatively moderate gains, and continue to sell at extraordinarily low price-earnings ratios. This is strikingly shown in Chart 3. It will be noted that while net railway operating income in 1942 soared 27 percent above the 1925-29 average, railroad stock prices were only about one-fifth as high as in the 1925-29 period, and after the recent gains are still only about one-fourth as high.

Among other factors, this low price level reflects the belief of investors and speculators that the current large earning power of the railroads is but a temporary war-time development, to be followed by further deterioration in the long-term railroad outlook due to the inroads of competing forms of transportation. Concern over the outcome of pending demands for wage increases and rate reductions has probably also contributed to the earlier lagging tendencies of railroad stock prices.

Factors underlying market rise

While the impact of dividend resummptions and debt reductions is apparently bringing about a somewhat more optimistic appraisal of railroad stocks, factors of a broader nature underlie the upward trend of stock prices in general during recent months. Among those most frequently cited are the following:

- (1) Increased confidence over military developments and the ultimate defeat of the Axis.
- (2) Fear of inflation.
- (3) More conservative political trends.
- (4) Increase in the money supply and the piling up of funds exerting pressure for investment.

Consumer buying still heavy

Although consumer buying has fallen off somewhat from the peak reached in the second week in February, department store sales have continued to run far above year-earlier levels. Thus despite a drop of 13 percent from the previous week,

- 4 -

department store sales in the week ended February 20 were still 32 percent above the corresponding week last year. (See Chart 4.) Moreover, the Dallas and Kansas City districts again showed much wider gains, with increases of 70 percent and 64 percent, respectively.

Preliminary reports indicate that sales continued at a fast pace last week, although the volume of advance buying apparently showed some further slackening. Near the end of the week Dun and Bradstreet estimated that nation-wide retail sales were running from 22 percent to 26 percent above the corresponding week in 1942. Boom sales volumes were reported in food, apparel and other textile items. Heavy buying of women's clothing featured the recent upsurge in department store sales.

Uncontrolled farm products continue to lift price level

Wholesale prices of basic commodities spurted upward last week following Congressional action to increase agricultural prices. The BLS index of 28 basic commodities was carried up 0.3 percent for the second successive week. (See Chart 5.) The index of 7 uncontrolled commodities advanced 1.1 percent from the week before, and has risen 11 percent since November. The rise was led by grains, principally flaxseed, wheat and corn. Cotton prices again advanced sharply, reaching a new 14-year high.

Wheat prices also were at their highest levels in 14 years. Added stimulus to the rise was afforded by the announcement of an upward revision of maximum prices for flour milled from soft red winter wheat. This is likely to result in higher ceiling prices for crackers, biscuits, and pastry. The new flour ceiling is the equivalent of a wheat price of \$1.60 a bushel (slightly above parity) for No. 2 soft red winter wheat in Chicago and St. Louis.

With prices of soft red wheat above parity, the OPA announced at the end of the week that a ceiling will shortly be placed on this type of wheat at approximately the present market level.

In the week ended February 20, the BLS all-commodity index of wholesale prices continued to rise gradually, advancing 0.3 percent. The index at 102.4 stands 36.5 percent above the pre-war level of August 1939.

- 5 -

Outlook for pork supplies in 1943

Now that Federally-inspected slaughter of hogs has been reported for the entire year of 1942 and the number of hogs on farms at the beginning of 1943 is known, it is evident that total hog slaughter in 1942 was less than generally expected. An increase of average live weight, however, partially offset the deficiency in numbers, so that total pork production was only 2.4 percent less than the Department of Agriculture's goal. The less than anticipated production may be ascribed not only to compliance with the Government's request that hogs be fed to heavier weights, and withholding of more stock for breeding purposes, but also to a smaller than estimated spring pig crop in 1942.

An increase in the pork production goal of 28 percent has been called for in 1943. If the 1943 pork production goal is reached, total pork supplies available for civilians will be at least as large as in 1942, but will be substantially less than the amount civilians would buy if they could get it. Hog slaughter this year, however, has not started auspiciously. Secretary Wickard estimates a decrease in meat supplies reaching commercial markets, chiefly diverted to black markets, equivalent to 10 to 20 percent of total slaughter.

The diversion of hog supplies from usual commercial channels actually became apparent in the final quarter of 1942, and in January Federally-inspected slaughter was 20 percent off from last December and 7 percent from January a year ago. The Department of Agriculture has expected much larger marketings of hogs in February and March, but Federally inspected slaughter in February was probably no more than 10 percent greater than in February last year.

Sharp decline in Federally-inspected civilian supplies

Federally-inspected pork supplies available to civilians, however, are likely to amount to only half as much as in 1942, since all Government-procured supplies must come from Federally-inspected plants. A substantial decline in the civilian supply of this class of meat occurred last year. To the extent that metropolitan areas and thickly-populated defense sections are dependent on meat entering interstate commerce (Federally-inspected), more serious dislocations in distribution may occur this year.

A partial offset is the probability of a diversion of a larger than usual proportion of commercial hog slaughter to Federally-inspected plants. Since passage of the Fulmer Act, which, for the duration of the war, permits plants not ordinarily doing an interstate business to have Federal inspection, the

- 6 -

number of plants receiving such inspection has increased 20 percent. In December, however, these additional 135 plants slaughtered only 2.8 percent of Federally-inspected hogs and 6.4 percent of the cattle.

Feed and labor shortages affect hog production

Two factors likely to keep hog production under the 1943 goal are shortages of labor, and shortages of protein feed, especially tankage. A greater supply of labor would be particularly effective at farrowing time. When huge production is involved, a fractional increase in the average number of pigs saved per litter could add millions of hogs to the aggregate crop.

Government wheat is perhaps the cheapest hog feed at present, and since hogs require less protein feed with wheat than with corn, feed wheat supplies are of growing importance as supplies of protein feeds tighten. The outcome of the Congressional debate on making an additional 100 million bushels of CCC feed wheat available at 85 percent of parity of corn will therefore have considerable bearing on hog production. An indication of the effect of this wheat on feed prices was seen recently, when the Department of Agriculture index of feedstuff prices advanced 1.6 percent immediately following the suspension of sales of CCC feed wheat.

Some recent food developments

Several Government measures have been taken in the past week to increase our food and feed supplies and their equitable distribution:

- (1) Retail price ceilings have been placed on 7 fresh vegetables, in addition to potatoes and onions, which have recently been important factors in the rise in food costs;
- (2) Wheat marketing quotas have been suspended, and restrictions on planting of wheat have been removed;
- (3) As part of a nation-wide emergency program, the Department of Agriculture has offered to buy dairy cattle in the Washington milkshed and other areas to prevent herd liquidation because of rising feed and labor costs;
- (4) A milk price increase to producers in the Washington market, which would result in a one cent a quart rise to consumers, has been recommended to the industry by the Department of Agriculture. This is being vigorously protested by dairymen as too low.

- 7 -

Dairy problems in the New York area are becoming more difficult. A serious milk transportation crisis is reported as developing in the New York milkshed owing to curtailment in the number of motor tank trucks available, resulting from competition by other markets, from difficulties in getting parts, and in complying with Government orders. Butter receipts have been seriously curtailed since the recent ceiling price order of the CPA. According to the trade, the order failed to allow adequate margins for the jobbers and distributors who buy from the primary receivers and sell to the retail trade.

Farm foodstuff prices continue to rise

Substantial advances in farm prices for most farm products occurred in the month ended February 15, particularly for truck crops and fruits. The index of average farm prices, however, was statistically reduced 2.2 percent because of a drop in the index of tobacco prices, occasioned by a shift in marketing from higher-priced to lower-priced types of tobacco.

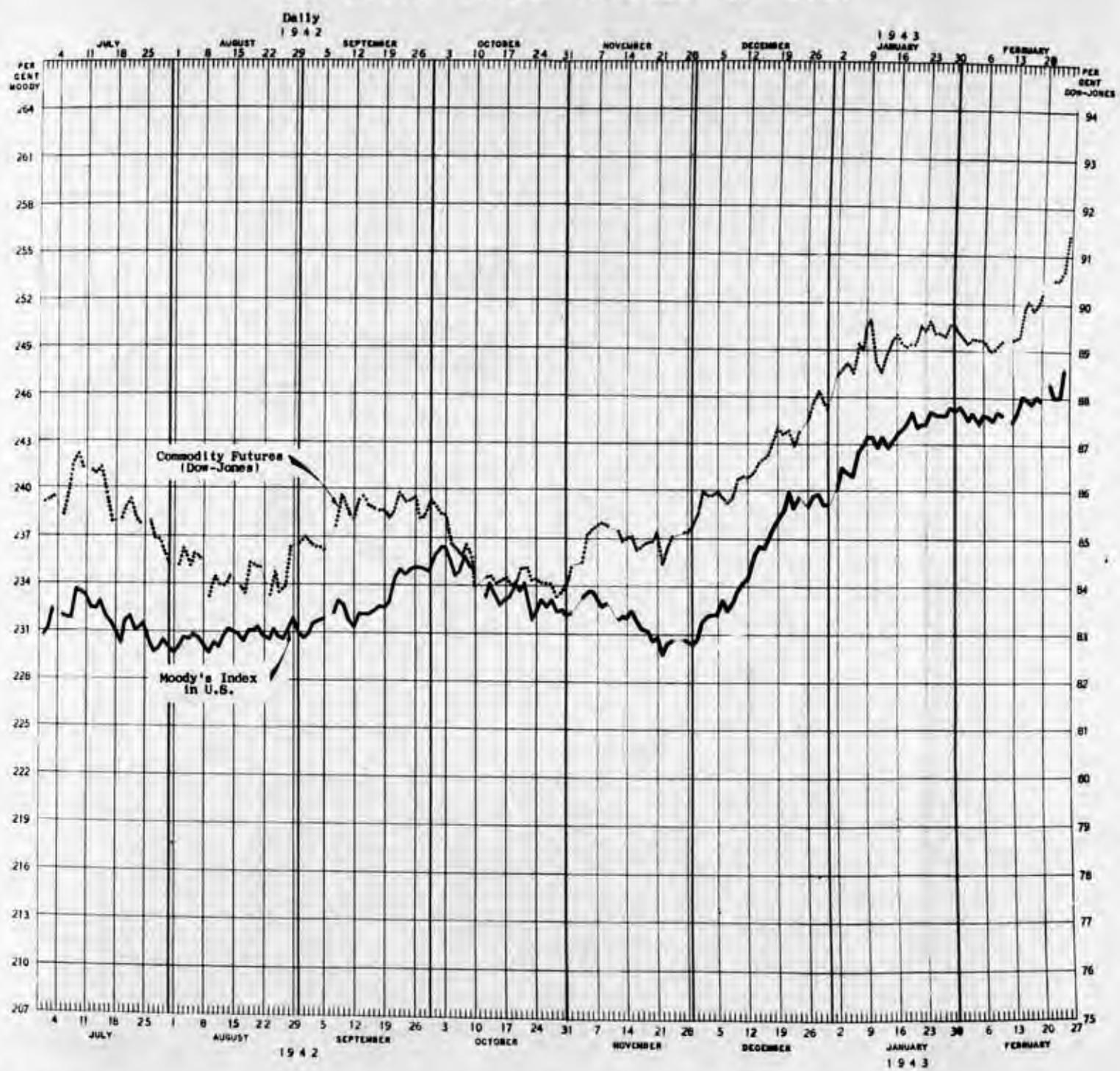
Increases in feed and seed prices, coupled with steady to higher prices for other goods bought, lifted the index of prices paid by farmers $1\frac{1}{2}$ percent. The net result was a decline of 4 points in the computed ratio of prices received to prices paid. Thus the farm price index in February stood at 111 percent of parity, as compared with 115 percent in January.

Industrial production at new high

Further gains in munitions output during January raised the FRB adjusted index of industrial production for the month to a new peak at 200. This compares with 197 in the previous month and with 167 in November 1941 just before our entry into the war. (See Chart 6.) Non-durable goods output in January decreased slightly, but the decline was less than seasonal, while lower output of crude petroleum and anthracite coal caused a slight recession in the adjusted index of minerals production.

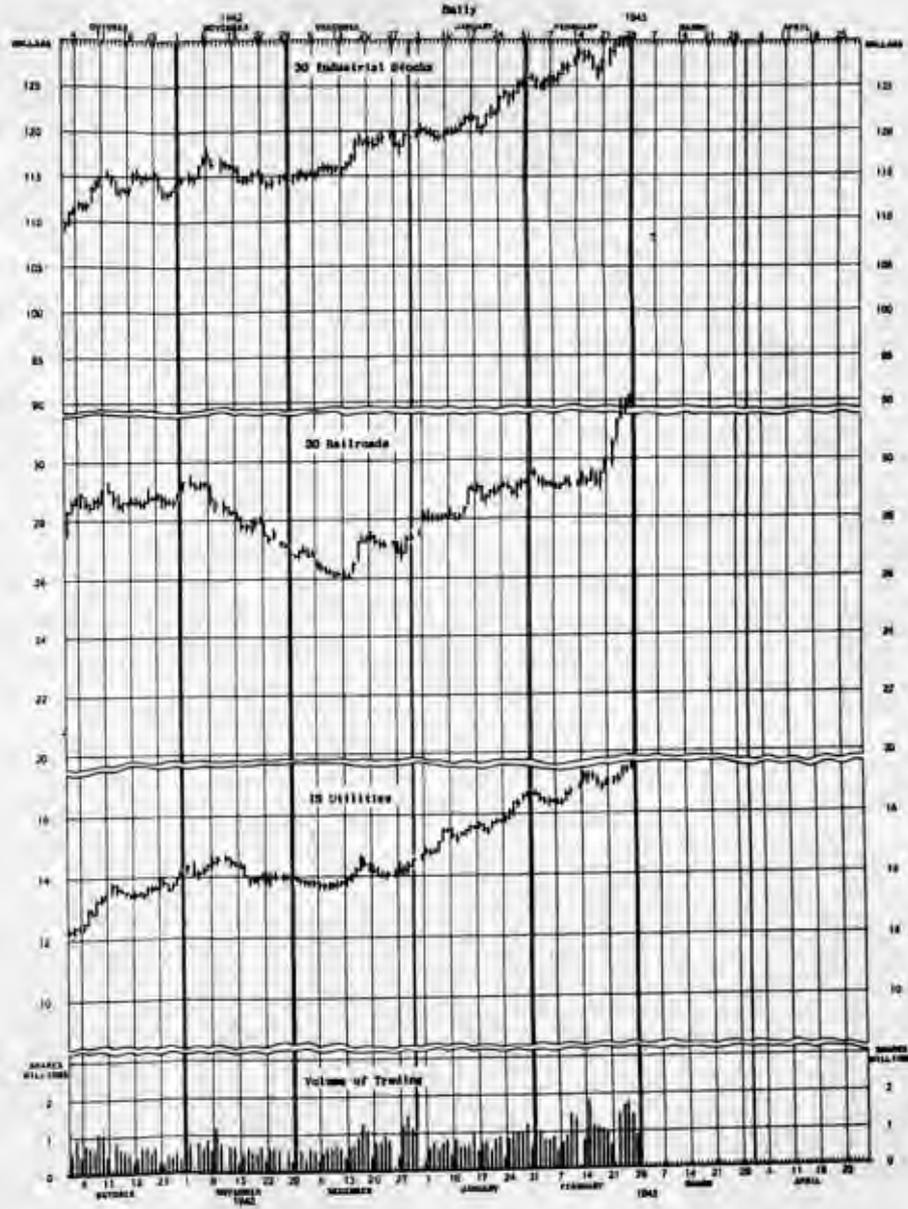
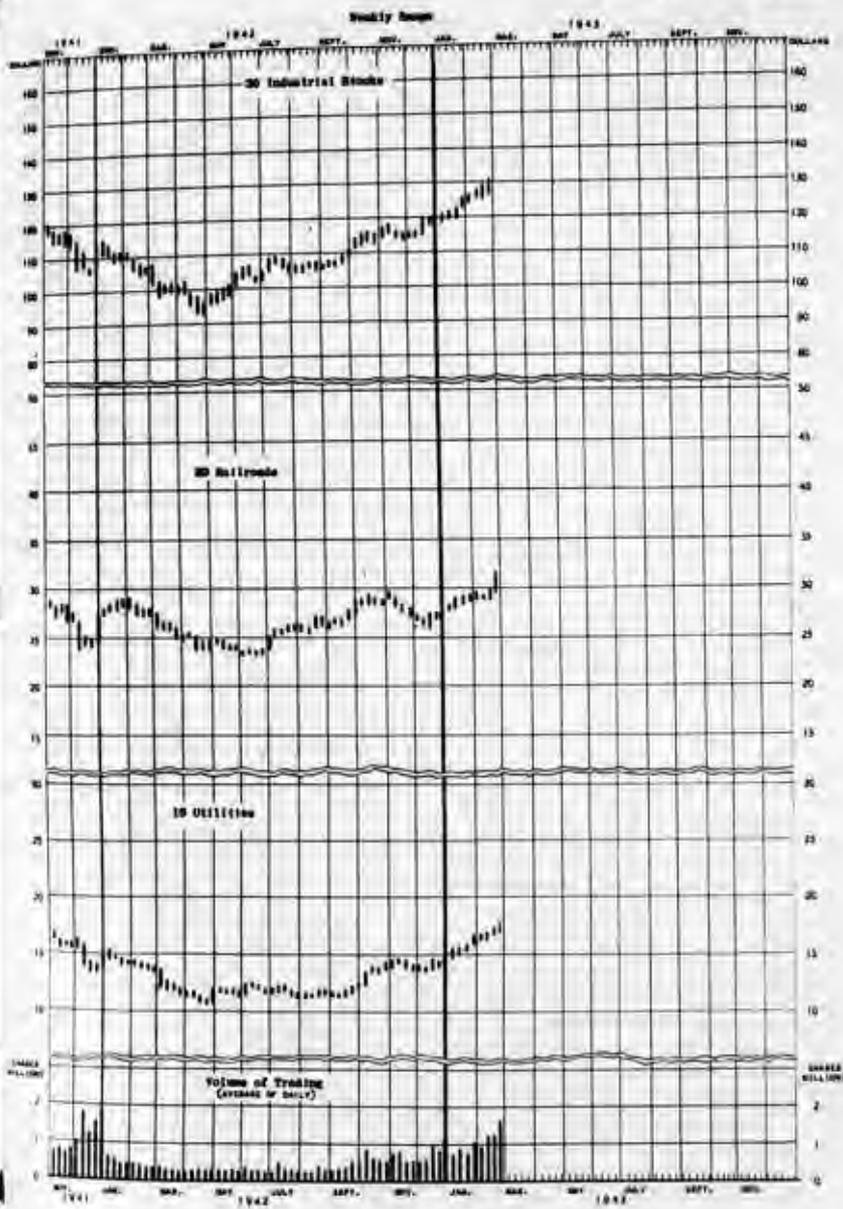
The transportation equipment (including shipbuilding and aircraft) and machinery components of the index continued to pace the rise in January. The output of these two major industrial groups during the month was 560 and 347 percent, respectively, of the rate of output in 1935-39. At these greatly expanded levels the industries mentioned were accounting for well over one-third of aggregate industrial production. It thus becomes apparent that the transition of these particular industries to a peace-time basis will cause some of the most serious dislocations and pose some of the most difficult problems of the post-war era.

COMMODITY PRICE INDEXES IN U.S.



