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March 27, 1943  
9:09 a.m.

HMJr: Hello.

Chester  
Davis: Good morning.

HMJr: Hello, Chester. How are you? It's Henry  
Morgenthau.

D: Yes, Henry. I'm - well, I'm as well as could  
be expected under the circumstances.

HMJr: Well, what's the matter?

D: Well, nothing except that I - I'm not relishing  
the job of getting back there with you. I'd  
rather stay out here and work - but work for  
you out here.

HMJr: Well, that's what I'm calling you about, and  
I wondered what arrangements you'd made for  
our April drive.

D: Well, we've got it awfully well organized.

HMJr: You....

D: We - we've really got the District organization  
in - in tip-top shape. Of course, the only  
thing that's open is the question that - I  
think Marriner has talked with you, hasn't he?

HMJr: No, he has not.

D: Oh, hasn't he?

HMJr: No.

D: Well, you know, relying on the fact that he  
was liaison....

HMJr: Yes.

D: ....for - between us and the Treasury, I had  
reported to him, and my understanding was that  
he was going to talk to you....

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HMJr: Yeah.

D: ....and that's why I haven't communicated with you directly at all.

HMJr: Well - well, what is the situation?

D: Well, Robbins will be here Tuesday....

HMJr: Yeah.

D: ....and he'll get a first-hand picture.

HMJr: Yeah.

D: We have a committee of 16 that represent equally the War Savings and the old Victory Fund....

HMJr: Yeah.

D: ....group, that's the War - Treasury War Finance Committee for this District.

HMJr: Yeah.

D: The men who are on that committee are also the men who are really directing the drive out in eight divisions of this District.

HMJr: Yeah.

D: We're very well organized, and it's proceeding fine in all districts except southern Illinois. We haven't - I don't think we've gone as far there as we have in the others, largely questions of personalities there, but we're much farther there than we were last December.

HMJr: But who - who's going to take your place?

D: Well, you're - that's up to you, and that's what I wanted Marriner to talk to you about.

HMJr: I see. Well, who do you suggest?

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D: Well, Henry, do you - there's no reason why we can't go outside the bank, is there?

HMJr: None.

D: Do you think of any?

HMJr: I don't know of any.

D: Well, now the first vice president here, Mr. Hitt  
....

HMJr: Yes.

D: ....has not been in touch with this, naturally.

HMJr: Yeah.

D: He's got his hands full, or will have his hands full, acting as president and handling the Reserve banks end of this thing....

HMJr: Well....

D: ....without taking on anything more.

HMJr: Yeah.

D: Although I think it might be well to - to have him designated as the vice chairman, provided we can get the right man to act as chairman.

HMJr: Yeah.

D: Now Marriner has the whole story.

HMJr: I see.

D: I've been talking with him, and I'll wire him as soon as I can after you hang up. I'll wire him and ask him to get in touch with you at once.

HMJr: Well, that's not necessary. I'll call him.

D: Well, now then, Henry, there are two or three possible suggestions.

HMJr: Yeah.

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D: In the first place, of the four bank - leading bank presidents here, there's Walter Smith and Len Hemingway....

HMJr: Yeah.

D: ....and Tom K. Smith and Sid Maestre....

HMJr: Yes.

D: Walter Smith is - because of health, I would say Walter, while he's a fine leader and stands well, I think because of the health, Walter would not undertake it and shouldn't.

HMJr: Yeah.

D: Len Hemingway, of course, being the president of A.B.A., has a wider district for his work and he's very important and useful.

HMJr: Yeah.

D: He shouldn't take it. Of the other two -- the two are Tom, of course, and Sid Maestre.

HMJr: Yeah.

D: Sid Maestre has just - is just completing the Red Cross Drive here. He's chairman for the second year.

HMJr: Yeah.

D: Now the - another suggestion than these four is Walter W. Head, who is the chairman for Metropolitan St. Louis.

HMJr: Yeah.

D: That is, St. Louis and St. Louis County....

HMJr: Yeah.

D: ....who is devoting a great deal of time to it, is thoroughly familiar with it....

HMJr: Yeah.

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D: ....that Walter Head might be moved up to District Chairman....

HMJr: Yeah.

D: ....and Bill Connett of the First National or somebody equally acceptable to the workers out here....

HMJr: Yeah.

D: ....be made St. Louis County chairman.

HMJr: Yeah.

D: When you come down now to the three men - well, of course, another possibility might be to move Ed Hilliard in from Louisville.

HMJr: Yeah.

D: Ed Hilliard is - has done an exceptional job down there.

HMJr: Yeah.

D: He wouldn't want to move, I don't think. He feels his influence and his value is - is local to Kentucky, and I agree with him. I think probably that's right.

HMJr: Yeah.

D: Now when you come to the three: Tom Smith, Walter Head, or Sid Maestre....

HMJr: Yeah.

D: ....here's the situation. I made a fairly - fairly thorough and confidential canvass of the organization workers. First, let me say that as far as the bankers are concerned here....

HMJr: Yeah.

D: ....any - either any one would be acceptable.

HMJr: Yeah.

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D: That is, Tom or Head or Sid Maestre.

HMJr: Yeah.

D: As to - when you get down into the workers, the organization, and men like our city campaign manager, Jake Leuhart, and a number of others -- no use in quoting any names in this connection -- there's - there are some decided preferences.

HMJr: Yes.

D: That is, they would prefer - the workers would prefer Sid Maestre or Walter Head over Tom.

HMJr: Yeah.

D: As far as I'm concerned, any one would be satisfactory. They're all - they're all good men and if any one of them could be induced to handle it -- and I think they could because the organization work is completed practically -- why, I think any one would do a good job. The - the trouble, of course, with moving Walter Head up is that he has undertaken this St. Louis job. He has a great deal of pride in it.

HMJr: Yeah.

D: It represents about 40% of our district job.

HMJr: I see.

D: And if he moved up as District Chairman, there isn't any question in my mind but what there'd be some difficulty in educating the - the city chairman - the Metropolitan St. Louis chairman, because in some way that's more important than the District job.

HMJr: Yeah.

D: Now I would say any one of these three would take it on appointment or draft from you.

HMJr: I see.

D: Even Sid Maestre, who's just finished a Red Cross job and would be very reluctant to take on another one, I - I'm just pretty sure that as a war duty under draft from you, these men - any one would take it. Now, possibly, you have some other suggestions, Henry.

HMJr: No, no, I wouldn't make any suggestions. I'll talk it over with Marriner, and you say Robbins - I know Robbins is going to be there Tuesday.

D: That's right. He'll have all day with us.

HMJr: Good. I - will you be there Tuesday?

D: No, but I've arranged to have him met at the air-port and I've called - we're calling in the full 16....

HMJr: Oh.

D: ....district committee....

HMJr: I see.

D: ....so he'll have a chance to get the report first-hand from all sections of the 8th Federal Reserve District, and they'll have a chance, of course, to get his - the sense of his leadership.

HMJr: When - when are you coming to Washington?

D: I'm going to be there tomorrow.

HMJr: I see. I see.

D: But, Henry, I'm honestly - I believe I can honestly assure you that you don't need to worry about the organization out here.

HMJr: No.

D: I - we'll have to get a head to the committee, of course.

HMJr: That's right.

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D: Now am I thinking straight in talking about men of this sort?

HMJr: Yes, yes, definitely, definitely. Well, I'll talk with Marriner and I'll have a talk with Robbins before he gets there.

D: Fine. Look - look....

HMJr: Yes.

D: Marriner has just about the same information that I've given you.

HMJr: Good.

D: This is about the way I've talked to him.

HMJr: Good. And I wish you luck on your new job.

D: Well, Henry, I'm going to need a lot of it.

HMJr: I know you are.

D: I guess you know that I didn't want it.

HMJr: Well, I - I - I can't imagine how you'd seek it.

D: No. (Laughs)

HMJr: Certainly not on the - I mean here right in the middle of spring crops.

D: Oh, it's terrible.

HMJr: And I'd love to sit down and talk to you about it when you - any time you have....

D: Well....

HMJr: ....want to come over for lunch, because I....

D: If you will - if you will, I'd like very much to talk to you about it.

HMJr: Because whatever they're worth, I've got a couple ideas of my own.

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D: Sure.

HMJr: Uh....

D: Well, I'm going to need all of the - I - I mean to say, I'm just going to need more help than there could possibly be available.

HMJr: Well, whenever - whenever you're ready....

D: I'll certainly get in touch with you, Henry.

HMJr: Will you do that? And you can come over and have lunch.

D: You bet.

HMJr: All right.

D: I'm sorry to leave your job out here....

HMJr: Well, I am - I'm sorry to have you leave it too, because we were counting on you, but I suppose you had no choice.

D: No, but we - honestly, I'm proud of the organization and the progress it's made.

HMJr: Right.

D: Our workers' kits are complete; our printing job is complete....

HMJr: Yeah.

D: We're all set to go; we've got - organized to take care of St. Louis, and I'll bet there isn't another city in the United States that has a more complete coverage than we're going to give you.

HMJr: Good.

D: Now that's - I - I feel pretty enthusiastic about it.

HMJr: Okay.

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D: All right.

HMJr: Goodbye.

D: Goodbye.

March 27, 1943  
9:48 a.m.

Robert  
Patterson: Hello.

HMJr: I wondered if I could get you for lunch,  
by any chance, today.

P: Today?

HMJr: Yes, I ....

P: What time?

HMJr: Oh, is one o'clock a good time?

P: Yes. I'll come to your office?

HMJr: Yeah. Now, I'll tell you what I - besides the  
pleasure of seeing you - I want to talk to you  
about that War Bond business.

P: Yes. You got my letter, didn't you?

HMJr: Yeah, but I've got a lot more information. I've  
had a man working with Carter and whatever that  
other General's name ....

P: Loughry?

HMJr: Loughry.

P: Yes.

HMJr: And, I just want to talk man to man, because I -  
I think when you have what I've got - I don't  
think you'd be satisfied the way they're handling  
it. I may be wrong.

P: All right. Our people ....

HMJr: We have - we have some constructive suggestions  
to make.

P: I'd be glad to have them.

HMJr: And General Carter doesn't see it our way and I -  
I'd like to give them to you direct.

P: All right.

HMJr: We may be wrong.

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P: I'll be there.

HMJr: I thank you.

P: Good-bye.

March 27, 1943  
9:55 a.m.

HMJr: Hello.

Operator: Mr. Eccles is returning your call.

HMJr: Oh. All right.

Operator: Go ahead.

HMJr: Hello.

Marriner  
Eccles: Hello, hello.

HMJr: Yes. Marriner?

E: Yes, Henry.

HMJr: How are you?

E: I'm fine. How are you?

HMJr: Marriner, I hadn't heard from you, and - so I called up Chester Davis to find out where we stood, and he said he told you all about it, and you were to - going to tell me.

E: Yeah.

HMJr: Now he gave me the story over 15 minutes. And what I would like to do, if it's agreeable to you - if you'd come over to lunch Monday, then you, Bell, and I could have a talk about it.

E: Well, that'll be fine. I'll be glad to do that.

HMJr: How's that?

E: That - that'll suit me fine. I....

HMJr: Do you want to bring anybody with you?

E: Well, I don't - I don't think so.

HMJr: I don't think it's necessary.

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E: The - I - I should have called you yesterday....

HMJr: Yeah.

E: I intended to but it's just the darn day got by and I was....

HMJr: Well....

E: ....tied up every minute, and....

HMJr: No harm done.

E: The....

HMJr: I was just a little nervous about it.

E: Well, I talked to Chester on - let me see, when was it now - the day before.

HMJr: Yeah.

E: It was on Thursday, and Norton, who is the chairman of the Board....

HMJr: Yeah.

E: ....was in town and I saw - I saw Norton late Thursday afternoon to discuss the mat.. - and I discussed that along with other matters pertaining to the bank with him. That was Thursday afternoon....

HMJr: Well, the only thing was Chester couldn't understand why I wasn't up to date so....

E: Well, I should have called you yesterday.

HMJr: Well, it's - that's water under the bridge.

E: But I just couldn't....

HMJr: Well, supposing you come over Monday, and we can talk about that and....

E: As a matter of fact, I did put a call in for Bell yesterday. I - I was going to call Dan, and - because I usually talk to him....

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HMJr: Well....

E: .....and don't bother you unless it's - and I put a call in for Dan yesterday, but he was tied up, and....

HMJr: How are things in the Rocky Mountains?

E: Well, it was pretty wintery out there.

HMJr: I see.

E: I've been back since - let's see - I got back Wednesday morning.

HMJr: I see. Okay. I'll look forward to seeing you Monday.

E: Yeah. Okay. At one o'clock?

HMJr: If you please.

E: Yeah, fine. Goodbye.

March 27, 1943  
10:26 a.m.

Operator: Go ahead.

HMJr: Yes.

E. F. Bartelt: Hello, Mr. Secretary.

HMJr: Hello, Eddie. I kind of counted on you being here today.

B: Well, I'm sorry. I think I've missed my time a little bit on that.

HMJr: Oh, I thought we talked about possibly going over and seeing the War Department today.

B: Well, I did get my days mixed up a little bit on that, Mr. Secretary.

HMJr: Well, it's all right.

B: Sorry about it.

HMJr: Well, now I asked - the only reason, I asked Patterson to come to lunch, you see?

B: Uh huh.

HMJr: And what is the latest situation?

B: On - on the War Bonds down there?

HMJr: Yeah.

B: Well, the way they're going now, it would take about fifteen or sixteen months....

HMJr: Yeah.

B: ....to clean up the backlog prior to December 31, but General Loughry now is talking in terms of asking for about 1,100 more employees. He doesn't know whether the board will give him those employees.

HMJr: Yes.

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B: Then I discussed also with General Loughry and his aides a question of changing the procedure.

HMJr: Yeah.

B: It seems to me that we - you'll just have to change that - that slow posting procedure they have down there....

HMJr: Yeah.

B: ....and these gentlemen were very much interested in my suggestion, and then I suggested also that if they are interested in it that the Treasury probably would be willing to confer with them and the Comptroller General's office to see if anything....

HMJr: Yes.

B: ....like that could be worked out.

HMJr: Well, I read your - I think your suggestion is a good one. Now let me ask you this. Your suggestion of sending the stuff to the field, that is just for the civilian employees, isn't it?

B: That's only for the civilian employees, that's right.

HMJr: Do you know - do you know how - of the backlog, how much of it is civilian employees and how much is Army?

B: It's about 500,000 civilian employees. The rest of it is Army, about 3 million.

HMJr: 500,000....

B: About 500. That might run from 500 up to 575,000, but it's nearer 500,000 right now.

HMJr: And 3 million is....

B: Is military.

HMJr: Military.

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- B: Now, Mr. Secretary, I understand that General Carter is objecting to sending the 500,000 to the field for the reason that he's afraid that it may retard their present current program, but it seems to me that if the arsenals and the field offices can assure the War Department that it will not interfere with that program, I think they ought to be encouraged to send them out to the field.
- HMJr: Well....
- B: Then that would leave here in Washington only the military end of it, and they could concentrate on that.
- HMJr: Well, how - that's the backlog. What about the new stuff that comes in from the civilian employees? How....
- B: The - the new - the new stuff is moving currently.
- HMJr: Now who's - is that handled in the field?
- B: That's handled in the field. It's been decentralized. It might interest you to know that I looked at that up here in the Office of Dependency Benefit Payments yesterday....
- HMJr: Yeah.
- B: They've got about 9,500 employees, and I saw a few of these clerks. They have gotten their Bonds - they were due on the - that is, for the pay-day of the 15th they were delivered - they were delivering them yesterday. They're getting their bonds up here within 5 or 10 days after pay-day.
- HMJr: Well, then dumping this 500,000 back in the field, it wouldn't slow them down very much.
- B: Well, General Carter is afraid that it might slow them down, but what I would do is to get the field office to assure the War Department that it will not interfere with the current program.
- HMJr: Now this....

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B: It may be that they can take care of it without interfering with the current program.

HMJr: Are they going to - what isn't clear in my mind, are they going to continue to handle the military thing here in Washington?

B: No, sir. The military is going to be handled out in Chicago.

HMJr: Oh, and this is just the backlog?

B: Yes, sir. And I want to put this thing clear too, Mr. Secretary, the - the backlog on civilians is - is - covers the period prior to December 31. The backlog on - on - on the military, that is, the change-over on military is March 31.

HMJr: Is that in your memo?

B: That's in my - I believe I put that in my memorandum.

HMJr: But as I get it, here in Washington -- is it 3 million applications?

B: About 3 million - 3 million accounts.

HMJr: Accounts.

B: But they'll have about 20 million postings.

HMJr: Yeah, well, what are they going to do with this organization when they catch up?

B: It'll fold up.

HMJr: Oh.

B: It'll fold up.

HMJr: I see.

B: And that is another reason they give for possibly some of the - the slowness, that these employees apparently realize that they're in an organization that is folding up....

HMJr: But....

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B: .....and, therefore, there is some thought off-the-record that perhaps they're not getting the production out of them that they would get if the employees knew they were in a continuing organization.

HMJr: Now how is the Chicago office handling the military? How far behind are they?

B: Oh, they're not behind at all. I'm going out there next Wednesday....

HMJr: Yes.

B: ....but I did check up a little in advance.

HMJr: Yes.

B: And they have a good system out there, as it's been explained to me, and I - I have every reason to believe that they're going to be current right from the beginning.

HMJr: Well, now you couldn't dump this 3 million military on the Chicago, which is a permanent organization?

B: Well, I - I think there is some merit in the thought of moving that military out of town, but whether it would be advisable to put it in Chicago, that's something that - I think that's worth - worth considering.

HMJr: Well, you've got an organization - why can't you just dump that on Chicago and let them pick it up and clean it up?

B: It'll be a different procedure, of course.

HMJr: Well, whatever the procedure is.

B: Yeah. Well, I think that's worth considering. That's worth considering. There is for very serious consideration the advisability of moving that military program out of Washington....

HMJr: But if....

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B: ....putting it some place. Now whether it's Chicago or some place else, that may be a good - good - good suggestion there.

HMJr: You couldn't talk to somebody about it and call me back, say about five minutes or twelve?

B: I don't believe anybody up here, Mr. Secretary....

HMJr: No, but I mean in Washington.

B: ....would be familiar with it.

HMJr: Well, I'm....

B: But what I will do is when I'm out in Chicago next Thursday, I - I might take that up with them and see what could be worked out.

HMJr: Okay.

B: Fine.

HMJr: Will you be in Monday?

B: I - I'll be in Monday.

HMJr: All right, thanks.

B: Yes, sir. Thank you.

March 27, 1943  
10:45 a.m.

RE: LAZARD FRERES

Present: Mr. Paul  
          Mr. Pehle  
          Mrs. Klotz

MR. PAUL: This is a memorandum which runs two pages. (Memorandum from Mr. Pehle to Mr. Paul handed to the Secretary, copy attached.)

H.M.JR: Have you read it?

MR. PAUL: Sure, a couple of days ago. I couldn't take it up with you because I wanted John here.

H.M.JR: You remember, when we went into this thing Altschul only had one percent of the stock. I couldn't understand it.

MR. PEHLE: They have changed that. I will give you that.

H.M.JR: Is that wrong?

MR. PEHLE: The one percent is wrong as of today, yes, sir.

H.M.JR: They have changed it?

MR. PEHLE: The memorandum is all right?

H.M.JR: Is that what brought on the investigation? Wasn't it about the Worms Bank?

MR. PEHLE: Yes, and we had looked at it once in connection with the Silesian-American.

Finally we went in and took the mess apart from top to bottom.

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H.M.JR: That I didn't know. If I had known it, it slipped my mind. The thing I remember was in connection with that one.

MR. PEHLE: We had gone in there in connection with that.

H.M.JR: Didn't we have income-tax people in there?

MR. PEHLE: Yes, but this was a thorough investigation within the last three months.

H.M.JR: What about this, "deposit a substantial sum in a contingent vesting account"?

MR. PAUL: This is an entirely new procedure that has never been used before.

MR. PEHLE: The purpose of that is to put a substantial sum, say a quarter of a million or a half a million dollars, in the account, preferably in the Federal Reserve Bank, on the condition that if there are found by the Treasury Department to be any further violations that whole sum is forfeited to the United States Government.

H.M.JR: Are they willing to do that?

MR. PEHLE: I think they will be willing to do it.

H.M.JR: Of course the fellow I was suspicious of most was Jeidens. He is out.

MR. PEHLE: He is out, but there have been substantial violations. This fellow Singer was mixed up in a lot of them. He stays down at the bottom. Their legal counsel - well, you remember, it was in connection with this very matter that they came out through the New York Times.

MR. PAUL: Some of their other things are hard to understand, in fact.

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MR. PEHLE: These two Frenchmen, David-Weill and Meyer, want to cooperate fully now, it seems. They are both very smart people. Meyer was at first very reluctant to tell anybody anything. He tells me it was because he and David-Weill are French and the French don't comply readily with Government regulations.

This seemed to us to be a fair compromise, let the firm continue business and put them in a position where they are going to be very, very careful what they do.

MR. PAUL: One thing you can do is close them up, which would be a very drastic step.

H.M.JR: Now what about Altschul?

MR. PEHLE: Altschul has a million and a half in the firm. He gets now under present arrangements a guaranteed four percent, which is sixty thousand a year. He gets twenty-five thousand a year salary, and he gets five percent of any net profits remaining after payment of salaries and interest on all capital. There hasn't been any capital for several years. So he gets eighty-five thousand a year. But he will become a limited partner.

H.M.JR: But this thing here, of course these fellows, David-Weill and Meyer, if they would really cooperate they could most likely tell us a lot of stuff about Bonnet.

MR. PEHLE: They have told us some, not about but they have been giving us some information and I think they will give us more.

H.M.JR: I was just thinking, do you think it would do any good if I saw them - I mean myself? I guess I had better keep out of this.

MR. PAUL: I would keep out of it until some emergency arose where it would be a good thing for you to see them.

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H.M.JR: What do you want me to do, approve this?

MR. PEHLE: If you say O.K., that is all that is necessary.

(Memorandum initialed by the Secretary.)

H.M.JR: When will you let these people know?

MR. PEHLE: The first of the week.

H.M.JR: After you tell them, will you let Mrs. Klotz know.

When I have a little more time I would like to know a little bit more about this.

March 27, 1943

Mr. Paul

J. W. Pehle

Re: Lazard Freres

This is to advise you of the results of our investigation of Lazard Freres & Co.

Lazard Freres & Co. is a national of France by virtue of the fact that approximately two-thirds of its \$5,000,000 capital was contributed by the French partnership, Lazard Freres & Cie. The balance of its capital was contributed by Frank Altschul, the senior partner of the New York firm. Immediately after the fall of France in June 1940, the Treasury Department issued to the New York firm a broad operating license which is still in effect. Our action at that time was predicated upon the sworn statement of the New York firm that it was and would continue to be managed entirely by the American partners and that the participation in the company's affairs by the French firm was limited solely to its capital contribution.

Subsequent to the fall of France, Andre Meyer and later Pierre David-Weill, two of the three managing partners of the French firm, came to the United States. In order to permit them to participate in the management of the New York firm, an application for its reorganization was filed. The application proposes that Andrew Meyer and Pierre David-Weill, with one or more unnamed Americans, be admitted as general partners and that Frank Altschul become a limited partner. In order to provide a basis for action on this application, and in order to determine the degree of supervision which should be exercised over the New York partnership, an intensive investigation was made of its operations under our broad license.

Our investigation disclosed that Lazard Freres & Co., New York, had been guilty of several substantial violations of the Executive Order. These violations involved:

- 2 -

- (1) The unlicensed transfer in the latter part of 1940 of \$1,200,000 to Switzerland. It is not clear that the transfer would have been licensed if an application had been filed;
- (2) Failure to report ownership of the funds and securities belonging to French partners of the firm; and
- (3) Failure to block certain substantial accounts which were known to be beneficially owned by persons then in France. These accounts, however, remained substantially intact.

On the other hand, the two proposed new partners, Pierre David-Weill and Andre Meyer, have evidenced, since their arrival in the United States, a spirit of cooperation both in compliance with the freezing controls and in supplying useful information. Moreover, Otto Jeidens, a partner of Lazard Freres whose activities have been under suspicion, resigned from the firm during the course of our investigation.

Under the circumstances, we are not prepared to recommend that the operating license of the New York firm be revoked, which would put this concern out of business; nor are we disposed to prevent the reorganization of this firm.

In view, however, of the present firm's violations of the Order, it is recommended that the new firm be required, as a condition of our license, to deposit a substantial sum in a contingent vesting account, preferably with the Federal Reserve Bank of New York, in order to guarantee full compliance with the Order by the reorganized firm. If such condition is complied with, we propose to issue the new firm an appropriate operating license, unless the additional partners who are as yet unnamed should be persons whom the Foreign Funds Control is not prepared to license to deal with blocked funds.

/S/ J. W. Pehle

Approved: /S/ Randolph Paul

March 27, 1943

At luncheon today with Judge Patterson, I gave him the original of the attached memorandum from Mr. Bartelt.

I recommended to Patterson that they close up the Washington office which is handling the issuance of War Bonds, and send the civilian applications to the arsenals in the field and the military applications to Chicago. He is going to consider these recommendations.

March 25, 1943

TO THE SECRETARY:

Following your instructions that I look into the War Department bond situation, I called upon General Carter, Chief, Fiscal Service, War Department, yesterday afternoon. This afternoon I called on General Loughry, Chief of Finance, under whose jurisdiction the work falls. Present at the meeting with General Loughry were General Keuper and Colonel Tillman who is in immediate charge. I will give you a more detailed report upon my return from Newark. Meanwhile, here are some of the highlights.

There are roughly 4 million accounts, civilian and military. These accounts will involve the posting of roughly 23,000,000 pay-roll deductions.

They now have about 2,000 employees working in the Bond Issue Division, with absenteeism running about 20 per cent, sometimes as high as 30 per cent. The actual working time, therefore, is equivalent to about 1,600 or 1,700 employees. They are running two shifts.

Between 50 and 60 per cent of the help is colored, a great percentage being inexperienced. Some of them cannot read figures; some cannot add, but apparently they are the best that can be obtained. They need about 1,000 more employees. They would have enough space if they should run a third shift.

Under the present slow and tedious ledger-posting process, assuming that there would be provided additional help, and assuming further that a large part of the civilian accounts should be returned to the field, the military accounts might be processed about as follows, although as a matter of caution, the figures cannot be accepted without careful analysis and recheck:

<u>Month in which deductions were made</u>	<u>Month received in War Dept.</u>	<u>Number of pay-roll deductions (postings)</u>	<u>Number of bonds to be issued</u>	<u>Approximate date when bond delivery would be completed</u>
October	November	1,500,000	300,000	April 30
November	December	2,000,000	400,000	May 31
December	January	3,000,000	600,000	July 15
January	February	3,500,000	700,000	September 1
February	March	3,500,000	700,000	October 15
March	April	3,500,000	700,000	December 1
Total .....		<u>20,000,000</u>	<u>3,400,000</u>	

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In January they issued about 200,000 bonds; in February, 218,000. In March they will probably increase to 235,000 bonds. From this it will be seen that the above estimate of December first for clean-up is too optimistic. It is more likely to run up to 15 or 16 months unless something drastic is done with respect to a change in procedure.

With this in mind, I took the liberty of making a suggestion to General Loughry this afternoon, making it clear that it was not to be taken as a recommendation since it had not been discussed at the Treasury. General Loughry, General Heuser, and Colonel Tillman expressed keen interest in the suggestion since they are anxious to find a satisfactory solution to the problem. I suggested that if the idea appeared to have merit from a practical standpoint, after careful study in the War Department, and if the Treasury should agree, the matter might be discussed jointly by the War Department, Treasury, and the General Accounting Office. In considering the procedure, I stated that there should be weighed the effect on the morale of the soldiers and their families, and the saving in administrative expenses against the probable loss which the Government might sustain. In this connection there is for consideration the fact that the saving of administrative expenses and manpower would undoubtedly outweigh the loss, if any, which might occur.

The suggestion is this: Instead of posting the earliest pay roll first, to be followed by the separate posting of each subsequent roll, we would take the most recent pay roll. In every case where the bond deduction as shown on the most recent pay roll is exactly the same as the deductions which had been made consistently on earlier pay rolls, we would assume that all of the intermediate deductions are the same, and bonds would be issued accordingly. This might take care of 75 to 90 per cent of the load. This would leave the other bonds to be taken care of under the present or modified procedure. This latter group would contain a large number of cases where the bond deductions are only \$1.25 a month, on which the soldiers would not be entitled to bonds until a future date.

I informed General Loughry that the Treasury would give him all the help that it could in the way of clearing any changes in accounting procedure with the Comptroller General. Also, if they would agree to some change in procedure, I would make available for a reasonable time one or two of my best men who could serve in an advisory capacity, directing or organizing work, where necessary, or in training new and inexperienced employees.

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Incidentally, General Carter has assigned three men to go through the Bond Issue Office for the purpose of determining what steps might be taken to clear the situation up.

The other day, when I called at Colonel Tillman's office, I learned that arrangements had been made to return civilian accounts to several of the arsenals for the processing of bonds in the field. Yesterday afternoon I learned that General Carter is opposed to this movement on the grounds that it might delay the current issuance of bonds under the new decentralized program. It is my hope that General Carter will not insist upon this in the event the arsenal can assure the War Department that by taking over the cases prior to December 31, there will not result a delay in the issuance of bonds.

E. F. BARTELT

EFB:hbw 3/26/43

March 27, 1943

Conference in Secretary Morgenthau's Office  
March 27, 1943 - 12:15 P.M.

Present: Secretary Morgenthau  
Sir Frederick Phillips  
H. D. White

Sir Frederick Phillips asked to see Secretary Morgenthau to deliver to him a reply to the message Secretary Morgenthau had asked him to communicate to the Chancellor of the Exchequer with respect to the postponement of the publication of the Clearing Union plan. The Secretary saw Sir Frederick Phillips at 12:15 and Mr. White was present.

Sir Frederick handed the Secretary the appended letter which indicated that the British Government felt that they could not postpone publication of the Clearing Union plan because of the commitments that had already been made and the increasing public and parliamentary interest in the subject.

Secretary Morgenthau said that he believed it would have been better had as little publicity as possible been accorded the plan at this stage in the evolution. However, he was not surprised at the answer but he felt there was no harm in trying. He thanked Sir Frederick for the prompt response.

Secretary Morgenthau then told Sir Frederick that the President wished to handle the question of the dollar-de Gaulle franc rate himself. The Secretary said he had told Lord Halifax that it was his (the Secretary's) opinion that Lord Halifax should have taken the matter up directly with the President.

Sir Frederick said that his instructions had been to take up the matter with Secretary Morgenthau. The Secretary said that he had told the President of the contents of the letter which Sir Frederick Phillips had handed to him on March 24, a copy of which is appended, and the President had said he was going to take up the matter himself.

H.D. White

Attachments

*Copy given to Fox* 33

The Chancellor of the Exchequer thanks Mr. Morgenthau for his message, and has given the most careful consideration to the suggestion that the Clearing Union plan should not be published till after the experts have met in Washington. He entirely agrees that it is most important to avoid the impression that the two Governments are putting forward rival schemes, and that everything possible must be done to prevent opinion hardening in such a way as to make genuine agreement difficult.

Much as the Chancellor agrees with the ideas which motivated Mr. Morgenthau's suggestion, he is afraid that as a mere practical matter it would be quite impossible to put off publication for more than a week or ten days. Any longer delay would be bound to give rise to a series of Parliamentary questions asking why the plan had not been published in spite of the statements made by both the Prime Minister and the Chancellor; furthermore, as soon as the budget debates start in April, the matter will be pressed in debate. Public interest is considerable, and almost every day there are articles in the press which purport to describe the plan and the attitude of various parties to it.

The Chancellor feels, therefore, that things have gone too far for it to be possible for him to adopt Mr. Morgenthau's suggestion. The advantages of postponement would be outweighed by the suspicions and speculations which would arise if H.M. Government appeared unwilling to publish after the statements which have already been made; and these speculations would be bound to extend to the differences between the British and American plans.

In discussing the British plan, the Chancellor would make it clear that he is putting it forward simply as a basis for discussion side by side with any other plan. If he has to make any reference to the American plan he will only say that he has read it, that its objectives are the same as those of the British plan, and that it also has been put forward as a scheme framed by experts and as a basis for discussion.

Washington, D.C.,  
March 27, 1943.

Willard Hotel,  
Washington, D. C.,

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March 24, 1943.

Dear Mr. Secretary,

H.M. Government have given further consideration to the question of the Fighting French exchange rate, and as a result I am instructed to put to you their conclusions in the light of the present position, and to ascertain your views.

When the exchange rate of 200 francs to the pound (50 francs to the dollar) was fixed for North and west Africa, H.M. Government pressed the French National Committee very strongly to adopt this rate in their territories also, in place of the existing rate of 176 francs to the pound (43.80 to the dollar). In spite of repeated argument H.M. Government have failed to convince the Committee of the desirability of changing the rate at the present time. They state that the rate of 176 works well in their territories and that there is no technical reason for changing it; while any change would shake popular confidence in the franc in those territories by making people believe that it is not firmly linked with sterling but is at the mercy of political events.

The National Committee admit that it is inconvenient to have two different rates in French territory and state that the commission which they are about to send to Algiers for discussion will make every effort to reach a solution to this question as soon as possible in collaboration with the French North African authorities.

H.M. Government regret that they have been unable to achieve by persuasion our common aim - the establishment of a uniform rate of exchange in all French territories. As they see it, they now have two alternatives; to wait and give the French National Committee time to agree with General Giraud upon a uniform rate for all French territories, or to try to coerce the Committee now by threatening financial sanctions. This would mean a major dispute on a matter where our own agreement with the Committee leaves H.M. Government on doubtful ground.

The conclusion of the Cabinet, in which I am instructed to ask for your concurrence, is that we should wait the outcome of the forthcoming discussions in Algiers. H.M. Government would ask Mr. Macmillan, the Minister Resident in Algiers, to do all he can to secure that agreement is reached.

There is one point which I am asked particularly to put to you. Apart from the arguments mentioned above, H.M. Government feel that on a long view it would be disadvantageous to threaten

The Honourable  
Henry Morgenthau, Jr.,  
Secretary,  
United States Treasury,  
Washington, D. C.

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sanctions if the National Committee do not meet our wishes on the matter of the exchange rate, since they believe that we should support the general principle that rates of exchange should be settled by agreement in the spirit of collaboration established by the Tripartite Currency Agreement of 1936; in the interests of future international cooperation on questions of this kind, they feel that our two Governments ought to do what they can to preserve this principle, even where its application proves temporarily inconvenient to us.

I shall be glad to know your views on the foregoing questions.

Yours Sincerely,

/s/ F. Phillips

(F. Phillips)

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

**SECRET**

March 27, 1943.

Dear Dr. White,

I promised you a short note on some of the points touched on in the discussion this morning.

The question of our balances cannot now unfortunately be considered without regard to the great changes which the course of the war has brought about. The general effect of these changes has been that we have of course very heavy liabilities, the magnitude of which could not have been foreseen in 1941 and which force of circumstances has prevented us discharging as they arose.

The greater part of these liabilities is to India, Egypt and other Eastern countries. We have used up the whole of our marketable investments in India, over \$1.2 billions, nevertheless the sterling balances of India and Egypt, to take those two countries alone, were already the equivalent of \$2.3 billions last December, and will reach about \$4 billions by the end of this current year. In the event of a continuance of the war throughout '44, the figure would be between \$6 and \$7 billions. The scale of expenditure which is almost completely determined by the course of the war cannot be dropped and may indeed increase later, particularly as a result of increased activity against Japan. For what proportion of these liabilities we shall ultimately find gold or dollars cannot at present be forecast, but that some proportion will have to be found in that way there can be no doubt. The proportion would depend on the extent to which these countries may desire in the post-war period to obtain goods outside the sterling area. The anticipated rise in our gold and dollar balances during the current year of about \$525 M. gives some moderate reserve against this future liability and we attach great importance to it since a definite fixation of our resources would immediately raise doubts as to our ultimate ability to supply such gold and exchange as may be necessary. The essential point is to postpone as long as possible any demands of which there are already signs that future purchases should be made in exchange for gold or dollars.

Apart from India and the Middle East there are debts to foreign countries carrying gold guarantees of about \$190 M. The greater part of this is due to Portugal. Ordinary financial prudence would counsel us to discharge these debts while we have the resources

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

C O P Y

- 2 -

and not incur fresh debts. Our balances would then stand lower. On the other hand I cannot think that it is in the real interests of the United Nations that we should make very large payments in gold during the war to Portugal, etc. Much better, while we can, make them keep their resources in the form of sterling balances which we can control. I am inclined to think that the proper course would be to display our balances to Congress nett on these particular debts which carry gold guarantees. /?

Then there are the sums which we owe to various of the United Nations for a variety of reasons. As a practical matter I think the only case where we should in any case consider payment in gold is in connection with debts of about \$100 M. which we owe to Norway and Holland for shipping services. Payment of these before the end of the war is perhaps doubtful wisdom. In any case it would only shift the problem of holding balances to the Norwegian and Dutch Governments.

There is also the question of the R.F.C. Loan. We should not, I think, contemplate repayment unless the proposition were put up from your side. For instance if you found it difficult to defend our paying off other debts without dealing with this one we would certainly consider the matter, but we should prefer only to pay part of the loan leaving the structure intact.

Yours sincerely,

/s/ F. Phillips

(F. Phillips)

March 27, 1948

My dear Mr. President:

After Cabinet, in the discussion which Cordell Hull and I had with you, you referred to the Treasury's attitude towards the dollar-franc rate in North Africa. I have reference particularly to the comment you made that the Treasury apparently favored a gradual reduction in the franc rate -- a course which would have been very profitable to the speculators.

I should like to make it clear that the Treasury at no time recommended a gradual reduction of the rate nor believed that such procedure was desirable.