STOCK PRICES, DOW-JONES AVERAGES

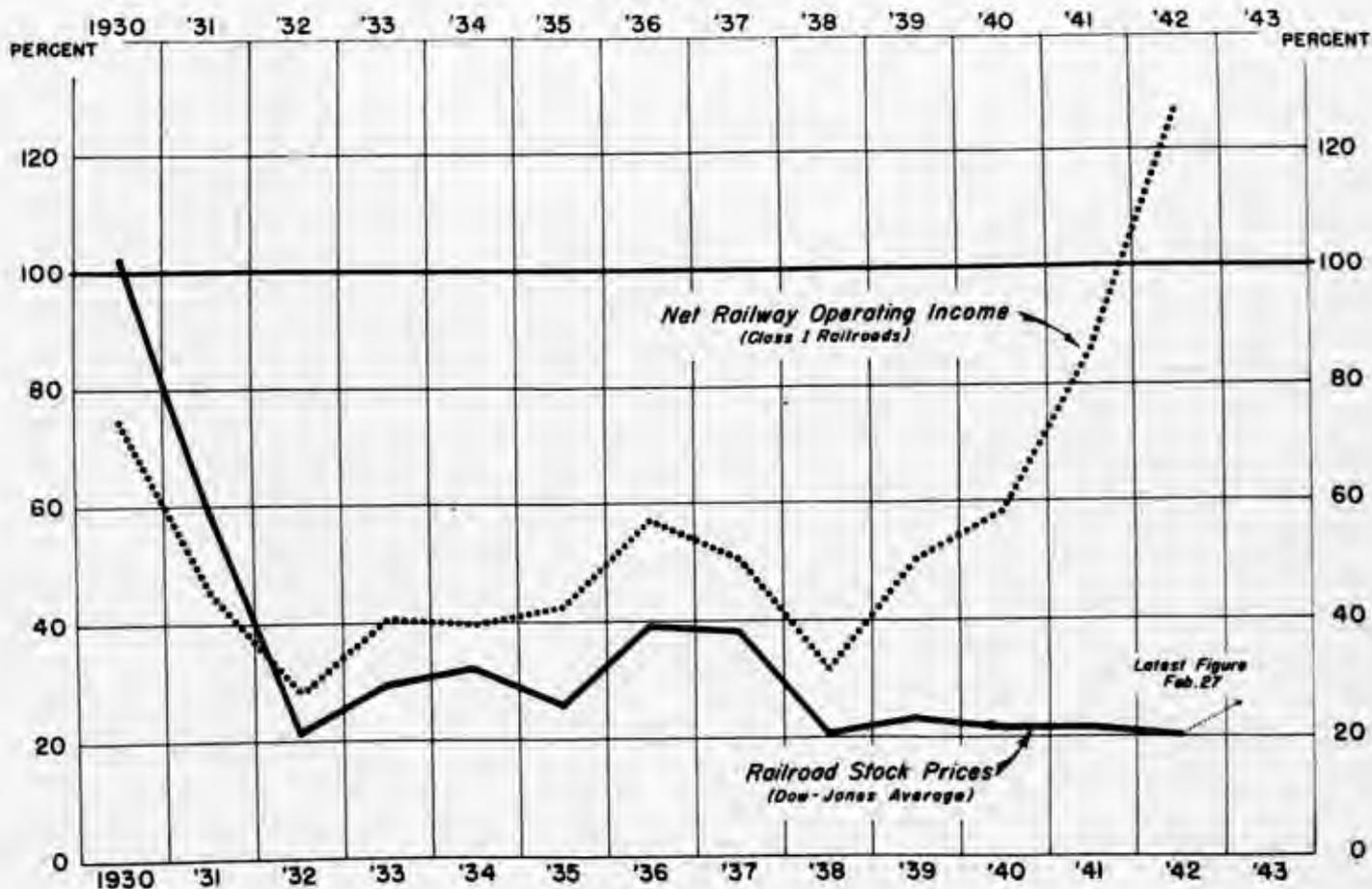
Chart 2



Work of the Secretary of the Treasury
Bureau of Economic Warfare

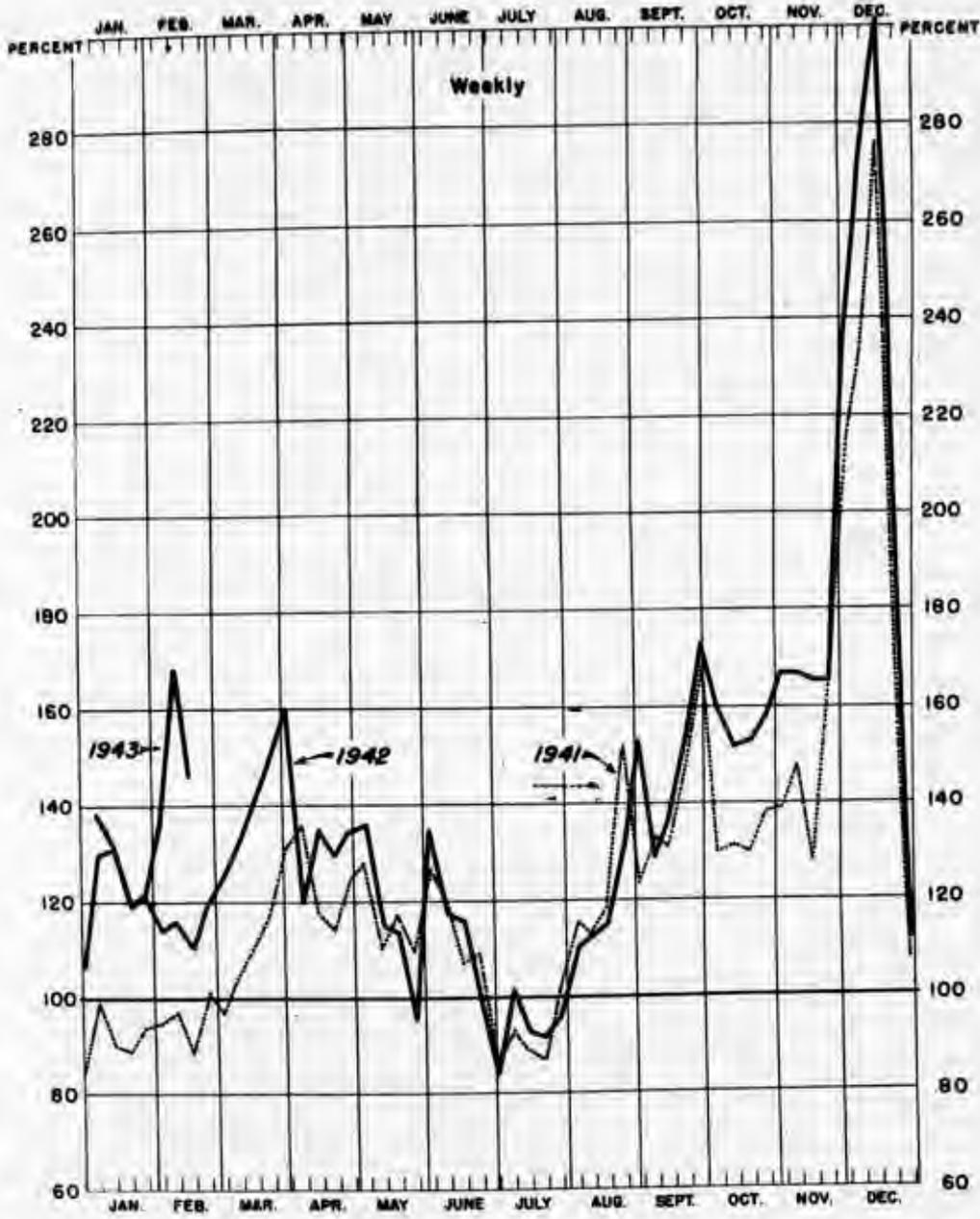
RAILROAD EARNINGS AND STOCK PRICES

1925-'29=100

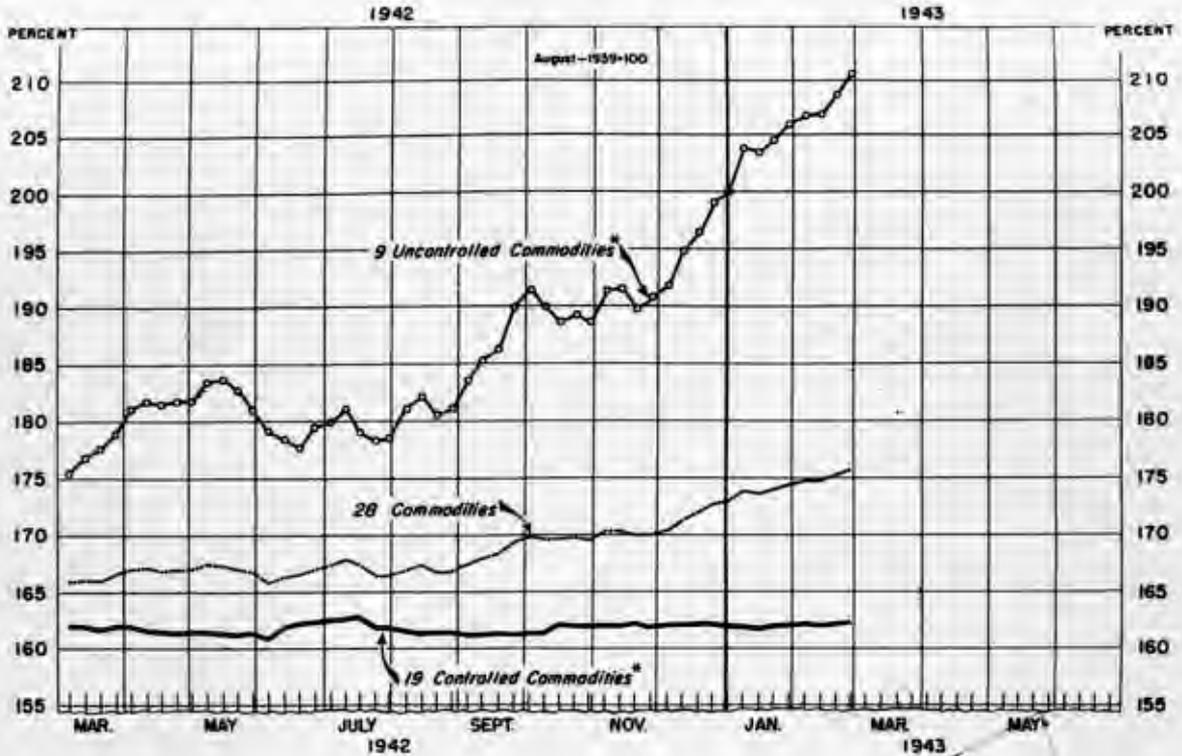


DEPARTMENT STORE SALES

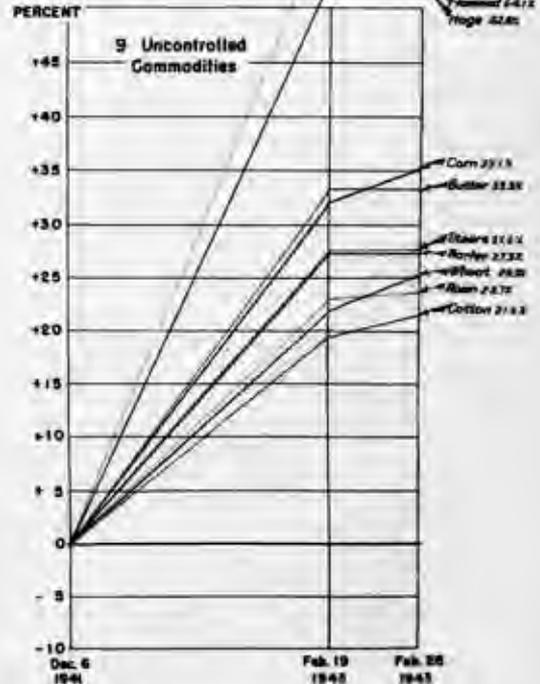
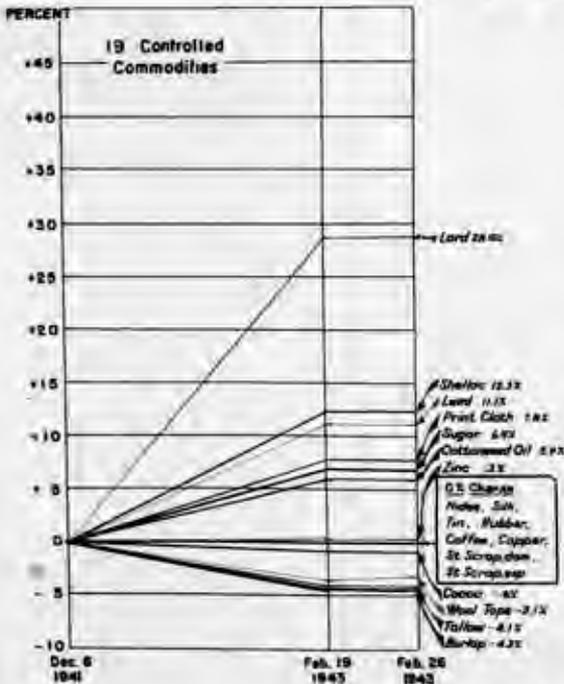
1935 - '39 = 100, Unadjusted



MOVEMENT OF BASIC COMMODITY PRICES



PERCENTAGE CHANGE DEC. 6, 1941 TO FEB. 19 AND FEB. 26, 1943



*20 Controlled and 8 Uncontrolled previous to June 25

F.R.B. INDEX OF INDUSTRIAL PRODUCTION

1935-'39=100, Seasonally Adjusted



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 1, 1943

TO SECRETARY MORGENTHAU
FROM MR. THOMPSON

The situation with respect to the War Savings Staff's 1944 budget is as follows:-

1944 ESTIMATES

As originally submitted to
the Bureau of the Budget, - \$11,881,048

Reduction by the Budget Bureau, - - 2,581,048

Estimate as approved by Budget and
submitted to Congress, - - \$ 9,300,000

Substantially all of this Budget cut was the direct result of informal testimony presented to the Budget Bureau by subordinate officials and employees of O.W.I., who stated that in their opinion the War Savings Staff's 1944 program of posters, pamphlets, booklets, radio, and motion pictures should be curtailed.

Specifically, the O.W.I. recommended to the Budget that the Staff's estimate be reduced as follows:

	<u>Recommended Reduction</u>
Posters, - - - - -	\$190,000
Pamphlets, - - - - -	620,000
Booklets, - - - - -	260,000
Mats and Electros, - -	800,000
Radio Programs, - - -	58,800
Motion Pictures, - - -	<u>180,000</u>
 Total O.W.I. Reduction, - - -	 -\$2,108,800

- 2 -

In addition to these O.W.I. reductions, the Budget Bureau made a further cut of - - - - - \$ 472,248

Total reduction by Budget Bureau, - - - - - \$2,581,048

In its letter dated November 27, 1942, (copy attached) the Department formally protested the Budget Bureau's reduction.

No change was made as a result of the Treasury's protest, and the estimate, as submitted to Congress, was in the reduced amount of - - - - - \$9,300,000

The House Committee on Appropriations reduced the estimate to - - - - - \$7,700,000

- - -

On February 11th, the Treasury wrote to Senator Hayden, Acting Chairman, Senate Sub-Committee, protesting the action of the House in reducing certain Treasury items. A copy of the Department's protest covering the \$1,600,000 reduction in the War Savings Staff's item is attached. On February 17th Mr. Graves appeared before the Senate Committee and urged the restoration of the amount of the reduction.

The Treasury Bill is still pending before the Senate Sub-Committee on Appropriations. I am advised that it will probably be reported to the Senate on Wednesday or Thursday of this week. In accordance with your request, copies of our protest letter have been furnished Mr. Biffle, Secretary to the Majority in the Senate. Mr. Biffle has promised to do everything possible to assist us in having the items restored.

Attachment

November 27, 1942

The Director,

Bureau of the Budget.

Sir:

Receipt is acknowledged of your letter of November 19th, advising the Treasury of its appropriation allowances as approved for inclusion in the 1944 Budget. In accordance with your request, schedules of obligations have been revised to reflect the allowances as listed.

The Treasury feels compelled formally to protest the reduction of \$2,581,048 in the estimate submitted for the War Savings Staff, under the indefinite appropriation "Expenses of Loans, Act of September 24, 1917, as Amended and Extended". This reduction, which is stated to have been made on the basis of information obtained from the Office of War Information, will result in substantial curtailment of the Treasury's 1944 program for the promotion of sales of War Savings Bonds.

Upon taking up the matter with the Office of War Information, this Department learned that the persons upon whose testimony the Bureau of the Budget had relied in curtailing this program were subordinate employees of O.W.I., who are not regarded, either by the Treasury or by O.W.I.'s Director of Domestic Operations, as being qualified to pass final judgment, in behalf of O.W.I., on the scope of the Treasury's War Savings promotional activities.

- 2 -

The Treasury shares with the Bureau of the Budget an earnest desire to promote the sale of War Savings Bonds under a program that is economical as well as efficient. It has always been and will continue to be the aim of the War Savings Staff to conduct this campaign at the lowest possible cost consistent with complete fulfillment of the Government's purpose.

This Department cannot, however, acquiesce in a reduction in the funds estimated as necessary for this campaign where such reduction might result in serious impairment of an activity generally regarded as essential to the War effort. The Treasury is not at this time urging restoration of the \$2,581,048 or any part thereof to its 1944 appropriation estimate for inclusion in the Budget, but will be willing to wait until the War Savings Staff has had the benefit of three or four months' experience under its reduced appropriation. At that time it will be possible to appraise more accurately the effect of the Budget reduction, and we shall then take the opportunity, if the situation warrants, to request your approval of a deficiency estimate.

Very truly yours,

(SIGNED) W. N. THOMPSON

Administrative Assistant
to the Secretary.

ABSTRACT FROM TREASURY'S PROTEST LETTER
OF FEBRUARY 11, 1943, TO SENATOR HAYDEN,
ACTING CHAIRMAN, SENATE SUB-COMMITTEE ON APPROPRIATIONS.

55

BUREAU OF THE PUBLIC DEBT

Appropriation: "Expenses of Loans, Act of September 24,
1917, as amended and extended."

Page 12, lines 14 and 15, strike out "\$57,000,000" and substitute
"\$58,600,000".

The amount of the Budget estimate under the indefinite appropriation "Expenses of Loans, Act of September 24, 1917, as amended and extended" was \$58,600,000. This amount was reduced by the House, upon the recommendation of the Committee on Appropriations, to \$57,000,000. The Department recommends the restoration of the amount of this reduction.

The appropriation "Expenses of Loans" is available for two purposes: First, expenses in connection with the administration of the public debt, including the costs of manufacture, issue, registration, and redemption of Government securities, and the accounting therefor; and, second, the expenses of promoting the sale of War Bonds and Stamps, through the War Savings Staff.

The Budget estimate for administrative expenses was \$49,300,000, and for the War Savings Staff, \$9,300,000. The reduction made by the House was in the latter item, for which only \$7,700,000 was allowed. This is by comparison with \$12,000,000 allowed for the same purpose for the fiscal year 1943.

The reduction was made on the ground that excessive quantities of advertising and promotion material were being sent to newspapers (House Committee Report, p. 11) and that savings amounting to the \$1,600,000 might well be made in expenditures for printing and binding.

It was pointed out in the hearings before the House Committee on Appropriations (pp. 236, 265, 274-6, Hearings) that the Budget Bureau reduced the estimate for the War Savings Staff for the fiscal year 1944 from \$12,000,000 to \$9,300,000; and that this reduction was chiefly applied to the printing and binding item, which the Budget Bureau reduced from \$5,300,000 for 1943, to \$2,888,144 for 1944, in anticipation of savings which it was supposed could be made by the Department. The further reduction of \$1,600,000 made by the House in the printing and binding item apparently overlooked this previous reduction in the same item by the Budget Bureau. Such an additional reduction could not be effected without seriously impairing the work done by the War Savings Staff in promoting the sale of War Savings Bonds, and it is urged that the full amount included in the Budget estimate be allowed.

MAR 1 - 1943

My dear Senator:

I have your letter of February 24, 1943, relative to an amendment to the bill H.R. 1648 "Making appropriations for the Treasury and Post Office Departments for the fiscal year ending June 30, 1944, and for other purposes," which provides:

"No part of any money appropriated by this Act shall be used, directly or indirectly, during the fiscal year 1944, for the purchase or procurement of silver under the provisions of the Silver Purchase Acts, namely, the Act of June 19, 1934, and the Act of July 6, 1939, or for the carrying out of any of the provisions of said Silver Purchase Acts."

The above amendment was not advocated or sponsored before the House Committee on Appropriations by me nor by any other representative of this Department.

The Treasury is studying the effect which the amendment to the Treasury Appropriation Bill might have on the present operations of the Department. It appears that although the amendment would not have the effect of repealing either the Silver Purchase Act of 1934 or Section 4 of the Act of July 6, 1939, it would have the effect of hampering - and perhaps even preventing - the carrying out of many of the provisions of both of these Acts. Thus, many of the functions of the Bureau of the Mint in acquiring and handling silver, and of the Bureau of Engraving and Printing in issuing silver certificates, are paid for out of the Treasury appropriation. So too are the salaries of some of the people engaged in administering the operations of the Silver Acts.

Orig. file returned to
Mr. Thompson's office.

By Messenger *Brown*
407

- 2 -

I do not believe that I can answer your question whether this type of provision is desirable in an appropriation bill. The choice of a technique for enacting legislation seems to me to be one with which Congress alone is concerned. As in the past, this Department will carry out the provisions of statutes enacted by the Congress irrespective of the form they may take.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Pat McCarran,
United States Senate,
Washington, D. C.

LCA:RB:EMM/nlf
2-27-43

Mr. Morgenthau, page 2,

2/24/43

Inasmuch as hearings before the Senate Committee on Appropriations on this measure are about to be concluded, I will very much appreciate an early reply to the foregoing questions in order that we may complete consideration of H.R. 1648.

Thank you for your courtesy in this matter.

Respectfully,

W. A. McParlan

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

March 1, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS

Controversial issues before Congress this week continue to range from "A to Z", including such a wide variety of subjects as taxes, spending, the many-faceted problem of manpower, farm parity, etc., and running through them all the red flag of divergence with Administration policy. In the House Ways and Means Subcommittee drafting pay-as-you-go legislation, members torn between the Ruml Plan and Administration opposition to complete cancellation of 1942 taxes, are said to be considering a 19 or 20% withholding tax and to have temporarily dropped discussion of "forgiveness". Threats have been made by Republicans, rallying behind the Ruml proposal, to relieve the harrassed Committee of further responsibility and to force a vote on this plan without further ado in the House. In the Byrd Committee on Non-Essential Expenditures, Government spending will again be questioned this week in an inquiry from "top to bottom" on the workings and expenditures of agencies set up under the RFC. It was rumored, too, that liquidation of the ROLC had been tentatively agreed upon in the Committee. On one phase of the debated manpower issue, Capt. Eddie Rickenbacker will be asked to testify before the House Naval Affairs Committee on a rider to a naval personnel bill which would require all Navy contractors to report to draft boards the names of employees remaining away from work without cause. If passed, this would be a start in a great drive against "absenteeism" in war plants. Labor would again be put on the spot in the Hobbs Anti-Racketeering Bill which will be considered by the House Rules Committee early this week. An overall manpower draft, too, was given an additional spur in Secretary Stimson's letter to Chairman Reynolds of the Senate Military Committee endorsing the Austin-Wadsworth Bill to draft both men and women for war factories and farms. But there was no indication that W.C. McNutt, who with Labor Secretary Perkins bore the brunt of Congressional criticism last week, had changed his views on his voluntary program. Nor was there any indication that the Farm Bloc would cease their demands for farm labor exemptions from the Army, as Senator Bankhead predicted early passage of

his bill granting deferment to those in agricultural occupations. Furthermore, passage last week of another Bankhead bill to prevent the exclusion of any subsidy payment in computation of farm parity was described by Mark Sullivan this morning as a major drive on the part of Congress to preserve the "integrity of the legislative branch". Old Administration supporters joined in the sweeping vote of 78 to 2, he said, not necessarily because they believed in the provisions of the bill, but to nullify the Administration order, which Congress claims had no authority, placing subsidies in the parity formula. Divergence between Congressional and Administrative farm policy, however, involves more than a struggle for power but a basic difference in idea as well. Pending in the House now are bills, also opposed by the Administration as inflationary, to include farm labor costs in farm price ceilings.

his bill granting deferment to those in agricultural occupations. Furthermore, passage last week of another Bankhead bill to prevent the exclusion of any subsidy payment in computation of farm parity was described by Mark Sullivan this morning as a major drive on the part of Congress to preserve the "integrity of the legislative branch". Old Administration supporters joined in the sweeping vote of 78 to 2, he said, not necessarily because they believed in the provisions of the bill, but to nullify the Administration order, which Congress claims had no authority, placing subsidies in the parity formula. Divergence between Congressional and Administrative farm policy, however, involves more than a struggle for power but a basic difference in idea as well. Pending in the House now are bills, also opposed by the Administration as inflationary, to include farm labor costs in farm price ceilings.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

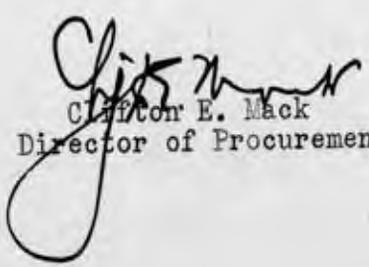
March 1, 1943

SECRET

MEMORANDUM TO THE SECRETARY:

Supplementing my report to you of February 22, 1943, the purchases against the North African Rehabilitation Program from February 22, 1943, to February 28, 1943, totaled \$297,461.01, or a total of purchases for the program thus far of \$20,032,789.89.

Attached is report giving status of shipping against these purchases.


Clifford E. Mack
Director of Procurement



SECRET

SHIPPING REPORT AS OF MARCH 1, 1943

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
New & used clothing	1654	301	170	
Cotton piece goods	3398	1813.25	231.25	1222
Shoes, boots & soling	150	109	106	
Refined sugar	4196.5			
Raw sugar	1545			
Powdered milk	119.5			
Tea	171.5			
Matches	191.75	198		
Copper sulphate	3913	1848		451
Drugs	6.067			
Books & booklets	2			
Nails	100	5	22	
Lamp chimneys			17	
Newsprint	305	67	90	210
Printers ink	.045	.044		
Mach. finished book paper	2			
Cordage & twine	225	5	75	
Cotton thread	19	22	71	
Chemicals	2	234	258.2	
Cotton hose	15.25	19	13.75	
Nipples, bottles, eye cups			9	
Phonograph records			1000 Each	
Tooth brushes			.75	
Wash basins			7	
Spark plugs		2		
Storage batteries		47		
Tires, tubes, & tape	65	46		
Parts for autos, tractors & harvesters	28	150	222	
Tin plate			946	
Coal cutters		12		

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
◦ Fullers earth			71	
Wire rope			89	
Pig iron				120
Shoe tacks				15
Babbitt metal		54		
Steel				270
Horse shoes & nails			15	86
Gelatin		1		
Paint pigments		8	2.5	
◦ Asbestos sheet packing			2	
Glycerine				13
◦ Calcium carbide				247
Totals	16,108.612	4,941.294	2,418.45	2,634



BRITISH AIR COMMISSION

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE
REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statement No. 74 - Aircraft Despatched
- for week ended February 23, 1943.

The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury
WASHINGTON, D. C.

March 1, 1943.

STATEMENT NO. 74

Aircraft Despatched from the United States

Week Ended February 23, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>BREWSTER</u>					
Bermuda	U.K.	U.K.	5		
<u>CONSOLIDATED</u>					
Liberator C.R.V.	U.K.	Canada enroute		7	
Liberator C.R.V.	U.K.	Gander enroute		1	
Catalina 1B	U.K.	Bermuda enroute		1	
Catalina IV	U.K.	Bermuda enroute		1	
<u>CURTISS</u>					
Kittyhawk	Middle East	Port Sudan	6		
<u>DOUGLAS</u>					
Boston III A	U.K.	Canada enroute		18	
Dakota I	U.K.	Canada enroute		2	
<u>GLENN MARTIN</u>					
Baltimore III A	Middle East	Middle East		11	
<u>LOCKHEED</u>					
Hudson VI	West Africa	Freetown		2	
Hudson VI	U.K.	Canada enroute		1	
Ventura	Canada	Canada			1
<u>FAIRCHILD</u>					
Cornell PT 26	Canada	Canada			24
<u>VULTURE</u>					
Vengeance	India	Bombay	3		
			<u>Total</u>	<u>14</u>	<u>44</u>
					<u>25</u>

Movements Division,
British Air Commission.
February 27th, 1943.

MAR 1 - 1943

35400

My dear Mr. Secretary:

Pursuant to your letter of February 20, 1943, this Department is issuing the necessary directive license under Section 5(b) of the Trading with the enemy Act, authorizing and directing the French American Banking Corporation to pay from the account of the Paierie Generale Aux Etats Unis to the American Red Cross the sum of \$1,050,000 for the purpose of financing the purchase and shipment of 300,000 food parcels to French prisoners of war.

I am also advising the Chairman of the American Red Cross of the Treasury's action in this matter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State.

Orig. file returned direct to Paul's office

By Messenger *Saunders*
5:00

JWPehle:cwh 2-26-43

envelope marked "Strictly
Conf"

35400

MAR 1 - 1943

Dear Mr. Davis:

Reference is made to a letter from this Department of November 10, 1942, concerning the payment out of blocked French Government funds to the American Red Cross of certain sums covering expenses in connection with the purchase and shipment of food packages for French prisoners of war.

Pursuant to the recommendation of the Secretary of State, this Department is issuing the necessary directive license under Section 5(b) of the Trading with the enemy Act, authorizing and directing the French American Banking Corporation to pay from the account with it of the Paierie Generale Aux Etats Unis to the American Red Cross, the sum of \$1,050,000 for the purpose of financing the purchase and shipment of 300,000 food parcels to French prisoners of war.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Orig. file returned direct to
Paul's office

Mr. Norman H. Davis,
Chairman,
American Red Cross,
Washington, D. C.

By Messenger

Scantler

JWPehle:cwh 2-26-43

envelope marked "Strictly
Conf"

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE FEB 27 1943

TO Secretary Morgenthau
FROM Randolph Paul

Attached is a letter from Cordell Hull of February 20, 1943, strongly recommending that the Treasury Department issue a directive license to the French American Banking Corporation in New York to transfer from an account of the French Government the sum of \$1,050,000 to be paid to the American Red Cross for the purpose of financing the purchase and shipment of 300,000 parcels of food to be sent to French prisoners of war.

As you know, both the Fighting French organization and the North African authorities are in favor of the resumption of these shipments. The Department of State feels that such shipments should be made "For humanitarian reasons, as well as for reasons of an important political nature **".

Under the circumstances it is recommended that the necessary directive be issued. Please indicate below if you are in agreement.

There are also attached proposed letters to the Secretary of State and to the Chairman of the American Red Cross, for your signature.

AST

Approved:



OFFICIAL CORRESPONDENCE TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

reply refer to

February 20, 1943

My dear Mr. Secretary:

Prior to the rupture of relations between the United States Government and the French Government at Vichy the shipment from this country of supplemental supplies in the form of meat at a rate not to exceed 500 tons a month consigned to the International Red Cross for distribution among French prisoners of war in German custody was permitted under an arrangement between the British and United States Governments. Such shipments were financed from blocked French Government funds in this country, the necessary licenses submitted by the French Embassy having been issued from time to time by the Treasury Department, at the request of this Department.

Upon the severance of Franco-American relations, the shipment of supplies financed from official French funds ceased. Except for a small number of food parcels paid for by private French relief societies, no supplies have been sent to these prisoners of war from this country since that time.

The plight of these prisoners of war, numbering one million sixty-three thousand according to recent information from reliable sources, is serious. French North Africa was the primary source of supplemental supplies for these prisoners of war prior to the occupation of that area by American and British forces. Supplies are no longer available from that area for this purpose. Consequently, with the flow of supplies virtually cut off from the United States and entirely cut off from French North Africa, these prisoners are dependent solely on the rations

furnished

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.



-C-

furnished them by the detaining Power. These rations are not considered to be sufficient to prevent serious physical deterioration of these prisoners.

For humanitarian reasons, as well as for reasons of an important political nature, the Department of State is of the opinion that the shipment of supplemental supplies from this country to French prisoners of war should be resumed and maintained on a continuing basis. Moreover, it should be mentioned that the French Government accords free use of its railroad and mail facilities for the transport of supplies to American and United Nations prisoners in transit through France. The use of these facilities may be denied if the United States Government takes a position which prevents the dispatch of supplies to French prisoners of war. The American Red Cross will soon be in a position to supply 100,000 standard food parcels per month which might be sent to these prisoners. The distribution of these parcels would be limited, in so far as possible, to those prisoners who are kept in base camps and who are not performing work of a nature prohibited by the Geneva Prisoners of War Convention of 1929.