I am sending you herewith a copy of a cable which we sent to General Eisenhower, on December 31, 1942, explaining our position in detail in regard to the dollar-franc rate. This cable expressed not only the Treasury's viewpoint, but also that of State and War. The Treasury position was arrived at after much discussion in which representatives of both State and War participated.

Yours sincerely,

(Signed) H. Mergenthau, Jr.

The President,  
The White House.

No. 4802

TO: Commanding General, EUROPEAN THEATER OF OPERATIONS

After careful study of all the facts and after the fullest discussion by interested departments of this Government, the exchange rate of 75 francs to the dollar was set. The objectives were to fix an exchange rate that would be in the interests of the people of French North and West Africa that would be fair to American troops stationed in these areas and that could be expected to be maintained. It is our considered judgment that the rate of 75 francs to the dollar is more likely to achieve these objectives than any rate that sets a higher value on the franc, particularly the pre-war rate of 43.90 francs to the dollar. It appeared to us wholly unreasonable and impracticable to fix and maintain in French North and West Africa the exchange rate of 43.90 francs to the dollar which prevailed before the war and which was confirmed by the French exchange control regulations of September 3, 1939. In view of the changed conditions, particularly in the past two and one half years, the economic basis for this rate has entirely disappeared. (Reference your radio #3561, December 30, our SPBFN)

French North and West Africa have undergone a very considerable inflation which makes the pre-war exchange rate completely untenable. Because of the close monetary ties with continental France all of the areas of French North and West Africa have been affected by the extreme inflationary forces operating in continental France. The exploitation of the economy of French North and West Africa for the benefit of the Germans contributed further to the inflation in these areas. Other local conditions of an inflationary character have also

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## S E C R E T

tended to reduce the value of the franc in French North and West Africa. A rate that would have set a higher value on the franc than 75 francs to the dollar would have increased immeasurably the difficulty of maintaining stability of the exchanges and the administration of exchange control. Black markets would inevitably have developed to take advantage of the disparity between the official rate and the real value of local currency. The wider the disparity between the official rate and the rates prevailing in the black market the greater the incentive to evade the established controls and to deal in the black market. It is clearly preferable to establish an exchange rate that can be maintained without the use of unnecessarily repressive measures.

With an exchange rate of 75 francs to the dollar the controls recently instituted in French North and West Africa should succeed in reducing black market operations and other evasions. It is not in the immediate or future interests of the people of France and the French empire to establish an exchange rate that does not reflect the real value of the franc and which cannot be maintained without severely disturbing the economic balance. It is important to stress that after hostilities cease a rate of 75 francs to the dollar can contribute more actively to industrial, financial and business recovery in France than a rate of 43.90 francs to the dollar. A grossly overvalued franc will inevitably pave the way for serious depreciation after the war at the very time when France would be most eager to manifest strength in her currency rather than weakness. It would appear that if a further adjustment of the franc rate becomes necessary after the war because of basic disequilibrium it should then be possible for France to make the requisite adjustment either upward or downward from a rate of

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75 francs to the dollar with less disturbance than from a rate of 43.90 francs to the dollar.

It is possible that economic conditions in some of the smaller French colonial areas could justify a higher value for the local franc in such areas than 75 francs to the dollar. We are not fully enough informed on this point to express a definite view. However, it is hardly likely that during the past two and one-half years these areas have been subjected to any considerable extent to the inflationary forces resulting from German occupation of continental France. Some of these areas have been covered by the credit and financial agreements with Great Britain which have added to the strength of their currency. Under any circumstances the rate of exchange in such colonial areas cannot be a significant factor in the determination of an appropriate rate for French North and West Africa. Because of the great role of French North and West Africa in the economy of the French Empire it is of the utmost importance to set the exchange rate for the franc on the basis of economic and monetary conditions in these central areas rather than on conditions in colonial areas of small economic importance. (For Eisenhower signed Marshall)

Moreover an additional factor which the Army would probably wish to consider is that it would be wholly unfair to American troops stationed in French North and West Africa to require them to accept and use a local currency considerably overvalued in terms of the dollar. In justice to these men the established rate must reflect as far as possible the real value of the local currency in which they are paid and with which they must make their purchases. If the rate of 43.90 francs to the dollar were in

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## S E C R E T

effect, the American soldier receiving any part of his pay in French North and West Africa would get for it little more than half of its real value. It would not be long before the American soldier would become aware of that fact. He would feel that he was being unfairly treated by his own Government and he would tend to lose confidence in those responsible for such arrangements. The difficulties of such an overvalued currency, the hardships imposed on American troops using such a currency and the ill-will engendered under such circumstances are clearly evident in other countries where that situation prevails. The determination of the exchange rate for French North and West Africa was made with the fullest consideration for the well-being of the French Empire whose cooperation we seek and whose interests we defend. We find it difficult to understand how any one fully cognizant of all the factors in the situation could regard a rate of 43.90 francs to the dollar or any other rate that places a higher value on the franc preferable to the rate of 75 francs to the dollar.

Marshall

(4)

S E C R E T

What the President said was that the Treasury wanted to go from 75 down to 50 by steps which would have given the speculators a chance to make a lot of money. It just isn't so and I want to clear this up with the President.

March 27, 1943

Dear Cordell:

I am sending you herewith confidential correspondence that I have had with the President today.

Yours sincerely,

(Signed) Henry

Honorable Cordell Hull,  
Secretary of State.

By SA Agent 1:40 3/27/43

Copies in Diary

(enclosed cable to Eisenhower 12/31/42, and ltr. of 3/27/43 to Pres.)

March 27, 1943

My dear Mr. President:

After Cabinet, in the discussion which Cordell Hull and I had with you, you referred to the Treasury's attitude towards the dollar-franc rate in North Africa. I have reference particularly to the comment you made that the Treasury apparently favored a gradual reduction in the franc rate -- a course which would have been very profitable to the speculators.

I should like to make it clear that the Treasury at no time recommended a gradual reduction of the rate nor believed that such procedure was desirable.

I am sending you herewith a copy of a cable which we sent to General Eisenhower, on December 31, 1942, explaining our position in detail in regard to the dollar-franc rate. This cable expressed not only the Treasury's viewpoint, but also that of State and War. The Treasury position was arrived at after much discussion in which representatives of both State and War participated.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,  
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No. 4802

FO: Commanding General, EUROPEAN THEATER OF OPERATIONS

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Marshall

(4)

S E C R E T



THE SECRETARY OF STATE  
WASHINGTON

March 30, 1943

Dear Henry:

I am glad to have a copy of the confidential correspondence with the President regarding the North African dollar-franc rate which you sent me by letter of March 27.

Sincerely yours,

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

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

## UNITED STATES TREASURY WAR FINANCE COMMITTEE

BULLETIN  
March 27, 1943

Publicity Directors, War Finance Committee:

In order that we may have samples of promotional and informative literature used by each Federal Reserve District in the April drive, I would appreciate it if you would arrange to send us copies of the material used in your district.

This material should include sales manuals, booklets, leaflets or stuffers, containing descriptions of the securities in the April drive and any other helpful advertising pieces.

Please send six copies each of this material to:  
Charles A. Capek, Technical Assistant, Office of the Secretary,  
Room 196, Main Treasury Building, Washington, D. C.

Later on, I would appreciate your comments on the effectiveness of any particular part of this material.

Stuart Peabody  
Head Advertising Specialist

ADV-8



DEPARTMENT OF STATE  
OFFICE OF FOREIGN RELIEF AND  
REHABILITATION OPERATIONS

WASHINGTON, D. C.,

March 27, 1943

PERSONAL

Dear Henry:

I send you herewith copy of the correspondence between the President and myself. I am sure that you will be interested in reading it. Thanks again.

Yours,

*Truman*

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



COPY

March 13, 1943

My dear Mr. President:

When I accepted the appointment as Director of Foreign Relief and Rehabilitation I understood that an Executive Order would be issued defining my responsibilities and authority. I have been here now for three months and despite my urgent requests for such an order and assurances that it would be forthcoming none has as yet been issued.

The public which assumes that I am operating with adequate authority and you as well as The Congress will hold me responsible for relief and rehabilitation. Actually I am without any official authority and my duties and powers have never been defined. Nor have I been able to ascertain how the necessary funds will be made available.

My relations with other agencies have been on a purely personal basis and their judgments and decisions rather than my own have been controlling. As a result my dealings with them and also with foreign governments have grown increasingly difficult and complicated while my own organization is becoming confused and discouraged.

The problem of foreign relief and rehabilitation is not only one of the most important but one of the most difficult tasks confronting us. Under the best of circumstances the planning and administration of relief and rehabilitation will tax to the utmost the ability and energy of any organization. If the program is to be conducted with any degree of success it must have the full and carefully coordinated support of all governmental authorities as well as of the public.

For

The President,

The White House.

-2-

For these reasons I feel it important at this time again to bring the matter to your attention and to urge that the order for which I have so frequently asked, and without which my work is seriously hampered, be issued as promptly as possible.

As you know, on the invitation of the British Government and with your approval, I plan to visit London as soon as possible in order to discuss with the British and other authorities questions of mutual interest and concern regarding relief and rehabilitation. Unless there is an official recognition of my authority and responsibilities and some agreement on the policy of this Government, I am afraid that my trip may be not only fruitless but might conceivably lead to misunderstandings and serious embarrassment.

In all the circumstances I hope you will see your way clear to issue an order covering my work.

Faithfully yours,

HERBERT H. LEHMAN

COPYTHE WHITE HOUSE  
WASHINGTON

March 19, 1943.

My dear Governor:

Pending the working out of final plans with our allies, I should like to define the scope and duties of your work as Director of the Office of Foreign Relief and Rehabilitation.

You are authorized to plan, coordinate, and arrange for the administration of this Government's activities for the relief of victims of war in areas liberated from Axis control through the provision of food, fuel, clothing, and other basic necessities, housing facilities, medical and other essential services; and to facilitate in areas receiving relief the production and transportation of these articles and the furnishing of these services.

In planning, coordinating and arranging for the administration of the above mentioned work, you may utilize the facilities of the various government departments, agencies and officials which are equipped to assist in this field and you may issue to them such directives as you deem necessary to achieve consistency in policy and coordination in administration. You may also utilize the facilities of such private organizations and individuals as you may find helpful in your work.

Your operations in any specific area abroad will, of course, be subject to the approval of the U. S. military commander in that area so long as military occupation continues, and in matters of general foreign policy you will be guided by the directives of the Secretary of State.

Your work in the field will likewise need to be geared to that of our allies in accordance with agreements reached with regard to the administration of such functions in each area. Should a United Nations organization be established for providing relief and rehabilitation to victims of war, the Office of Foreign Relief and Rehabilitation will need adjustment to facilitate that arrangement to the maximum extent possible.

- 2 -

On your organization rests a grave responsibility and challenging opportunity to facilitate the progress of the war and to relieve the deep suffering of those under Axis domination. I assure you of my full cooperation and that of Federal agencies in fields related to your own.

Very sincerely yours,

/s/ Franklin D. Roosevelt

Honorable Herbert H. Lehman,  
Director, Foreign Relief and Rehabilitation Operations,  
Department of State,  
Washington, D. C.

FROM: MR. SCHWARZ'S OFFICE

TO: The Secretary

Steve Early has not released this letter. I obtained a copy, however, from Tom Reynolds of the Governor's office. He asked that we consider it as restricted until it appears in the State Department Bulletin in about two weeks.

ca 3/27

THE WHITE HOUSE  
WASHINGTON

March 19, 1943

COPY

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Very sincerely yours,

/s/ FRANKLIN D. ROOSEVELT

Honorable Herbert H. Lehman  
Director, Foreign Relief and  
Rehabilitation Operations.

NEW YORK  
**Herald Tribune**

MAR 25 1943

## Lehman Power In World Relief Is Made Clear

Roosevelt Writes to Him;  
 Capital Surprised as Other  
 Agencies Fail to Object

By Bert Andrews

WASHINGTON, March 24.—This capital was treated today to a development so unusual that it had veterans of the Battle of Washington hunting frantically through clipping books in search of precedents that just didn't exist.

The unheard-of episode, in which former Governor Herbert H. Lehman of New York was the central figure, found one government agency taking over powers that two other agencies might have felt partly entitled to, only to have the two others declare that they didn't have any kick coming and saw nothing whatever to fight about.

This unheralded appearance of an unruffled dove of peace in a city where such doves usually look as if they had got caught in the middle of a championship badminton game came to attention when it was learned that Governor Lehman, as head of the Office of Foreign Relief and Rehabilitation Operations, had received a letter from President Roosevelt.

**Gives Power to Lehman**

The letter has the effect of an Executive Order and empowers Mr. Lehman to issue such directives to other government departments and agencies as he considers necessary to assure full coordination of foreign relief activities. The only strings are that relief operations in any specific area must be approved by military commanders as long as the area is under military occupation, and shall be guided in matters of general foreign policy by Cordell Hull, secretary of State.

The letter served to clarify Mr. Lehman's authority as compared with the Lend-Lease Administration and the Board of Economic Warfare, and because of that it promptly aroused dark suspicion among the battle's veterans. They had heard (1) that since most of the food, clothing and other relief supplies for Mr. Lehman's work would come from lend-lease funds the Lend-Lease Administration was anxious to administer the dis-

tribution of the supplies and had made detailed preparations to do so, and (2) that the B. E. W., which is engaged in war-time trade operations, also wanted a measure of control over the relief activities.

So it was that the veterans visualized—until a check showed they were wrong—such headlines as "OFFPRO Trounces BEW and LLA" and "Lehman Wins Row With Stettinius (Edward R. Jr., of lend-lease) and Perkins (Milo, of B. E. W.)"

**Lend-Lease Satisfied**

However, an inquiry at lend-lease brought the unequivocal statement that that agency has co-operated fully with Governor Lehman, has found pleasure in so doing and intends to keep right on doing it. At B. E. W. a spokesman said that foreign relief wasn't B. E. W.'s baby, except where it might be tied up with labor hired on B. E. W. development operations intended to help bring back strategic materials from abroad, and that anyway there was no quarrel and would be none between O. F. F. R. O. and B. E. W.

Elsewhere it was learned that the President's letter, the text of which was made available, merely establishes for the first time a line of demarcation for O. F. F. R. O. in the field of relief operations.

It defines the scope and duties of Mr. Lehman's work, authorizing him to plan and coordinate arrangements for the administration of American activities for the relief of war victims in axis-occupied areas as they are liberated. Specifically, the letter directs Mr. Lehman to arrange for the provision, production and distribution of such basic necessities as food, fuel and clothing and such essential services as housing and medical care. He is authorized to make use of the facilities and personnel of any other government department or agency equipped to assist in this field, through such directives as he may issue.

The battle veterans acknowledge that such directives may lead to trouble later when they get too specific. But right now—no fight.

FROM: MR. SCHWARZ'S OFFICE

TO: The Secretary

George Wanders says that he had been away from his office on Thursday, that he had not even heard or been asked about the supposedly "hot" rumor, that it sounded to him like one cooked up just before market closing. He is going to some quiet checking in his office and will let us know anything he gets. He says his editors should have known better than to query Washington, that he, too, was amused by the attention they gave it in view of the work that needs to be done in the immediate future.

② 3/27

March 27,  
1943

Ted Gamble

Secretary Morgenthau

I don't know what the arrangement for music is at Carnegie Hall for the night of the 12th, so I would like to make this suggestion. If they could get together two or three Army bands, enough to fill the orchestra pit, and then ask Stokowski, the leader of the Philadelphia Orchestra, to lead these combined bands. And you might discuss this with Roy Welch, and then discuss it with me.

Before you ask Stokowski, you better make sure that a civilian can lead the Army band. And it might be a rather novel idea to have part Army and part Navy, getting part from Governors Island and the Navy band from the Brooklyn Navy Yard - and have the two together.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 27, 1943

TO The Secretary  
FROM Ted R. Gamble

The purpose of this memorandum is to outline as briefly as possible the Advertising Section's newspaper operation — both on the continuing campaign and on the Second War Loan Drive.

## THE PROBLEM

1. Getting the best possible ads prepared.
2. Getting these ads as widely used as possible.

Problem #1 has been effectively dealt with. We went to the Advertising Council and through them secured the services of the best copywriters and art directors in America. Members of the Treasury's Advertising Section and policy-making officials meet with these people periodically to determine policy and they then write our ads. The ads are then sent out on a regular weekly schedule to newspapers which request them.

Problem #2, getting widest possible use of the ads, is harder. But we now get approximately 1,400 War Bond ads every week. No other Government department or private advertiser, so far as we know, has a newspaper campaign that is even slightly comparable. It is our belief that Treasury newspaper advertising space is at least 15 or 20 times that of O.W.I. and all other Government departments combined.

What are the steps we took, beginning last September to attain this coverage?

1. Members of Callahan's Advertising Section went on tours throughout the country, calling on newspaper ad managers — who, in the last analysis, are the key men who either go out or don't go out and sell our ads to local sponsors
2. They interested the ad managers in securing War Bond ads, and in turn learned many things from them — for example, that the most successful operation was where newspapers went out and sold War Bond ads on a 52-week basis.

-2-

3. One of the best of these 52-week plans was the St. Louis Globe-Democrat plan (see copy attached). They got this paper to print, at their expense, 2,000 copies of a prospectus explaining this plan, and mailed to every daily newspaper in the country. As a result, approximately 200 papers in the country now have similar long-term plans -- including important centers like New York and Boston.
4. They became closely affiliated with the Newspaper Advertising Executives Association (composed of 450 leading ad managers). Peter Odegard spoke at their convention last fall, and they in turn appointed a Treasury Advisory Committee which has proven very helpful in securing sponsorship.
5. They asked the Association to recommend an outstanding man to work for us by calling on newspaper ad managers -- and secured Don Bridge, former ad manager of the New York Times. Since January he has spent his time calling on ad managers, speaking at Press Association meetings, etc.
6. Designed an "appreciation card" to be sent to local sponsors.
7. Worked closely with State Administrators -- had them call on papers in their states, etc. -- and they were very effective.
8. Secured Meyer Both service to send out our ads, without cost to the Treasury, to its list of 4,500 newspapers.
9. Influenced Metro service, again without cost, to send our ads to its 2,000 papers.
10. Utilized Editor & Publisher, Western Newspaper Union bulletin, and many other trade magazines and association bulletins to hammer our message home to newspapers.

- 3 -

Report from Mr. Lane of the Advertising Department, specifically concerning the April Drive.

SECOND WAR LOAN

The Second War Loan ads have all been prepared (by Young & Rubicam, Ruthrauff & Ryan and Albert Frank-Guenther Law) and are now in production. As for usage of them, we believe that they will be used even more widely than anything we have ever done before. In addition to all our usual activity outlined previously, we are taking the following special steps:

1. We have arranged with Western Newspaper Union to borrow the full-time services of their 34 branch managers throughout the country for a period of 10 days. These men, experienced newspaper salesmen, will aid materially in securing sponsorship.
2. Secretary Morgenthau's wire to publishers.
3. Western Newspaper Union has circularized every daily and weekly newspaper in the country, urging them to order the ads (see attached).
4. Meyer Both and Metro are servicing the ads, without cost to us, to their 5,700 newspapers.
5. All continuing plans such as the St. Louis plan, the Boston plan, the Cleveland plan, the New York plan (see attached) will be turned over to this drive.
6. We have already wired the 186 leading newspaper ad managers and have written to many more.
7. The latest issue of the Ad Managers association bulletin was devoted to War Bond advertising. Irving Buntman, secretary of the association, has written to the members concerning the Second War Loan, and next week Bill Ellyson, the president, will follow up with a wire.
8. Preston Reid, head of the Financial Advertisers Association, is wiring his 600 members, urging sponsorship of these ads.
9. The next issue of Editor & Publisher will have as its lead article a piece by Don Bridge on how to sell War Bond advertising. Other trade publications are also being covered.

- 4 -

10. A portfolio is being mailed out to national advertisers.
11. A meeting has been held with 25 mid-western newspaper representatives to plan cooperative soliciting of national advertisers. A similar meeting is planned for New York.
12. We are planning to borrow six or eight crack newspaper ad men to use as trouble shooters if the need arises.
13. Proofs of all ads are being sent to banks.
14. A note on each proof says it is one of the most important ads ever sent out by the Treasury (attached).
15. The American Bankers Association is sending out a portfolio to all members.

\* \* \* \*

Also attached herewith is a recent article in Printer's Ink (advertising trade bible) which describes our continuing newspaper operation in somewhat more detail ... and refers to the overall Treasury advertising operation as the greatest and most successful in history.



# Urges Selling War Bond Ads On a Long-Term Schedule

Special Consultant with Treasury Says Drop One-Time "Special" Selling . . . Not a "Tin Cup" Procedure . . . Dept. Appreciates Patriotic Ads

By DON U. BRIDGE

Special Consultant, U. S. Treasury Department



Don U. Bridge

Of this amount approximately one-third was invested in War Bonds by these members of the general public while the remaining two-thirds was represented by increases in holdings of cash, bank deposits, savings accounts, insurance or pension deposits, together with payment of existing debts.

The SEC stated that much of the large increase of about \$4,000,000,000 in cash and checking accounts involves "temporary and relatively unstable accumulations of funds which may at any time be diverted into consumption and other channels." These figures relate to the increment of only three months, including the

(Continued on next page)

Mr. Bridge, former advertising director of the New York Times, wrote the following article at the request of EDITOR & PUBLISHER. The largest government financial operation in history will be launched April 12 for the Second Victory Drive for 13 billion dollars presenting unusual usage opportunities.

**MORE THAN 4,000** newspapers of the United States are publishing War Bond advertising. Scores of them have obtained an adequate number of sponsors to justify a full page a week for a year or for the duration—and others are now engaged in a selling campaign on that basis. Many more will do so. Some newspapers have sold as many as two, three or four pages a week for a year, while many others have schedules of 25 to 52 full pages.

The most successful operations follow an obvious pattern. It is not the size of the city or the circulation of the newspaper or the degree of prosperity of the local community. There are examples of outstanding success among large and small newspapers, among daily and weekly publications; among those published in defense areas and in communities where business conditions are normal.

### Long Term Schedule

The pattern of success is a plan, tailored to fit local conditions, under which a long-term schedule is sold in one operation. The solicitation is removed from the classification of one-time "special" selling and elevated to the plane of a constructive, consistent schedule of essential and productive advertising.

The sale of War Bond advertising is not a "tin cup" or "black jack" procedure. Even if a prospect erroneously inquired upon considering it as such, the solicitation would be justified. We are doing many things to win a war of survival that are not a part of our normal daily life—including killing. What, in comparison, is the payment of a few dollars a week or a month to help sponsor War Bond advertising, even if the prospect does not abnormally participate in signature pages; even if he does not reap immediate personal business results from the advertising?

Many newspaper men fully recognize the vast difference between this advertising and the usual type of "special pages." Advertising of the "tin cup" variety presumably is copy that holds limited interest to readers

and offers no return to those who pay for the space. War Bond advertising, when sold constructively, will stand up under analysis on this basis.

Was there ever an advertising campaign that carried a message of more vital concern to newspaper readers?

There are business reasons that justify investment in War Bond advertising. In fact, the motives for buying and for selling this advertising are identical. They combine elements of both patriotism and profit. Here are a few obvious ones:

1. Winning the war is vital to the survival of your business.
2. Financing of the war is primary. It is the basis of all war efforts.
3. War Bonds and Stamps must be sold in tremendous volume to the public to control inflation. That control is essential to the stability of business.
4. Consistent and extensive local newspaper advertising with its complete coverage, extraordinary influence in its territory, and excellent record of

productivity is necessary to obtain adequate sale to the public.

2. Purchase of War Bonds and Stamps will build a tremendous reservoir of reserve buying power that can sustain and stimulate business after the war. Much is correctly said about the tremendous volume of deferred buying that is accumulating. Less is said about whether the public will have the money at that time to satisfy these demands.

3. It is advantageous to advertising media and to sponsors to continue to demonstrate that the necessary billions of dollars of War Bonds can be sold to the public through the selling and advertising processes.

4. Participation in advertisements of War Bonds and Stamps is goodwill advertising inserted under most favorable conditions.

The Securities and Exchange Commission estimated that in the last quarter of 1942, savings of individuals and unincorporated businesses in this country were about \$10,000,000,000.

## Newspapers Mobilize For Second Victory Drive

WASHINGTON, March 25—Accepting as a job of the press, "the responsibility for persuading our people to put their surplus funds into the safest investment in the world—government bonds," representatives of America's newspapers have formed an Allied Newspaper Council to support the Treasury's \$13,000,000,000 Second Victory Drive which will be launched April 12.

The Council came into existence as a result of a conference here last weekend to which newspaper executives came at the invitation of Secretary Henry Morgenthau, Jr.

Both editorial and advertising support were pledged to the Treasury, the latter to come from donated space and commercially sponsored copy rather than from government-paid advertisements.

Meeting with the newspaper representatives were officials of the Treasury, Federal Reserve System, and the Office of War Information.

"Goal of the meeting," said the Treasury announcement, "was a comprehensive program for newspaper and advertising participation in the war financing drive."

That statement was supplemented

by a release from the Council membership saying: "Everyone present was tremendously impressed with the magnitude and importance of the task which lies immediately ahead. This money can be raised only through investment in more government bonds by every man, woman and child.

"It is a job that must be accomplished on the home front if we are to bring the war to an early and successful conclusion."

Representing the newspaper business were Walter M. Dear, president of the American Newspaper Publishers Association; John S. Knight, vice-president and Basil L. Walters, secretary of American Society of Newspaper Editors; E. S. Friendly, New York Sun; Chester LaRoche, The Advertising Council, Inc.; E. H. Abela, president of National Editorial Association; A. C. Hudnut, president of Inland Daily Press Association; O. G. Andrews, president of the New England Daily Newspaper Association; Charles P. Manshig, president of Southern Newspaper Publishers Association; W. M. Baskerville, Hearst Publications; Frank E. Gannett, president of Gannett Newspapers; Roy D. Moore, vice-president and general

manager of Brush-Moore Newspapers, and state administrator for Ohio of the War Savings Staff, H. W. Stodgell, of the Philadelphia Bulletin.

Government officials present, in addition to Secretary Morgenthau, were Vice-Chairman Ronald Ransom of the Board of Governors of the Federal Reserve System; Gardner Cowles, Jr., domestic director of the Office of War Information; James C. Rogers, Jr., of the Office of War Information; Under Secretary of the Treasury Daniel W. Bell; Assistant Secretary of the Treasury Herbert E. Gaston; William M. Robbins, Chairman of the Treasury War Finance Committee; Theodore R. Gamble and George Buffington, Assistants to the Secretary of the Treasury; Stuart Peabody, advertising specialist for the Second War Loan drive; Wesley Lindow of the Treasury's Division of Research and Statistics.

Following the Treasury meeting, the Council issued a statement calling for support of the Bond drive by newspapers and the public, and a communication was addressed to publishers and editors, bespeaking their cooperation.

Before the drive is launched officially, Secretary Morgenthau will send a message to the newspapers.

The Treasury will enlarge its file of available mats and copy material as a result of the appeals to be made by publisher groups, anticipates the requests for this service will be doubled next month.

## UNITED STATES TREASURY WAR FINANCE COMMITTEE

March 27, 1943  
Bulletin No. 2

C O R R E C T I O N

Mr. Robbins' Bulletin No. 2, dated March 9, 1943, Item 8, Page 2, refers to two types of Manuals. The first, for those who will solicit banks, security dealers, insurance companies and large investors, is already in your hands. The second, for small investors, had to be eliminated because of pressure of time and will not be produced.

There will, therefore, be only one Manual.

Stuart Peabody,  
Head Advertising Specialist.

WFC-2

## FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Page 1

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

Marketable issues:

Market purchases 1/..... +  
Market sales 1/..... -  
Direct purchases from Treasury +  
Maturities..... -

Special one-day certificates 2/:

Net increase..... +  
Net decrease..... -

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

STRICTLY CONFIDENTIAL

Last Week										Index	Description	This Week																	
Monday		Tuesday		Wednesday		Thursday		Friday				Saturday		Full Week		Monday		Tuesday		Wednesday		Thursday		Friday		Saturday		Full Week	
Mar. 15	16	17	18	19	20							Mar. 22	23	24	25	26	27												
I. Summary																													
Marketable issues:																													
Market purchases.....																													
Market sales.....																													
Direct purchases from Treasury.....																													
Maturities.....																													
Special one-day certificates:																													
Net change.....																													
Total net increase (+) or decrease (-).....																													
Wednesday report of total portfolio.....																													
II. Taxable securities																													
Title - all issues combined:																													
Market purchases.....																													
Market sales.....																													
Maturities.....																													
Total net increase (+) or decrease (-).....																													
Certificates:																													
.65% C - 5-1 43.....																													
7/8 B - 8-1 43.....																													
7/8 D - 11-1 43.....																													
7/8 E - 12-1 43.....																													
7/8 A - 2-1 44.....																													
Special one-day certificates.....																													
Treasury notes:																													
3/4 D - 3-15 45.....																													
1/4 D - 3-15 44.....																													
1-1/4 C - 3-15 45.....																													
3/4 B - 12-15 45.....																													
1 A - 3-15 46.....																													
1-1/2 B - 12-15 46.....																													
Treasury bonds:																													
2% 3-15 46-50.....																													
1-1/4 5-15 48.....																													
2 5-15 49-51.....																													
2 3-15 49-51.....																													
2 12-15 49-51.....																													
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2-1/4 5-15 51-55.....																													
2-1/2 3-15 56-58.....																													
2-1/2 5-15 56-58.....																													
2-1/2 12-15 61-64.....																													
2-1/2 3-15 61-64.....																													
2-1/2 5-15 67-72.....																													
Guaranteed securities:																													
CCC 1-1/8 D - 3-15 45.....																													
RFO 1-1/8 Y - 7-15 43.....																													
RFC 1 N - 4-15 44.....																													
All taxable securities:																													
Marketable issues:																													
Market purchases.....																													
Market sales.....																													
Direct purchases from Treasury.....																													
Maturities.....																													
Special one-day certificates:																													
Net change.....																													
Total net increase (+) or decrease (-).....																													

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

Original figures revised.

\* Less than \$50,000.

1/ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day.  
2/ Transactions are entered as of the day following that to which they apply, since data are not available until the following morning.  
Notes: Data are rounded and may not add to the totals.

Regraded Unclassified



# GIVE THEM THE AX!

(By Baer)



March 27, 1943

MEMORANDUM TO: Mr. Thompson

FROM: Mr. Gamble

Mr. E. H. Letchworth succeeded in contacting Congressman Taber at Auburn, New York, yesterday morning. As an old-time friend, and in view of the fact that Mr. Letchworth's law firm has handled some clients in common with Mr. Taber, he was able to place the conversation on the basis of a friend, greatly interested in the War Savings work.

He apprised Congressman Taber of the fact that he, Mr. Letchworth, had first-hand, intimate knowledge of the effectiveness of all materials currently being distributed by our organization. He told him of the work of the thousands of volunteers in Upstate New York, and the fact that any curtailment of our program would result in these people being deprived of the tools with which to do their job. Mr. Letchworth granted that there may have been some excesses at the beginning of our program when we were trying to acquaint every man, woman and child with the War Savings securities and the objectives to be achieved through their sale. He discussed in detail the handling of materials to newspapers and told the Congressman that, while a few papers might not use all the materials that we sent them, that the net result was of indispensable value to the promotion of our program.

The Congressman's reaction at first was that he was certain that there had been waste, and that he believed our budget could be cut without ever seriously affecting the distribution of materials. The Congressman further stated that if he seriously believed that the cut in our budget would handicap us in any way, he would not insist on the cut. However, he ventured the opinion that we could cut our personnel sufficiently to have all of the funds we needed for printing and binding.

The Congressman made some ambiguous reference to all of our W.P.A. writers, etc., that could be lopped off the payroll.

-2-

Mr. Letchworth talked to him at great length and the net of their conversation was that Congressman Taber finally agreed that he would reconsider the position he had previously taken when the bill comes back to the House.

Mr. Letchworth, knowing Mr. Taber as he does, advised me that he was quite pleased with the results of his talk, even though he was not able to get the Congressman to say definitely that he would favor the reinstatement of the \$1,600,000.

I do not think we could have obtained a better person to talk to Congressman Taber and while I have my fingers crossed on just what he will do, I think we were wise to pursue the Secretary's suggestion and I believe we have done some good.

MAR 27 1943

My dear Mr. Secretary:

I have your letter of March 24th, and am in entire accord with the policy set forth for the employment in the Departmental Service of injured officers and enlisted men qualified for civilian service.

Inasmuch as appointments in the Departments are subject to Civil Service regulations, I offer the suggestion that you arrange with the Civil Service Commission for the establishment of an eligible register of such persons, from which selections for appointment could be made. It would furnish an excellent source for recruitment and you may count upon my entire cooperation in the matter.

Sincerely,

(Signed) H. Mergenthau, Jr.

Honorable Frank Knox,

Secretary of the Navy.

Photo file in Diary

File to Thompson

WNT:cf  
3-27-43

THE SECRETARY OF THE NAVY

WASHINGTON

March 24, 1943

My dear Mr. Secretary:

On February 23, I received from the President a letter, copy of which is attached.

I have adopted a policy for the Navy Department in accord with the views expressed by the President. It is my belief, however, that additional outlets for injured officers and men might be found in other departments of the Government. Will you not give this thought some consideration and advise me of your conclusions. For the most part, these young men who suffer injury in the combat forces are of superior quality, especially the reserve officers and many of the enlisted men. The average of education and intelligence among enlisted men in this war is immensely higher than hitherto in the armed services. This being so, I believe to recruit permanent employees for your Department from these men would not only serve a most commendable and patriotic purpose but would also provide you with men for permanent employment of a high rate of ability and education.

I shall be much interested to hear from you after you have given this matter a little study.

Yours sincerely,

Frank Knox

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

Enclosure

THE WHITE HOUSE

WASHINGTON

February 23, 1943

Dear Mr. Secretary:

It has occurred to me that our dependence upon highly trained specialists for the successful prosecution of the war suggests that perhaps we should make a completely fresh study of whether an injured officer or man should be surveyed and retired or whether, in spite of bodily injury, his knowledge and skill may continue to be of value to the Service.

Some maimed men might be excellent instructors, and others might be able to continue active service in spite of an injury that heretofore may have been considered a sufficient cause for medical survey. It may be that each case should be judged on its merits, depending upon the nature of a man's knowledge and skill, the nature of his injury, and the extent of his incapacity for his own specialty.

By the exercise of judgment we may be able to save for the Service many invaluable men who otherwise might be retired, and we may save the individual from the painful thought that he is no longer of value to the Armed Services.

I will be obliged if you will consider the above, and let me know what you think about it.

Cordially yours,

/s/ Franklin D. Roosevelt

The Honorable Frank Knox  
Secretary of the Navy  
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

MAR 27 1950

TO Secretary Morgenthau

FROM Randolph Paul

My memorandum of March 8 reported the termination on March 1, at the request of the State Department, of the monthly licenses which provided for the provisioning of Martinique. Foreign Funds Control is advised that foodstuffs and other goods originally intended for shipment to Martinique and Guadeloupe have, at the direction of the State Department, been requisitioned by the Board of Economic Warfare and turned over to Lend-Lease Administration for sale and distribution in the Netherlands West Indies. Goods previously purchased under the Martinique agreement and intended for French Guiana are now reported to be en route to that area. As you know, French Guiana, hitherto under the jurisdiction of Admiral Robert in Martinique, broke away from Robert's jurisdiction on March 17.

Treasury Department  
Division of Monetary Research

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11/18/42  
Date.....19

To: Mrs. McHugh

This letter to Mr. Casaday was prepared in response to the Secretary's request of Nov. 16th.

L. Shanahan

*1/15 - White says Casaday still working on this*

*In 3/27/43-*

MR. WHITE

Branch 2058 - Room 214½

NOV 18 1942

Dear Mr. Casaday:

Secretary Morgenthau wants you to prepare a report on the Women's Land Army which will present a comprehensive picture of the organization and its activities.

Suggesting a method of dealing with the subject, I would say that detailed information should be obtained on the structure of the Army, its purposes and functions, giving primary attention to the manner in which it actually works and to its role in the agricultural labor market. In these connections you would want to determine the reasons for the creation of the Army, and to secure material on recruitment, qualifications, and training programs.

The Secretary has directed that you visit one of the field units, in order that you may obtain information for a first-hand description of day-to-day activities, and that you find out what the wage scale is. Investigation of this latter subject should be extended to cover hours and other conditions of work. Of equal interest would be information on the occupations filled by the women, the lines of agricultural production in which they are engaged, and the size of farms on which they are employed. Attention also should be given to living conditions and to the leisure-time or social activities sponsored by the organization.

Any impressions or concrete information you may be able to secure on the discipline of the Army, the degree to which its labor force potential is utilized, and the productivity of its members compared with that of men and women in the civilian segment of the agricultural labor supply would be useful in evaluating the Army's effectiveness in the war effort. Cable the Secretary summaries of your progress and follow it by airmail with a more detailed report as you did in the case of your previous reports.

I am hoping that you have already sent to me by airmail the detailed record of the conversation we had with British Treasury officials at the British Treasury on subject of the British dollar position. Also send a memo on how British are financing the war that you were preparing and you might also write up the conference we had at the Ambassador's office with Keynes and Phillips.

I have the Secretary's approval to send you Snider as your assistant and will arrange for him to go if he is acceptable to the Ambassador.

Sincerely,

(Signed) H. D. White

H. D. White,  
Assistant to the Secretary.

Mr. L. V. Casaday,  
American Embassy,  
No. 1, Grosvenor Square,  
London, E. 1.

WOOD:rl  
1/18/42

*Miss Chauncey*

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**TREASURY DEPARTMENT  
OFFICE OF THE SECRETARY**

March 27, 1943

**CONFIDENTIAL**

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended March 17, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

*(init) JWH*

inc:3/27/43

C  
O  
P  
YFEDERAL RESERVE BANK  
OF NEW YORK

March 25, 1943

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended March 17, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,  
Vice President.