As noted above, the French Government, prior to the severance of relations, financed the purchase and shipment of supplies for these prisoners from its blocked funds in this country. I am convinced that at the present time a French Government which was at all responsive to the will of the French people would wish to continue financing the purchase and shipment of supplies for these prisoners in the same manner. Under present circumstances, however, in order that French Government balances in this country might be employed for this purpose, it is necessary for the Treasury Department to issue a directive under Section 5 (b) of the Trading with the Enemy Act, as amended, to the New York office of the French American Banking Corporation. I strongly recommend that the Treasury Department do issue such a directive. The first such directive license should authorize and direct the New York office of the French American Banking Corporation to pay, transfer, or withdraw, from appropriate accounts of the French Government the sum of \$1,050,000, to be paid to the American Red Cross for the purpose of financing the purchase and shipment of 300,000 parcels. This will permit the American Red Cross to make arrangements for shipments on a temporary basis for a three-month period, pending the receipt and evaluation of additional information from which it may be determined

whether

-3-

whether the arrangement should be continued. All parcels shipped by the American Red Cross under this arrangement will be consigned to the International Red Cross in Geneva for distribution by that organization. The shipment of food in bulk is not contemplated. The Department will advise you further as additional sums are required by the American Red Cross to carry out the program.

The Department of State will take such steps as it may deem appropriate in an endeavor to protect the interests of American citizens or corporations which act in pursuance of and in reliance on the Governmental directive herein outlined.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is centered on the page below the typed name.

WASHINGTON, 1943.

Dear Cordell:

Pursuant to arrangements agreed upon by representatives of the State Department, Treasury Department, and other interested agencies, copies of the draft proposal for a Stabilization Fund of the United and Associated Nations have been given to the representatives in Washington of the governments of the United Kingdom, China and Russia several weeks ago. It was also agreed that copies should be submitted, after a lapse of a week, to the other United and Associated Nations. Mr. Berle and Mr. Pasvolsky have informed us that you are in accord with that procedure.

I am enclosing a copy of the letter of transmittal which I should like to send to the Ministers of Finance of the appropriate countries. I understand that the enclosed draft has been approved by Mr. Berle and Mr. Pasvolsky except for the last sentence in paragraph 2. This last sentence is added in response to a request made by the British Treasury officials that we include in our letter of submittal a reference to their study of the problem.

I am appending a list of countries which seem to us to be the appropriate ones to receive a copy of the draft proposal. You will note that France and Argentina are not included in the list and that the Government of India is included. The representatives of the British Treasury approved the inclusion of India. Should you wish to have any alteration made in the list, we shall of course do so.

When you approve of this letter, I shall send it with the draft proposal to the Ministers of Finance of the countries indicated.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Cordell Hull,

Secretary of State.

Enclosures

3/1 - Sent by Special Messenger from
Chief Clerk's Office - 10:00 A.M.

HDW:dmh
2/26/43.

My dear Mr. Minister:

I am sending for your examination a preliminary draft of a Proposal for an International Stabilisation Fund of the United and Associated Nations. This draft was prepared by the technical staff of the United States Treasury in consultation with the technical experts of other departments of this Government.

The document is sent to you not as an expression of the official views of this Government but rather as an indication of the views widely held by the technical experts of this Government. I hope you will examine the draft and submit it for critical study by the technical experts of your Ministry and your Government. After you and your experts have had opportunity to study it, you may wish to send one or more of your technical experts to Washington to give us your preliminary reaction to the draft proposal, and to discuss with our technical experts the feasibility of international monetary cooperation along the lines suggested therein, or along any other lines you may wish to suggest. We are informed that the technical experts of the British Government have also been studying the question, and will doubtless make their views available.

It seems to me that the enclosed draft proposal points the way to an effective means of facilitating through cooperative action the maintenance of international monetary stability and the restoration and balanced growth of international trade. It is my hope that as a result of unofficial discussions involving no commitments, we may find a sufficient area of agreement to warrant proceeding on a more formal basis.

Very truly yours,

Secretary of the Treasury.

HDW:dmh
2/24/43.

United Nations

Commonwealth of Australia	Kingdom of Iraq
Kingdom of Belgium	Grand Duchy of Luxemburg
United States of Brasil	United States of Mexico
Dominion of Canada	Kingdom of the Netherlands
Republic of Costa Rica	New Zealand
Republic of Cuba	Republic of Nicaragua
Republic of Csechoelovakia	Kingdom of Norway
Dominican Republic	Republic of Panama
Republic of El Salvador	Republic of Poland
Kingdom of Greece	Union of South Africa
Republic of Guatemala	United States of America
Republic of Haiti	Kingdom of Yugoslavia
Republic of Honduras	
Government of India	

Associated Nations

Republic of Bolivia
 Republic of Colombia
 Republic of Chile
 Republic of Ecuador
 Iran
 Republic of Paraguay
 Republic of Peru
 Oriental Republic of Uruguay
 United States of Venezuela

STRICTLY CONFIDENTIAL

MEMORANDUM

A Stabilization Fund
of the
United and Associated Nations

It is still too soon to know the precise form and magnitude of post-war monetary problems. But it is certain that we shall be confronted with the task of dealing with three inseparable monetary problems: to prevent the disruption of foreign exchanges, to avoid the collapse of some monetary systems, and to facilitate the restoration and balanced growth of international trade. Clearly, such a formidable task can be successfully handled only through international action.

The creation of instrumentalities adequate to deal with the inevitable post-war monetary problems should not be postponed until the end of hostilities. It would be ill-advised if not dangerous to leave ourselves unprepared at the end of the war for the difficult task of international monetary cooperation. We should begin now to devise an international monetary agency, for the task is certain to take many months at least. Specific and practical proposals must be formulated by the experts and must be carefully considered by the policy-making officials of the various countries. In each country acceptance of a definitive plan can follow only upon legislative or executive action. And even when a plan is finally adopted, much time will be consumed in gathering personnel and in establishing an organization before an international institution for monetary cooperation can begin effective work.

There is another important reason for initiating now concrete discussions of specific proposals. A plan for international monetary

- 2 -

cooperation can be a factor in winning the war. It has been suggested, and with much cogency, that the task of assuring the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have greater assurance that a victory of the United Nations will not mean in the economic sphere a repetition of the exchange instability and monetary collapse that followed the last war. That assurance should be given now. The people in all of the United Nations must be encouraged to feel themselves on solid ground. They must be given to understand that a victory of the United Nations will not usher in another two decades of widespread economic disruption. The people must know that we at last recognize the fundamental truth that prosperity, like peace, is indivisible.

One of the appropriate agencies to deal with international economic and monetary problems would be an international stabilization fund with resources and powers adequate to the task of helping to achieve monetary stability and to facilitate the restoration and balanced growth of international trade. A proposal drafted by American technical experts is appended. The draft presents only the essential elements of an international stabilization fund. The provisions of the proposal are in every sense tentative, intended as a basis for discussion and exchange of views. Obviously, there are many details that have been omitted and that can be better formulated after there is agreement on the general principles.

It is recognized that an international stabilization fund is only one of the instrumentalities which may be needed in the field of international economic cooperation. Other agencies are also needed to provide capital

- 3 -

for post-war reconstruction and development, to provide funds for rehabilitation and relief, and to promote stability in the prices of primary international commodities. There is a strong temptation to embrace within a single international agency the responsibility for dealing with these and other international economic problems. We believe, however, that international economic institutions can operate more effectively if they are not burdened with important but extraneous duties for which they have not been devised and for which they are unsuited. For example, the highly specialized nature of international monetary stabilization and the provision of long-term capital would seem to call for separate institutions each designed to deal with its distinct problems.

It should be emphasized that the appended draft deals only with an international stabilization fund. It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development. It is hoped that the appended draft will call forth from the experts of the United Nations, critical comment and constructive suggestions. It is our belief that a workable and acceptable plan can emerge only from the joint efforts of the United Nations.

Washington, D. C.
January, 1943.

V*
U. S. Treasury Department
January, 1943

Preliminary Draft of
Proposal for a United and Associated Nations
Stabilization Fund

I. Composition of the Fund

1. The Fund shall consist of gold, currencies of member countries, and securities of member governments, which shall be used for the purpose of stabilizing the values of the currencies of member countries with respect to each other.
2. Each of the member countries shall be given a quota which shall represent its participation in the Fund; i.e., the basis for its purchase of foreign exchange in the Fund and its undertaking to provide assets to the Fund. The aggregate quotas of the member countries shall be the equivalent of at least \$5 billion.
3. The quota for each member country shall be determined by an agreed upon formula. The formula should give due weight to the important factors relevant to the determination of quotas, e.g., a country's holdings of gold and foreign exchange, the magnitude of the fluctuations in its balance of international payments, and its national income.

Each member country shall provide the Fund with 50 percent of its quota on or before the date set by the Board of Directors of the Fund on which the Fund's operations are to begin.

4. The initial payment of each country consisting of 50 percent of its quota shall be 12.5 percent in gold, 12.5 percent in local currency, and 25 percent in its own (i.e., government) interest-bearing securities. However, any country having less than \$300 million in gold need provide initially only 7.5 percent of its quota in gold, and any country having less than \$100 million in gold need provide initially only 5 percent of its quota in gold, the contribution of local currency being increased correspondingly. A country may, at its option, substitute gold for its local currency or securities in meeting its quota requirement.
5. The member countries of the Fund may be called upon to make further provision toward meeting their quotas at such times, in such amounts, and in such form as the Board of Directors of the Fund may determine, provided that all countries shall meet their quotas pro rata, and provided that a four-fifths vote of the Board shall be required for subsequent calls to meet quotas.
6. Changes in the aggregate or proportionate quotas of member countries shall be made only with the approval of a four-fifths vote of the Board.

II. Powers and Operations

The Fund shall have the following powers:

1. To buy, sell, and hold gold, currencies, bills of exchange, and government bonds of member countries; to accept deposits and to earmark gold; to issue its own obligations and discount or offer them for sale in member countries; and to act as a clearing house for the settling of international movements of balances, bills of exchange, and gold.

All member countries agree that all of the local currency holdings shall be free from any restrictions as to their use. This provision does not apply to abnormal war balances acquired in accordance with the provisions of II-9, below.

2. To fix the rates at which it will buy and sell one member's currency for another, and the rates in local currencies at which it will buy and sell gold. The guiding principle in the fixing of such rates shall be stability in exchange relationships. Changes in these rates shall be made only when essential to correction of a fundamental disequilibrium, and only with the approval of four-fifths of member votes.
3. To sell to the Treasury of any member country (or stabilization fund or central bank acting as its agent) at a rate of exchange determined by the Fund currency of any member country which the Fund holds, provided that:
 - a. The foreign exchange demanded from the Fund is required to meet an adverse balance of payments on current account with the country whose currency is being demanded.
 - b. The net acquisition by the Fund of the currency of any member country shall not exceed during the first year of the operation of the Fund, the quota of that country; it shall not exceed during the first two years 150 percent of such quota; and thereafter it shall not exceed 200 percent of such quota; except that upon approval by the Board of Directors, the Fund may purchase any local currency in excess of these limits, provided that:
 1. The country whose currency is being acquired by the Fund agrees to adopt and carry out measures recommended by the Fund designed to correct the disequilibrium in the country's balance of payments, or
 2. It is believed that the anticipated balances of payments of the country whose currency is being acquired by the Fund are such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time.

- c. When the net acquisition by the Fund of any local currency exceeds the quota for that country, the country shall deposit with the Fund a special reserve in accordance with regulations prescribed by the Board of Directors.
 - d. A charge at the rate of 1 percent per annum payable in gold shall be levied against any member country on the amount of its currency in the Fund in excess of the quota of that country. Abnormal war balances acquired by the Fund shall not be included in the computed balance of local currency used as a basis for the above charge.
 - e. When the Fund's holdings of the local currency of a member country exceed the quota of that country, upon request by the member country the Fund shall recall to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange.
4. The right of a member country to purchase foreign exchange from the Fund with its local currency to the amount of its quota for the purpose of meeting an adverse balance of payments on current account is recognized, subject to the limitation in II-7, below.
 5. With the approval of four-fifths of the member votes, the Fund in exceptional circumstances may sell foreign exchange to a member country for its local currency to facilitate a transfer of capital, repayment or adjustment of a foreign debt, including debts already in default, when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation.
 6. When the Fund's holdings of any particular currency drop below 15 percent of the quota of that country, and after the Fund will have used for additional purchases of that currency,
 - a. Gold in an amount equal to the country's contribution of gold to the Fund, and
 - b. The country's interest-bearing obligations originally contributed,

the Fund has the authority and the duty to render a report to the country embodying an analysis of the causes of the depletion of its holdings of that currency, a forecast of the prospective balance of payment in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The member of the country in question should be a member of the Fund committee appointed to draft the report. This report should be sent to all member countries and, if deemed desirable, may be made public.

Member countries agreed that they will give immediate and careful attention to recommendations made by the Fund.

7. Whenever it becomes evident to the Board of Directors that the demand for any particular currency is proceeding at a rate which gives early promise of exhausting the Fund's holdings of that currency, the Board of Directors of the Fund shall inform the member countries of the probable supply of this currency and of a proposed method for its equitable distribution, together with suggestions for helping to equate the anticipated demand and supply for the currency.

The Fund shall make every effort to increase the supply of the scarce currency by acquiring that currency from the holdings of member countries. The Fund may make special arrangements with any member country for the purpose of providing an emergency supply under conditions appropriate and acceptable to both the Fund and the member country.

The privilege of any country to acquire an amount of other currencies equal to or in excess of its quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is being exhausted. The Board of Directors shall determine the apportionment of sales of such scarce currency, and in such apportionment it shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation, and it shall consider the special needs and resources of the particular countries making the request for the scarce currency.

8. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign currencies which it needs, all foreign exchange and gold it acquires in excess of the amount it possessed when joining the Fund. The Fund may accept or reject the offer.

To effectuate this objective each member country agrees to discourage the unnecessary accumulation of foreign balances by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately-held foreign balances appears unwarranted.

9. To buy from the governments of member countries, abnormal war balances held in other countries, provided all the following conditions are met:
- a. The abnormal war balances are in member countries and are reported as such (for the purpose of this provision) by the member government on date of its becoming a member.

- b. The country selling the abnormal war balances to the Fund agrees to transfer these balances to the Fund and to purchase back from the Fund 40 percent of them with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent a year beginning not later than three years after the date of transfer.
- c. The country in which the abnormal war balances are held agrees to transfer those balances to the Fund, and to purchase back from the Fund 40 percent of them with gold or such currencies as the Fund may wish to accept, at the rate of 2 percent a year beginning not later than 3 years after the date of transfer.
- d. A charge of 1 percent, in each case payable in gold, shall be levied against the country selling its abnormal war balances and against the country in which the balances are held. In addition a charge of 1 percent payable in gold shall be levied annually against each of them on the amount of such balances remaining to be repurchased.
- e. If the country selling abnormal war balances to the Fund asks for foreign exchange rather than local currency, it must need the foreign exchange for the purpose of meeting an adverse balance of payments not arising from the acquisition of gold or the accumulation of foreign balances or other capital transactions.
- f. Either country can, at its option, increase the amount it repurchases annually. But, in the case of the country which sold abnormal war balances to the Fund, not more than 2 percent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.
- g. The Fund shall be ~~able~~ to dispose of any of its holdings of abnormal war balances in the form of free funds after the 23 year period is passed, or sooner, provided
 - i. its holdings of the free funds of the country in which the balances are being held fall below 15 percent of its quota; or
 - ii. the approval is obtained of the country in which the balances are held.
- h. The country in which the abnormal war balances are held agrees not to impose any restrictions on the use of the installments of the 40 percent portion gradually to be repurchased by the country owning such balances.

- i. The Fund on its part agrees not to sell the abnormal war balances acquired under the above authority, except with the permission, or at the request of the country in which the balances are being held, but the Fund can invest these balances in regular or special government securities of that country. The Fund shall be free to sell such securities in any country provided that the approval of the issuing government is first obtained.
- j. The Fund shall determine from time to time what shall be the maximum proportion of the abnormal war balances it can afford to take over under this provision.

Abnormal war balances acquired under this provision shall not be included in computing the amount of foreign exchange available to member countries under their quotas.

10. To buy and sell currencies of non-member countries, but shall not be authorized to hold such currencies beyond sixty days after date of purchase, except with the approval of four-fifths of the member votes.
11. To borrow, at such rates as the Fund may recommend, the currency of any country, provided four-fifths of the member votes approve the terms of such borrowing.
12. To sell member-country obligations owned by the Fund provided the representative of the country in which the securities are to be sold approves.

To use its holdings to obtain rediscounts or advances from the central bank of any country whose currency the Fund requires.

13. To invest any of its currency holdings in "short-term" securities -- commercial or government -- of the country of that currency provided four-fifths of the member votes approve, and provided further that the approving votes include that of the Board representative of the country in which the investment is to be made.
14. To lend to any member country local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund provided such loan is approved by four-fifths of the member votes. A country borrowing such funds shall pay interest to the Fund at a rate to be determined by the Board.
15. To make a service charge of 1/4 percent or more on all exchange and gold transactions.

To levy upon member countries a pro rata share of the expenses of operating the Fund, payable in local currency, not to exceed .1 percent per annum of the quota of each country. The levy may be made only when the earnings of

the Fund are inadequate to meet its current expenses and only with the approval of four-fifths of the member votes, and only to the extent necessary to meet its current expenses.

16. The Fund shall deal only with or through
- a. The governments of member countries.
 - b. The central banks or fiscal agencies of those countries (and then only with the consent of the member of the Board representing the country in question); and
 - c. Any international banks owned predominantly by member governments.

An exception to the above limitation is that the Fund may, with the approval of the member of the Board representing the government of the country concerned, sell its own securities, or securities it holds, to the public or to institutions of member countries.

III. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the Unitas (UN) consisting of 137 $\frac{1}{7}$ grains of fine gold (equivalent to \$10 U.S.). The accounts of the Fund shall be kept and published in terms of Unitas.
2. The value of the currency of each member country shall be fixed by the Fund in terms of gold or the Unitas and may not be altered by any member country without the approval of the Fund.
3. Deposits in terms of Unitas accepted by the Fund from member countries upon the delivery of gold or Unitas credit to the Fund shall be transferable and shall be redeemable in gold or the currency of any member country at the rate established by the Fund.
4. No change in the value of the currencies of member countries shall be permitted to alter the value in gold or Unitas of the assets of the Fund. Thus, if the currency of a participating country should depreciate (in terms of gold or the Unitas), that country must deliver to the Fund an amount of its local currency equal to the decreased value of that currency held by the Fund. Likewise, if the currency of a particular country should appreciate, the Fund must return to that country an amount (in the currency of that country) equal to the resulting increase in the gold or the Unitas value of the Fund's holdings. The same provisions shall also apply to the securities of member countries held by the Fund. However, this provision shall not apply to currencies acquired under II-9 (abnormal war balances).

IV. Management

1. The administration of the Fund shall be vested in a Board of Directors. Each government shall appoint a director and an alternate, in a manner determined by it, who shall serve for a period of three years subject to the pleasure of their government. Directors and alternates may be reappointed.

In all voting by the Board, the director or alternate of each member country shall be entitled to cast a number of votes to be agreed upon. The distribution of voting power shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of voting power would seem to be the following: Each country shall have 100 votes plus 1 vote for the equivalent of each \$1 million of its quota.

Notwithstanding the approved formula for distributing voting power, no representative shall cast more than one-fourth of the aggregate votes regardless of the quota of his country. All decisions, except where specifically provided otherwise, shall be made by a majority of the votes cast.

2. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become ex officio a member of the Board and shall be chief of the operating staff of the Fund. The Managing Director and the assistants shall hold office for two years, shall be eligible for reelection, and may be removed for cause at any time by the Board.

The Managing Director of the Fund shall select the operating staff in accordance with regulations established by the Board of Directors. Members of the staff shall be available upon request of member countries for consultation in connection with international economic problems and policies.

3. The Board of Directors shall appoint from among its members an Executive Committee to consist of not less than eleven members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be ex officio a member of the Executive Committee.

The Executive Committee shall be continuously available at the head office of the Fund and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

4. The Board of Directors may appoint such other committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not regularly employed by the Fund.

5. The Board may at any meeting, by a four-fifths vote, authorize any officers or committees of the Fund to exercise any specified powers of the Board. Such powers shall be exercised only until the next meeting of the Board and shall be exercised in a manner consistent with the general policies and practices of the Board.

The Board of Directors may not delegate, except to the Executive Committee, any authority which can be exercised only by a four-fifths vote.

6. The Board, by a four-fifths vote, may establish regulations governing the operations of the Fund, and the officers and committees of the Fund shall be bound by such regulations.
7. The Board shall hold one annual meeting and such other meetings as it may be desirable to convene. On request of member countries casting one-fourth of the votes, the chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.
8. A country failing to meet its obligations to the Fund shall be declared in default and may be suspended during the period of its default provided a majority of the member votes so decide. While under suspension, a country in default shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. When a country has been in default and under suspension for two years it shall automatically be dropped from membership in the Fund.

Any country may withdraw from the Fund by giving notice to that effect and its withdrawal will take effect two years from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice, such country shall be subject to the same obligations as any other member of the Fund.

A country which is dropped, or which withdraws, from membership shall have returned to it an amount in its own currency equal to its contributed quota, plus other obligations of the Fund to the country, and minus any sum due from that country to the Fund. Any realized losses of the Fund may be deducted pro rata from the contributed quota to be returned to the country dropped or withdrawing from membership. The Fund shall have five years in which to liquidate its obligation to such country. When any country withdraws or is dropped from the Fund, the rights of the Fund shall be fully safeguarded.

9. Net profits earned by the Fund shall be distributed in the following manner:
- a. 50 percent to reserves until the reserves are equal to 10 percent of the aggregate contributed quotas of the Fund.

- b. 50 percent to be divided each year among the members in proportion to their quotas. Dividends distributed to each country shall be paid in its own currency or in *Unitas* at the discretion of the Fund.

V. Policies of Member Countries

Each member country of the Fund undertakes the following:

- 1. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and not to alter exchange rates except with the consent of the Fund and only to the extent and in the direction approved by the Fund. Exchange rates of member countries may be permitted to fluctuate within a specified range fixed by the Fund.
- 2. To abandon, as soon as the member country decides that conditions permit, all restrictions and controls over foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose additional restrictions without the approval of the Fund.

The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions and controls over foreign exchange transactions, and each member country shall give consideration to the representations of the Fund.

- 3. To cooperate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Cooperation shall include, upon recommendation by the Fund, measures that can appropriately be taken:
 - a. Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing restrictions on the transfer of capital except with the permission of the Government of that country and the Fund.
 - b. To make available to the Fund or to the Government of any member country full information on all property in the form of deposits, securities and investments of the nationals of that member country; and
 - c. Such other measures as the Fund shall recommend.
- 4. Not to enter upon any new bilateral foreign exchange clearing arrangements except with the approval of the Fund.

V*

- 11 -

5. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.
6. To furnish the Fund with all information it needs for its operations and to furnish such reports as it may require in the form and at the times requested by the Fund.
7. To adopt appropriate legislation or decrees to carry out its undertakings to the Fund and to facilitate the activities of the Fund.

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 68

Information received up to 7 A.M., 1st March, 1943.

1. MILITARY

TUNISIA. 26th. Further details of enemy attacks reported yesterday indicate that the main thrusts developed in area SIDI NZIR and south of MEDJEZ EL BAB where enemy reached MEDJEZ EL BAB-EL AROUSSA Road. Enemy tanks made some progress southwards down road but were halted north of EL AROUSSA. 7 enemy tanks destroyed. We lost one Churchill.

27th. Enemy attacks continued but successfully held at all points. Road MEDJEZ EL BAB-EL AROUSSA cleared except one small sector. High ground 5 miles south east MEDJEZ EL BAB also retaken. We have captured some 800 prisoners.

2. AIR OPERATIONS

WESTERN FRONT. 28th. Mosquitos carried out low level attack on Diesel Engine Works at HENGLO and armament works near LIEGE. Escorted Whirlwinds bombed MAUPERTUS airfield.

28th/1st. 454 aircraft despatched - ST. NAZAIRE 437 (5 missing) sea mining 5, RUHR 3, leaflets 4 (1 missing) Intruders 5. Preliminary reports indicate large fires started in ST. NAZAIRE docks. Visibility good and crews claim operation very successful.

TUNISIA. 26th/27th. Wellingtons and Halifaxes dropped 45 tons of bombs on GABES Landing Ground. 10 aircraft were set on fire and others were damaged.

27th. 407 fighter and fighter bomber sorties flown. Transport, anti-aircraft guns and 3 landing grounds in forward area effectively attacked. Enemy casualties 1, nil, 2. Allied 9, nil, 7. 5 escorted M.S. 109's bombed one of our landing grounds 3 miles south of MEDENINE without damage.

SICILY. 28th. Malta Spitfires successfully raided COMISO airfield, a power station near SYRACUSE and railway objectives at POZZALLO.

March 2, 1943
9:30 a.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Tickton
Mr. Lindow

H.M.JR: All right, Mr. Bell, where do we start?

MR. BELL: As I told you this morning, we have to re-do our cash position estimate because of spreading these tax receipts over the year rather than over the two quarters.

I think we might just discuss for a few moments the basket - types of securities.

H.M.JR: That is what I would like to do.

MR. BELL: I don't think there is any question but what we ought to have a certificate; a two-percent bond, and a two-and-a-half-percent bond; savings bonds E, F, and G; and tax notes.

As I told you this morning, we are having some difficulty with the certificate because there is a certificate of a billion and a half dollars maturing on May 1.

H.M.JR: We went over - no, excuse me. We did eight hundred something in February on E, F, and G.

MR. BELL: Eight hundred and eighty - something like that.

We are down for a billion. We lost money on savings bonds, tax notes, and on revenue.

- 2 -

H.M.JR: How much were the tax notes?

MR. BELL: Five hundred and some million, I think.

MR. MURPHY: I have three hundred twenty-nine through the twenty-sixth. It doesn't mean anything.

MR. BELL: I think we are - it is seven hundred million - I think a hundred and sixty million short, but we also had a reduction in expenditures, so on net we are only off in balance about a hundred and thirty million dollars.