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

Enclosure

Copy:imc:3/27/43

FRANCE AND FINANCE ACCOUNTS  
(in Millions of Dollars)

Week Ending

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)							BANK OF FRANCE					
	Total Debits	D E B I T S			Total Credits	C R E D I T S			Net Incr. (+) or Decr. (-) in \$ Funds (d)	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in \$ Funds (d)	
		Gov't Expenditures (a)	Transfers to Official Canadian Account	Other Debits		Proceeds of Sales of Securities (Official) (b)	Transfers from Official Australian Account	Other Credits (c)					
First year of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3 (f)	1,095.3 (f)	+299.0
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+125.9	18.5	4.4	- 14.1
1942													
Sept. 1 - Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	57.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-
1943													
Dec. 31 - Feb. 3	168.6	20.9	125.0	22.7	58.9	-	-	8.0	50.9	-109.7	-	-	-
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.0	105.8	+ 33.6	-	-	-
WEEK ENDED:													
1943													
22	14.1	3.1	7.4	3.4	30.3	-	-	10.0	20.3	+ 16.2	-	-	-
29	14.2	4.7	3.0	6.3	20.2	-	-	5.0	15.2	+ 0.0	-	-	-
5	0.3	3.7	-	2.5	8.1	-	-	-	8.1	+ 1.8	-	-	-
12	8.1	3.0	-	4.5	12.5 (h)	-	-	-	12.5 (h)	+ 4.5	-	-	-

See attached sheet for footnotes.

Average Weekly Expenditures Since Outbreak of War  
France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) \$27.6 million  
England (June 20, 1940 to March 12, 1941) \$54.9 million  
England (since March 12, 1941) \$23.7 million

- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941.
- (h) For monthly breakdown see tabulations prior to October 8, 1941.
- (i) For monthly breakdown see tabulations prior to October 14, 1942.
- (j) Inclusions:    .9 million    debt for credit of U.S. armed forces abroad.  
                   .1 million    proceeds by British Ministry of Supply  
                   .1 million    transferred from New York accounts of British authorized banks

PERIOD	DEBITS						CREDITS			DEBITS						
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C			Net Incr. (+) or Decr. (-) in \$ Funds <sup>(a)</sup>	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds <sup>(a)</sup>
						For Own A/C	For French A/C	Other Credits								
First year of war war period through December, 1940	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
Second year of war**	460.4	-	460.4	460.0	246.2	3.4	123.9	21.5	+ 1.6	72.2	16.7	25.5	51.2	62.9	10.3	+ 9.0
Third year of war** 1942	525.8	0.7	525.5	565.3	198.6	7.7	-	360.0	+ 60.5	107.2	57.4	42.8	112.2	17.2	95.0	- 5.0
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	10.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	30.8	24.4	-	-	66.4	+ 24.7	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30 1941	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
Dec. 31 - Feb. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 104.0	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
<b>WEEK ENDED:</b>																
March 24	4.9	-	4.9	13.8	-	7.0	-	6.2	+ 4.9	10.0	10.0	-	2.5	-	2.5	- 7.4
March 3	12.8	-	12.8	15.3	-	3.0	-	12.2	+ 5.1	5.9	5.0	0.9	1.0	-	1.0	+ 4.9
12	3.3	-	3.3	19.1	-	-	-	19.1	+ 15.8	0.4	-	0.7	2.7	-	2.7	+ 2.0
17	17.1	-	17.1	9.5 (b)	-	-	-	9.5 (d)	- 7.6	1.3	-	1.3	3.3 (e)	-	3.3 (a)	+ 2.0

**Weekly Average of Total Debits Since Outbreak of War**

through March 17, 1942. million

\*For monthly breakdown see tabulations prior to April 23, 1941.

\*\*For monthly breakdown see tabulations prior to October 8, 1941.

\*\*\*For monthly breakdown see tabulations prior to October 14, 1942.

(a) Reflects changes in all dollar holdings payable on demand or maturing in one year.

(b) Does not reflect transactions in Treasury bills. (c) Includes 10.9 million transferred to New York account of Minister of Finance and Receiver General of Canada.

(d) Includes 23.9 million deposited by War Supplies, Ltd.

(e) Includes 23.0 million credited to Australia for account of Government of United States to be applied against U.S. currency and Treasury checks negotiated.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

March 27, 1943

FROM Frances McCathran

## CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax Legislation - Whether any significant progress was made in the House of Representatives yesterday in the second day of the "Battle of Taxes" is a question of debate. Chairman Doughton, leading advocate of the Ways and Means Committee plan and Representative Ditter charged heatedly that the other was playing politics in bitter verbal exchange yesterday, but both agreed later to erase their remarks from the record. As proponents of all three major plans claim to have the necessary support lined up and as others claim that none of the proposals has majority backing, the general consensus of opinion in the House would be difficult to calculate. Before the voting actually begins, moreover, some of the "borderline cases" may shift their views, thus upsetting any preliminary predictions. However, at the moment support appears to be veering toward some form of compromise plan such as the Forand-Robertson method, branded by some as "socialistic," or the "second Doughton plan" which would cancel half a year's tax instead of the full year of forgiveness of the Carlson version. Perhaps the most serious charge leveled at the Ways and Means plan in the discussion yesterday was Representative Dewey's claim that the discount features of the plan would undermine the whole war financing program. A wealthy investor, according to Dewey, would get a higher "interest rate" by cashing in his government bonds and paying his taxes ahead of time. "We should look with grave concern," he added, "on any plan that will unsettle the security market which the Secretary of the Treasury has already announced will have to absorb 13,000,000,000 in government securities during the month of April." Whether other financial experts consider this feature of the Ways and Means proposal a serious threat to financial stability has not been determined, however.
2. Farm Parity - The Administration gained a point and lost a point yesterday in its fight to prevent any radical changes

in farm prices which would upset the whole anti-inflation program. On the "plus" side, the Senate yesterday voted to recommit the Pace Bill (farm labor costs in parity) to the Agriculture Committee for further study. One view of this action is that the farm bloc wishes to leave the matter undecided until after the Lewis coal mine strike issue has reached a settlement, thus absolving the farming elements from any charge of starting an inflationary spiral. However, on the "minus" side of the ledger, the Senate passed a House amendment to the Bankhead Bill, making the measure an amendment to the Price Control Act. This would limit the application of the bill, originally submitted as permanent legislation, to the duration of the war and six months after. The Bankhead Bill, which would prevent the deduction of any government subsidies in farm parity calculations, would increase the annual cost of food by 2 billion dollars, according to OPA estimates.

NOT TO BE RE-TRANSMITTED.

RECEIVED TREASURY DEPARTMENT  
55 6 MAR 55  
SECRET  
J.S. SECRET  
MILITARY MOST SECRET  
OPTTEL 101

Information received up to 0700/27th March.

1. NAVAL.

On 25th/26th, a Naval Albacore probably sank an E-boat off Dieppe. An Allied French escort vessel was torpedoed and sunk yesterday North West of Oran.

2. TUNISIA.

8th Army. During 24th/25, our Infantry occupied further ground South of the Wadi Zigzaou and about 3 miles East of the main road. The road Medenine-Halluf-Bir Soltane is now in our hands. Captures up to 24th - Prisoners: about 100 officers and 2700 other ranks; Guns: 57; Tanks: 30 captured or destroyed.

U.S. Sector. 25th. In the morning a light enemy attack against the U.S. Infantry Division was repulsed. U.S. armoured forces made further attacks on enemy positions in the pass 7 miles East of Maknassy, strong enemy air reaction to this operation.

Burma. Some Japanese troops have crossed the Mayu River 12 miles North of Rathedaung and on 26th our forces were engaging about 300 enemy.

3. AIR OPERATIONS.

Western Front. 26th. Fighters and fighter bombers attacked transport and other objectives in Northern France and Belgium. 2 electrical transformer stations were seriously damaged and several locomotives destroyed or damaged.

26th/27th. Following aircraft despatched - Duisburg 457 (4 missing and 2 in the sea); Leaflets 5. There was thick cloud over Duisburg. The first sky-marker flares are reported to have been dropped about a quarter of an hour late and were scattered. The glow of several fires was seen through the clouds.

Tunisia. 24th. U.S. heavy bombers attacked shipping at Ferryville and hit 1 medium and 2 small ships. U.S. medium bombers attacked 2 airfields destroying several aircraft on the ground. Fighters and fighter bombers effectively attacked M.T. and tanks in the battle area. At night 132 bombers attacked enemy concentrations South of El Hamma.

25th. Two airfields were attacked by light bombers, tanks and camps in the battle area were continuously attacked by fighters. During these operations enemy casualties - 17 19, ours - 9 nil 8.

Italy and Sicily. 24th/25th. Liberators attacked the train-ferry terminus at Messina dropping 21 tons.

25th/26th. A Mosquito machine gunned and damaged 4 electric trains between Rome and Naples.

Burma. 24th/25th. Liberators dropped 8 tons on Toungoo airfield.

25th. 6 enemy bombers attacked 1 of our airfields South of Chittagong and damaged 5 aircraft on the ground.

NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRETU.S. SECRETOPTEL NO. 104

The following is supplementary resume of operational events covering the period 20th to 27th March.

1. NAVAL

NORTHERN WATERS. Tirpitz, Scharnhorst, Lutzow, Nurnberg probably concentrating NARVIK area. Four German destroyers now based BORDEAUX.

MEDITERRANEAN. Reports received of three ships sunk by H.M. submarines in addition to small craft.

U-BOAT WARFARE. Heavy attacks on homeward bound convoys NORTH ATLANTIC by 30 to 40 U-boats probably largest concentration used up to date. Week ending 24th March, 40 attacks on U-boats so far assessed of which 6 considered promising. Between 28th January 19th March U.S. Authorities estimate 1 Japanese submarine sunk 4 probably sunk 1 damaged.

SHIPPING CASUALTIES. During the week 20 to 26 inclusive 16 ships reported attacked by submarines and aircraft. In a NORTH ATLANTIC convoy 1 British ship reported two weeks ago torpedoed and one newly reported have now sunk. In addition one SWEDISH and three British ships are overdue and presumed lost. In another convoy 1 British and 1 Greek ship reported torpedoed have sunk. A Panamanian ship, one of the 14 reported torpedoed last week in another homeward bound convoy has arrived undamaged. One outward bound British ship presumed torpedoed and sunk. A Norwegian ship reported 2 weeks ago torpedoed in ICELAND (C) area has reached NEW YORK undamaged and the 7 U.S. ships reported torpedoed in convoy East of GEORGETOWN have all reached port, 4 of them in tow. One Dutch ship torpedoed and sunk off BRAZILIAN coast, 1 Panamanian ship torpedoed and sunk off SOUTHWEST AFRICA. One U.S. ship reported attacked now known to have sunk in SOUTH ATLANTIC. One British ship reported last week torpedoed NORTHWEST of (YDERNA) foundered in heavy weather. Two Russian ships reported torpedoed and sunk in PACIFIC in mid February. Aircraft torpedoed 2 British ships in NORTH ATLANTIC, one which was in convoy sank. Off FRENCH NORTH AFRICA aircraft torpedoed 1 Norwegian tanker and 1 British ship and sank latter. In MEDITERRANEAN 1 British and 1 Greek ship sunk in harbour by air attack. One British ship in convoy off EAST ANGLIA sunk by mine.

FRANCE. Reconnaissance 13th TOULON showed that since 21st February 1 damaged cruiser has entered dry dock and 1 destroyer has moved from the roads to the port. Three submarines have arrived. By end of February estimated that not more than 380,000 tons (mostly unserviceable) of original 800,000 tons French shipping remained in French MEDITERRANEAN ports. Fourteen tankers totalling 95,092 tons have been transferred to Italian ports.

TRADE. Imports in convoy into U.K. week ending 20th 811,000 tons of which 260,000 oil.

2. MILITARY

TUNISIA. Although the frontal attack on the MARETH positions did not maintain the bridgehead obtained during the first 36 hours our intense air and artillery pressure had telling effect on the enemy. Weight of our attack was subsequently shifted to the left flank and this threat was assisted by the U.S. pressure from the North. No change number enemy divisions in TUNISIA. Estimated serviceable tanks approximately - CENTRAL TUNISIA, 70 German of which large majority believed on EL GUETTAR-MAKNASSY fronts, 50 Italian. SOUTHERN TUNISIA - 80-90 German. It appears that enemy forces now operating in NORTHERN TUNISIA are almost entirely infantry formations.

- 2 -

FRANCE. Recent reports German troop concentrations vicinity SPANISH frontier much exaggerated and not supported by reliable evidence. Believed three divisions (2 infantry and 1 reserve) and remnants one mauled Panzer division from RUSSIA in whole frontier area. Possible also area increasingly used for training. Rumours of extensive concentrations put out by enemy.

BURMA. Japanese battle casualties BURMA 1st October 1942 to 28th February 1943 estimated, by ground action killed 400, wounded 900; by air action, killed 600, wounded 600.

FINLAND. No activity has been reported in FINLAND apart from minor patrols since spring of 1942.

NORTH FINLAND. Area North of line KEMI-LOUHI occupied by 9 German divisions (4 mountain, 1 S.S. and 4 infantry). Supplies routed via PETSAMO and KIRKENES from NORTH and KEMI and OOUU from SOUTH. Bulk of latter routed via BALTIC to Finnish ports Gulf of BOTHNIA, then rail to ROVANIEMI, motor transport thereafter.

SOUTH FINLAND. Number of German troops negligible.

### 3. AIR OPERATIONS

WESTERN FRONT. Day. Very successful raid by U.S. heavy bombers on WILHELMSHAVEN Naval Dockyard, considerable damage in immediate vicinity BAUHAFEN and to deck buildings and stores. Good low level attack by Mosquitoes on NANTES locomotive works.

Night. Bomber Command flew 872 sorties and lost 7 aircraft. Operations curtailed by fog. Only 2 large operations ST. NAZAIRE believed very successful and DUISBURG very heavy attack. 58 enemy aircraft plotted over U.K. of which 11 destroyed, 6 of them crashed in this country on 24/25 from unknown causes in conditions of fog and low visibility.

TUNISIA. Air operations on very heavy scale mostly against GABES/MARETH area. Considerable success against enemy's tanks and M.T., particularly by Hurricane tank busters and Kittyhawks. Number of tanks destroyed and considerable number other vehicles destroyed or damaged. Many successful attacks on enemy airfields and docks. One large ship probably sunk off CAPE BON and 1 medium and 2 small ships hit off FERRYVILLE.

MEDITERRANEAN. Ship believed destroyer torpedoed. One ship of 8,000 and 1 of 5,000 tons torpedoed. One 1,000 ton ship set on fire and another large vessel hit. Aircraft from MALTA destroyed or damaged at least 30 locomotives in SICILY and SOUTH ITALY. Shipping in harbour at PALERMO bombed by a force of U.S. Fortresses with Lightning escort. Attack most successful and 12 intercepting enemy fighters destroyed.

RUSSIA. Air activity by both sides all along the front fairly heavy in spite of soft ground. Now seems clear that Germans in their recent DONETS counter offensive demanded and obtained an exceptional effort from their air force. Operations were sustained on a remarkable scale throughout. This indicates surprising recovery by German Air Force since, following the retreat from the DON and CAUCASUS, everything pointed to both its strength and serviceability having been seriously reduced. Renewed use of old bases occupied during previous winter and bad weather in January and February may have rendered possible a considerable amount of reorganisation and refitting. Nevertheless, a second period of rest and recuperation now seems necessary, particularly since more than half the total bomber and close support forces on the whole Russian front are believed to have been concentrated for the DONETS operations.

- 2 -

- 3 -

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

VEGESACA. Photographs taken after U.S. daylight attack 18th show that at least 1 shipyard known to be building U-boats was very heavily damaged.

MUNICH and NUREMBERG. German press announced extra fuel allowances for heating and lighting to families affected by the breakdown of the gas supply at MUNICH and extra food rations for the population of NUREMBERG after recent R.A.F. raids.

GERMAN CIVILIAN MORALE. Reports describe a growing dissatisfaction among the population of towns recently attacked attributable to two main causes.

- (a) Apparent inefficiency of German Air Force and anti-aircraft artillery in preventing success of our raids.
- (b) Remedial measures for homeless no longer adequate especially as regards replacement of furniture, household requisites and crockery of which there is a chronic shortage.

RAILWAYS. Reported that by middle of January locomotive losses from low-flying attacks in FRANCE, LOW COUNTRIES and GERMANY were averaging 150 per month; in FRANCE and BELGIUM these losses were being augmented by sabotage. In SICILY and SOUTHERN ITALY about 50 locomotives have been put out of action since January.

5. HOME SECURITY

Some scattered industrial damage chiefly on TYNESIDE and in NORFOLK, most significant incident at ASHFORD Railway Works on 24th. Estimated civilian casualties week ending 24th six A.M. killed two, seriously wounded 11.

COPY NO 13

NOT TO BE RE-TRANSMITTED

BRITISH MOST SECRET  
U.S. SECRET

OPTEL NO. 102.

Information received up to 7 a.m. 28th March, 1943.

1. MILITARY.

TUNISIA. 8th Army. 26th. In the Coastal Sector there was patrol activity further south. Indian Division made good progress towards the TOUJANE AREA taking many Italian prisoners. South-west of EL HAMMA excellent progress was made astride road by N.Z. Division supported by a U.K. Armoured Brigade. 27th. The advance towards TOUJANE was delayed by mines and enemy resistance but the Indian Division made good progress. South-west of EL HAMMA U.K. Armoured Forces advanced in the early morning and by 1145 A.M. some of them were reported 2 miles from the village. Mopping up operations by New Zealand infantry were taking place on the high ground and on DJEBEL TEBAGA against stiff opposition. U.S. Sector. Early on the 27th a U.S. attack reached an area 10 miles South-west of FONDOUK after meeting slight opposition.

2. AIR OPERATIONS.

WESTERN FRONT. 26th/27th. DUISBURG. 449 tons H.E. and 435 tons I.B. dropped including 145 4,000-lb. H.E. and over 14,000 30-lb. incendiaries. Bombing appears to have been dispersed over a wide area. Fairly severe heavy A.A. Searchlights ineffective. 27th. 5 Mosquitoes bombed Hengelo Engineering Works from low level. 27th/28th. Following aircraft despatched - BERLIN 396 (9 missing) Sea-mining 24, Leaflets - ORLEANS and ROUEN 4. Preliminary reports BERLIN complete cloud, route clear, but hazy over objective which was attacked by about 80 per cent of the force. Many fires reported over a large area of the city.

TUNISIA. 25th. 22 U.S. Fortresses bombed SOUSSE hitting one large ship. 25th/26th. 133 bombers dropped 182 tons on enemy concentrations around EL HAMMA. 23 Bisleys bombed and hit a train and fuel dump North of GABES and the docks at SFAX. 26th. 191 Fighters and Fighter Bombers attacked enemy concentrations around EL HAMMA, about 300 vehicles were destroyed or damaged. 13 of these aircraft are missing. Fuel installations and an airfield were also bombed.