H.M.JR: That is wonderful.

MR. BELL: Along the middle of the month we adjusted our balances to take care of the shortages of receipts in February. We could see we weren't getting them, so we cut about three hundred million out of our estimates and we were still short a couple of hundred million.

On this certificate that is maturing May 1, we could pay it off in cash, but I am afraid if you do that everybody would sell the maturing certificate to the Fed and go into the one that is open in the drive. That might make as much as four or five billion maturing next April. That would be bad.

H.M.JR: Very bad.

MR. BELL: I am inclined to think that maybe we just ought to have a certificate issue along about April 20 outside of the drive for the purpose of refunding that May 1. As we go along we are going to have more certificates, and we are going to run into this problem every time we have a drive.

H.M.JR: What do you mean by "outside of the drive"?

MR. BELL: Just announce what is in the drive and then say that there will be a certificate issue on April 20 for the purpose of refunding the May 1 - for paying

- 3 -

off the May 1 certificate - and not let it be in the basket.

I haven't discussed it with George and these gentlemen.

MR. HAAS: That is the way we had it originally.

MR. BELL: You had it April 28, 29, and 30. That would be too close unless you allotted--

MR. HAAS: I think on this big certificate, if we are going to get the funds we are talking about, that that certificate will be that big - in other words, including a little over two billion to the banks and then the amount of corporate funds will raise it over four.

MR. BELL: This would even make it bigger.

MR. HAAS: Yes.

MR. BELL: If you got the same as in December, you would have the certificate issue of three, eight - three billion seven. You add a billion and a half on refunding, and you get five billion.

H.M.JR: I read this report hastily. This information that the SEC always gets out annoys me terribly. It always comes at the wrong time. Did they show it to you?

MR. BELL: They did at first. I didn't see it after that.

MR. HAAS: They sent it to Dan. There were two things to do. One was to tell them to kill it. I didn't think they could do that. I thought one bad thing was rubbing it in that the Treasury was not getting these funds. I asked them to cut that sentence out, and they said that they would.

MR. LINDOW: They did.

- 4 -

H.M.JR: Is there anything new in there?

MR. LINDOW: In the SEC figures?

H.M.JR: Yes.

MR. LINDOW: They make some studies of these personal savings. The method they used is to take corporation figures and then they can isolate the remaining amount of savings in the form of currency and bank deposits which are held by individuals. Nobody has done that except them. All we know to start with is that currency and bank deposits have gone up by a certain amount during the period. We don't know who got them. They make an estimate of how much went to corporations and then the remainder is assumed to have gone to individuals, and that is new information.

MR. BELL: The figures are higher than they have been at any time before.

H.M.JR: What do you call that section over there?
(Indicating)

MR. MURPHY: The Trading and Exchange Division puts it out, I think.

H.M.JR: It really ought to be over here.

MR. HAAS: That is just one aspect of it. A much more extensive job is done in the Department of Commerce. I mean, if you are going to start collecting--

MR. LINDOW: The Commerce Department estimates the total personal savings, but they do it by a residual method. They figure up how much income everybody got and how much they spent, and then they say the rest had to be saved, but they make no attempt to check that savings figure by finding out how it was saved.

The SEC furnishes corroboration of that figure by working up the savings figures by sources of savings:

- 5 -

currency, bank deposits, purchases of Federal securities, and so on. Commerce could verify their figures in a similar way, but haven't done it. As a matter of fact, there is quite a lot of confusion about it because Commerce and SEC don't agree on a lot of things.

H.M.JR: Could that be transferred by Executive Order?

MR. BELL: If you determined that it is something working in the war effort - tied in with the war effort. I really think it belongs in the Department of Commerce.

H.M.JR: I don't agree with you. What would you think if I just, on an informal basis, called up Harold Smith and asked him to look into that?

MR. BELL: I don't think it would do any harm.

H.M.JR: Let me ask him. It annoys me. It is the Finance Section over in Commerce and one in--

MR. BELL: It is the Finance Section of the Foreign Division of Foreign and Domestic Commerce.

MR. LINDOW: The particular unit that makes the estimates I was referring to is the National Income Unit in the Bureau of Foreign and Domestic Commerce.

MR. MURPHY: Milton Gilbert is the head of it.

MR. HAAS: Isn't it true that there is more than one group? They don't even agree among themselves.

MR. LINDOW: Commerce has two different groups, and they don't agree. They will put out the same figure - supposed to be - and it is different. It is really almost scandalous, I think, that they haven't gotten together on some of those things.

MR. BELL: To go on with the drive, we had planned, after a talk with you the other day, that first we would

- 6 -

have an offering on April 5, but now we contemplate that we would offer to the banks - open the drive on April 12, and in the opening of the drive we would offer to the banks a seven-eighths percent certificate for two billion dollars and then, at the end of the drive, April 28, 29, and 30, we would open the two percent bond, which would have been in the drive all through the period, to the banks for two billion dollars just like we did in December.

H.M.JR: But the two percent would be a little longer, would it, than last time?

MR. BELL: In the '50-'52's.

MR. HAAS: It would be three months longer or six months longer.

MR. MURPHY: Rouse suggested that it be made exactly the same length from issuance as the last one. That would make it a September, '50-'52. That appears rather rich. I wouldn't have any particular objection to it being rich. It could easily be extended to December or even to March.

MR. BELL: '53?

MR. MURPHY: '51-'53. But if our story is that we are going to maintain a given pattern of rates, of course they will thin that down - that apparent premium - fast enough. I think there is a lot to be said for accepting Rouse's suggestion.

H.M.JR: Just put it ahead three months?

MR. MURPHY: Six months. It has been six months since we offered one, Mr. Secretary. We put one out last in October, and this will be six months further ahead.

H.M.JR: I had forgotten.

- 7 -

Do you mean to say it will be six months between those?

MR. MURPHY: We used a one and three-quarters in our last drive. Now we are using a two, and there is some thought that perhaps we might alternate between one and three-quarters and two, feeling the way along as to which is the most popular.

H.M.JR: I have to refresh my mind. That is what I am trying to do this morning.

MR. HAAS: By the way, Dan, house likes the two-percent bond and the certificate.

H.M.JR: You know, we set a deadline for ourselves yesterday, that on or before the 10th of March we would settle this bond thing. So we have until--

MR. BELL: ... next Thursday, I think.

H.M.JR: The 12th is Friday. I said on or before the 12th we would let them know. That gives us the rest of this week and next week. We ought to beat that deadline.

MR. BELL: I hope we do it the first of the week.

H.M.JR: I don't think you can, not with me being away for a couple of days. You fellows won't make up your minds anyway. (Laughter) You can't do it by Monday. Well, maybe you can; we will see.

MR. BELL: The other security is the two-and-a-half-percent bond which would be extended a little beyond the '63-'68 - or was it '64-'69? You had '65-'70 at one time.

MR. HAAS: We are not so choosy, except we would rather have a longer call period. We suggested '60-'70 and '65-'75.

- 8 -

H.M.JR: You always do that. (Laughter)

MR. MURPHY: If the payment of death provision is added, it is hard to evaluate what that is worth, but the bond would be pretty rich unless it was extended or given a long call period.

H.M.JR: Now what will happen is, they will do that and then say, "Wouldn't you give that privilege to the outstanding ones too?"

MR. BELL: That will be the next.

H.M.JR: But I don't think we should.

MR. MURPHY: That would be an argument in favor of adding some such provision as a long call period to offset the payment of death provision in part. It would make the bonds appear - reduce the pressure to make it retroactive.

MR. BELL: There is another question up in connection with the two and a half percent bond, and that is the denomination. Last time we stopped at five hundred. There have been some requests to go down to a hundred.

H.M.JR: I have no objection to that this time where we have the two organizations together.

Incidentally, did you start that press business?

MR. BELL: Yes, they are working on it now.

MR. HAAS: We have a little apprehension on it for a different reason - about dropping the denomination down. I think it would be unfortunate if any particular salesman or group of salesmen would attempt to sell people in low incomes the two and a half percent bond, because your main reason which you gave to Congressional committees for putting out a type of bond such as the E bond was that you didn't want to have a bond market such as in the last war. It could very easily happen if these two-and-a-halves are pushed and the E's overloaded, and it is my

- 9 -

feeling - I guess we are all in agreement on this - that a person should first be sold his limit of E bonds. Now, that may not be the case; it may or may not be the case if you cut the denomination down to a hundred dollars. It could be handled all right if they were specifically instructed that way.

MR. BELL: You have the same situation only to a lesser degree in the five-hundred-dollar denomination. That doesn't mean that a man has to buy five thousand dollars of E bonds before he buys that.

H.M.JR: Have you men dropped the pressure to drop F and G's?

MR. BELL: For the drive. We think it would be bad to terminate F and G's, which are quite the best bonds in the series, just before the drive. But we think maybe you might give consideration to it right after the drive.

H.M.JR: If you are going to have that, then I wonder whether you want to drop this new two and a half to a hundred dollars. It will be in conflict with the E, F, and G's.

MR. BELL: Executive managers say - a few of them do - that there is a demand for a coupon bond because many individuals throughout the country don't want a registered security. They would have to come to the Treasury and get it redeemed. They are willing to take a chance on the market rather than, if they do want to redeem it, take a reduction in the principal.

H.M.JR: That is not a hundred - that doesn't describe the hundred-dollar one.

MR. BELL: I don't think there is much to the argument.

H.M.JR: That is not the hundred-dollar fellow. That is the hundred-thousand-dollar fellow.

- 10 -

MR. HAAS: He might be buying a hundred-dollar bond. (Laughter)

H.M.JR: But the man who is buying a hundred-dollar bond is buying it because he wants to help, and whether it is registered or coupon or something else--

MR. HAAS: I think he should be taken care of in the type of the security sold him.

MR. MURPHY: I think the hundred-dollar fellow more than the hundred-thousand-dollar fellow is apt not to understand and to be irritated by the cutback in value on the G bond.

H.M.JR: They have to buy the G in preference to the F?

MR. MURPHY: I am speaking now of the - of course, the F is a different choice. The small person I am speaking of who has a small amount of bonds and who wants income is apt to think of par as par and to be irritated if he should cash the bond and only get ninety-seven. He is apt to be more irritated than the man buying in large blocks who understands why the cutback is made.

H.M.JR: Supposing he buys the hundred-dollar coupon bond and it goes to ninety-six. Is he going to be irritated? (Laughter)

MR. MURPHY: Yes.

MR. BELL: Irritated, period. (Laughter)

H.M.JR: I am open to argument, but it just seems to me that you may be making your basket too big, that is all. As we go along, we can see how much pressure there is for that. It also means more pieces of paper.

MR. BELL: I think the Federals will argue - not strongly - but they will suggest the hundred dollar denomination. I am sure Rouse will.

- 11 -

MR. HAAS: He did yesterday, and I think George Buffington is interested in it, and Fleek is interested in it. That is what bothers me a bit. I think they are liable to push it in preference to the E. That deals with a thing which to date you have avoided. You have avoided having these small income people have a market bond in order to prevent the situation that happened after the last World War.

H.M.JR: That is right. We have to protect them.

What else have you got?

MR. BELL: I think for a moment we might discuss the Treasury bill program and excess reserves. We had quite a discussion of it yesterday with this group and Mr. Rouse. The present excess reserves run around about a billion eight, and last night I think New York had about a hundred and eighteen million.

Mr. Haas and his group feel rather strongly that there should be more excess reserves, particularly New York and Chicago.

H.M.JR: They are running true to form again, and I am with them on this one. (Laughter)

MR. BELL: He doesn't feel that the banks will subscribe to an amount of Government securities in excess of the excess reserves, and I think in December we had about two and a half billion dollars of excess reserves-- and we got subscriptions of about a hundred and thirty-five percent?

MR. MURPHY: On the one- and-three-quarters-percent bond we only had subscriptions up to about ninety percent; and on the seven-eighths, a hundred and thirty-five.

MR. BELL: Mr. Rouse says that he can't keep excess reserves in the New York and Chicago markets. If you put them in there, the banks will immediately go out and try to invest them. What he runs up against is competition

- 12 -

with the banks in trying to invest their funds. But he is willing to shoot for a range of two to two and a half billion dollars in excess reserves by the time the April drive comes around. He says that if he finds too much competition, he will call for a conference and come down and discuss it with us as to what we should do. But he will shoot for the two to two and a half billion. I think everybody agreed that that would be the best procedure.

H.M.JR: He ought to have at least two and a half billion excess reserves. We talked two and a half last time; it ought to be two and a half to three now. Talk a little bit two and a half.

MR. BELL: That is what we had last time. They did a pretty good job of holding it, too.

H.M.JR: This time talk two and a half to three. You say that is what I want, see?

MR. BELL: Anyway, he said he would come down and discuss it.

H.M.JR: The more securities out, the more reserves you have to have, don't you? Talk two and a half to three. If you talk two to two and a half, you will slip. They are all traders, you know.

MR. BELL: You are telling me! (Laughter)

H.M.JR: What else, Mr. Bell?

MR. BELL: This is just a minor thing that we will have to work out among ourselves. We discussed the question of what we should do to the dealers in the next drive. You remember the last time they were classified as individuals, and they came in and bought about nine hundred million dollars worth of securities, of which only a hundred million, or thereabouts, were the two and a half's. So approximately eight hundred million of the securities that we classified as individuals went into - as far as we

- 13 -

know, they went into banks - most of them did.

H.M.JR: It was very useful, wasn't it?

MR. BELL: Yes, very useful. That is what Bob Rouse says. He said, "Don't forget they sold a billion dollars' worth of bonds for you."

In the February certificate issue we again classified them as individuals and gave them a preferred allotment, although there one class of subscriptions we did police and cut down about twenty-five percent.

H.M.JR: I believe in policing, but I wouldn't be too stiff about not letting them subscribe.

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

March 2, 1943
9:45 a.m.

HMJr: Hello.
Operator: Mr. Smith is on his way to the office. They expect him shortly.
HMJr: Well, let me know when he gets in.
Operator: Right.

9:59 a.m.

HMJr: Hello.
Harold Smith: Hello. How are you this morning?
HMJr: Fine. How are you?
S: Fine.
HMJr: I'd like to raise a point with you on an informal basis before we write you anything, see?
S: Okay.
HMJr: I don't know whether you've noticed in the paper, but quarterly the S.E.C. gets out some figures on savings....
S: Yeah.
HMJr:and then the Department of Commerce gets out some, and they don't jibe with the S.E.C. and my boys - they tell me there're two different divisions in the Department of Commerce, neither of which jibe with each other.
S: Uh huh.
HMJr: And it's upsetting to us in our preparations for financing. Now there isn't much we can do about it, but I'd like to raise the point,

(cont.)

- 2 -

HMJr:
(cont.) in view of the difficulty -- and increasing difficulty -- of our financing each time, what would you think - there are only in each case two or three people involved....

S: Yeah.

HMJr:of - of bringing those into the Treasury....

S: Uh huh.

HMJr:and - so that all estimates on savings and so forth would be in a central place under our statistics here, you see?

S: Uh huh.

HMJr: Because it does - it sort of gets us out of our stride. Commerce does it, I think, once a month and the other....

S: The S.E.C. must do it very irregularly, I - I suppose, because I hadn't noticed it until here about a month ago.

HMJr: Yeah. But - but there are three different sections getting the stuff out, none of which agree with each other.

S: Uh huh.

HMJr: And then they write a lot of articles - we're getting too much or too little, you know, and all that business. It gives the newspapers a chance to hang a controversial issue on.

S: Yeah. Well, I'll try and see what I can do about it. I'll get some of the boys here looking at it. I think there's - there's more involved than a relatively few people.

HMJr: Yeah.

S: But I would think we could somehow or other get it under control.

HMJr: Well, because I was thinking, as I say, I - I don't want to, you know, send a memorandum over, and I don't want any fight over it, I mean.

- 3 -

S: Yeah.

HMJr: I'd like you to look at it with the thought....

S: Yes.

HMJr:of centering it here in the Treasury.

S: Yeah.

HMJr: And if you would take a look at it, and then....

S: I'll do that.

HMJr:and then give me a ring?

S: I'll do that. I expect Commerce is going to holler pretty - holler pretty loud about that, but at any rate....

HMJr: Well, we thought....

S:we'll do the best we can with it.

HMJr:under the - under the War Powers Act, it's....

S: Uh huh.

HMJr:after all it's financing - 95% of our money is to finance the war.

S: Yeah, yeah.

HMJr: It's an irritating thing because the papers always use it, frankly, to - to criticize....

S: Yeah.

HMJr:the Administration for not doing something else.

S: Yeah. Okay. You send - you send your memorandum over, and I'll see what I can do about it.

HMJr: You - you would like a memorandum?

S: Well, that'll be all right, or I can look into it on the basis of this telephone conversation. But I thought you were....

- 4 -

HMJr: No, I....

S:you had something more on it.

HMJr:I'd rather keep it until you - I'd like -
if you'd have - do what you say, have a couple
of your boys look at it....

S: Yeah.

HMJr: Then if you think it's worthwhile, we'll be glad
to send a memo.

S: Yes. Okay. Fine.

HMJr: And - hello?

S: Yes.

HMJr: And George Haas - if - if your men want anything,
that they get in touch with George Haas.

S: Okay.

HMJr: Thank you very much.

S: You bet.

- 14 -

H.M.JR: He says it is not as easy as it sounds, but he will have a couple of his boys get into it and look at it. If they get a memorandum, it is circulated all over, and it becomes a fight. If we don't get it, they will say that the SEC or Jesse Jones licked us.

Yesterday O'Donnell wrote a long article in the Washington Herald about how Herbert Lehman and Stettinius were having a knock-down, drag-out fight. I don't know whether they are or not, but if I write this thing and we don't get it, then they will say, "Jesse Jones licks Morgenthau," or "SEC licks Morgenthau." It is not that important. He wanted me to send him a memorandum. I said no, because he would send it right over to the other two bureaus - my memorandum.

MR. BELL: I don't think he would do that. I think he would have somebody investigate it first.

On the dealers, Bob Rouse feels that what you have to do is control them in the drive, but not to hamstring them, because they were helpful in distributing the securities the last time.

H.M.JR: I agree. Don't hamstring them, but police them.

MR. BELL: The only other thing is that if Congress passes the pay-as-you-go bill we might eliminate series A tax notes.

H.M.JR: Did you see what they reported out? Instead of doing a straight twenty percent - they can't do anything simple. I suppose they figure they can't knock the victory tax out because they will hurt George's feelings so they run around the block three times and come out with a twenty percent deduction at the source.

If you add and subtract about four times to get your result instead of doing it once - but it is not bad, you see.

- 15 -

MR. BELL: They didn't come out with a cancellation, did they?

H.M.JR: No.

MR. BELL: It sort of automatically works that way, though.

H.M.JR: No, they said to leave that until we took up the tax bill. They said, "We want the people to pay their March 15 and June 15 tax. We will start with the deduction of twenty percent at the source on the first of July, and the other question we will take up when we take up the tax bill." That is what I got.

MR. BELL: I don't know, the paper sort of indicated--

H.M.JR: I read Cooper's statement. It is not bad, because the thing that Paul was the most afraid of was that we wouldn't get a deduction at source - that they would put the usual plan through without the deduction at the source. What he was fighting for was the deduction at the source. If we get that on the statute, we can do the other much easier.

MR. BELL: But they did include the victory tax in it.

H.M.JR: Yes, they left it in.

MR. BELL: Left it on the books, I mean.

H.M.JR: As I understand it, yes.

MR. BELL: Instead of making it twenty-two or twenty-three percent and absorbing the whole thing.

H.M.JR: This gives me a little understanding of the thing. Keep feeding it to me.

MR. HAAS: May I mention one other thing that Dan overlooked? I think it is one of the most important

- 16 -

things; it is not a detail. I think it is very important in this drive to indicate to the people who are handling it to get a large part of your funds from individuals. In other words, in the December drive they got the money, but it was a cream-skimming job. If you are going to ask outside the banks for, say, ten billion dollars, I think it would be very much worth while that you break the ten down and say of that ten you want about three billion two hundred million from individuals, and indicate that you want a real house-to-house job on the thing. I think if you don't do that you will be criticized.

H.M. JR: Yes, I am glad you raised that point. I want to raise one in this room here. I don't see how you can escape having a quota.

MR. HAAS: I don't either.

H.M. JR: I know Dan doesn't agree with me. You take Cleveland - they ought to have a quota. Their quota ought to be for the banks and the whole business, and so much for individuals; and until we get a quota, I just don't think we can function.

MR. HAAS: We have done some work, by the way, with groups on it.

H.M. JR: So whenever you are ready, I am ready to listen to it. I just don't see how you can have a drive and not have a quota.

MR. MURPHY: In respect to the bank subscriptions, Mr. Secretary, I think the question of a quota and the question of an adequate supply of reserves is rather interconnected in a way which makes a bank quota rather undesirable. I am very much in favor of the quota outside of the banks.

The relationship between a quota and excess reserves of the banks, I think, was best indicated in a conversation we had with Johnson, who is on the Quota Committee for the Federal Reserve System.

- 17 -

They had a proposed quota for banks. We questioned whether it was necessary, and Johnson, in the course of a rather factual statement, said it probably wasn't necessary now, but that if excess reserves should decline, then a quota for banks would be necessary; and that is about the true relationship between the questions.

H.M.JR: Henry, it is broader than that. What I am thinking of is, if the drive is thirteen billion or fifteen billion - according to the wealth of the population is the way you decide, isn't it?

MR. HAAS: Income that is flowing in.

H.M.JR: All right. New York gets twenty or thirty percent.

MR. BELL: They don't get the income, do they?

H.M.JR: Whatever it is--

MR. BELL: They subscribe to thirty-five percent of the securities and I wouldn't want to take that away from New York on any quota basis, because I think you might not get the total you are after.

MR. HAAS: The Secretary is thinking of quota in the normal sales thing. The banks could be separated out. You don't need quotas for individual banks.

H.M.JR: I am thinking - say, "All right, New York, you raise three; Chicago, you raise two; Cleveland, you raise one" - in those districts. Then after having set that, you can break it down as to how much for the banks and how much for individuals. Otherwise, what I am fearful of is that New York will pull the main oar and some of these other districts just won't do the job. I don't think that it will keep New York from going over its quota. I think they will do it anyway.

I wish you fellows would think about it, and this new man, Robbins, certainly ought to get in on that. I will be gone for two days.

- 18 -

MR. HAAS: We have done some work on this.

H.M.JR: Do some more.

MR. LINDOW: Could I add a word on this individual quota, Mr. Secretary? We had ten billion, say, for non-banking sources listed as our goal. Our thought was that we ought to break it down into about three or four categories, individuals, say, three billion or three billion two, as we had in the sources of funds memorandum, and a certain amount for corporations other than banks and insurance companies, based on the amount of funds that they are accumulating, then the insurance companies and mutual savings banks in one group, perhaps.

Unless we break it down into those three or four groups, we are afraid that they won't go after the individual money enough. They may get the non-banking money, but it isn't the current accumulation of individual funds. We want to get at those individual savings as they accumulate in order to do the most successful job.

H.M.JR: The individuals are the first objective.

MR. LINDOW: Yes.

MR. BELL: I hate to see you put an amount on those individuals. I think it will look bad if you don't get it.

MR. HAAS: This is internal.

MR. BELL: It can't be; you spread it among forty-eight States and twelve Federal Reserve Districts.

March 2, 1943
10:25 a.m.

NORTH AFRICA

Present: Mr. Bell
Mr. White

(Letter addressed to Mr. Hull handed to the Secretary by Mr. Bell, copy attached.)

H.M.JR: Have you (White) seen this letter?

MR. BELL: He wrote it.

MR. WHITE: If I wrote it, I saw it. (Laughter)

MR. BELL: It is the one to the State Department on that committee.

MR. WHITE: Yes, I thought it might be a good thing to send. It is not important. I don't feel strongly about it.

H.M.JR: I won't sign this thing.

MR. WHITE: I wouldn't be bothered with either one of them.

H.M.JR: I wouldn't sign it.

MR. BELL: The meeting is this afternoon, isn't it?

MR. WHITE: Yes.

MR. BELL: Why not? It is a good record. I think we have got to be in on these committee meetings - some of them - whether they are run the way we think they ought to be or not, because there are going to be a lot of things that will be discussed that we have to be in on.

- 2 -

H.M.JR: I am perfectly willing to call up the Acting Secretary, who is Mr. Welles - Mr. Hull isn't here - and tell them how I feel.

MR. WHITE: That would be better.

H.M.JR: I think it is all darned nonsense.

MR. WHITE: That would be better.

MR. BELL: How about just letting Harry go and not answer any of the letters?

MR. WHITE: What we will do is, we will just send somebody so we will be cooperating. All Feis is asking--

MR. BELL: This is the first meeting today.

MR. WHITE: We don't have to answer the letter. We can just send somebody.

H.M.JR: What meeting is there this afternoon?

MR. WHITE: That is a new committee which they have formed.

H.M.JR: I would like to tell Welles that I think it is all damned nonsense. They have an over-all committee.

MR. WHITE: And these ought to be subcommittees.

MR. BELL: We agree with that a hundred percent. We told Feis that.

H.M.JR: What?

MR. WHITE: Feis said he agreed.

H.M.JR: And now they are setting up a separate committee.

Is there a letter from Mr. Hull to me?

- 3 -

MR. WHITE: No, Feis to Bell.

MR. BELL: Following his conference with us.

H.M.JR: Are you in agreement we should be one committee?

MR. BELL: Absolutely.

MR. WHITE: An over-all committee and subcommittees. There must be subcommittees.

H.M.JR: I would like to tell that to Welles.

MR. BELL: I have no objection to that. We told it to Feis. I think Feis agrees with us.

MR. WHITE: He did say that he agreed.

H.M.JR: They they come along--

MR. BELL: It is an internal thing.

MR. WHITE: They make the thing very difficult. For example, we had this meeting yesterday to discuss--

H.M.JR: Excuse me - is the first meeting this afternoon?

MR. WHITE: Yes.

MR. BELL: I think somebody ought to go to that meeting.

H.M.JR: I agree.

MR. WHITE: We told them we would participate, but we didn't like it.

H.M.JR: I will do it by telephone.

MR. WHITE: They listen and agree with you, and just go ahead.