BURMA. 26th. 12 Blenheims bombed MONYA on CHINDWIN RIVER and 5 Blenheims MAYU. Beaufighters attacked TOUNGOO AIRFIELD between RANGOON and MANDALAY. 25 enemy bombers attacked NAUNGDAW hitting an ammunition dump and petrol store.

March 29, 1943  
9:05 a.m.

INTERGOVERNMENTAL FISCAL RELATIONS

Present: Mr. Blough

H.M.JR: Roy, confession is good for the soul. You most likely know what I am going to tell you, but I haven't looked at this thing. (Indicating "Intergovernmental Fiscal Relations" report, Volume I.)

Isn't it best to start with me on page fifty-two?

MR. BLOUGH: I imagine so, because most of that was copied off and put in the press release and it is a sort of a short cut.

H.M.JR: Let me start reading and see what I don't understand.

"Summary of Recommendations in Terms of an Action Program for Each Level of Government. I. Federal Government. A. For immediate action. 1. Negotiate with State representatives and pass legislation to create a Federal-State Fiscal Authority."

MR. BLOUGH: I don't think that you need to take any position on any of these if you don't wish to, today. You could very well tell the press that you think this is an excellent report, that so far as the recommendations are concerned - they are recommendations to you - that they deserve very careful consideration; that many of them will be put into operation, but that this isn't the time to indicate just which ones you think are good and which ones you think are bad. I don't think that you have to take positions on all these things today.

H.M.JR: I will go through them with you.

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MR. BLOUGH: I think you should, but you don't need to take positions on them.

H.M.JR: "2. Amend the income tax law to make State income taxes deductible on an accrual basis even though other expenses are reported on a cash basis."

MR. BLOUGH: That is a minor point.

H.M.JR: "3. Revise, modernize, and broaden the death tax credit."

That is just bringing that up to date. They won't ask me on that.

MR. BLOUGH: I think the emphasis has all been placed on this number one - this Federal-State Fiscal Authority - to promote cooperation and promote Federal Government considering the States when it is passing legislation. They had in mind there a three-man body.

H.M.JR: I read that.

"4. Give the Federal estate tax a thorough overhauling, integrating death and gift taxes, substantially reducing exemptions and coordinating the Federal and State taxes.

"5. Eliminate tax-exempt securities in a manner to secure States and municipalities against loss arising from the taxability of their securities."

MR. BLOUGH: That device that is suggested in there is that the Federal Government might give the States a subsidy of, say, half a percent interest in order to make up for the half percent they may lose when tax exemption is taken away. It isn't made as an ironclad recommendation, but if a compromise is necessary, they suggest that.

H.M.JR: I don't think I need to take any position on that.

MR. BLOUGH: No.

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H.M.JR: "6. Defeat discrimination resulting from state community-property laws by providing that they shall not apply in the operation of Federal Tax laws.

"7. Provide a clearing house and 'board of appeals' (Federal-State Fiscal Authority) for more careful and consistent treatment of payments in lieu of property taxes on Federally owned property. Such payments should be generous, especially during the war.

"8. Provide a special joint committee of Congress to consider legislative proposals for payments in lieu of taxes; provide facilities for maintaining a permanent inventory of Government property."

"In lieu of taxes," what does that mean?

MR. BLOUGH: That is much similar to the previous one, that when we have these local housing projects, the Government takes over a cantonment, for instance, they make provision in lieu of taxes - they suggest a special joint committee to work on that so as to get it consistent.

H.M.JR: "9. Allow State sales tax application to contractors working on Government orders."

Are we for that?

MR. BLOUGH: We took the position in favor of this when the legislation to prevent it was up last year before Congress.

H.M.JR: This is in tune with what we did?

MR. BLOUGH: Yes, with what we did last year.

H.M.JR: "10. Modify and improve the coordination and efficiency in unemployment compensation by increasing the Federal credit from 90 to 100 percent and requiring the States to furnish part of the cost of administration."

"Federal credit," what is that?

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MR. BLOUGH: That really gets over into social security.

H.M.JR: If we start that, we would be here the rest of the day.

MR. BLOUGH: Absolutely.

H.M.JR: "11. Disallow sales taxes as a deduction in Federal income tax practice; if the deduction is retained, make it general and not conditioned upon certain technicalities in the tax law."

I understand.

"12. Pay more heed to cost of compliance in framing tax laws.

"13. Extend the Civil Service coverage to include all personnel engaged in Federal tax administration."

MR. BLOUGH: That means collectors and deputy collectors.

H.M.JR: "14. Consider the provision of a suitable bond instrumentality for the investment of State and local surplus funds during the war."

MR. BLOUGH: He points out in the footnote that that has been more or less taken care of already in this Victory Fund.

H.M.JR: (Continuing) "This might take the form of a non-negotiable bond redeemable after the emergency or upon a showing of war-created need, and to be matched by the Federal Government if used for approved public works.

"15. Continue and enhance cooperative efforts to improve State and local accounting and reporting; provide annual compilation of cost of government and total taxes.

"16. Expend more effort on Federal-State collaboration in the administration of overlapping taxes.

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"17. Repeal the automobile use tax, or, if it is retained, require receipt as a condition for obtaining a State license."

What does that mean?

MR. BLOUGH: You know our five-dollar sticker which we collect from some people and not from others - they would prefer it to be repealed; if retained, tie it in with the State license so we will be sure to collect all of it, making it prerequisite in purchasing a State license.

H.M.JR: My man on the farm made an interesting comment. He pays twenty-five dollars for a State automobile license. He said, "I can only use it one-tenth as much as I could, but my license is just the same. I don't get as much use, why should I have to pay as much? Why don't they reduce the prices?" He is right from his standpoint.

MR. BLOUGH: Yes, but they have less revenue from the cars on the road, but still have to keep the roads up - although somewhat less.

H.M.JR: I hadn't thought of it in just that way.

"18. Further promote better uniform governmental accounting and reporting.

"19. Assume the responsibility of annual calculation and publication of the over-all cost of government and other fundamental fiscal data."

That is all right.

"20. Cultivate an attitude which regards States and localities as partners in a joint enterprise."

That would be done through that committee?

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MR. BLOUGH: Yes.

H.M.JR: "B. For immediate or future action.

"21. Develop in consultation with the States, standard rules for income and death tax jurisdiction; develop suitable rewards for State compliance with these rules and other suitable procedures so that the Federal Government may serve as an umpire in multiple taxation disputes.

"22. Develop in consultation with the States rules of uniform income tax procedure; promote the adoption of such rules looking toward single administration of a relatively uniform State and Federal income tax."

MR. BLOUGH: That is so New York and Connecticut won't tax the same income or the same estate twice and to divide them equitably and get the same rules in effect throughout the United States.

H.M.JR: Definitely, throughout the United States.

"23. Adopt a Federal-Collection-State-Sharing program for the tobacco tax."

We collect it and pay a portion to the States?

MR. BLOUGH: Yes.

H.M.JR: "24. Enact legislation providing for Federal incorporation of corporations doing an interstate business.

"25. Provide distribution of welfare grants to the States through a graduated bracket system as suggested in Connally amendment."

MR. BLOUGH: That is the social security again.

H.M.JR: "C. For future action.

"26. Abandon motor vehicle taxes to the States reserving the right to tax motor fuel used in aviation."

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What the heck is that?

MR. BLOUGH: The Federal Government didn't formerly impose any gasoline tax. Now, their point is this, that for the future, when the revenue situation permits, let the Federal Government abandon the gasoline tax on motor fuel, and let it impose a gasoline tax on aviation fuel, and let the States abandon the aviation fuel taxation.

H.M.JR: Looking to the future?

MR. BLOUGH: Yes, this is for future action.

H.M.JR: "27. Inaugurate a thorough study of the cost of tax compliance and the burden of multiple taxation on interstate companies; reserve action on centralization of business taxes until this evidence is available.

"28. Use a public investment technique (if necessary) to cope with post-war deflation and unemployment; dual budget; creative public works (health, housing, nutrition, and regional development); full liquidation of outlays."

That is interesting. I think they will be interested in that.

"29. Reduce repressiveness of the tax system by de-emphasizing business taxes and by equalizing burden upon equity-financed companies compared with those financed by means of indebtedness (through a partial credit to the corporation for dividends paid out)."

MR. BLOUGH: That is your interest deduction - no, dividend deduction, so that the corporation that is financed through bonds is better off than the corporation financed through stocks.

H.M.JR: "30. Broaden Federal aid to include relief and elementary education.

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"31. Broaden the Social Security program to include uncovered groups under old-age insurance and unemployment compensation. This would not only provide more equitable coverage, but would also make possible some simplification of payroll taxes.

"32. Recognize a national minimum status for elementary education by provision of a differential (equalization) grant.

"33. Provide controls which will insure improvement in the division of educational revenues, local districting, and the quality of the educational product, at the same time insuring against coercive interference with local autonomy and minority views concerning education.

"34. Provide for Federal scholarships to insure the adequate development of talent through higher education.

"35. In the interest of simplification, repeal Federal liquor license fees retaining licenses where needed for administration."

MR. BLOUGH: That doesn't mean the liquor tax, but the dual set of licenses.

I would like, if I might say on a few of these social security ones, I think there will be a tendency for some of the reporters to try to tie this up with the National Resources Planning Board - cradle to the grave program.

H.M.JR: Cradle--

MR. BLOUGH: Don't you remember the cradle to the grave - they had a tendency, Saturday, to try to say this is just another aspect of the cradle to the grave program. While I think the cradle to the grave program is a very fine idea, yet I think it would be well to completely separate this from it, because it hasn't had a very good reception in some circles, and these are incidentals which they put in, which really don't relate to the main issue so much.

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H.M.JR: What is the collaboration between our group and the National Resources?

MR. BLOUGH: The only element of collaboration is the fact that Gulick has been in and out of both of them. On the other hand, Groves has been very much interested in these problems, personally, but he has had nothing to do with that study.

H.M.JR: I got a letter from Mr. Delano thanking me for what the Treasury staff had done to help them on that report. I don't know what we did - do you?

MR. BLOUGH: My guess is that that letter was more or less routine. We talked with Evelyn Burns, who headed up the report, on a number of occasions. I think we gave her access, or did give her some compilations we had made, but it was of a minor character. So far as I know, we did not give them any major help. It was consultation more than anything else.

H.M.JR: Didn't I ask the three of you to give me a history of the Treasury on inflation?

MR. BLOUGH: Yes.

H.M.JR: "D. Contingent action.

"36. If a Federal retail sales tax is enacted, provide legislative implementation and administrative action to insure the fullest cooperative use of State personnel and machinery.

## "II. State Governments.

"1. Negotiate with Federal representatives and collaborate in the development of a Federal-State Fiscal Authority.

"2. Negotiate with Federal officials and Congress to inaugurate a program for the elimination of tax-exempt securities in such manner as not to embarrass States and municipalities fiscally.

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"3. Tighten property exemption provisions; relax ceiling and uniformity requirements as to local property tax levies; develop more adequate supervision of property tax administration.

"4. In collaboration with municipalities, refrain from demanding unreasonable war time aid from the Federal Government, thus recognizing the importance of local independence.

"5. Apply surplus revenues, where possible, to the elimination of debt and the development of a reserve against war time loss of revenue and post-war need for public works.

"6. When revenues will permit, allow Federal income taxes as a deduction in calculating state income taxes.

MR. BLOUGH: They use this not only as something the Federal Government ought to be doing about it, but something the states ought to be doing about it, too.

H.M.JR: All right.

"7. Redouble attack on trade barriers, multiple taxation, and special inducements for the location of industry; use of education, reciprocal agreements, and interstate compacts toward these ends; pass legislation allowing credit to new residents for automobile license taxes paid in the same year to other States.

"8. Collaborate with the Federal Government looking toward Federal arbitration of jurisdictional disputes and joint determination and promotion of uniform practices in income and business taxation especially with regard to questions of jurisdiction.

"9. Further collaborate with the Federal Government in the joint administration of overlapping taxes.

"10. Adopt legislation on their own initiative that would make payment of Federal automobile use tax a condition for the receipt of a state license.

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"11. Mitigate the rotten borough system by providing more adequate representation for cities in State legislatures.

"12. Give more consideration to cities in the distribution of shared taxes, particularly motor vehicle taxes.

"13. Adopt enabling legislation that would permit cities to supplement the general property tax with a rental tax on occupiers.

"14. Adopt enabling legislation that would facilitate surplus financing during the war.

"15. Adopt legislation requiring more adequate and more uniform governmental accounting and reporting.

"16. Cultivate an attitude that regards all governments as partners in a joint enterprise.

"17. Collaborate with the Federal Government on a broader and more generous program of Federal aids, accepting controls, but insisting that they be cooperatively applied rather than dictated.

### "III. Municipal Governments.

"1. Negotiate with Federal representatives and collaborate in the development of a Federal-State Fiscal Authority.

"2. Negotiate with Federal officials and Congress to inaugurate a program for the elimination of tax-exempt securities that will not fiscally embarrass States and municipalities.

"3. In collaboration with States, refrain from demanding unreasonable war time aid from the Federal Government, thus recognizing the importance of local independence.

"4. Apply surplus revenues, where possible, to the elimination of debt and the development of a reserve against war time loss of revenue and post-war need for public works.

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"5. Broaden the property tax program by supplementing the property tax with a rental tax on occupiers.

"6. Strictly interpret property tax exemptions.

"7. Inaugurate a thoroughgoing study of possible new sources of independent local revenue.

"8. Study successful procedures for safeguarding reserve funds, and enact legislation needed for this purpose.

"9. Develop more metropolitan cooperation and the use of large metropolitan districts for financing functions of common interest.

"10. Emphasize raw material producing districts' claim upon aids and shared taxes because their tax base does not represent their contribution to the national product.

"11. Demand more equitable representation in state legislatures.

"12. Demand more equitable distribution of shared revenues, particularly motor vehicle taxes.

"13. Provide for more adequate governmental accounting and reporting.

"14. Cultivate an attitude which regards all governments as partners in a joint enterprise.

"15. Prepare for collaboration with the Federal Government in a post-war public investment program.

"16. Collaborate with the Federal Government on a broader and more generous program of Federal aids, accepting controls, but insisting that they be cooperatively applied rather than dictated."

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Now, doesn't this get down to this thing - have we sent this up to Doughton?

MR. BLOUGH: It is going today to Doughton and that group.

H.M.JR: And to George - that is the joint committee on taxation?

MR. BLOUGH: That is the chairman of the Senate Finance Committee and the Ways and Means Committee, and it is also going to each member of the committee.

H.M.JR: The Ways and Means Committee?

MR. BLOUGH: And the Finance Committee.

H.M.JR: Not to them as a joint committee?

MR. BLOUGH: No, but to the chairmen, as chairmen, and to the members, as members, of the committees.

H.M.JR: Now, they promised to publish this?

MR. BLOUGH: George and Doughton have been talked to and Stam asked a few days ago - he said, "where is that report? We were planning to publish that as a joint committee document."

It is our understanding they are going ahead and publish it. George promised that if a resolution was necessary, he would sponsor it, but he didn't think the resolution would be necessary.

H.M.JR: You couldn't find out before my press conference - contact either George or Doughton as to whether I could say that the committee will or won't publish it?

MR. BLOUGH: I think we could.

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H.M.JR: I want it at five to four.

Tell me about this committee. What is the main thing. What is the committee?

MR. BLOUGH: What they proposed was that the President should appoint a member, and the States, through some representative organization - Governors, or otherwise, set-up - should appoint a member, and those two should appoint a third member. That would be a Federal-State-Fiscal Authority. The Federal Government - the assumption would be - the understanding would be - that the financing would be joint, Federal and State, and that each State would make a contribution towards the financing of the organization. However, the Federal contribution would not be made contingent on the States, and would be what you might call a minimum financing for the committee, with the States then adding to it and making it more adequate.

The committee would have no administrative function, it would have no authority, really, of trying to order anybody to do anything, but its job would be to keep studying the problems and as opportunity came up, to get the Federal - well, the bureau of Internal Revenue, for example, together with State administrative organizations in a more close collaboration to do that - to keep an eye on Congressional committees. And when things which involve States came up, to use their good offices to point out the effect it would have on States and keep a similar eye on State legislative--

H.M.JR: They would have a staff?

MR. BLOUGH: A small staff. The intention would be not to have a huge organization. It was suggested a hundred and fifty to a hundred thousand dollars. You couldn't build a big staff at that.

H.M.JR: To whom would they be responsible?

MR. BLOUGH: They would be an independent body. They wouldn't be responsible in the sense of--

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H.M.JR: Would they be responsible to the President or to the Congress?

MR. BLOUGH: I don't think that is clearly pointed out. Whether there would be Congressional - whether the President's appointment would be subject to Senatorial confirmation, I don't think is contained in the discussion. That is considered a detail. Since legislation would be necessary in setting the thing up, Congress would be able to decide. I assume the Senate would confirm the President's appointment. They would be more nearly responsible to the President than to the Congress, the way they have set it up, but their idea wasn't so much that these people do things which involve any large sense of responsibility. It would be rather difficult to say just where they are responsible because they are to be a genuinely State-Federal sort of in-between body - liaison body. But the chief function is a continuing one - sort of being there and continuing.

H.M.JR: Clearing house?

MR. BLOUGH: Clearing house for information; get people together so they know each other better, and understand each other better, and to point out how the problem could be taken care of. And when a new one comes up like this automobile use tax, they would be ready to step in and suggest how the States and Federal Government might get together on it.

H.M.JR: Now, the President - the Congress would appoint what?

MR. BLOUGH: The President would appoint one, presumably with Congressional confirmation if the Senate - I mean if Congress wished it that way - and the States would appoint one.

H.M.JR: How in heck would they do that?

MR. BLOUGH: I think they wouldn't have any great trouble. They might, but I don't think they would.

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They already have a number of organizations. They have the Council of State Governments, which, however, is not a fully official governmental organization. They also have their Conference of Governors; and Gulick, who has been close to the Council of State Governments, didn't think there would be any great difficulty in their getting together on some type of representative determination.

H.M.JR: By that time I suggest that one by the Congress, instead of the third by those two.

MR. BLOUGH: Well, you see, the point of view they are working on is that the States have to feel they have a--

H.M.JR: The President could do one, the States could do one - I see.

MR. BLOUGH: The Congress is the Federal. The idea was, the third man ought to have at least some municipal interest so that municipal governments wouldn't feel too much out in the cold.

It may need confirmation, but I think it is a genuinely constructive idea which, over a period of years, would be really useful.

H.M.JR: I think I can get through it.

MR. BLOUGH: They are not expecting you to say you are in favor. They have been told you felt this was a good report and that the recommendations were to you, and that they were not to be considered as your recommendations.

You can go as far beyond that as you like, but that is the line we took with them on Saturday.

March 29, 1943

My dear Governor Edison:

I take pleasure in sending you, under separate cover, a copy of the Report submitted to me by the Committee on Intergovernmental Fiscal Relations.