- 4 -

H.M.JR: That is their policy. They agree with you and then do what they want.

MR. BELL: I really can't understand how this other committee was created; and everybody is on the committee except the Treasury.

MR. WHITE: Then you get an invitation from somebody who is not even on the committee which says that if the Treasury wants to go--

H.M.JR: It is Finletter who is the head?

MR. WHITE: Yes.

H.M.JR: What is it called? North Africa--

MR. WHITE: It used to be called the North African Economic Board. Now it is something else; they have just changed the name.

MR. BELL: It has been changed to cover all occupied territories.

MR. WHITE: Don't you remember he definitely said, "This is only concerned with North Africa"? I said, "That is what you are going to start in with, then the first thing you know you are going to expand into all areas." That is exactly what they are doing. They changed the name so it would apply to all.

H.M.JR: Is this thing of Feis' competing with Foreign Exchange?

MR. WHITE: Monetary matters - finance.

MR. BELL: Economic matters where it gets into the fiscal.

- 5 -

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

March 2, 1943
10:32 a.m.

HMJr: Hello.

Operator: Sumner Welles.

HMJr: Hello.

Sumner Welles: Good morning, Henry.

HMJr: How are you, Sumner?

W: I'm fine, thanks.

HMJr: You're Acting Secretary, aren't you?

W: That's right.

HMJr: Good. Sumner, I didn't want to put this in a letter. The boys wrote a letter but I didn't want to sign it - to the Secretary of State. You've got a committee over there which I think Mr. Finletter heads on economic matters affecting South Af.. - South - North Africa....

W: Well, he has to do with strategic materials.

HMJr: And we're not on that committee. Now they're now setting up today a committee just to take up the question of money and so forth, and which Feis is the head of. It's an entirely separate committee.

W: Uh huh.

HMJr: Now I'm perfectly willing to let Harry White go over and sit there as an observer.

W: Yes.

HMJr: But personally, I think that if they're going to treat monetary matters it ought to be a sub-committee of the whole, and there are so many financial things that I think the Treasury ought to have a representative on it.

W: Yes.

- 2 -

HMJr: And - so that if when - if when something comes up - because when it goes wrong, it comes in our lap anyway.

W: Yeah.

HMJr: And we've had numerous instances where we've had to dig out after the damage has been done. But to have a separate committee and which Feis is the head of to treat with just financial matters, I can't see it.

W: Well....

HMJr: And I just wanted to bring it to your attention. I'm not going to fight about it. It's not worth fighting over.

W: Uh huh.

HMJr: And White will go this afternoon....

W: Well, I'll take it up immediately, Henry.

HMJr: As I said....

W: And I think you're quite right.

HMJr: But to have an overall committee - and when everything that you do touches us, you know?

W: Yes. You're speaking now specifically about this Strategic Materials Committee, is that it?

HMJr: No, as I understand it, it's a sort of general economic committee in which all the agencies are represented - I - to me it's represented as the Finletter Committee.

W: Uh huh.

HMJr: And everybody's on it except the Treasury.

W: I see. I'll take it up immediately and find out.

HMJr: But, as I say, I - I'm not going to fight about it. I was just going to bring it to your attention and then....

- 3 -

W: Well, from what you tell me you're absolutely right. I fully agree with you.

HMJr: Yeah. Okay.

W: I'll take care of it.

HMJr: Thank you.

W: All right, Henry. Goodbye.

- 6 -

MR. BELL: It is done.

H.M.JR: Now, the difference with Welles is that when he says he will take care of it, he does.

MR. BELL: If he will talk to Feis, I think Feis will agree that it ought to be one over-all committee doing the whole job.

H.M.JR: You don't agree on that?

MR. WHITE: I don't know whether you made it clear that there should be an over-all committee in which these should be subcommittees.

H.M.JR: I think so; I got the point over. I mean, if there is going to be a separate committee, then it should be in the Treasury.

MR. BELL: I question whether Finletter should head the over-all committee.

MR. WHITE: I mean, this should be another committee which should be an over-all committee; these committees are all right as subcommittees.

H.M.JR: Well, I am sorry; I just couldn't sign the letter.

Treasury Department
Division of Monetary Research

122

Date March 2, 1943 194

To: **Note for Files:**

Secretary Morgenthau said he would
not send this, but would speak orally to
Acting Secretary of State Welles - which
he did.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

My dear Mr. Secretary:

We have a letter from Mr. Fais dated February 26, 1943, regarding the formation of a committee to deal with various monetary and financial questions on North Africa.

It appears from this letter that Mr. Fais regards the group now working on certain North African economic questions as section one of a Combined Committee for North Africa. He proposes that a committee on monetary and financial questions be formed as section two of a Combined Committee for North Africa. This pattern of organization seems quite logical if at the same time there is formed a general Combined Committee for North Africa and other occupied areas in which all interested departments would be represented by responsible officials, and at which only the more important economic and financial policy questions would be discussed. With such a Combined Committee acting at a policy-making level, there would be a sound basis for sectional committees, including the two Mr. Fais proposes, acting as sub-committees, to which would be referred various matters for recommendation as to action, or for final action on matters involving no important policy questions. Under such an arrangement, each sectional committee could function most effectively if it had as its chairman the representative of the department principally concerned with the work of the particular sectional committee.

In the meantime, the Treasury will send a representative to the meeting of the proposed section two called by Mr. Fais. However, it is our view that this section, as well as other sectional committees, can operate effectively along the proposed lines only if it is in fact a sub-committee of a Combined Committee for North Africa and other occupied areas at which important economic and financial policy questions are considered, and on which all interested departments are represented.

Sincerely yours,

Secretary of the Treasury

The Honorable

The Secretary of State.

EMJ/jm 3/1/43

March 2, 1943
11:04 a.m.

John
Sullivan:with Mr. Doughton, and he's talked with
Mr. McCormack....

HMJr: Yeah.

S:and apparently the bill will be on the floor
a week from tomorrow or a week from Thursday.

HMJr: Yeah.

S: Mr. Doughton has no objections to our attempt-
ing to have that moved in the Senate first.

HMJr: Yes.

S: I thought if you approved I'd go right over now
and see Senator George.

HMJr: Don't you think that would be the smart thing
to do?

S: Yes, I do, sir.

HMJr: Well, I - I would follow through on that.

S: I'll - I'll do that right away, and then report
when I get back.

HMJr: You and Joe.

S: That's right. Mr. Doughton would like to speak
to you a moment.

HMJr: I'd like to talk to him.

Cong. Robert
Doughton: Hello, Henry.

HMJr: Hello, Bob.

D: How are you?

HMJr: Oh, I'm all right. How are you?

- 2 -

D: Pretty good. I appreciated your letter and you sent me that copy of proceedings out there the day we had the broadcast.

HMJr: Yeah.

D: I got it out at the hospital. You mentioned you'd be glad to drop in and see me, and which I appreciate, but I'm back here. If you'll drop over here any time - if you want to see a man that's well, up and agoin', I'm here.

HMJr: Well, you - well....

D: I didn't have any trouble out there, Henry, only I just had two major operations, and - about double pneumonia and two transfusions of blood and complete paralysis....

HMJr: Otherwise....

D:in a week, and come back and have gained two pounds and a half. How do you like that?

HMJr: Well, I - I wish I was half as good a man.

D: (Laughs) The newspapers have made you think I'd had all those troubles, you know.

HMJr: Yeah, I wish I was half as good a man.

D: (Laughs) No, I - I just went out for a check-up. I'm all right.

HMJr: Well, that's good.

D: You....

HMJr: You sound fine. Well, I hope to see you soon.

D: Yeah, I'll be glad - well, we - we'll push up this matter all we can, but it don't look like now, under the order - they think that it ought to come up next after Lend-Lease, next Monday which - next week which we'll expect that Monday, and about - somewhere from Tuesday to Thursday they think they can get it up, and we'll look right after it.

- 3 -

- HMJr: Well, but you think it would be all right to let George push it over on the other....
- D: If he wants to do it, there'll be no - no objection on my part. Of course, now I'm not handling it. His has handled it.
- HMJr: But there'd be no objections.
- D: Not by me.
- HMJr: Well, wouldn't you just as leave have the bill come over with no rider on it?
- D: (Laughs) Well, now that - that's a matter that I wasn't figuring to say anything about. I'd rather it had never been put on it.
- HMJr: Well, that's the....
- D: As far as I'm concerned, they - they've changed them on the amendment, you know, changed to a substitute and knocked my bill out.
- HMJr: Yeah.
- D: When they knocked my bill out, I declined to report it.
- HMJr: Right.
- D: I - let somebody else handle it - someone - I didn't want to report something - handle something that I'd tried to prevent.
- HMJr: No.
- D: So Disney's handling it, but I'm trying to prevent delay and get it up so it can be considered as early as it can. I'll look after - I'm looking after that, and Disney's before the Rules Committee now about his rule, and I think you can safely count on the House being ready to take some action on it by the middle of next week. Whatever the Senate does between now and then, well, there'll be no - any - no objections raised by me.

- 4 -

HMJr: Okay.
D: All right. Come over.
HMJr: Thank you.
D: Goodbye.

March 2, 1943
11:11 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Sumner
Welles: Henry?

HMJr: Yes, Sumner.

W: When you spoke to me a little while ago, I was a little bit confused on this committee I didn't know exactly what committee you had in mind. I now find clearly what the situation is.

HMJr: Yes.

W: Both of the committees that you mentioned have to do solely with North Africa....

HMJr: Yes.

W:and I would like to request you, if you will be good enough to do so, to appoint a representative of the Treasury Department to sit on Section 1, which is what you called the Finletter Committee.

HMJr: Yes.

W: And I find that the other committee, which Mr. White will attend this afternoon, will practically be entirely under the control and supervision of the Treasury. But it would be useful, I think, to have a Treasury representative on the other section of the committee as well.

HMJr: Well, that's what we thought, and the boys here thought that this -- what do you call this committee that meets this afternoon?

W: It's Section No. 2.

- 2 -

HMJr: Well, that - that really ought to be a sub-committee of No. 1.

W: Yeah.

HMJr: That's what they were trying to explain to me.

W: Yes, well, that's a question of organization. At their first meeting this afternoon, they can work that out.

HMJr: Yes.

W: But I'd be grateful if you'd appoint your representative on Section No. 1 as well.

HMJr: On Section No. 1?

W: Yes.

HMJr: All right. That's very fast action.

W: All right, Henry.

HMJr: It's hard to keep up with all these committees.

W: Yes, I should say so.

HMJr: And we'll be glad to cooperate.

W: Well, I think - thanks a lot, Henry. I think that will work out fine now.

HMJr: Thank you.

W: Many thanks. Goodbye.

HMJr: Goodbye.

March 2, 1943
11:51 a.m.

John
Sullivan:on this whole matter, but I just wanted to report to you that I found Senator George in a meeting of the Senate Finance Committee. He was at first unwilling to act on this until it had been passed by the House, but he conceded there wasn't any legal objection, and he finally agreed - but if he could call another meeting of his committee, he'd get them together. He said that Senator Vandenberg had expressed the desire to be present if there were any further discussions on this measure, but he's going to try to get them together, and if there is no objection he will bring it out first.

HMJr: Well, I think that we did - I think we accomplished something this morning.

S: Oh, I think so too. Now neither one of them raised the question that we're going to have - that we may have to answer before we get through....

HMJr: Yes.

S:and that is, do we want this debt bill even if the repeal of the salary ceiling is on it?

HMJr: Well, you might ask Jimmy Byrnes about that.

S: Well, I'd made up my mind this morning that if they asked me, I - I said that I'd have to refer them to him. Now do you want me to ask him?

HMJr: Yes.

S: Right.

HMJr: I wish you would.

S: Do you want me to report?

HMJr: Yes.

- 2 -

S: Right.
HMJr: Thank you.

MEMORANDUM

March 2, 1943.

TO: The Secretary
FROM: Mr. O'Connell
Mr. Sullivan

475

Pursuant to your instructions, we called on Chairman Doughton this morning and, as we advised you over the telephone, he communicated with Mr. McCormack who informed him that the Public Debt Act would be taken up next week immediately after the Lend Lease Bill. He expected that the Public Debt Act would reach the floor on either the 10th or the 11th of March.

After talking with you, we went to the Senate Finance Committee where we talked with Senator George. The Senator first appeared to be unwilling to act on this measure until the House had acted, but he stated that there seemed to be no legal objection to the Senate acting first. He then said that Senator Vandenberg had asked to be present if there was to be any further discussion on the Public Debt Act and Senator George stated that he was not present at the meeting this morning.

Before we left, Senator George agreed to try to get his Committee together again and stated that if his Committee was agreeable he would bring it out on the Floor as soon as possible. We told him we would very much appreciate his expediting this matter because, although it might later have to go to conference, we felt that we would save about a week.

Joseph J. O'Connell

March 2, 1943
1:00 p.m.

HMJr: Hello.

Richard
Rothschild: Hello, Mr. Secretary?

HMJr: Speaking.

R: I have some of this information. I think it's
what you want.

HMJr: Go ahead.

R: With regard to "Mr. H"....

HMJr: "H"?

R: Mr. Hobler.

HMJr: Yes.

R: This is the story: He's a man of about fifty-
five -- I don't know if you want this - it's
part of the picture - I think I'd better give
it to you....

HMJr: Well, how old is he?

R: He's a man of about fifty-five....

HMJr: Yes.

R:six foot three, a big, husky fellow. He
used to be a football player, I understand,
in his college days.

HMJr: Yes.

R: He was with Irwin and Waisey, a big advertising
agency, for some time, and later with the Pet
Milk Company.

HMJr: Yeah.

R: He's a brusque, domineering sort of person
and some people say, rather opinionated....

HMJr: Yes.

- 2 -

R:with the result that for awhile there was quite a turnover in his organization....

HMJr: Yes.

R:in his personnel - people who couldn't get along with him and so on.

HMJr: Yeah.

R: As far as....

HMJr: Hello?

R:are concerned....

HMJr: I - they interrupted us a minute. I didn't hear what you said.

R: I say as far as his ability....

HMJr: Yes.

R:and experience are concerned, it's more largely in the marketing field than in the actual advertising and copy work.

HMJr: Yeah.

R: He's not a writer himself. He's more of a salesman type, and he has specialized in the marketing angles, which are related, of course, to advertising and merchandising.

HMJr: Yeah.

R: I understand, incidentally, he had a heart attack a few years ago, but has been all right since then.

HMJr: I see.

R: Now that's the - the agency, of course, stands among the best,

HMJr: Yes.

R: You know that part of it.

- 3 -

HMJr: Yes.

R: Now the other man is a - is really just the opposite type of person.

HMJr: Yes.

R: He was with N. W. Ayer for some time. I understand he was not with Lord & Thomas. I - I had that wrong. I think I told you Lord & Thomas.

HMJr: Yes.

R: It was N. W. Ayer, and later with the F. Willis Armstrong Agency, both of them very large, of course.

HMJr: Yes.

R: There are those who say that his present agency is the biggest in the - in the country.

HMJr: Yes.

R: It's always a question of whether their building is higher than J. Walter Thompson or Lord & Thomas or whatever it is, but at any rate, they're among the three biggest.

HMJr: Yeah.

R: He's a great writer himself. He's a fine person, a relaxed, humane sort of a person, I understand.

HMJr: Yes.

R: He's not a speaker, but is one of the really - is - is thought of as one of the great creative minds in advertising.

HMJr: Yeah.

R: His - there's an interesting thing recently, which we happened to be interested in. They ran a series of advertisements in some of the magazines on this divide and conquer strategy of Hitler....

HMJr: Yes.

- 4 -

R:in which they stressed the way in which various things have been used by that propaganda, including anti-Semitism and so on - a very friendly series of ads.

HMJr: Yes.

R: I just give you that for - for general background.

HMJr: A friendly series.

R: Very friendly, yes.

HMJr: Good.

R: Now as to their politics, I don't know whether you're interested in that....

HMJr: Well, I think that....

R:but all advertising men, I suppose, take the protective coloration of big business....

HMJr: Yeah.

R:and of the two, I should say that Rubicam was probably the more liberal.

HMJr: More liberal.

R: Now the - the main account or one of the main accounts of Rubicam is General Foods....

HMJr: Yes.

R:as you know.

HMJr: I know.

R: They have most of the - of the General Foods accounts, and a whole long list of other accounts - Borden, American Can, Gulf Oil, Johnson & Johnson, Metropolitan Life, Westinghouse, Packard and so on and so on. I don't imagine you're interested in all....

HMJr: No, I have this agency list book.

- 5 -

R: What's that?

HMJr: I have this book.

R: You have the Standard Register?

HMJr: Yes.

R: Well, that gives it all.

HMJr: Yes.

R: Now does that give you the kind of a picture that you wanted?

HMJr: Yes. Well, I would say the second man sounds pretty good.

R: The second man is -- of the two -- is certainly the better.

HMJr: Right.

R: And is spoken very highly of by everybody. I've known him only by reputation, and I've just tried to follow down some of these specific points.

HMJr: Right.

R: He's a very - he's evidently aⁿ very high caliber person, liberal basically, and a great creative mind in - in advertising.

HMJr: Well, thank you so much. If I want any more, I'll call you.

R: All right, Mr. Secretary.

HMJr: I hope I didn't bother you too much.

R: No, no, it's all right. It - it was not difficult.

HMJr: Thank you very much.

R: Right.

HMJr: Goodbye.

March 2, 1943
2:01 p.m.

HMJr: Hello.

Operator: Mr. Callahan.

HMJr: Hello.

Vincent Callahan: Yes, Mr. Secretary.

HMJr: Callahan?

C: Yeah.

HMJr: These tickets, they have more trouble with them. This....

C: I know it.

HMJr:Mademoiselle DeVecchi called up Mrs. Morgenthau. Where were the tickets?

C: I left them at the - or rather, Commander Stephens did, at the Raleigh.

HMJr: Well, they were never called for.

C: Well, I just found out that Toscanini was taken ill.

HMJr: Yeah.

C: And we left them for Walter Toscanini at his instructions.

HMJr: Yeah, well, he never showed up. Well, now....

C: Well, he stayed with his father.

HMJr: Well, can you call up Mademoiselle, or whatever they call her, DeVecchi?

C: Yes, sir.

HMJr: And find out what disposition she wants to make of the tickets?

C: Do it right away, sir.

- 2 -

HMJr: And - so they don't want the box empty, but it - it's up to them to do something.

C: Well, I'll take care of it.

HMJr: Well, the tickets are on the way over to you.

C: All right, sir.

HMJr: But get both Walter Toscanini and - but first get Madame DeVecchi - I don't know whether she's in....

C: DeVecchi, oh, I know it.

HMJr: I don't know whether she's in Washington or where - where she is.

C: Well, I'll find her.

HMJr: Well, now can I leave it with you?

C: Yes, sir, I'll take care of it.

HMJr: And when the matter is cleared, will you - supposing you call me back.

C: All right, sir.

HMJr: The tickets are on the way over.

C: Okay, sir.

March 2, 1943
2:09 p.m.

HMJr: Rubicam?

Raymond
Rubicam: Yes.

HMJr: This is Henry Morgenthau, Jr.

R: Yes, sir.

HMJr: How are you?

R: Fine, thank you. I hope you are.

HMJr: I'm all right. I hate to disturb anybody who's on a holiday in Arizona, because I know what it means.

R: Well, but I'm pretty lucky to have it.

HMJr: Good. Mr. Rubicam, we're setting up a new sort of group here in the....

R: Mr. Morgenthau, I'm sorry, I don't quite hear you now.

HMJr: Can you hear me now?

R: Yes, I do.

HMJr: We're setting up a new sales organization in the Treasury on our War Bond financing....

R: Yes.

HMJr:and Mr. Robbins is starting with us as of yesterday as general sales manager in charge of the whole works.

R: You mean Bill Robbins of General Foods?

HMJr: That's right. He'll be in my office in a minute.

R: Yeah.

- 2 -

HMJr: And he wants to get the best advertising man in America to come down here and help him. And he and I both want you.

R: I see.

HMJr: And both the Advertising Council and O.W.I. are - are very anxious that you do it.

R: Yes.

HMJr: I hesitated to call you, knowing that you had gone out there for a six weeks' holiday, but the - your friend said it was all right to call you.

R: It is. It's perfectly all right, sir.

HMJr: Now what I'd like to do is this - Robbins is across the desk and he can pick up the phone and talk to you....

R: Yeah.

HMJr:and then what I hope you would do would be to get on a night plane and come in here and let us have a talk.

R: Uh huh. Well, here's the thing, Mr. Morgenthau.

HMJr: Yeah.

R: It isn't - I don't mind in the least having the holiday interrupted....

HMJr: Yeah.

R:but the trouble is that LaRoche, who is my chief helper in Young & Rubicam....

HMJr: Yes.

R:has just left for six months with the Advertising Council....

HMJr: Yeah.

- 3 -

R:and that left us so short-handed....

HMJr: Yeah.

R:that I had decided that I had to stay there. Now I wasn't going to stay out here six weeks on a holiday, I was going to do some business. I was going to be here about three weeks....

HMJr: Yes.

R:and then go on and do some business on the coast, where we've got two offices, and in Chicago.

HMJr: Yeah.

R: Then I was going back to Young & Rubicam and stick pretty close to there for six months until LaRoche got back from the Council, and then see if I couldn't find a war job.

HMJr: Yeah.

R: Now that was about the plan, you see?

HMJr: Well, of course, the war upsets all of our plans.

R: That's true. That's absolutely true.

HMJr: Let me have Robbins talk to you a minute.

R: Yeah, all right.

HMJr: He's right here.

R: Well, thanks for calling.

HMJr: Well, I - I (talks aside: Underneath, just lean back.)

W. M.
Robbins: Hello, Ray.

R: Hello, Bill.

Robbins: How are you, my boy?

R: I'm all right. How are you?

- 4 -

Robbins: Well, I'm just fine.

R: I understand you're starting a new job tomorrow.

Robbins: That's right.

R: Or today - which is it?

Robbins: Well, it's probably today, Ray.

R: Uh huh.

Robbins: This situation, as far as I'm concerned, has been developing here for a matter of - well, really for a matter of couple months....

R: Yes.

Robbins:while I was on the advisory committee to the Secretary.

R: Yeah.

Robbins: And little did I think in those days that I would be the one to find myself in the middle of it.

R: Uh huh.

Robbins: Now, Ray, the way I - the way I think at this moment, what I need is - I need somebody who, in the first place, knows this advertising game the way I know you do, and in addition to that, if it were possible to have somebody who also knows me. There are just two important spots down here, Ray, one is the organizing on the distributive side because, after all, what we've got is a selling job. It isn't a financial job.

R: Yeah.

Robbins: And the other one is the harnessing of some eighty to a hundred million dollars worth of advertising to get behind this campaign.

R: Yeah.

Robbins: Now I know and you know too that the best advertising brains in this country are going to be none too good on that size and that scope of a job.

- 5 -

R: Yeah.

Robbins: I, of course, knew that Chet was serving on the Council and I weighed that one very heavily, and before the Secretary and I talked about this plan I was pretty sure that if I went to you I wouldn't be embarrassing you from the Y. & R. point of view, although of course, you know that better than I do.

R: Yeah.

Robbins: But, Ray, my goodness, my fellow, if Bill Robbins ever needed anybody to help him, this is the moment.

R: Uh huh.

Robbins: We're going to have an opportunity such as seldom has existed, so far as I'm concerned, in my knowledge of Washington.

R: Yes.

Robbins: The Secretary, as you know, is sitting right across the desk from me, but I must say frankly, Ray, that he's given - given me a directive on this work that leaves no doubt about the fact that the authority will be commensurate with the responsibility, and that is wonderful. Now there are just two jobs in this thing, Ray, that are of prime importance. I'm not a bit hesitant to say that I can do the organizing and the promotional side of it.

R: You say you are what?

Robbins: I'm not a bit hesitant to say that I can do the organizing and promotional side of it.

R: Yeah.

Robbins: But when it comes to harnessing this advertising job, I need you and I need you terribly.

R: Well, Bill, you see - you see, I'm - I'm not so sure that you need me as much as you need a younger man who is right in the thick of creative work, a man like Ted Wheeler, for instance.

- 6 -

Robbins: Well....

R: I mean, have you thought about that?

Robbins: Well, I have thought about that, and - and the way I've figured it out is this. You know how we're set up at General Foods....

R: Yeah.

Robbins:that the - the promotional and creative men who are working on - on specifically that type of assignment....

R: Yeah.

Robbins:one here, for example, might be on the farm market....

R: Yeah.

Robbins:another one on the mass market, which is the professional group and those who don't fall into any ready classification.

R: Yeah.

Robbins: Another one perhaps even on Government employees, wherever they may be located.

R: You have product promotion managers, so to speak.

Robbins: That's right. Now I need a manager for the managers.

R: Uh huh.

Robbins: I need a Ralph Starr Butler and Charlie Mortimer wrapped into one, do you see?

R: I see.

Robbins: In other words, this job is - is a team job where two people, one who's going to probably ride the planes and take care of the organizational work and the general directional work, and the other one who's going to take care of the creative side of harnessing a hundred million dollars worth of advertising.

- 7 -

- R: I see.
- Robbins: And it - that isn't a one-man job. That's an organization job.
- R: Yeah. Well, Bill, this does upset all calculations, but as Secretary Morgenthau said, the war upsets plans. What - you know about Chet leaving for six months full-time on the Council?
- Robbins: Yes, I know that.
- R: You know about our promoting Brookway?
- Robbins: Yes, I knew, and I was delighted.
- R: And you know about all the - the personnel troubles that we - that we are bound to have in Young & Rubicam....
- Robbins: Yeah.
- R:and I felt that we were all needed there for the six months that Chet was away, see? And - so what I was going to do was come back from here and devote myself to Young & Rubicam during his absence, and then after his absence get - find another war job, see?
- Robbins: Well, I - I know, Ray, and I could understand how that may be the case. As I visualize this in terms of size and scope, what we're going to try to do is to sell the American public and the banking institutions of the country somewhere between \$60 and \$75 billion dollars worth of securities in less than 365 days.
- R: Yeah.
- Robbins: It's mass marketing such as - well, it's a dream in mass marketing, and it's got to be done through the service of volunteer sellers on the firing line.
- R: Yeah.
- Robbins: Now that organization part of it, Ray, I - I'm just, I think, going to be perfectly at home with it....

- 8 -

- R: Yeah.
- Robbins:but harnessing of this advertising and the - the direction and dividing of that task among specialists well qualified, I think I need not a - not a creative man, as you described him, but an organizing executive....
- R: Yes.
- Robbins:who knows that profession.
- R: How about - where is Tommy in the picture, Harold Thomas? Is he still there?
- Robbins: Well, Tommy did a good report for us, and he's - he's back at his job, I guess, although I'm going to use him in a - in a more or less consulting way right along here for some time.
- R: He is going to be there?
- Robbins: I don't think he will be here full time unless plans should change. I hadn't anticipated that at the moment.
- R: Yeah. Well, now what do you suggest that I do?
- Robbins: Well, the Secretary will be out of town for the next two or three days....
- R: Yeah.
- Robbins:and what I would like you to do is to get in the same room with me somewhere, even if I have to meet you in neutral territory. I'd rather meet you here at the time you could talk to the Secretary or meet you here, say, Thursday - coming - being here Thursday and Friday - the Secretary will certainly be back either Thursday or Friday.
- R: He will. Uh huh. Well, you - I should talk with you and with him?
- Robbins: Oh, yes.
- R: Well, suppose - this is what, Monday?

- 9 -

Robbins: That's right. No, this is Tuesday.

R: Say that I meet you there Friday.

Robbins: All right.

R: Is that all right?

Robbins: No, that - that's fine, Ray. I'm going to go to work now to really find out what my inheritance is here in the Department.

R: What - your what?

Robbins: What my - the people - to learn to know the people who have been associated with this work prior to the time I have arrived.

R: Yeah.

Robbins: And I will be much better equipped to give you the detail of the background and the tasks which have been done by the group that you would inherit in a supervisory capacity.

R: That's nice.

Robbins: Yeah.

R: Well, suppose I come down there and talk it over anyway, Bill.

Robbins: Well, Ray, I'm - I'm delighted if you will. I feel confident that if you do, you're going to see the size and the scope of the task and the - and the opportunity to serve your country which hasn't been equaled, so far as I'm concerned, in my life anyway -- and if you need any help, Ray, on priorities in transportation, I'll be glad to fix that up for you. Hello? Hello? Hello? (Talks aside: He's gone. Did - was that black-out....) Yes, hello?

Operator: Yes, sir.

HMJr: Mrs. Spangler?

- 10 -

Operator: Yes, sir.

HMJr: He was out off.

Operator: No, he's still on here.

Robbins: Hello? Hello?

R: I don't want to rest on that one six months' effort.

Robbins: Oh, Ray, I - we've been out off here for quite a - a minute or so. Where did you drop my conversation? Hello? Hello?

Operator: The phone's gone out of - hello? Hello?

R: Yes.

Operator: Hello? Hello? Hello? Hello?

Robbins: Hello?

Operator: Yes, sir. Can you hear....

Robbins: Well, I guess we're cut off again.

Operator: Well, I couldn't hear you. I thought the phone went out of order.

HMJr: No, the phone's not out of order.

Operator: Oh. Well, just a minute. There he is.

Robbins: Yeah, hello, Ray.

R: Why, on the priority - hello?

Robbins: Yes, Ray.

R: On the priority, if I need....

(remainder of conversation not recorded)

March 2, 1943
3:00 p.m.

FINANCING (Meeting Held in Mr. Bell's Office)

Present: Mr. Bell
Mr. Robbins
Mr. Buffington
Mr. Haas
Mr. Murphy
Mr. Eccles
Mr. Sproul
Mr. Rouse
Mr. Ransom
Mr. Goldenweiser
Mr. John Williams
Mr. Evans
Mr. Paddock
Mr. Piser

MR. BELL: The Secretary is going to be a few minutes late.

Marriner, do you think it will be well to go over the figures first or wait until he comes in? Maybe we should discuss the issues.

MR. ECCLES: What figures do you mean?

MR. BELL: Did you do anything this morning you would like to discuss?

MR. ECCLES: No, we didn't this morning. It was an organization meeting. Yesterday we discussed the financing - yesterday afternoon after we went back from here.

The discussion we had was based upon the tentative report that we got from Piser and from Bob Rouse, who had been over here, so that we had the information they

- 2 -

could give us as to what the Treasury was thinking about, and we discussed that. We discussed the total amount that possibly - the maximum that ought to be raised, and discussed the types of issues and the part the banks should play and the part the non-banking investors should play. We discussed all of those aspects of the problem. The question of quotas was discussed. We had about a two-hour discussion.

MR. BELL: Maybe I had better give you the figures to start out with, and see where we stand.

We came out of February with a balance of three billion eight hundred and eighty-two million. That is within about a hundred million of what we contemplated. And we estimate that we will go out of March with about two billion three. That is assuming that we go forward on our present Treasury bill program of raising the weekly offerings a hundred million on the 17th, making two hundred million new money in each week.

In April we would have to have about thirteen billion dollars in addition to the normal receipts from savings bonds, tax notes, and Treasury bills, which means a total of about fifteen billion dollars public debt receipts during the month of April. On that basis we would go out of April with eleven billion and a quarter.

In May we would have our savings bonds, tax notes, and the regular Treasury bills again, and we would go out of May with seven billion two hundred and fifty million dollars.

Then around June 1 we ought to have a two billion dollar certificate issue in order to take up the billion dollar maturities on June 15; which, together with the savings bonds, tax notes, and Treasury bills, would allow us to go out of June with six billion six hundred million. And if we had no further financing other than the regular stuff such as savings bonds, tax notes, and so forth, we would go out of July with two billion one hundred million dollars. We could have the next drive around the early part of August.

- 3 -

MR. SPROUL: May I ask - what do you go out of April and out of May with?

MR. BELL: We go out of April with eleven billion and a quarter, and out of May with seven billion and a quarter.

MR. ECCLES: How many new bills are included in those figures?

MR. BELL: That contemplates two hundred million dollars of new money each week straight through the period.

MR. ECCLES: Of course, you have taken into account--

MR. BELL: I will say up to July 21, I think it is, when you reach a billion dollars, isn't it, Henry?

MR. MURPHY: I think so.

MR. BELL: There we will make it level out.

MR. ECCLES: There, of course, you contemplate your tax receipts for June in that?

MR. BELL: Yes, surely. We are going through an uncertain period in March. We just don't know what is going to happen to our tax receipts in March.

MR. GOLDENWEISER: How high do your bills go?

MR. BELL: A billion dollars a week at the end of July. This means raising it to eight hundred million on March 17, through nine hundred million on April 21, I think it is, and a billion dollars a week either June or July. I have forgotten.

MR. PISER: I think it is June 15. The middle of June, I think.

- 4 -

MR. BELL: That is probably right.

MR. SPROUL: What is your allowance on the savings bonds, tax notes, in April?

MR. BELL: What is what?

MR. SPROUL: How much do you estimate on savings bonds, tax notes, in April, which would be in addition to the thirteen billion?

MR. BELL: Eight hundred million for savings bonds, six hundred million for tax notes, and eight hundred million on Treasury bills - new money.

MR. ECCLES: Eight hundred million for what?

MR. BELL: For savings bonds.

MR. ECCLES: That is each month?

MR. BELL: Yes. He asked me just for April.

MR. SPROUL: So your total on April would be a little over fifteen billion?

MR. BELL: That is right.

MR. PISER: What figure for income tax collections were you using in March? Have you written that down?

MR. BELL: Yes, we have written it down. Just keep it within the family. We don't want this thing to get out and have it affect the market like it did once before. No, I haven't got the breakdown - the total revenue in March is four billion seven hundred million. That includes miscellaneous taxes, also.

MR. ECCLES: That is about what - a billion and a half less than--

MR. BELL: That is a billion and a half dollars less than we had in this picture in February.

- 5 -

MR. ECCLES: That is due, of course, to getting only quarterly payment from all taxpayers instead of the full payment from a lot of them.

MR. BELL: That is due to late filing and probably throwing such a burden on the collectors that they won't get rid of it in March; and there won't be as many full payments this time as there have been in the past.

MR. ECCLES: To the extent it is only a delay due to the collectors being swamped, it will come in in April, of course.

MR. BELL: That is right, but to the extent that it is spread over the quarters, it will come in in the next fiscal year, which will be September and December. When it comes in in June it doesn't hurt us.

We think these receipt estimates are the minimum and that we ought to get those and are likely to get more than those. That would just help our balance that much, going into April.

We have been thinking some about increasing Treasury bills a little more, or a little faster, instead of waiting until June until you get the billion. We thought maybe you might jump it earlier to nine hundred million, say, before April 1.

MR. ECCLES: We discussed that quite fully yesterday, Dan, and we were unanimously opposed to it. That is, we didn't favor it. That was for these reasons.

MR. BELL: Are you in favor of going with the present program?

MR. ECCLES: We want to recommend that we increase it a hundred million on the 17th of March. In other words, continue to put out two hundred million of new bills. There seems to be nothing to be accomplished by making it three hundred million.

- 6 -

You don't need the money at the moment, it isn't going to put any excess reserves into the market at all, the Open Market Committee is now purchasing more new bills than are being offered each week, we are getting more bills now than you are offering; so that merely to increase it just means that you offer them to the market and we buy them immediately back the next day - all you offer and more. We are already getting that many, so it doesn't result in reserves at all. We feel that the banks - the New York banks--

MR. BELL: Why doesn't it, if you are buying?

MR. ECCLES: Because there are only--

MR. BELL: Do you go into something else?

MR. ECCLES: No, New York and Chicago don't have excess reserves today and they won't keep them. If they buy the bills they merely buy them to sell to us. They don't have the reserves, and to the extent they had the reserves they would keep the bills and wouldn't show any excess reserves. New York and Chicago--

MR. BELL: What do they do with the excess reserves you provide as a result of having purchased the bills?

MR. ECCLES: They don't have the reserves.

MR. BELL: You provide them when you purchase the bills.

MR. ECCLES: No, because they don't sell us the--

MR. BELL: You say you are buying two hundred million a week. What becomes of those reserves you created as a result of those purchases?

MR. ECCLES: We are not creating any. The reserves would go down two hundred million a week if we didn't buy the bills. They would be short. They are selling us the bills to prevent a deficiency in reserves.

- 7 -

All we are doing is holding the thing where it is and not putting any excess in the picture at all.

MR. BELL: Did you discuss the volume of excess reserves that we ought to have for the April drive?

MR. ECCLES: We don't feel we should have any specific volume. We don't think that it is possible to operate - as long as you have got a bill-buying program, that is going to determine the volume. We feel that there is no way of giving either New York or Chicago reserves - or as far as that is concerned, giving the country reserves; that in looking at excess reserves you have got to consider the total amount of bills they have got.

There are too many of them today - not too many of them, but most of the banks realize that bills are the equivalent of excess reserves.

MR. BELL: That is just the New York and Chicago banks?

MR. ECCLES: No, it isn't; that is all your reserve cities. Maybe not country banks, but certainly all of your banks in all of your reserve cities.

MR. SPROUL: There are two billion of bills in reporting banks outside of New York and Chicago.

MR. BELL: But your banks outside of the New York and Chicago districts are not taken into the increase, are they?

MR. ECCLES: The only ones that are--

MR. BELL: Yesterday was an unusual day. You had the highest volume of bid - you had a billion four, almost.

- 8 -

MR. ECCLES: Take the last month, and the bill holdings of New York and Chicago have been declining, although there is - the Treasury has been putting out two hundred million new bills each week, so that New York and Chicago have not only taken none of the new bills, but have actually reduced some of the bills that they held in order to keep even their reserves. The country has increased - the banks of the country and some investors outside of banks - have increased their holdings in bills, but the bulk - practically all, as a matter of fact, of the new bills that have been offered have been taken by the Fed, so that we would expect them to increase to three hundred million - that we would be taking three hundred million a week instead of two. If you increased it to four, we would be taking four instead of two.

You are not going to put them into the market; we take them.

MR. BELL: The Secretary has a feeling that there ought to be at least two and a half billion in the market when the April drive comes off.

MR. ECCLES: We don't know how to get it there.

MR. SPROUL: Does he disregard entirely the billion eight of bills in New York, the four hundred million of bills in Chicago, and the nearly two billion in the reporting number of banks in other parts of the country? For instance, New York, talking about having a two and a half billion of excess reserves, no longer is in accord with the situation. It just doesn't keep money idle. We have encouraged them, educated them, and gotten them not to.

MR. BELL: These are just a few situations. He feels that all these banks have a nice feeling when they have extra cash lying around and they are much better customers.

MR. ECCLES: How are you going to give them the excess reserves?

- 9 -

MR. BELL: That is up to you. We could lower reserve requirements. That is one very effective method.

MR. ECCLES: We could lower reserve requirements until we run out of soap, which would be about the end of the year, or before. Of course we are not favorable to reducing reserve requirements.

MR. SPROUL: That is just New York and Chicago. In the rest of the country, the excess reserves are already in existence. You have substantially over two and a half billion of funds which are excess reserves.

MR. BELL: Including the bills, you mean?

MR. SPROUL: But leaving out the bills which are held outside of New York and Chicago, if you assume that the banks outside of New York and Chicago don't know how to use them as actual reserve funds in case of need.

MR. BELL: How far would those bills have to decline in volume before the banks would refuse to consider them as excess reserves? There must be a point along the line some place.

MR. ECCLES: I think that the banks would figure those bills as excess reserves - that is, banks that consider them at all. There may be some little banks that don't understand the fact they can sell them, but certainly the huge majority of banks realize that they can offer those bills to the Fed and get their money immediately and have the option to buy them back the next day. So I would say that they consider all of the bills they have as the equivalent to excess reserves.

MR. SPROUL: It is just an alternate method of borrowing from the Reserve Banks, which they prefer to do, and they can do it at a reduced rate. They can borrow from us at the three-eighths, or the equivalent of it, but it hasn't any of the draw-backs, in their minds, of borrowing. So the banks know what they are doing, and know how to use it, and are not thinking of any lower limit on their holdings of bills.

- 10 -

MR. RANSOM: There is a joint policy set up over months to do that very thing.

MR. BELL: Educate the banks to go into bills for that purpose. It hasn't gone down to the grass roots very much.

MR. ECCLES: It has.

MR. RANSOM: They have so much excess reserves they don't know what to do with them. If you have the right sort of selling campaign you will reach them.

MR. ECCLES: Where the excess reserves don't exist is where the banks and the money centers will not permit them to exist because they buy the bills. Bills to them are their excess reserves, and at the grass roots there is no problem. You have the excess reserves.

MR. BELL: But they are not investing those, either. They have gotten to the point where they are going to stick on those.

MR. ECCLES: But there is nothing we can do about that.

MR. SPROUL: They may be waiting for a two percent bond. (Laughter)

MR. BELL: Or a two and a quarter. (Laughter)

MR. SPROUL: I wouldn't mention that. (Laughter)

MR. ECCLES: Dan, you have this other feature that I think we should consider. When bills were offered in January, although the excess reserves of the banks was under two billion dollars, the subscriptions that were put in for bills was around six billion. I think that the idea of subscribing for the amount of the excess reserves is pretty largely a thing of the past with most of the banks, due primarily to the fact that they hold bills, and secondly, the fact that they understand the

- 11 -

operation of the war loan account now; that they can subscribe and put the credit in the war loan account, and then sell to the Fed as they need to as the war loan account is drawn out of.

But there has been a lot of education in the use of the war loan account and, as I say, in the use of bills. So I am not concerned about the need of excess reserves in this financing.

In the first place, you only need reserves for the portion that is to be taken by the banks. If the banks were not included in this drive at all, which is according to our recommendation that they shouldn't be - we have recommended right along that the pattern should be changed and we still feel that way about it; but we have understood the Treasury has made up its mind that it wants to include the banks, so although it is contrary to our recommendation, our views haven't changed any on the question. We hope that we will get to the point.

MR. BELL: The Secretary liked the December pattern, and it worked right well. It has gone out all over the country that the April drive will be larger than the December drive, and you can't make it larger unless you include the banks. The banks add impetus to it. We think it does a lot of good.

MR. ECCLES: The Treasury, of course, has the final say in the matter, but we are unanimous in feeling that it is a wrong pattern to pursue, and sooner or later it will get you in trouble.

MR. BELL: What did you say? (Laughter)

MR. ECCLES: That sooner or later you will get into trouble - you will have to change it.

MR. BELL: Haven't we been in nothing but trouble? (Laughter)

- 12 -

MR. ECCLES: It is our view that if the banks were not involved at all at this time, and if it was merely a drive to get money from the public - that we pay no attention to the question of reserves - it would be getting money that is already in existence into securities.

Of course, then the financing that the banks would do, they would have to make up whatever additional amount you needed. The first place to get money is from the public. You could concentrate and emphasize that, that the banks would take only what had to be taken after you had gotten all you could from the public. Then you would do your bank financing in between these drives.

At that time you would have to see to it that the banks had sufficient reserves to take what securities were left for the banks to take. Of course, as long as you put this whole thing together we will have to see to it that there are sufficient funds to enable the banks to take that part of the securities that are going to be allotted to them.

As I understand it, you are going to advise the banks the amount they are expected to take of the total amount that will be offered, just as you did in December.

MR. BELL: That is right.

MR. ECCLES: So that we would have to see to it that the banks took their allotment - the amount that was expected of them.

Now, in December you had less bills out and less bills held by the banks, and the mechanism of the posted rate was much newer than it is now. So today you have, if you take into account the bills held by the banks, you have a much larger excess reserve now than you had in December.

You have to add the total outstanding bills held by the banks to the actual excess reserves to measure the banks' ability to purchase securities.

- 13 -

MR. BELL: Rouse did pretty good in December holding that two and a half level. He had a hard time for a few days.

MR. ROUSE: I would have enjoyed shooting you once or twice. (Laughter)

MR. ECCLES: I wouldn't be willing to commit again on two and a half.

MR. HAAS: I said to Bob, "You are doing the impossible." (Laughter)

MR. BELL: I think we can pass excess reserves--

MR. HAAS: I think, Marriner, on this whole business that you may be right in April, but I don't think you can be sure of it, so I don't think you can afford to take any risk on it, so why not put some reserves in equivalent to the amount of each offering? One of these days you will get some statistics that will prove you are right but I haven't seen any yet.

MR. RANSOM: One of these days you will be out of excess reserves, and then what are you boys going to do?

MR. SPROUL: We have been proving ourselves right by experience, which is better than statistics. (Laughter)

MR. BELL: We will want to discuss the excess reserves again, probably, before April 12.

MR. RANSOM: I am quite sure of it. (Laughter)

MR. BELL: So we can pass those, for the time being.

Let's discuss the basket, tentatively. What have you been thinking of? I suppose the certificate--

MR. ECCLES: Well, that is another question. We think that a certificate is a bad instrument to include in the basket for the public, that it isn't something that needs to be sold.

- 14 -

It is oversubscribed and as long as we are maintaining the pattern of rates, you are merely selling something that can be turned back to the Fed at a profit immediately. That is what happens to the certificates.

We feel that to let people meet their obligations to take Government securities merely by taking certificates is not doing a selling job, that you can finance the whole war on certificates and bills if you want that kind of financing, but we think that if you are getting into a selling job you ought to sell them not a money market instrument, but something that has a longer maturity and something that you don't just have to resell them again in another year if they should hold it that long.

We feel that to pile up certificates now only means that in a year from now the volume of your maturities will be increasingly larger - will be large, in any case - but they will be possibly larger than they need to be at a time when the amount of financing that you have to do is still very much larger than at the present; so you will have a refunding operation on top of you to the extent that we continue to rely as much as we are on these short securities, at a time when you need to borrow even more than you are now borrowing - considerably more.

MR. BELL: I don't quite get it, because you are not in favor of additional bills, and yet I think we all agreed that we had to increase our short day-to-day debt as we increase our total debt, in order to give the money market flexibility. It has to have room to move around in. If you clamp down on both sides, where are they going to get them?

MR. RANSOM: Like a merchant selling merchandise to a customer he knows will return it. Selling it to the banks you have a very different situation.

MR. ECCLES: That is why we think that bank thing should be separated from the non-bank, that the certificate and the bill is money market paper - that is bank paper.

- 15 -

MR. BELL: But there are a lot of individuals that apparently want them and they are taking them for tax purposes in preference to the tax notes. Why deprive them of that?

MR. ECCLES: They will take them in preference to taking a lot of this other stuff if you include them in your basket for this drive.

MR. BELL: I question that.

MR. ECCLES: They will take--

MR. BELL: You can't make up a man's mind as to what he wants. You can't push him into a security he doesn't want.

MR. ECCLES: We were just looking at what the Canadians did in their last drive. They offered two securities, one due in '56 - a three percent bond - and one due in '46 - a one and three-quarters percent bond. That is all. They offered the two of them. They sold outside of the banks over nine hundred million of them, nearly a billion dollars.

For us to do the same thing in proportion to our resources we would do approximately fifteen billion. Now, there were no short securities and none sold to the banks, and their tax program is very substantially more than ours.

I merely mention that by comparison with the kind of a job they are doing and the kind of a job that seems to me we have got to, sooner or later, begin to do. But the financing with short securities is the easy road and will only get us - lead us into trouble nine months or a year from now, as the problem gets bigger. I don't mean to say that we shouldn't increase the short dated securities. We are going to have to increase them in order to enable the banks to provide for the currency that is going out - expansion of currency - and in order, likewise, to provide reserves for the banks to

- 16 -

take what they - in order for the Federal Reserve to provide the banks with what they need to take.

But I do think that whether we, at this time or not, exclude the certificate, we should think in the future financing of excluding certificates from a popular drive, and likewise separate the bank financing from it.

I think it is too late, at this time, to do either. I think you have to get this money. I think you have to get it the easiest way; and I think that because of the fact that we are so close to the problem, that it is about all we can do.

But we do want to stress what is the importance, between now and the next drive, of thinking about some of these changes which we think are fundamental if you are going to get a successful financing program.

MR. BELL: What would you think about financing on certificates and letting them pile up like they did in the last war and then have a drive and pay them off?

MR. ECCLES: What do you mean, Dan?

MR. BELL: You sell your certificates to the banks and have them mature at a date when you are going to have the next drive, and as the money comes in from individuals and corporations, you retire those certificates.

MR. ECCLES: I think it is a grand way to do - it is a good way to do.

MR. BELL: During the last war we sold certificates every week, bunched them in an area, and then had a Liberty Loan drive; when the money came in, we paid those off.

MR. HAAS: I don't think we disagree with Marriner on his position. It depends on what funds are being sought in this particular drive. The certificate was suggested to absorb corporate funds.

- 17 -

Now, you can't sell a corporation a two and a half percent bond; they are not interested. It seems to me it is a question of whether you want to leave those funds idle or put them into short securities. That was the main purpose for that.

If you just want to go for individuals in the April drive, do you think we can work up - what kind of a figure - we were thinking of a little over three billion dollars for individuals.

MR. ECCLES: I don't believe we can do that now, George. If you are going to go for fifteen billion - and I want to say a word about that in a minute - even if you are going to go for fourteen billion, you possibly would have to include the certificates either in the drive or at the end of the drive. We had thought of this as a program. I will see if I can state it.

You would increase the bills on the 17th another hundred million, making two hundred million of new money; that would give you about a billion during the month of April in bills. There are five weeks coming due in April, so you would get a billion dollars in bills. Then on the opening day of the drive make available to the banks the two percent bond - not the certificate, but the bond - up to two billion dollars in two percent bonds on the opening day. Leave that open for, say, three days.

Then the drive would start on the 12th and would continue through - unless some reason developed during the drive - would continue through Saturday, May 1. That would give the three full weeks. There would then be offered to the public the two percent bond, the two and a half percent bond - and we were all, I think, with the exception of one - the presidents and the board favored reducing the two and a half percent bond to a hundred dollar denomination - every one of the presidents felt that it was something they should try to sell - get the more popular acceptance of that security as a coupon issue rather than a registered issue.

- 18 -

If it was reduced to a hundred dollars, they thought they could sell some of them, but they felt they should start at least to get a wider distribution of that security.

There would, of course, be the E Bond and the F and G's. We feel that in the case of the F and G Bonds, to change just before this drive, with nothing to take their place, would possibly be a mistake. We feel that although there is some disadvantage in having them - they possibly should be discontinued - they should be in this drive. When the organization has had a chance to get more perfected than it is today - the selling organization--

MR. BELL: We agree with that.

MR. ECCLES: Then there would be the tax notes - that is, the C note. We understand the A and the B notes would be excluded and, of course, properly so.

MR. BELL: If we get something through Congress they would pretty automatically go out.

MR. ECCLES: That is right, but we think that the C note should - there is a bigger market for that if a selling job is done and if the merits of that were pointed out to corporations - its liquidity and its advantage - a good many more of those could be sold.

They would possibly take the place of the certificate if the certificate was not available. Most of the purchasers would purchase those in lieu of a certificate if the certificate wasn't available at the time.

There was the thought - and I don't know, we didn't discuss it long - I don't believe the feeling was unanimous - that if a certificate is eliminated from the basket that a note - a one and a quarter percent note - might take its place. That note would fall due in December '45?

MR. PISER: September.

- 19 -

MR. ECCLES: That would--

MR. BELL: The note will come back, George.
(Laughter)

MR. ECCLES: That would be a little better investment piece of paper - a little less of a money market piece of paper than a bill. It is still too short to suit me, but it may be, until we get a better selling organization and get farther down to the grass roots where we can get more of the kind of money we want, that we should include it.

MR. BELL: Do you think that the corporations and others outside of the banks that have been taking the certificates would go for the note, too?

MR. ECCLES: Some of them would. It would take a little better selling job. You would have to sell them. Of course, the certificate has been a very profitable thing for them. A lot of them have learned they can buy that certificate and wait until it has run for four months, sell it, and buy some more, and get one and a quarter percent for four-months paper. That is the difficulty with the certificate.

It really provides for the purchaser not only cash but it enables him to get one and a quarter percent on his daily balances. These corporations, some of them, are wise to that. They are going to become more wise to it. We have provided a perfect mechanism to use money that otherwise has no use.

MR. BELL: You got pretty good use out of it.