Some time ago the President suggested that this Department investigate the problem of Federal-State-local fiscal relations in the United States. The growing conflict and duplication in our tax system called for a vigorous and comprehensive inquiry, preferably by a staff freed from all other responsibilities within the Department. Accordingly, I designated a committee, consisting of Dr. Luther M. Gulick, Director of the Institute of Public Administration, Dr. Harold M. Groves, Professor of Economics at the University of Wisconsin and a former member of the Wisconsin Tax Commission, and Dr. Mabel Newcomer, Professor of Economics at Vassar College, to examine and report on this problem.

The project was financed in part by special funds provided for this purpose by the Congress and in part by funds made available by the Institute of Public Administration.

The study was made within the Treasury and with the full cooperation of its responsible officers, but the findings and recommendations of the Report are those of the Committee and do not necessarily reflect the views of the Treasury Department.

The Report of the Committee makes an important contribution to the movement for the coordination of Federal-State-local fiscal relations and brings together a body of current information which, I believe, will be helpful to the Governors of the States, to Members of Congress, and to others concerned with this problem.

Sincerely yours,

(Signed) H. Mergenthau, Jr.

Honorable Charles Edison  
Governor of New Jersey  
Trenton, New Jersey

E-R:gb

Copy and list in Diary  
Copies to Thompson

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Copies of the Report are being sent to the members of your Committee and to the members of the House Ways and Means Committee.

Sincerely yours,

(Signed) H. Morgenthau, Jr

Honorable Walter F. George,  
Chairman, Finance Committee,  
United States Senate,  
Washington, D. C.

E-R:gr

List of Members of the Senate Finance  
Committee

~~Josiah W. Bailey~~  
~~Alben W. Barkley~~  
~~Hugh A. Butler~~  
~~Harry Flood Byrd~~  
~~Bennett Champ Clark~~  
~~Tom Connally~~  
~~John A. Danaher~~  
~~James J. Davis~~  
~~Walter F. George - See separate letter~~  
~~Peter G. Gerry~~  
~~Joseph F. Guffey~~  
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Members of H W & M  
Comm

House: My dear Mr. -

Senate: My dear Senator:

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Sincerely yours,

List of Governors of the States

<i>Ala.</i>	Chauncey M. Sparks
<i>Aris.</i>	Sidney P. Osborn
<i>Ark.</i>	Homer M. Adkins
<i>Calif.</i>	Earl Warren
<i>Colo.</i>	John C. Vivian
<i>Conn.</i>	Raymond F. Baldwin
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<i>N. C.</i>	J. Melville Broughton
<i>N. D.</i>	John Moses
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<i>Okla.</i>	Robert S. Kerr
<i>Ore.</i>	Earl Snell
<i>Penn.</i>	Edward Martin
<i>R. I.</i>	J. Howard McGrath
<i>S. C.</i>	Olin D. Johnston
<i>S. D.</i>	M. Q. Sharpe
<i>Tenn.</i>	Prentice Cooper
<i>Texas</i>	Coke R. Stevenson
<i>Utah</i>	Herbert B. Maw
<i>Vt.</i>	William H. Wills
<i>Va.</i>	Colgate W. Darden, Jr.
<i>Wash.</i>	Arthur B. Langlie
<i>W. Va.</i>	Matthew M. Neely
<i>Wis.</i>	Walter S. Goodland
<i>Wyo.</i>	Lester C. Hunt

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The study was made within the Treasury and with the full cooperation of its responsible officers, but the findings and recommendations of the Report are those of the Committee and do not necessarily reflect the views of the Treasury Department.

The Report of the Committee makes an important contribution to the movement for the coordination of Federal-State-local fiscal relations and brings together a body of current information which, I believe, will be helpful to the Governors of the States, to members of Congress, and to others concerned with this problem.

Sincerely yours,

March 29, 1943  
9:44 a.m.

HMJr: Dr. Cohen?

Dr. Nathan  
Cohen: Yes.

HMJr: This is Henry Morgenthau, Jr.

C: Yes, sir.

HMJr: We have a leased wire to New York so it's very inexpensive for me to talk to you.

C: Oh, I see.

HMJr: Mrs. Klotz talked to you about my wanting to get some girls to work on the farm this summer?

C: Yes.

HMJr: And she said that you wanted to ask me some practical questions, and she, not being a very good farmer, couldn't answer them.

C: I see. Well, the first question I wanted to ask you is this.

HMJr: Yes.

C: I was under the impression when she first called that you had wanted all the girls to come from the Y.W.A.J.

HMJr: No, that - no, that's not - that would not be necessary. I just thought of them as an organization.

C: I see. Well, let me ask you this. First, age. About how old would you want these girls to be?

HMJr: Well, I think they ought to be - what would you say, fifteen or sixteen?

C: Well, Children's Bureau puts that about as the age limit....

HMJr: What....

- 2 -

C: That's - the minimum.

HMJr: Yeah, as the minimum.

C: Yes.

HMJr: Whatever the minimum is.

C: Yes. Now what type of accommodations would they have at - on the farm?

HMJr: Well, we have one of two houses, we don't know yet which....

C: I see.

HMJr: ....where they would live and where there is bathrooms, and sanitary facilities, I mean, are perfectly....

C: And approximately what type of work would they be doing?

HMJr: Well, they'd start picking strawberries and then they'd go through the season and there're raspberries and there're beans, and then in the fall the big thing that we have is apples, which run until the first of November.

C: I see.

HMJr: But....

C: You would want, of course, somebody with them to sort of supervise and....

HMJr: I....

C: ....take care of their recreation program?

HMJr: Yeah, I definitely want what, for a better name, I call a house mother.

C: A house mother, yes.

HMJr: Yes.

- 3 -

C: Now the question of remuneration.

HMJr: Yes.

C: Have you worked out something along that line?

HMJr: Well, I'm a little bit vague on it. Last year we took this thing up -- I forget the organization that put these boys and girls into New England - hello?

C: Yes.

HMJr: But I will look up what they did - oh, I forget what they call it. They've been doing it for a couple of years - and I'll send you up - mail you today what their regulations were.

C: Uh huh.

HMJr: I forget, but as I remember it we have all the correspondence with them - I mean to New York....

C: Vermont outfit.

HMJr: Yes.

C: Uh huh.

HMJr: Are - are you familiar with that?

C: Yes, that was Dorothy Thompson's outfit.

HMJr: That's right.

C: Yes.

HMJr: But I - whatever it is, we corresponded and I'll send you their regulations.

C: Yes.

HMJr: Unless you have them.

C: Yes. Well, we've been using Children's Bureau rulings.

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HMJr: Well....

C: But it doesn't make much difference. I think they probably both are somewhat the same.

HMJr: Well, I'm a little vague on it myself.

C: Uh huh.

HMJr: But what I thought - where these others fell down was this. I mean they would only pay them so much, say for a quart of raspberries or strawberries that they picked....

C: That's right.

HMJr: ....and then there were certain days that they wouldn't - say it rained and these children wouldn't get it, and they'd be quite discouraged.

C: That's right.

HMJr: And I thought to overcome that -- this is just my idea -- that I would guarantee them a minimum wage for - say for six days.

C: I see.

HMJr: I - whatever would be fair, I was thinking of \$10 or \$12 a week, something like that.

C: That sounds good.

HMJr: I - I just don't know. I - I want advice. That's why I'm doing it through an organization of your....

C: I see.

HMJr: ....kind.

C: Uh huh.

HMJr: And this other organization I think - I don't know whether they made them bring their bed linen and towels with them or not, but I know that they wanted us to take out social security insurance and that sort of thing.

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C: That's right.

HMJr: And then I think the best way for everybody is that they form their own little organization and do their own cooking and feed themselves. I know they get fed much better that way....

C: Yes.

HMJr: ....than if we say we would board them - hello?

C: Yes.

HMJr: They do much better if they did their own cooking and feeding.

C: Would you want them to do their own purchasing of food?

HMJr: Well, I think the house mother - we could work it out - I mean....

C: I mean would you want them to take it out of their salary or....

HMJr: Yes, I mean....

C: You'd want to work the salary in such a way that they would sort of form a pool for their board.

HMJr: That's right, and that - I want to pay them enough so that they would break even if they didn't work.

C: I see.

HMJr: And then if they - I mean supposing they had two or three days of rain....

C: Yes.

HMJr: Well, I don't want the children out of pocket.

C: Yes.

HMJr: And I thought if we'd pay them, as I say, so much for the week, and then at the end of the week they'd get paid and if it was under the minimum, well, they'd just - could get paid whatever the minimum is for the week.

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C: I see. Well, I think the best thing would be this, if you would send me whatever you think you have on your experience of last year.

HMJr: Yes.

C: Let me draw up a tentative plan, on the basis of some of these things that you tell me....

HMJr: Yes.

C: ....and submit it to you....

HMJr: Right.

C: ....as a possible plan of procedure.

HMJr: You know, we didn't go through with it last year because this Vermont organization didn't come through.

C: I see.

HMJr: So we had simply many telephone conversations and correspondence, but they never gave us anybody.

C: Yes.

HMJr: Now....

C: Well, I don't think you're going to have any trouble getting anybody this year....

HMJr: Yes.

C: ....and, as I say, I'd be glad to work out a schedule and a plan, which I will submit to you, and then if you give us the "go ahead" signal, why, then we can start recruiting the - the group at the peak here....

HMJr: Yes.

C: .....as the - as a group, and then I think it will be much easier once they get up there.

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HMJr: Well, that - the thought - and then the other thought that I had is the time we need them the most is September and October when we're picking apples - hello?

C: Yes, September and October.

HMJr: Yes, and what I wanted was a sort of a bonus - accumulated bonus system, so much a day, which they would get if they stayed until the first of November, you see?

C: I see.

HMJr: Because in - we're really - what we're doing is - is to train them in the summer so they'd be there to help us in October and November.

C: I see. Now as I understood Mrs. Klotz....

HMJr: Yes.

C: ....you didn't want the entire group there at the start.

HMJr: No, no. I thought that we ought to start possibly, we'll say, with ten....

C: Yes.

HMJr: ....around the first of June, and then gradually build it up as we train the first ten.

C: Uh huh. Now do you have somebody there who will instruct these people?

HMJr: Yes, I have a very good man who works very - last year we had a great many high school children from Beacon.

C: Uh huh.

HMJr: Both boys and girls, and he worked very well with them, very patient, and handled these - these children extremely well.

C: Good.

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HMJr: And I mean....

C: I presume there are facilities there for a - some sort of a recreational program.

HMJr: No, this house mother would have to build that.

C: I mean there are things like a piano and things of that sort that would be available to....

HMJr: Well, we haven't got one but we could - we'll try to rent one. I - I....

C: I see.

HMJr: This is - I don't - well, those are all things I hadn't thought of, but we can do whatever is necessary.

C: I see. Well, would you be kind enough to send me whatever information you have....

HMJr: We'll dig out and we'll send you the original correspondence....

C: All right.

HMJr: ....laying down what they - their program.

C: And then supposing I submit a plan to you....

HMJr: Right.

C: ....indicating some of these things I think might be necessary in order to insure the - the youngsters staying on and perhaps being happy in the experience, and then if you okay the plan, why, we'll go right ahead.

HMJr: And then, as I say, the reason I'm coming to you people is that I want some parent organization that's going to take an interest, you see.

C: Yes, that's right.

HMJr: And I mean - last year the New York school system had a man who just - his job was to place people....

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C: Yes.

HMJr: ....I mean on the farms, but it was all done so wholesale that there was no personal interest, and then - well, I'd rather have Jewish children if I can get them.

C: I see, yes.

HMJr: And I don't think everybody wants Jewish children but I do.

C: Well, that's fine.

HMJr: So if I can get them, I - I'd like to have them.

C: Yes. Now let me ask you this, had you planned any special arrangement for the house mother?

HMJr: Well, I'd have to naturally pay her, but I don't know what it would be.

C: I see.

HMJr: And I'd like you to advise me on that.

C: All right, fine.

HMJr: Yes. But - and there'd be no objection if - from my standpoint, if the house mother was married. I mean sometimes they're much happier if they're married and can have their own small children around as to be an - an interest to her, you know, to....

C: Yes. Well, now that would mean that your house mother would be there approximately June through October.

HMJr: I think it's five months.

C: Five months.

HMJr: Yes.

C: Well, now we'll see what we can do on that. And I'll - as I say, once I get that correspondence I'll be happy to work out a plan and tell you immediately just how much we can do, what we can do, and make any suggestions that we can.

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HMJr: Well, Mrs. Klotz will send it out to you today.

C: All right, swell.

HMJr: Thank you so much.

C: Thank you, sir.

March 29, 1943  
10:00 a.m.

#### FINANCING

Present: Mr. Bell  
Mr. Buffington  
Mr. Gamble  
Mr. Graves

H.M.JR: Last night I talked to Allan Sproul, and he felt very cocky. He said, "Everything is going along swell. How are things between here and Washington?"

I said, "Very good, no complaints." I said, "How come this fellow Patterson made three billion eight statements?" He said that he was there when he did it. He doesn't know where he got it from, but he won't do it again. He thinks by the time the drive starts the people will have forgotten about it.

Then I went on to say that the labor people are under the impression that I have sold out to the bankers and would he therefore do everything he could to see that organized labor gets a front seat.

He said that he would, and that he would go to work and see that they didn't think so.

What I was going to do gradually over a period of time is call up all twelve of these fellows, when I get a chance, and have a little talk. It would be one way. I talked to New York. I will talk to Boston. Who is the fellow in Boston?

MR. BELL: Paddock.

H.M.JR: I just want to know whether there is anything doing in War Bonds - the second war bond drive - what is happening.

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MR. BELL: I got your memorandum to get out a telegram today, which we are now working on. I suppose it will be quite a job right in the midst of the drive, and they are probably going to kick on it.

H.M.JR: No. Listen, either they know who is chairman or they don't know, and I want the record.

MR. BELL: Sure.

H.M.JR: I don't care whether - I want to know so that when I sit down afterwards I will know in Cattaraugus County, New York, whether they are using a War Bond fellow or whether they are using a Victory Fund fellow. And when I get them all in - and another thing, this is a deep-dyed thing - they have got to come through and tell me if they are organized in every county. That is really what I am after - you see, Dan - and depending on when they get that plan in, then tell me when they are organized.

MR. BELL: You want to know the men who really head the drive in these particular areas. Sometimes they are called regional managers, and not chairmen.

H.M.JR: I want to know in each unit, whether it is a county or a city or half a State, who the man in charge is, and what he did in the December drive.

MR. BELL: If anything.

H.M.JR: If anything. Then they have to get it in; and if it doesn't come in, you and I will very quickly say, "Well, what is the matter? Aren't you organized? Why don't you send that plan down here?"

MR. BELL: I can ask them to send this by letter, say by the end of the week.

H.M.JR: Yes, tell them they should put it in the mail not later than Saturday, air mail special delivery. This is not all that it seems on the surface, Dan.

MR. BELL: I see what you are after.

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H.M.JR: Don't you think it is good, because if by Saturday they don't know, then it is up to some of us to get busy?

MR. BELL: Yes.

H.M.JR: I am asking for a map, and in each district, in each county, and in all twelve Federal Reserve Districts certainly by this coming Saturday night they ought to have somebody. Then I want to know - well, I mean, there is all this talk about Victory Fund. Let's see who the fellows are. Don't you think it is a good idea?

MR. BUFFINGTON: You want a map of their area - their district - broken down as far as they go, counties or whatever it is.

H.M.JR: That is what I asked for, a map by each Federal Reserve District, how they divided it up, and who is the boss in each of the areas.

MR. BUFFINGTON: That is fine. It is just a tabulating problem for them, because if they are organized they know who those people are.

H.M.JR: The fellow should have such a map in his room.

MR. GAMBLE: He ought to have it to take care of his communications.

H.M.JR: I will give them until Saturday night - I think I will give them until Friday night.

MR. BELL: To get it in the mail.

H.M.JR: Air mail Friday night. Now do you see, Dan? I mean, how do I know what is going on? I don't know; I don't even know whether they are organized or not. I may want to send out a few spot letters to some of these fellows direct. I may just look at the map and say - I am going to call up so and so in Idaho and say, "How are things going?" He will fall off his desk when he hears

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"This is the Secretary. How are they going?" (Laughter)  
I am serious; I am going to do a few spot checks. I mean,  
I sit here and nobody tells me anything. I am going to  
find out what is going on.

I tried to get Robbins in San Francisco, but I couldn't  
get him.

MR. BELL: Yesterday, you mean?

H.M.JR: No, Friday or Saturday - it was Saturday.

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

March 29, 1943  
10:04 a.m.

HMJr: Hello.

W. W. Paddock: Hello.

HMJr: Mr. Paddock?

P: Yes.

HMJr: Morgenthau.

P: Yes, Mr. Secretary.

HMJr: Well, how are you coming up in Boston? Are you going to sell some bonds during April?

P: (Laughs) Well, we hope to, yes.

HMJr: Well, how near are you ready?

P: Well, I think we're in pretty good shape.

HMJr: You do.

P: Yes.

HMJr: Well, what are - where are the rough spots?

P: Well, we - one thing that we're trying to work on now is something to start off with to give it a lift at the beginning - at the start.

HMJr: How do you mean? I don't follow you.

P: Well, to arouse some enthusiasm they've been - we've been talking of possibly getting the Army to send some planes over....

HMJr: Oh.

P: ....or have a parade here of tanks and Army equipment and so forth.

HMJr: Oh, you mean so - to start the drive.

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P: Yes, yes.

HMJr: Good, good.

P: Yeah.

HMJr: Do you need any help?

P: Well, I probably will write you in regard to getting permission for these planes to go over Boston and Providence and some of the other cities.

HMJr: Well....

P: I'll take that up with you probably within a day or so.

HMJr: Well, when you need us for help send us a telegram.

P: Yeah. We have discussed it with the commanding general of this area, and he seems disposed to help but there might be some hitch down below.

HMJr: Yeah.

P: And I'll let you know if there is.

HMJr: All right. How are things between you and Washington?

P: Oh, no difficulty that I know of.

HMJr: No difficulty.

P: Why, did you - did you think there was?

HMJr: No, the only way to find out....

P: Yeah.

HMJr: ....is to ask.

P: I see, yeah. But I thought you might have something in mind.

HMJr: No, no....

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P: Yes.

HMJr: ....but I just wanted to know whether there were any rough spots.

P: No, I....

HMJr: Now one thing I would like you to do for me though....

P: Yes.

HMJr: Hello?

P: Hello.

HMJr: And that is we've had several complaints from several States from organized labor that I've just sold out to the bankers because I put you presidents at the head of this drive, see?

P: (Laughs)

HMJr: Now the only way to overcome that is to make sure that in your district you consult and give a front row seat to organized labor, see?

P: Yeah, that's a good thing, yeah.

HMJr: So I wish you'd keep that in mind so that this thing doesn't grow.

P: That's right, yeah.

HMJr: Now I don't know what you're doing up there with organized labor, but please invite them in and make them....

P: Well, we've....

HMJr: ....feel....

P: ....got the men on our - on our radio program, have them right in with the rest of us.

HMJr: Well, be sure that, as I say, they have a front row seat.

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P: Yeah.