MR. ECCLES: They are going to buy certificates, I think. They are going to buy certificates as long as we maintain this pattern of rates, and the three-eighths rate on bills, and we give them seven-eighths on one-year certificates. I think you are not going to be able to give the market enough certificates to keep them from immediately going to a premium.

- 20 -

That is one reason I don't like to see us using a lot of selling effort, make people feel they are doing their patriotic duty merely when they buy certificates. We are doing them a favor to sell them certificates. That is the point of view we have of it.

MR. BELL: You would rather see them take tax notes?
(Laughter)

MR. ECCLES: But you have three years on the tax notes, and they will use them to pay their taxes if they haven't the money. If they have the money, they will hold them. That is exactly what would happen. I think that is a proper use for that kind of paper.

But there was this thought, that at the end of the drive you offer certificates - not determine before what amount - but say that you would make an offering of certificates to the public - the banks and all - include that in your maturity - you have a billion and a half falling due on the first of May - certificates - and that you refund those and increase the amount to whatever amount you want to, reserving the right to fix that at the time.

MR. BELL: When would you do that, the 20th or the 22nd of April?

MR. ECCLES: You would have to either do it on the 20th or the 22nd of April, or you would have to take up the billion and a half at the end of the month and sell, say, three billion or four billion of certificates to refund the billion and a half. That is, take up the billion and a half and get your new money the last of April, making the funds available on the 10th of May. But that would be included in the May drive, you see.

It would take care of the refunding as well as give you such new money as you wanted, and instead of making that certificate available only to the banks, you would also offer it to the public.

(The Secretary entered the conference.)

- 21 -

MR. BELL: We have been over the figures, Mr. Secretary, and the latest estimates show that we will go into April with about two billion three, and that the drive in April ought to be around thirteen billion, to which, if you add the normal public debt receipts from tax bills, savings bonds, and Treasury bills during the month, would amount to about fifteen billion dollars of public debt receipts during that month.

H.M. JR: What makes us fall off so in the receipts, Mr. Bell? (Laughter)

MR. BELL: I don't know.

H.M. JR: The chairman of the Federal Reserve Board in New York sent me a message via his attorneys. I am serious now. At eight or eight-fifteen on the night of March 15, he will be very glad to say something about paying your income tax if I would ask him to - eight or eight-fifteen on the night of March 15. (Laughter)

MR. SPROUL: He sent you that message through his attorneys?

H.M. JR: Yes.

MR. SPROUL: That is Randolph Paul's firm. I can't tell whether it is my director or my ex-director who has caused all this trouble with the income tax. (Laughter)

MR. BELL: Anyway, you are involved. (Laughter)

H.M. JR: I sent word that if he wanted to help America pay the taxes he could say it now and two or three times between now and the 15th, but not wait until eight p.m. I just wanted to let you know. We will add it to the quota of New York. (Laughter)

MR. SPROUL: Everyone else is trying to add to our quota, too. (Laughter)

MR. ECCLES: He has had a couple of tough days.

MR. BELL: Then if we had another issue of certificates or some other offering the latter part of May for

two billion dollars in order to pay off the June maturities - a little over a billion - we would go out of June with six billion six hundred million, and out of July with two billion one hundred million, just before the next drive, which we contemplated for August.

When you came in we were discussing the types of securities. Mr. Eccles was just going over what they had discussed over at the Board. They thought a two percent bond ought to be in the basket, and that it ought to be opened the first three days to the banks; the two and a half percent bond with a one hundred dollar denomination; E, F, and G's, tax notes; and a one and a quarter percent note. They thought we should keep the certificates for the latter part of the month, offering enough to refund the May 1 maturity, plus maybe some additional cash.

I was going to ask if you meant to put the seven-eighths percent certificate in the basket, also?

MR. ECCLES: No. We don't think it is - as I said, we think that is a money-market instrument and it is something that is a favor to people to let them have, because it is nothing that needs to be sold to them. It is of such short duration that to sell it just means you are piling up a lot of maturities when your financing is going to be increasingly large; and I think we ought to, in these drives, keep away from the certificates to the public. Let them come in when they are offered and get their pro rata of them just like the banks would; but it is too easy - I think it makes it too easy for a selling organization to be able to fill its quota with certificates. They ought to sell something that is really going to stay for a little while.

MR. BELL: He doesn't like us to sell these certificates and have the corporations hold them for a few months and then come to the Federal and turn them in.

MR. ECCLES: Or the banks. What happens in the case of the certificate, you see - a seven-eighths certificate, as long as we maintain this pattern, say, three-eighths on a ninety-day bill or seven-eighths on a one-year certificate - as that certificate drops down to, say, eight months, the basis of the pattern goes up to a premium

- 23 -

so that the holder of it can sell it and get the seven-eighths for four months, plus the premium, which yields about one and a quarter; so he gets that for four months' paper.

They are getting wise to that and buying these certificates and when we up the premium they get seven-eighths and sell them. So it is doing them a favor instead of them doing - discharging what seems to me to be their duty and obligation to the Government to take something of a different form than a certificate.

We need the certificates as we need the bills, for money market paper. We need them so as to provide something for the Federal Reserve System to buy in order to offset the currency that is going into circulation - in order to provide reserves - which is a very different functioning of it - it seems to me - than to sell them to the public during the drive.

I would make them available at the end of the drive and let everybody come in and subscribe to them and then pro rate them to everybody - filling subscriptions in full up to a hundred thousand and prorating the balance.

MR. BELL: Well, I always have liked the one and a quarter percent note, but I was just a little afraid that the people who have been educated to buy the certificates will now not go into the note, and we might have a little difficulty with them.

I wondered if it wouldn't be better to have the certificate in the drive and have the note outside of the drive, say, June 1 or maybe July. You may need some more money then.

MR. ECCLES: What would you do in the case of the May 1 maturity?

MR. BELL: That has been one of the hurdles we have had a hard time getting over. Bob came to the conclusion it was a roll-over and have to offer it outside of the drive for a billion and a half along about the 22nd.

MR. ECCLES: It is confusing.

- 24 -

MR. BELL: Very, but I think we are going to have it all the way along the line. If we get more certificates out we are going to meet it every time.

MR. ECCLES: If you didn't offer the certificates during the drive - include them at that time - you wouldn't announce at the beginning how many certificates you are going to offer at the end of the drive, merely say that there is a billion and a half maturing at that time, and that would be increased to some undetermined amount. That leaves you a leeway there. If you got what you wanted during the drive with a very small increase, you can increase it a little. On the other hand, if you wanted to increase it a substantial amount, you could.

You have that certificate at the end of the drive, the leeway, and you are holding the banks to take whatever amount you need, letting also those corporations, Dan, that would not take anything else, come in at that time, but they would only get a pro rata then.

MR. BELL: Well, in order to do that you would have to - you might have another situation like you had in February where you would have six billion dollar subscriptions--

MR. ECCLES: That is all right; that is fine. I would sooner have that than the opposite.

MR. BELL: I think there is an advantage in offering only one certificate during the drive. I would hate to see it confused by two.

Well, we have just about covered the basket. The only other thing we discussed was the question of increasing the Treasury bills mainly for the purpose of providing more excess reserves in the market before the drive.

H.M.JR: Was there an enthusiastic reception?
(Laughter)

MR. BELL: I never saw such enthusiasm - almost unanimous in the Board. (Laughter)

H.M.JR: Insisting on four billion? (Laughter)

- 25 -

MR. BELL: Yes. We said we didn't want any more than two and a half. (Laughter)

MR. ECCLES: Allan, I made a speech. If there is anything more to be said on that, I leave it up to you. (Laughter)

H.M.JR: Is this the new executive committee?

MR. SPROUL: Yes.

MR. BELL: Marriner made a speech for about ten minutes, but the answer was no. I told them that I thought we ought to discuss that subject again after March 15 - after the tax payments.

We will keep the two hundred million dollars of new money--

H.M.JR: A total of how much?

MR. BELL: A total of two hundred million new money, making eight hundred million March 15.

H.M.JR: I thought you were going to raise it to a billion.

MR. BELL: That is what we discussed in order to get some reserves, but they didn't like that.

MR. ECCLES: But that doesn't give you reserves. If it did, that would be another story. It doesn't give you reserves for this reason: The two hundred million new money you are getting each week now - the Fed is buying more bills than that every week. What is happening today is that you offer seven hundred million of bills a week, and we are getting over two hundred million of them.

H.M.JR: If you people will do at least as well as you did during the last drive, keep it right around two and a half--

MR. ECCLES: I want to discuss that, because I am not willing personally to make a commitment on some fixed

- 26 -

amount of reserves. I want to discuss that with you before the drive, giving you the reasons - we discussed that a little with the committee and we--

H.M.JR: I have to break this committee in. (Laughter)

MR. ECCLES: We feel they are part of the full committee, so they have been broken in for a long while. It is nothing new to them.

We don't feel that the Treasury has given the consideration that is deserved to the bill program that was inaugurated here last year, whereby the banks - we have a posted rate where the banks can sell bills to the Reserve Banks; that is, the member banks can sell bills to the Reserve Banks, and buy them back. They are using that, and they won't hold any reserves. They buy bills with any reserves they have, and as they need reserves, they sell bills, so that in considering your excess reserves you have to consider the total amount of bills that they own.

New York and Chicago and most of the reserve city banks immediately buy bills now with any reserves they have, because those bills are the same to them as reserves. I think you have to take into account those bills - the bills held by the banks. So if you will study the operation, you will find that to those banks they are excess reserves. So the excess reserves aren't merely the billion and a half or the two billion that they appear to be, but it is that, plus the bills. Most of that excess reserve that is shown is held by the small banks that already have the excess reserves.

The place where there is very little or no excess reserves is in the money market banks, and there is no way you can give those reserves to those banks because they immediately will invest the reserves. When you say that we want to give them so much reserves, it is a very difficult job to know how to give them the reserves if they won't hold them.

MR. BELL: I think it is something we have to discuss.

- 27 -

MR. ECCLES: You have to study that bill situation - that operation - and look at that in connection with the consideration of the excess reserves picture.

MR. BELL: I was wondering, Mr. Secretary, if you want to go over with this group anything on the issues again.

H.M.JR: Not today.

MR. BELL: I mean before your announcement next week.

H.M.JR: Yes.

MR. BELL: They will have to be fitted into the market.

H.M.JR: You mean before we settle it?

MR. BELL: Yes.

H.M.JR: Yes, I think if it is convenient - is Wednesday a good day?

MR. SPROUL: A week from tomorrow, yes.

MR. ECCLES: I have agreed to go out to Chicago for - I have to be there Thursday. I guess I will have to go Wednesday night to be sure to get there. I would like to see it Tuesday instead of Wednesday, if you can--

MR. BELL: All right, if that is all right with you.
(The Secretary)

MR. ECCLES: Sometimes there is a little carry-over. I think if you had it Tuesday you might want to wait--

H.M.JR: Eleven o'clock Tuesday. That gives you an extra day.

MR. ECCLES: I think I would like to have that, because in the past we have always needed an extra day.

- 28 -

MR. BELL: I think it would be nice if we could get it out right after that, either Tuesday night or Wednesday morning.

MR. ECCLES: With reference to the total amount - that is the only thing that we haven't discussed or mentioned. Our group, the Board and the presidents, were unanimous in feeling that we should not go more than fourteen billion. I would say there was a considerable number who felt thirteen billion should be the top of what we should try to get in April.

MR. BELL: You mean the total public debt receipts in April should be that figure?

MR. ECCLES: That is right.

MR. BELL: You are including savings bonds?

MR. ECCLES: The whole thing.

MR. BELL: Treasury bills?

MR. ECCLES: The whole thing. It would be better to do that and then fill in between then and August or September - or whatever period you decided the next financing - with your certificates or with bills or bank financing that was needed in between. We felt it would be better to go after thirteen billion and then maybe get fourteen or fifteen than to--

H.M.JR: I thought you were going to give me the same argument that you did last time.

MR. ECCLES: Separate it?

H.M.JR: No, the full amount.

MR. BELL: They do want to separate it.

MR. ECCLES: We did. We just made a speech here before you came in that I won't repeat. Our argument

- 29 -

for feeling it should be separated - but it is too - the thing, as I said, is decided now, and we don't want to make--

H.M.JR: I don't want to say - between now and Tuesday I want to work on it a little bit.

MR. ECCLES: Yes. I thought in order to report our discussions it was necessary to mention the views with reference to the full amount for your consideration.

MR. SPROUL: That ties up with the consideration, too, of a certificate and a note. If you are going to stretch this out to the uttermost limit, then the salesmen would look with more favor on the certificate, although feeling that the note is the sounder piece of paper to finance with; but if you pull in the limit of your drive to what you think is a better figure related to the possibility of non-bank financing, then the note would be a safe piece of paper to use.

MR. ECCLES: That is right. We would prefer, however, to see the certificate - money raised by an offering of certificates - in between the drives for such amount as may be needed instead of including the certificate in the drive, except at the end of the drive on the refunding.

H.M.JR: We want time. I think if we go at it Tuesday and settle it Tuesday and Wednesday that certainly ought to give the salesmen and the printers and the advertising men plenty of time.

MR. ECCLES: Well, Dan, does that cover the thing?

MR. BELL: I think that covers it pretty well. In the meantime we will be in touch with you, and it will be pretty well jelled by Tuesday, I think. We will get down to dates and terms.

MR. ECCLES: I would like, then, as you develop the program, that you advise me, and I will get in touch with the other members of the committee. I will keep them advised and get the benefit of their views as this thing is developing so if we come down Tuesday it won't all be new to them.

TREASURY WAR FINANCING ORGANIZATION

Responsibility of Federal Reserve System:

The Federal Reserve System has a direct and inescapable responsibility to contribute to the successful financing of the war. It must see to it that the reserve funds are available which will make possible the continued purchase of Government securities in the tremendous amounts required by the war effort.

At the same time, as the responsible agency for the control of credit policy, it is incumbent upon the Federal Reserve System to develop by every means the widest possible distribution of Government securities outside the banking system. Only by reducing to the minimum the amount of Government securities which must be purchased by the banks, can it discharge its obligation to reduce the inflationary pressure of wartime financing and to promote post-war economic stability.

The interest of the Federal Reserve System in the kind of organization set up to sell Government securities is, therefore, a mandatory interest which is an integral part of its responsibility for credit policy. If the sales organization is equal to the task of selling the largest possible amount of Government securities to non-bank investors, the credit policy of the Federal Reserve System may be an effective part of the anti-inflation program of the Government. If the sales organization is not equal to its task, the Federal Reserve System will be forced into a credit policy which invites inflationary developments.

Permanent Organization:

The Federal Reserve System has advocated the organization of a single national committee for the sale of Government securities which would mobilize the national spirit in support of financing the war, and financing it in the right way, just as it is now mobilized in support of the military effort and the production program. The System believes that this organization can be most effective, and thus public spirit most readily developed, if the principal Treasury borrowing is concentrated in two or three large campaigns each year. At the national level, such a program has suggested a national director of all sales of Government securities and a national publicity program in scale with the job to be done and directed toward promoting the sale of all Government securities, particularly during the periodic drives.

Wm. M. Collier
March 2, 1943



-2-

If the Secretary of the Treasury, to whom the National Director will be directly responsible, should establish a Policy Committee as distinguished from an Operating Committee, it is suggested that the Chairman of the Board of Governors and one Federal Reserve Bank President be included in its membership.

As we work from the April setup toward a permanent form of organization, the aim should be to drop the use of the term "Victory Fund Committee" and "War Savings Staff", leaving only the U. S. Treasury War Financing Committee to occupy the field. This new organization should be built on the existing organizations using those parts of each which can best be assimilated. The Presidents of the Federal Reserve Banks, as Chairmen of the War Finance Committees in their respective districts, would have sole executive responsibility for the district sales organizations. The new organization would be concerned first with periodic drives for funds but, presumably, a division of the organization would carry on a continuous educational campaign to promote national thrift and an extension of the payroll savings program.

Room 278

Under Secretary

Expenses of Loans

March 2, 1943

To Presidents, Federal Reserve Banks ^{and Executive Managers, Victory Fund Committee}

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Cleveland, Ohio
Richmond, Va.
Atlanta, Ga.

Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas
San Francisco, Calif.

The second big drive of the Treasury war financing campaign will take place in April. It is essential to the success of this drive that the Treasury use the combined services of the War Savings Staff and the Victory Fund Committee in the sale of all Government securities.

To promote the integrated efforts of the two organizations during the drive, there has been created in the Treasury Department a United States Treasury War Finance Committee, under the direction of Mr. W. M. Hobbins, Assistant to the Secretary, who will serve as Chairman of the Committee and will function with the operating title of National Director of Sales. Other members of the Committee will be the Assistant to the Secretary in charge of the War Savings Staff, the Assistant to the Secretary in charge of the Victory Fund Committee, and such other member or members as may be designated by me.

are

The Federal Reserve Bank Presidents/~~have been~~ asked to serve as chairmen of similar committees in their respective districts. Members of each district committee will include representatives of the War Savings

- 2 -

Staff in each State and of the Victory Fund Committee.

The Committee in Washington will act in an advisory capacity to the National Director in the formulation and execution of plans for the sale of Government securities and the committees set up in the Federal Reserve Districts will likewise act in an advisory capacity to the Presidents of the Federal Reserve Banks, who will act as chairmen of such committees with full authority and responsibility in their respective districts to direct the drive. The National Director of Sales is authorized to deal directly with the Federal Reserve Banks as Fiscal Agents of the United States in all matters relating to the promotion and sale of Government securities and in this connection he has full authority to utilize all facilities of the War Savings Staff and the Victory Fund Committee, coordinating their respective activities as he may direct.

To ensure the success of the forthcoming drive it is necessary that all national publicity, including press stories, radio announcements, newspapers, periodicals, outdoor and motion picture advertising, be solicited in the joint endeavor, and include wherever possible the continuous promotion activities of the War Savings staff. Every function of the two organizations will be integrated in every productive way in preparation for and during the April Campaign. All issues of Treasury securities to be offered, including E bonds, will be available to all forces taking part in the drive.

It will be appreciated if you will see that all workers in your organization are welded into this combined effort under the direction of the Presidents of the Federal Reserve Banks.

(Signed) H. Morgenthau, Jr.

H. MORGENTHAU, JR.

Secretary of the Treasury

DNB:BLE

Form 278

Tulsa Secretary

Expense of Loans

March 2, 1945

FO: All State Administrators and/or Chairman, War Savings Staff

The second big drive of the Treasury war financing campaign will take place in April. It is essential to the success of this drive that the Treasury use the combined services of the War Savings Staff and the Victory Fund Committee in the sale of all Government securities.

To promote the integrated efforts of the two organizations during the drive, there has been created in the Treasury Department a United States Treasury War Finance Committee, under the direction of Mr. W. H. Robbins, Assistant to the Secretary, who will serve as Chairman of the Committee and will function with the operating title of National Director of Sales. Other members of the Committee will be the Assistant to the Secretary in charge of the War Savings Staff, the Assistant to the Secretary in charge of the Victory Fund Committee, and such other member or members as may be designated by me.

The Federal Reserve Bank Presidents have been asked to serve as chairmen of similar committees in their respective districts. Members of such district committees will include representatives of the War Savings Staff in each State and of the Victory Fund Committee.

The Committee in Washington will act in an advisory capacity to the National Director in the formulation and execution of plans for the sale

of Government securities and the committees set up in the Federal Reserve Districts will likewise act in an advisory capacity to the Presidents of the Federal Reserve Banks, who will act as chairmen of such committees with full authority and responsibility in their respective districts to direct the drive. The National Director of Sales is authorized to deal directly with the Federal Reserve Banks as Fiscal Agents of the United States in all matters relating to the promotion and sale of Government securities and in this connection he has full authority to utilize all facilities of the War Savings Staff and the Victory Fund Committee, coordinating their respective activities as he may direct.

To ensure the success of the forthcoming drive it is necessary that all national publicity, including press stories, radio announcements, newspapers, periodicals, outdoor and motion picture advertising, be enlisted in the joint endeavor, and include wherever possible the continuous promotion activities of the War Savings Staff. Every function of the two organizations will be integrated in every productive way in preparation for and during the April Campaign. All issues of Treasury securities to be offered, including R bonds, will be available to all forces taking part in the drive.

It will be appreciated if you will see that all workers in your organization are united into this combined effort under the direction of the Presidents of the Federal Reserve Banks.

(Signed) H. Morganthau, Jr.
H. MORGENTHAU, JR.
Secretary of the Treasury

DWARREN



THE SECRETARY OF THE TREASURY
WASHINGTON

March 2, 1943.

TREASURY DEPARTMENT ORDER NO. 48.

There is hereby created in the Treasury Department a United States Treasury War Finance Committee under the direction of an Assistant to the Secretary, who will serve as Chairman of the Committee and will function with the operating title of National Director of Sales. Other members of the Committee shall consist of the Assistant to the Secretary in charge of the War Savings Staff, the Assistant to the Secretary in charge of the Victory Fund Committees, and such other member or members as may be designated by the Secretary of the Treasury. The Committee will act in an advisory capacity to the National Director in the formulation and execution of plans for the sale of Government securities.

The National Director shall formulate plans for the sale of Government securities and shall supervise the execution of such sales programs as may be determined upon with the approval of the Secretary of the Treasury.

The National Director is authorized to deal directly with the Federal Reserve Banks as fiscal agents of the United States in all matters relating to the promotion of sales of Government securities, and in that connection he shall have full authority to utilize all facilities of the War Savings Staff and Victory Fund Committees, coordinating their respective activities as he may direct.

The National Director will report to the Secretary through the Under Secretary.

H. M. Perdue
Secretary of the Treasury.



The Secretary 186

TRASURY BILLS

	<u>Mar. 3</u>	<u>Feb. 24</u>	<u>Feb. 17</u>	<u>Feb. 10</u>
Amount offered	\$700 M	\$700 M	\$700 M	\$700 M
Bids tendered	1,395	1,054	1,114	1,042
Low rate .....	.277%	.297%	.257%	.237%
High rate .....	.376	.376	.376	.376
Average rate .....	.369	.374	.373	.372
Amount in New York	\$234 M	\$438 M	\$413 M	\$445 M
Amount in Chicago	149	76	58	60
Amount in San Francisco	43	36	71	51
Amount in balance of country ...	274	150	158	244

duB

March 2, 1943

March 2, 1943.

The attached letter was sent to the following persons:

Mr. Roy W. Howard,
230 Park Avenue,
New York, N. Y.

Mr. Frank E. Gannett,
Rochester Times Union,
Rochester, New York.

Mr. Roy Roberts,
President, American Society of Newspaper Editors,
Kansas City Star,
Kansas City, Missouri.

Mr. J. S. Knight, Vice President,
American Society of Newspaper Editors,
Miami Herald,
Miami, Florida.

Mr. E. H. Abels,
National Editorial Association,
The Outlook,
Lawrence, Kansas.

Mr. A. C. Hudnutt,
President, Inland Daily Press,
Chronicle-Telegram,
Elyria, Ohio.

Mr. S. R. Winch, President,
Pacific Northwest Newspaper Association,
Oregon Journal,
Portland, Oregon.

Mr. O. G. Andrews, President,
New England Daily Newspaper Association,
New London, Connecticut.

- 2 -

Mr. J. D. Gortatowsky,
General Manager, Hearst Publications,
959 - 8th Avenue,
New York, N. Y.

Mr. Charles P. Manship,
President, Southern Newspaper Publishers,
State-Times and Advocate,
Baton Rouge, Louisiana.

Mr. Walter M. Dear, President,
American Newspaper Publishers Association,
Jersey Journal,
Jersey City, N. J.

Mr. E. S. Friendly,
Advertising Council,
New York Sun,
New York, N. Y.

Mr. Linwood I. Noyes,
Advertising Council,
The Globe,
Ironwood, Michigan.

Mr. Cranston Williams, Executive Secretary,
American Newspaper Publishers Association,
370 Lexington Avenue,
New York, N. Y.

Governor James M. Cox,
Chairman of the Board,
Atlanta Journal,
Atlanta, Georgia.

Mr. Arthur H. Sulzberger,
President, New York Times,
New York, N. Y.

Mr. Roy D. Moore,
President, Brush-Moore Newspapers,
State Administrator, War Savings Staff,
Cleveland, Ohio.

Mr. Paul Scott Mowrer,
Editor, Chicago Daily News,
Chicago, Illinois.

March 2, 1943.

My dear Mr. Gannett:

I am anxious to discuss with a few of the outstanding leaders in the newspaper field the immediate problems we face in war financing and to ask their advice on public relations phases.

It is my earnest hope that you will consent to be one of a small group to come to Washington to meet with me on Saturday, March 20, for this purpose. A conference in my office is planned for the morning and this is to be followed by a luncheon in the Treasury building.

General Marshall has promised me that if he is in Washington that day he will join us at noon and talk to us on the military situation. If he is compelled to be absent another officer will substitute for him.

I earnestly hope it will be possible for you to attend and to give me your counsel. Will you be good enough to wire me your reply?

Sincerely yours,

Secretary of the Treasury.

Mr. Frank E. Gannett,
Rochester Times Union,
Rochester, New York.

March 2, 1943

4:02 p.m.

HMJr: Hello.

Operator: Congressman Sabath.

HMJr: Hello.

Cong. Adolph Sabath: Hello, Mr. Secretary.

HMJr: Hello, Mr. Congressman. How are you?

S: Oh, they keep me jumping each and every way. Disney wants a rule and I couldn't hold him off any longer, and I'm going to start to have hearing on it tomorrow.

HMJr: Good.

S: I didn't want to do it until they - someone told me that you wanted the bill out.

HMJr: Yeah, let - let's get it out.

S: Well, you know, I'm not wedded to that amendment of his.

HMJr: Well, neither am I but....

S: Is there a chance that you might be able to do something with it on the other side?

HMJr: On the Senate?

S: Yeah.

HMJr: Yes, there's a very good chance that they'll pass that out, and we asked Mr. Doughton and he said it was agreeable to him if it came over from the Senate.

S: Yeah.

HMJr: Now that just happened this morning.

S: Oh, well, that's the reason I'm finally giving hearing this morning. I thought if I hold it off....

- 2 -

HMJr: Yes.

S:for a few more days, I might get them to agree to take off that amendment or bring in a rule that wouldn't make that amendment in order.

HMJr: Yeah.

S: But it's hard to do.

HMJr: Well now, Senator, we....

S: The main thing is to get it out and get it on the other side, is it?

HMJr: No, I didn't make myself clear. They have a debt limit bill in the Senate....

S: Yeah.

HMJr:without any rider to it.

S: Yes.

HMJr: And we asked Congressman Doughton this morning, would it be agreeable to him if the Senate passed that bill and had it come over to the House?

S: Yeah.

HMJr: And he said, "Yes."

S: Well, now he would then try to move to substitute the Senate bill for the House bill.

HMJr: I take it that's what he would do.

S: Well, that would be all right.

HMJr: I - I would take it that's what he would do.

S: All right. You know, what I - I didn't want to pass the damn thing in the form that it is....

HMJr: Now....

- 3 -

S:but in view of conditions, I might as well let loose.

HMJr: But now Senator George said he would try to get it out and get it through the Senate....

S: Uh huh.

HMJr:and then it would come over to the House.

S: Uh huh.

HMJr: Well, now - then there still would be time to substitute that bill, wouldn't it?

S: Yes, yes, because I will not file the rule right away anyway.

HMJr: Okay.

S: I'll give them a hearing and I'll postpone filing of the bill - rule.

HMJr: And then, in the meantime, we'll put the pressure on the Senate to try to get it through the Senate.

S: All right, all right. I wanted to know whether the report I got is all right that you want action.

HMJr: Now if - if you want to know anything about it, John Sullivan will watch it for me for the next couple of days.

S: All right.

HMJr: You know John.

S: Yeah.

HMJr: Okay?

S: I didn't want to trouble you.

HMJr: No, no, I....

S: I don't trouble you on any of those things, only....

HMJr: No, I - you're doing me a favor.

- 4 -

S: You know what I mean, I....

HMJr: No, you're doing me a favor.

S: I was manoeuvring to kill that damn amendment.

HMJr: Yeah. In fact, I was going to call you up, but I didn't feel - I didn't know whether you....

S: Well, that's not necessary. I nearly know what the President and you gentlemen want....

HMJr: Yeah.

S:and I'm following that course....

HMJr: Well....

S:to the best of my ability.

HMJr:this is - you - you got what the play is now.

S: Yeah. I understand it now.

HMJr: And you think that's all right.

S: I think that's all right, yes. You know, ten of the Democrats in the Ways and Means Committee voted against it.

HMJr: Yeah, yeah.

S: But this fellow, Disney, with four others joined with the Republicans and put it over.

HMJr: Yeah. Okay.

S: All right, Mr. Secretary.

HMJr: Thank you so much.

S: Don't mention it.

TO:

Message from Blough
 Mr. Paul is in New York -
 His mother critically ill -
 He may be back tomorrow
 morning as the condition
 will "come to a head" shortly.

The Subcommittee on Wage
 and Incomes is working on
 technical problems dealing
 with current collections
 on incomes other than wages
 and salaries.

Do you want Blough
to report later in the
day?

0950
 3/2/43

From: Mr. Fitzgerald

MEMORANDUM

March 2, 1943.

TO: The Secretary
FROM: Mr. Sullivan

JLS

The following is a transcript of my telephone conversation with Mr. Rudick, a partner of the law firm of Lord, Day and Lord, counsel for Beardsley Ruml:

- JLS: I have been thinking that matter over. As I understood the proposal, Mr. Ruml in his speech in San Francisco at 8:15 on March 15th, if we desired, wanted to urge people to file their returns.
- R: That's right.
- JLS: Well, the way we feel about it is this. We think that we're practically on the verge of a taxpayers' strike. We think that the present confusion has resulted from his plan and other plans and that he is largely responsible for the situation that exists today.
- R: I think that's so.
- JLS: Frankly, with the two taxing committees urging taxpayers to file their returns and pay their quarterly installments promptly a month ago today, we sort of wonder why he hasn't made some statements before now, and we think that to wait until 15 minutes before the deadline is a little too late. If he does want to help why does he wait until the last minute? He made two or three speeches last week.
- R: Yes, but they weren't on the radio.
- JLS: He's made ten or fifteen speeches in the last month, hasn't he?
- R: Not quite that many but he's made quite a few. He's made half a dozen anyway, but they haven't been broadcast.

- 2 -

- JLS: That doesn't make any difference. They were carried in the Press.
- R: Here's what he has in mind. His idea is -- a lot of people who haven't filed by March 15th will get scared. They will think they are criminals if they haven't filed on time and what he thought he might try to get across is even if they haven't filed on time they ought to file anyway. The penalties are not horrible. Something like that.
- JLS: Well, if he wants to help us he ought to get something out right away. As far as that other statement is concerned, we wouldn't consider that in the nature of help.
- R: He hasn't got any time on the air between now and March 15th.
- JLS: He hasn't had any difficulty in getting his ideas into the Press. I do not see why he should wait until broadcasting to be helpful to us.
- R: You're going on the air tonight?
- JLS: That's right.
- R: Well, I'll give him a ring to see if there is anything he can do before the 15th of March and then I'll give you a ring back.

Subsequently, Mr. Rudick phoned back and made the following statements:

- R: Mr. Sullivan, I just talked with Ruml. He is leaving tomorrow night for Vancouver, but I am going to meet with him tomorrow morning and he is going to try to get up a statement to the Press which will emphasize the point that people should pay and file their returns because no matter what happens that's what they have to do.
- JLS: That's right.
- R: He wants to help.
- JLS: Okay.
- R: He will issue a statement to the Press tomorrow.

WALTER F. GEORGE, GA., CHAIRMAN
 ED L. WALSH, MASS.
 JOHN W. BARKLEY, KY.
 DONALD W. CONNALLY, TEX.
 JOHN W. BAILEY, N. C.
 BETTY CHAMP CLARK, MO.
 ROY FLOOD BYRD, VA.
 JOHN S. GERRY, R. I.
 PHILIP F. GUFFEY, PA.
 STEPHEN M. BROWN, MICH.
 ROBERT L. HERRING, IOWA
 JOHN C. JOHNSON, COLO.
 ROBERT L. RUDOLPH, MD.
 JAMES H. SMATHERS, N. J.
 CHRISTIE S. KENNEDY, CLERK

ROBERT M. LA FOLLETTE, JR., WIS.
 ARTHUR CAPPER, KANS.
 ARTHUR H. VANDENBERG, MICH.
 JAMES J. DAVIS, PA.
 HENRY CABOT LODGE, JR., MASS.
 JOHN A. DANAHY, CONN.
 ROBERT A. TAFT, OHIO

United States Senate

COMMITTEE ON FINANCE

March 2, 1943

My dear Henry:

You will let me thank you for your letter of February 24th and for the recording of our recent joint radio broadcast on the subject of taxation.

I am very much pleased to have the record and appreciate your thoughtfulness in sending it to me.

With kindest regards, I am

Sincerely yours,

Walter George

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

MAR 2 1943

U.S. SENATE

March 2, 1943

Dear Eleanor:

Elinor and I want to thank you and the President for that most unusual First Day Cover. We were both very sorry to have missed the birthday dinner.

I wish you would inform the President that the first time I go to New York I expect to buy him a birthday present.

Again thanking you, I remain,

Affectionately yours,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House,
Washington, D.C.

Delivered by Secret Service Agent
3/2/43.

File in Diary

Copy to Mrs M

THE WHITE HOUSE
WASHINGTON

February 23, 1943.

Dear Elinor:

Both the President and I were so sorry that his absence made it impossible for us to have the usual birthday dinner.

Under separate cover I am sending you the remembrance he had planned to give you at the dinner.

Affectionately,

Thaw

*Story
Omnipresent
That was how we
Received the stamps
C. J. M.*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

March 2, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - A 20% withholding tax was "tentatively approved" yesterday by the House Ways and Means Subcommittee on pay-as-you-go legislation. Questions of tax forgiveness and how to put persons who derive their income from sources other than regular salaries on a current basis were postponed for later discussion. As the plan now stands, however, taxpayers would be required to pay the first two installments on 1942 income as usual, and the last half of 1943 taxes collected through the withholding tax starting on July 1. This tentative approval by the Subcommittee has reportedly increased support for the "half and half" version of the Ruml plan.
2. Manpower - The sharply debated manpower issue received no clarification yesterday in the conflicting views of two Administration members on the overall manpower draft bill. Although Secretary of War Stimson endorsed the Austin-Wadsworth Bill, WMC McNutt, while not referring directly to the bill, announced that he stood pat on the voluntary method. Denied funds by Congress for his U.S. Employment Service, through which agency he is transferring workers to war industries, McNutt stated his intention of going ahead with the job despite an already noticeable turnover in the USES personnel as a result of lack of funds for increasing their salaries. Meanwhile, Senator Murray, denouncing "the total lack of ability" of the Manpower Commission, urged President Roosevelt in a letter to handle all manpower problems through the creation of a new division in the Department of Labor which would, of course, result in the liquidation of the Commission under its present setup. Four members of the Senate Appropriations Subcommittee on Manpower were also reported ready to recommend Congressional limitation of the size of the army whose increasing figures have been blamed as a cause of the nation's diminishing manpower in the factories and on the farms. Furthermore,

passage of the Bankhead Bill to defer farm workers is still definitely predicted by the Farm Bloc, despite opposition of the Army voiced in a letter by Undersecretary of War Patterson who claimed such deferment would "deplorably disrupt" the armed forces. Industrial labor, whose high wages drain manpower from the farms, according to Senator Theodore F. Green, even more than the army, came in for more criticism yesterday in two bills designed to curb strikes. Senator Byrd introduced a bill requiring local draft boards to review the status of all strikers in war industries, and Senator Connally proposed the creation by the President of a new board with final authority to investigate and adjust wages in plants taken over by the Government.

6. The Farm Issue - Receiving criticism of its subsidy payments under the AAA, purchases under the CCC, the social reforms of FSA, and its lending program under such agencies as the RACC, as well as denunciation of government limitations on agricultural production, the Department of Agriculture is facing Congressional attacks on all fronts. As more Congressmen appear to be rallying behind the Farm Bloc's slogan of "fair prices" for the farmer, Representative Voorhis, supporting the Pace Bill to include farm labor costs in parity computations, answered Secretary Wickard's claim that the bill is inflationary with, "You know as well as I do, the real control against inflation has got to be taxation."

Allred Appointment - Opening hearings before the Senate Judiciary Committee on the President's appointment of James V. Allred to the Fifth U.S. Circuit Court of Appeals. Senator Overton, whose own record is said to be none too clean, charged the nomination violated "the spirit if not the letter of the Hatch Act". A bitter debate is expected today on the matter, led by the Louisiana delegation who claim the judgeship rightly belongs to their state and that the President appointed Allred as "a political payoff" for running in the primaries against Senator O'Daniel in Texas last year.

Note - Walter Lippman's column entitled this morning, "The Ghost of Thaddeus Stephens" (page 9, Washington Post) discusses Congressional antagonism (especially Republican) to the Administration.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

SECRET

March 2, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended February 27, 1943.

As a result of a recent conference I had with Colonel Robert W. Johnson of the Smaller War Plants, steps are now being taken to locate representatives of the Procurement Division in the field service so as to coordinate with the Smaller War Plants representatives in asking the utmost distribution of war purchases.

Clifton E. Mack
Clifton E. Mack
Director of Procurement



SECRET

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF FEBRUARY 27, 1943
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$2716.6 (2703.2)	\$1423.1 (1408.2)	\$965.8 (962.9)	\$58.5 (58.5)	\$4.6 (4.6)	\$264.6 (269.0)
Purchase Authoriza- tions (Requisitions)	\$2320.1 (2296.7)	\$1329.4 (1314.6)	\$909.8 (901.7)	\$41.6 (41.6)	- -	\$ 39.3 (38.8)
Requisitions Cleared for Purchase	\$2226.2 (2218.8)	\$1290.0 (1283.7)	\$855.7 (855.5)	\$41.6 (41.6)	- -	\$ 38.9 (38.0)
Obligations (Purchases)	\$2092.4 (2080.2)	\$1215.7 (1204.4)	\$796.8 (796.6)	\$41.5 (41.5)	\$4.1 (4.0)	\$ 34.3 (33.7)
Deliveries to Foreign Governments at U. S. Ports*	\$ 918.7 (907.8)	\$ 697.2 (691.9)	\$193.4 (188.6)	\$17.8 (17.6)	- -	\$ 10.3 (9.7)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of February 20, 1943.

March 2, 1943.

Report to the President on Policy Decisions
Relating to Canada's U.S. Dollar Reserve

A committee consisting of representatives of the Department of State, Treasury and War, the Office of Lend-Lease Administration, and the Board of Economic Warfare, undertook to consider the following two problems relating to Canada.

1. The appropriate level of the U.S. dollar exchange reserve for Canada in the light of the Hyde Park Arrangement for assistance to Canada.
2. The Hyde Park policy of continuing to lend-lease to the United Kingdom component parts obtained in the United States for Canada and required for the execution of British contracts in Canada.

Recommendations made in this report are based on the recognition that one of the purposes of the Hyde Park Arrangement is to assure Canada sufficient U.S. dollar exchange to facilitate vigorous prosecution of the war. They are made on the assumption that our arrangements with Canada should be so conducted as to maintain Canada's gold and dollar balances at a level consistent with the above objective.

Canada's U.S. Dollar Position

As of January 1, 1943, the Canadian Government held \$319 million of gold and U.S. dollars as follows:

	(In millions)
Gold.....	\$ 155
U.S. dollar balances.....	<u>164</u>
Total.....	\$ 319

- 2 -

Canada has used \$224 million of proceeds from net sales of U.S. securities and other investments to Americans since the outbreak of the war. But during this same period she has repatriated Canadian securities held in the United Kingdom to a value of over \$600 million and has lent the British Government \$630 million in addition to the \$900 million gift.

Practically all of the drain on Canada's gold and dollar balances took place during the first two years of hostilities-- i.e., before the effects of the Hyde Park Arrangement became apparent. Transactions consummated in pursuance of the Hyde Park Arrangement made a net contribution of \$418 million to Canada's U.S. dollar resources by the close of 1942.

Current expectations are for a continued rise in Canada's holdings of gold and U.S. dollars. According to present estimates they will rise \$172 million during the current six-month period or to almost \$500 million by June 30, 1943. This would mean that by the close of June, Canada will have lost only about \$100 million of her pre-war dollar exchange resources as compared to an improvement in her sterling position of over \$1 billion.

In view of these facts, it was deemed advisable to re-examine Canada's U.S. dollar position and our policy of financial assistance.

The Canadian Proposal as to a Reasonable Reserve

The proposal was made to the Canadian Ministry of Finance that a range for Canada's U.S. dollar exchange reserve be established and the financial accounting between the Governments of Canada and the United States be so conducted as to maintain the reserve at the agreed-upon level. The proposal met with the approval of the Canadian Government, and at the request of the Treasury, Dr. Clarke, Deputy Minister of Finance for Canada, submitted the following suggestions:

- 3 -

1. Consideration be given to agreeing upon a range of \$400-\$430 million.
2. All U.S. dollar receipts from the net sale of securities in the United States be considered outside this reserve to be utilized to retire maturing or callable securities payable in U.S. currency.
3. "Can-ex" requisitions be discontinued. These requisitions are for materials which are lend-leased to the United Kingdom but which are actually exported to Canada and turned over to the Dominion Government for use in that country. They are designed to compensate Canada for expenditures made in the United States for those materials used in the manufacture of munitions and equipment for Great Britain which lose their identity through the process of production.

The reasons presented by the Canadian Government for the range suggested are Canada's vulnerable international trading position, heavy external debt largely owed to the United States, and desire for adequate foreign exchange resources in the immediate post-war period.

The Conclusions of the Subcommittee

1. The range suggested by the Canadian Government would be difficult to defend in view of the following considerations:
 - a. The minimum figure suggested is higher than the U.S. dollar exchange reserve of Canada at the outbreak of war. This amounted to \$390 million--\$260 million of gold and dollars held by the Canadian Government and \$130 million of U.S. dollar balances held by private Canadian residents in excess of minimum working needs.

- 4 -

- b. A liquid reserve of \$400-\$430 million is substantially more than Canada needs to prosecute the war. A liquid reserve of \$300-\$350 million appears to be ample for this purpose.
 - c. The \$600-\$1,000 million range decided upon for the United Kingdom would make it difficult to justify a range of \$400-\$430 million for Canada.
2. It does not seem inappropriate to permit Canada to repay Canadian Government obligations payable in U.S. dollars out of proceeds from net security sales. Such an arrangement would prevent further impairment of Canada's capital position vis-a-vis the United States.
 3. The Canadian Government's suggestion that materials supplied to Canada and charged to the United Kingdom under lend-lease be limited to those goods which retain their identity through the process of production seems a reasonable one. Such a limitation would involve a U.S. dollar exchange loss to Canada of less than \$20 million. A loss of this magnitude could easily be repaired, possibly in more acceptable ways.

Recommendations

1. It is recommended, in the light of present circumstances, that appropriate action be taken to maintain Canada's gold and U.S. dollar balances at not less than about \$300 million and not more than about \$350 million, and that the Secretary of the Treasury keep the Chairman of the American Section of the Joint War Production Committee informed as to the size of these balances and the magnitude of action needed to be taken by U.S. Government procurement agencies, through the cancelling of orders, the placing of orders and/or the making of advance payments, to maintain these holdings within the above limits.

- 5 -

2. It is recommended that for the present, Canada's net U.S. dollar proceeds from security sales be considered outside her U.S. dollar exchange reserve provided they are to be used within a year to redeem maturing or callable securities payable in U.S. currency and provided further there is no substantial relaxation of Canada's foreign exchange control nor a significant modification of her import policy without prior consultation with this Government.
3. It is recommended that materials supplied to Canada and charged to the United Kingdom under Lend-Lease be limited to those goods which retain their identity through the process of production.

Vice President

Secretary of State

Secretary of Treasury

Secretary of War

Lend-Lease Administrator

If you approve of these recommendations we shall be glad if you will so indicate below.

The White House

Approved: _____

Report of Subcommittee on the Question of an
Appropriate U.S. Dollar Exchange Reserve for Canada

The Cabinet-Group Subcommittee on the Dollar Position of the United Nations, met on January 13 and January 27, 1943, to consider the following two questions relating to Canada:

1. The appropriate level of the U.S. dollar exchange reserve for Canada in the light of the Hyde Park Arrangement for assistance to Canada.
2. The Hyde Park policy of continuing to lend-lease to the United Kingdom component parts obtained in the United States for Canada and required for the execution of British contracts in Canada.

Recommendations made in this report are based on the recognition that one of the purposes of the Hyde Park Arrangement is to assure Canada sufficient U.S. dollar exchange to facilitate vigorous prosecution of the war. They are made on the assumption that our arrangements with Canada should be so conducted as to maintain Canada's gold and dollar balances at a level consistent with the above objective.

The immediate origin of these problems is a proposal discussed by the top-ranking members of the Canadian-U.S. Joint War Production Committee for revising the procedure of exercising control over Canada's U.S. dollar receipts.

Under an understanding reached in July 1942, between the Treasury and other U.S. Government agencies placing contracts in Canada, all large contemplated Government contracts are called to the attention of the Treasury. It was hoped in this way to avoid an undue increase in Canada's U.S. dollar receipts.

Under the proposed procedure, instead of considering Canada's need for U.S. dollars as one factor in deciding whether or not to place a particular contract in Canada, joint Canadian-U.S. control will be exercised over Canada's U.S. dollar receipts through a flexible allocations procedure by shifting deliveries of finished munitions, particularly deliveries of British-type munitions, which comprise the bulk of Canada's war production, from the account of one government to the account of another, according to the desired effect on Canada's U.S. dollar position.

No change in the volume or composition of war production in Canada is contemplated, merely a change in the bookkeeping involved and the currency in which payments are made. It is hoped that this revision of procedure will permit the exercise of closer and more immediate control over Canada's U.S. dollar position.

- 2 -

A prerequisite to the successful operation of the above plan is an agreement between the two Governments as to the appropriate level of U.S. dollar exchange reserves to be maintained by Canada.

Canada's U.S. Dollar Position

As of January 1, 1943, the Canadian Government held \$319 million of gold and U.S. dollars as follows:

	(In millions)
Gold.....	\$ 155
U.S. dollar balances.....	<u>164</u>
Total.....	\$ 319

This represents a reduction of \$72 million in Canada's available gold and U.S. dollar balances since the beginning of war.

Canada has used \$224 million of proceeds from net sales of U.S. securities and other investments to Americans since the outbreak of the war. But during this same period she has repatriated Canadian securities held in the United Kingdom to a value of over \$600 million and has lent the British Government \$630 million in addition to the \$900 million gift.

Practically all of the drain on Canada's gold and dollar balances took place during the first two years of hostilities--i.e., before the effects of the Hyde Park Arrangement became apparent. Transactions consummated in pursuance of the Hyde Park Arrangement made a net contribution of \$418 million to Canada's U.S. dollar resources by the close of 1942.

Current expectations are for a continued rise in Canada's holdings of gold and U.S. dollars. According to present estimates, they will rise \$172 million during the current six-month period or to almost \$500 million by June 30, 1943. This would mean that by the close of June, Canada will have lost only about \$100 million of her pre-war dollar exchange resources as compared to an improvement in her sterling position of over \$1 billion.

In view of these facts, it was deemed advisable to reexamine Canada's U.S. dollar position and our policy of financial assistance.

(There is appended a more detailed review of changes in Canada's U.S. dollar position since the outbreak of war.)

The Canadian Proposal as to a Reasonable Reserve

The Canadian Ministry of Finance has given its approval to the suggestion of establishing a range for Canada's U.S. dollar exchange reserve and of maintaining the reserve at the agreed-upon level. At the request of the Treasury, Dr. Clarke, Deputy Minister of Finance for Canada, submitted the following suggestions:

- 3 -

1. Consideration be given to agreeing upon a range of \$400-\$430 million.
2. All U.S. dollar receipts from the net sale of securities in the United States be considered outside this reserve to be utilized to retire maturing or callable securities payable in U.S. currency.
3. "Can-ex" requisitions be discontinued. These requisitions are for materials which are lend-leased to the United Kingdom but which are actually exported to Canada and turned over to the Dominion Government for use in that country. They are designed to compensate Canada for expenditures made in the United States for those materials used in the manufacture of munitions and equipment for Great Britain which lose their identity through the process of production.

The Canadian-suggested maximum and minimum figures are explained in terms of the following origins:

1. The lower figure approximates the sum of the \$260 million of gold and U.S. dollars held by the Canadian Government in September 1939 plus the \$130 million of private Canadian U.S. dollar balances requisitioned and used up by the Dominion Government in the early months of the war.
2. The higher figure represents the sum of \$319 million, the amount of gold and dollars held by the Canadian Government on December 31, 1942, and \$119 million, the net increase in Canada's debtor position vis-a-vis the United States since July 1, 1941, about the time the implementation of the Hyde Park Arrangement was undertaken.

The considerations which the Canadian Government brought forward as basis for Canada's need for a liberal U.S. dollar reserve are summarized below:

1. Canada's international trading position is highly vulnerable, due to (a) the importance of foreign trade in the national economy, and (b) the preponderance of agricultural and raw materials in her export trade.
2. Canada has heavy external debt, owed largely to the United States, and involving fixed interest and dividend payments to Americans of \$200-\$250 million gross per year.
3. Canada may require foreign exchange resources to meet post-war reconstruction needs.

- 4 -

4. Canada will desire to restore parity of exchange between the Canadian currency and the U.S. dollar, to eliminate various restrictions on trade and other international transactions, and to maintain a liberal commercial policy.

The Conclusions of the Subcommittee

1. The range suggested by the Canadian Government would be difficult to defend in view of the following considerations:
 - a. The minimum figure suggested is higher than Canada's U.S. dollar exchange reserve at the outbreak of war. This amounted to \$990 million — \$260 million of gold and dollars held by the Canadian Government and \$130 million of U.S. dollar balances held by private Canadian residents in excess of minimum working needs.
 - b. A liquid reserve of \$400-\$430 is substantially more than Canada needs to prosecute the war. A liquid reserve of about \$300 to \$350 million appears to be ample for this purpose.
 - c. There appears to be no justifiable basis for special treatment of Canada's post-war needs. The United States is the only country which does not have a highly vulnerable balance-of-payments position and whose foreign exchange resources do not appear to be inadequate to meet currently-anticipated post-war requirements.
 - d. The \$600-\$1,000 million range decided upon for the United Kingdom would make it difficult to justify a range of \$400-\$430 million for Canada.
2. The Canadian Government's request that net proceeds from security sales be considered outside the reserve would prevent further impairment of Canada's capital position vis-a-vis the United States. This would be the result whether the net proceeds were allowed to accumulate or whether they were used, as seems to be contemplated by the Canadian Government, to retire maturing or callable securities payable in U.S. currency. It does not seem inappropriate to permit Canada to repay Canadian Government obligations payable in U.S. dollars out of proceeds from net security sales.
3. The Canadian Government's suggestion that materials supplied to Canada and charged to the United Kingdom under lend-lease be limited to those goods which retain their identity through the process of production seems a reasonable one. Such a limitation would involve a U.S. dollar exchange loss to Canada of less than \$20 million. A loss of this magnitude could easily be repaired in more defensible ways.

- 5 -

Recommendations

1. It is recommended, in the light of present circumstances, that appropriate action be taken to maintain Canada's gold and U.S. dollar balances at not less than about \$300 million and not more than about \$350 million, and that the Secretary of the Treasury keep the Chairman of the American Section of the Joint War Production Committee informed as to the size of these balances and the magnitude of action needed to be taken by U.S. Government procurement agencies, through the cancelling of orders, the placing of orders and/or the making of advance payments, to maintain these holdings within the above limits.
2. It is recommended that for the present, Canada's net U.S. dollar proceeds from security sales be considered outside her U.S. dollar exchange reserve provided they are to be used within a year to redeem maturing or callable securities payable in U.S. currency and provided further there is no substantial relaxation of Canada's foreign exchange control nor a significant modification of her import policy without prior consultation with this Government.
3. It is recommended that materials supplied to Canada and charged to the United Kingdom under Lend-Lease be limited to those goods which retain their identity through the process of production.