HMJr: Because after all we - well, we can't get along without them, that's all.

P: I know, sure. We got to have them all together.

HMJr: That's right.

P: Yeah, yeah.

HMJr: And that's the only definite suggestion I've got this morning.

P: Well, I - I expect to be in Washington either Wednesday or Thursday.

HMJr: Well, be sure and come in and see me.

P: I shall, and I want to see all of - see Mr. Robbins and Mr. Odegard and Mr. Buffington and all of them.

HMJr: Good.

P: And discuss the situation.

HMJr: Good.

P: All right.

HMJr: Thank you.

P: Well, thank you very much for calling, Mr. Secretary.

HMJr: And don't hesitate to call on us.

P: Thank you.

HMJr: Goodbye.

P: Yeah. Goodbye.

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(Mr. Graves entered the conference.)

H.M.JR: Who is the fellow in Richmond?

MR. BUFFINGTON: Hugh Leach.

H.M.JR: I am just checking up.

MR. GRAVES: On the labor thing?

H.M.JR: The whole thing. We are sending out telegrams asking them Friday night to put a letter in the mail telling us who is in charge of each district, what he did in the December drive, and "Please send me a map so I know by Monday morning who the salesmen are, who is in charge, and where they are" - each of the twelve districts. That means that by Friday night they have to be organized.

MR. BELL: You remember we sent out a telegram to all the radio stations to cooperate in this drive. I understand there are some replies coming back, and there is quite a bit of criticism of the fact that it was sent out in the form of a wire.

H.M.JR: I keep telling them not to send wires. I refused to send wires to the publishers of the newspapers; I wrote them a letter. I wouldn't do it. When I wrote to the newspapers I refused to send a wire; I knew I would be criticized.

MR. BELL: I raised this question at the time, and Robbins and Peabody said it was important to get them to stations at about the same time and important they begin to make their plans. The thing isn't expensive because it is decentralized. It isn't as expensive as it might seem on its face, but there is some criticism.

H.M.JR: How many?

MR. BELL: I don't know; you will find it in your weekly letter.

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There is another thing you ought to know about. There are two forms of solicitation here for advertising. One is sponsored by a concern and is deductible in the income tax as expenses, just the same as any other advertising, but each case is determined on its own merits, as to whether or not it is reasonable. That has been going on right along, but we have asked a good many times of the people asking for the sponsored advertising not to make any promises with respect to deductions from income taxes.

There is another form, which is cash contributions. That money is actually contributed to be spent in the campaign. Minneapolis, I believe, has collected over a hundred thousand dollars, and this is deductible - five percent in the case of corporations and fifteen percent in the case of individuals, including all other charitable contributions.

I think we ought to have some policy in connection with these memoranda going out, telling what the legal position is. I think one is that no promise of income tax deduction should be made in getting the sponsored advertising.

In the cash contributions they should go through the channel prescribed by the Second War Powers Act, that is, through appropriation channels. They should be covered into the Treasury, reappropriated, and then reallocated, increasing the allotments of the district, because that report has to be made to Congress. I would like to put that in the form of a memorandum.

H.M.JR: Who will that go to?

MR. BELL: That will go to the presidents of the Federal Reserve Banks.

H.M.JR: All right. Also to Frank Tripp, who is going to be here representing the newspapers. I asked you to be here when he comes in. I would give him a copy of that because they asked me to sign a letter to the publishers, which I refused to do. Has that gone out?

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MR. BELL: It hasn't yet. They are going to discuss it at ten-thirty.

Here is a letter to the governors which Mr. Peabody prepared. (Letter to the governors handed to the Secretary, copy attached.)

H.M.JR: Where is Robbins today?

MR. GAMBIE: In Los Angeles.

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

March 29, 1943  
10:14 a.m.

HMJr: Hello.

Operator: Mr. Leach in Richmond.

HMJr: Hello.

Hugh Leach: Hello. This is Hugh Leach.

HMJr: This is Morgenthau.

L: Yes, sir, Mr. Secretary. How are you?

HMJr: I'm all right. How are you coming along for the April 12th drive?

L: Well, we're doing fine. We've got a fine organization under way, and we are having meetings and working like the dickens, and we're getting a lot of enthusiasm, and the two organizations are working very well in our district. I have no trouble that way. We are integrating them without any trouble at all, and everything is going along fine.

HMJr: You're going to make your quota?

L: (Laughs) Well, we think it's - some of the people that we've talked with think it's rather big, but we'll do the best we can and I think we'll make it.

HMJr: Yes. But you're not....

L: We're going to get all the money there is, and if there's that much we're going to get it.

HMJr: I see.

L: Yes, there's quite a lot of enthusiasm. We've had several meetings, and there's more enthusiasm in it now than there ever has been. In North Carolina, particularly, we've got a fine start down there, and, oh, people are really going to get out and work in it this time, I think.

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- HMJr: Got any plans to - to start the campaign off?
- L: We have different plans in - in different places. I haven't a district-wide plan at the minute now.
- HMJr: Oh. One thing that's come up that you could help me on - help each other. There's been several reports from different States from organized labor that by giving this work to the presidents of the Federal Reserve Banks, why, I've just sold out to the banks, see? Now the way to overcome that is to be sure that in your district you invite organized labor in, you see, and give them a front row seat.
- L: Yes.
- HMJr: Be sure that you give them an op.. - every opportunity to cooperate.
- L: Yes.
- HMJr: I don't know what you're doing down there, but I - I do hope that you will make use of them and let them feel that they're part of the family.
- L: Yes. I just wrote a long - wrote a letter Saturday to the - to the War Savings labor chairman here. I'm going to do the same thing in the other States, and I've been expecting to rely largely on the War Savings Administrators to - because they'd already been working with them very closely.
- HMJr: Well, I just thought you might know that this has come in from Tennessee and Georgia, and I don't want it to spread, you see?
- L: Uh huh. Well, just what was that reaction? I mean....
- HMJr: Well, just that by - putting you people in charge I've sold out to the bankers. That's what they - that's the story that they're spreading, you see?

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L: That you've thrown out the bankers?

HMJr: Sold out.

L: Oh, sold out.

HMJr: Sold out, sold out.

L: Sold out to the bankers, you mean.

HMJr: Yeah.

L: Oh, yes, yeah, I get it.

HMJr: Sold out.

L: Yes.

HMJr: And I don't - I don't want that - that idea to - to grow amongst the - the ranks of labor, see?

L: Yes. Well, now I can handle that.

HMJr: Good.

L: And I'm glad you mentioned it, because I hadn't heard anything around here like that.

HMJr: No. Well, it's around, and the way to kill it is to - is to bring them in and make them feel that they're part of the show.

L: That's right.

HMJr: Well....

L: I'll take steps to do that, but we - we're really getting along fine here....

HMJr: Good.

L: ....getting a good organization all over the district.

HMJr: Fine. If you want any help, call me up.

L: Thank you. I'll do that, sir.

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HMJr: Goodbye.

L: Thank you for calling.

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H.M.JR: He sounds asleep at the switch.

MR. BELL: Some of them didn't reply in December. Others just acknowledged, and some came back and said that they would enthusiastically support the drive and had requested their State treasurers to invest all available funds in the securities.

H.M.JR: I want to change this and say, "It would be most helpful if you would issue a statement or proclamation to the people of your State." Let's make it positive. This way it occurred to me - you know "It might be helpful" sounds kind of wishy-washy. If the fellow isn't sure it would be helpful, he will say, "What the hell?" So I would say, "It would be most helpful if you would issue a statement." Make it positive. I don't like the word "solicit."

MR. BELL: Say "request."

H.M.JR: Yes, "request." Is that better?

MR. BELL: Yes. I didn't know about this proclamation. I think in some States they have to have a legal basis for issuing a proclamation.

H.M.JR: Why don't they get this fellow down from the Tribune?

MR. BELL: I haven't heard any more about it. They were to prepare a letter for your signature.

H.M.JR: They did.

MR. BUFFINGTON: That went out. I talked to him last week, and it is indefinite as to whether he is coming down. I told him I had the impression that you were still very anxious to have him.

H.M.JR: Do you mean he is indefinite or we are indefinite?

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MR. BUFFINGTON: I haven't seen--

H.M.JR: Will somebody follow it through? Then, for instance, a letter wouldn't come through that I have to sit down and rewrite. Who wrote that letter?

MR. BELL: Mr. Peabody.

H.M.JR: Let's get George Wanders down here. He is a very useful fellow to have around the shop.

MR. GAMBLE: The only thing I have is this information that I wanted to give you before this meeting at ten-thirty.

H.M.JR: Let's let that go until last.

I took it that that is in Ted's field, this man Frank Tripp.

MR. GRAVES: Yes.

I have nothing, except that we are having a meeting of the staff at eleven-thirty in line with your suggestion that we show this promotional material.

H.M.JR: Good.

MR. GRAVES: Most of them know all about that already.

H.M.JR: Are you fellows going full steam?

MR. GRAVES: Yes, indeed.

H.M.JR: George?

MR. BUFFINGTON: I spoke to you this morning about these instructions and information for salesmen, which I have since talked to Dan about. It is awfully good. We have sent them out to the presidents, just suggesting that if they were going to have classes this would be useful for them to use. I would like to get out something today

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urging that at least in the metropolitan districts they start immediately between now and the 12th to have these classes and send out some more information of this kind.

H.M.JR: If it is all right with Bell, it is all right with me.

MR. BELL: It has already gone, hasn't it?

MR. BUFFINGTON: Yes, just as a brief instruction, but I think we can go further with it and urge these people to organize and to have classes.

H.M.JR: Now on this, for instance, George said they wanted me out in Chicago. I said that I couldn't come. I said, "If they want Cordell Hull I will ask Hull to go there." The President told the Cabinet they should go wherever we wanted them to go; so if you hear of any big meetings I wouldn't hesitate to write a quick note to these people and send it over.

MR. GAMBLE: We have one big meeting in Los Angeles.

H.M.JR: You can't ask Hull to go to Los Angeles.

MR. GAMBLE: No.

MR. BELL: How about that big meeting in West Virginia?

MR. BUFFINGTON: That is very important.

MR. GAMBLE: We are trying to help with one big meeting in every district.

H.M.JR: Unless I am wrong - I don't know who the hell is the head of our speakers bureau. Who is it?

MR. GAMBLE: We have Mrs. Oulahan.

H.M.JR: I know, but she can't do this.

MR. GAMBLE: We have two departments, one that takes care of all Army and Navy, and stage and screen personalities,

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and we have another that takes care of people who come from colleges, and industrialists. And the speakers bureau is a terrific headache.

H.M.JR: Well, get some man in here that can run this thing so that I don't have to sit around, and--

MR. GAMBLE: You don't have to worry about it.

H.M.JR: No, but you should have a man. Don't wait until I get somebody and then stick somebody in there - both of you. There should be a very able person there, and I could send him across - and they say, "What is it all about?" I would say, "Well, go over and see Mr. Hull and explain it to him" or, "Go over and see Mr. Jones and explain it to him." But that thing should be tied together.

MR. BELL: I understood that Robbins was--

MR. GRAVES: Mr. Robbins has that.

MR. GAMBLE: He has had, but he has come to the realization, I think, that - you see, when you tell these people out in the country that you have a speakers bureau you get nine hundred requests.

H.M.JR: I don't care to tell them, but it gets down to - Graves doesn't run it; you don't run it. It is divided. We don't get people.

MR. GAMBLE: We do get the people. You would be amazed at how many people we are placing in important places around the country.

H.M.JR: Listen, it is a big enough job for this drive that you ought to have some important person to devote himself to that exclusively.

MR. GAMBLE: I am not against that, but I don't think that we ought to presume to be able to supply speakers out of Washington for all the nation.

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H.M.JR: I am not saying that, but don't buck me on this thing. Put somebody in there. I mean, it has floundered around; you had this man, Pollard, who was no damned good at it. It is floundering around between two or three bureaus, and what it gets down to is that most of it is done by you, and you are too busy. I have no candidate, but for this drive I bet you can call up the Red Cross. They will have a speakers bureau on the National Red Cross Drive. Don't call them, but put somebody - these things - what do you call them, the moving pictures and special events, or something like that - is that Mrs. Oulahan?

MR. GAMBLE: She has nothing to do with that.

H.M.JR: It is really you, Ted. Now you are too busy and you ought to have somebody.

MR. GAMBLE: It isn't that bad.

H.M.JR: Yes, it is; it is weak. Bring in somebody else. I mean, it is big enough so that you could ask a fellow like Skouras to come down for thirty days and head the thing up. I am serious. I mean, I want somebody that big. A fellow like Skouras could come in here and head the thing up, and it isn't a bad idea if he were well enough, instead of it all falling on you. Will you do something about it?

MR. GAMBLE: Yes, sir.

H.M.JR: Harold? Don't make me go out and bring in another fellow; you fellows move on it.

MR. GAMBLE: Yes, we will; we are personally looking after all of this.

H.M.JR: It is too big. Now you have to work on this thing for Congress for me, and everything else. I need some help myself. I mean, I know Harold doesn't do this end of it, but I sense that you (Gamble) do. It is big enough so that for this drive - from now until the first of May - a man of the type like Skouras should be invited to come down here. The fellow from MGM - if he would come down - what's his name?

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MR. GAMBLE: Dietz.

H.M.JR: Get somebody of that type that you fellows know. I don't want to threaten you, but the first thing you know - have I made an impression? (Laughter)

MR. GAMBLE: You make yourself very clear. (Laughter)

MR. BUFFINGTON: To whom would Paddock go about this bomber? They have been on that. The Navy says they would like to have one place they can clear such things.

MR. GAMBLE: There is only one place, through the special events department.

H.M.JR: But there should be a boss for the special events. There should be somebody; that is just the point.

MR. BUFFINGTON: Paddock thinks I am not on the job because I can't produce fifty planes to go over Boston. I talked to the Navy. They said the Chief of Naval Operations would tie into it, this memorandum that was written by this Courtney, or somebody, over there. Who can I go through here?

MR. GAMBLE: Duffus.

H.M.JR: There is Duffus on that, and there is Mrs. Oulahan on the speakers bureau, and who else?

MR. GAMBLE: Those are the two. Duffus takes care of the military personnel.

H.M.JR: I can't send Duffus over to see Mr. Hull to explain it to him.

MR. GAMBLE: No, but you could send Mrs. Oulahan. She is very competent.

H.M.JR: I know who she is, but I still think for the drive that there is room for Skouras or somebody like that to come down here from now until the 1st of May. Skouras would be wonderful. He is making so much money. Don't you think he would be ideal?

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MR. GAMBLE: He would be very good for that.

H.M.JR: He knows you fellows. Otherwise I will have to go and get a Coca Cola man. (Laughter)

MR. BUFFINGTON: Do you want to see the different things coming in from the districts on sales?

H.M.JR: No.

I will be hearing in a day or two?

MR. GAMBLE: About the speakers department?

H.M.JR: We will call it--

MR. GAMBLE: We are just trying to guard against some headaches; we can compromise.

H.M.JR: You can call it the Victory Garden Club. (Laughter)

March 30, 1943

Dear Governor Hickenlooper:

On April 12th, the United States Treasury will launch the Second War Loan drive, the greatest money-raising campaign in the world's history. We have set a goal of \$13,000,000,000 of which we hope to raise at least \$8,000,000,000 from sources outside the commercial banking system.

Widespread publicity and promotion efforts have been planned for this drive. It would be most helpful if you would issue a statement or proclamation to the people of your state urging their wholehearted participation, stress the importance of the drive in your speeches at public gatherings during the progress of the campaign, and suggest the securities to be offered to your state treasurer and the trustees of pension, sinking and other public funds.

We need all the help that we can possibly obtain in this huge war financing effort, and we earnestly request your active cooperation.

Sincerely,

Honorable Bourke B. Hickenlooper  
Governor of Iowa  
Des Moines, Iowa

SWP:gr

March 29,  
1943

Daniel Bell

Secretary Morgenthau

Please get out a telegram today to the twelve presidents of the Federal Reserve Banks and tell them that as soon as possible I want a map of their area, showing who the various chairmen are by city, county, and district, the man's name, and what if anything he did in the December drive. I want to particularly know whether he was connected in December with the War Savings Staff or the Victory Fund Committee. Tell them to get that in to me just as soon as they've got the thing organized. Sign my name, and please send that out today. Done - 3/29/43

Miss Chauncey 148

Expenses of Loans - War Finance Committee

March 29, 1943.

To Presidents, Federal Reserve Banks:

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.

Please have prepared and send to me airmail by Friday a map of your District showing counties and cities. Key the map with names of your regional, city, and county chairmen, stating what, if any, part each played in the December drive and particularly whether connected in December with the War Savings Staff or Victory Fund Committee.

NORRIS STRAU

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

March 29, 1943.

TO Secretary Morgenthau  
FROM George Buffington *G.B.S.*

Following your request this morning, I talked to Mr. George Wanders about coming down for the April campaign. He referred me to his letter to Mr. Robbins of March 24, a copy of which is attached. In spite of the suggestion made in Mr. Wanders' letter, I believe that if you write to Mrs. Ogden Reid it will be possible to have Wanders here. You may want to discuss the situation again before making a decision.

COPY

NEW YORK  
HERALD TRIBUNE

March 24, 1943

William M. Robbins, Esq.  
Treasury Building  
Washington, D. C.

Dear Mr. Robbins:

Many thanks for your note suggesting that I join the Treasury sales group in connection with the April campaign for \$13,000,000,000 or more. This proposal is, of course, most welcome, and I hope I will be able to accomplish the desired end of aiding the newspaper publicity of the effort. I have been trying for some days to find a formula that will fit the Treasury requirements and also a bottleneck in which we find ourselves here at the Herald Tribune.

Depletion of personnel - especially of trained people who can report adequately on the New York sales progress of the campaign - has reached a point here that is a little alarming. Naturally, New York must be covered extremely well, since a large part of the \$13,000,000,000 is to be borrowed in this district. The situation is such that my superiors turn on icy stares when anyone mentions such a thing as a leave of absence.

So I wonder if I might not be able to effect a compromise, and make my headquarters here in New York, while devoting all possible time to the Treasury publicity. I am informed that it will be quite all right if, from time to time, I skip down to Washington for special statements or occasions. Possibly this dualism will be of some slight assistance in the effort.

Might I ask for your comments on this, and in the meanwhile I assure you that I look forward with keen interest to earnest and vigorous campaigning.

Sincerely yours,

(signed) George Wanders

George Wanders

GW:MW

March 17, 1943

Mrs. Ogden Reid  
President, New York Herald Tribune  
230 West 41st Street  
New York, New York

Dear Mrs. Reid:

Through the Chairman of our newly created War Finance Committee, a request is being sent direct to Mr. George Wanders of your organization asking that he come down and help us out again on the publicity aspects of the "Second War Loan" campaign.

We value Mr. Wanders' services very highly and anticipate with pleasure the opportunity of working with him during the next six weeks.

I hope that our request for Mr. Wanders' services will meet with your approval.

Very truly yours,

Secretary of the Treasury

WHR:STP

March 29, 1943  
10:35 a.m.

FINANCING

Present: Mr. Bell  
Mr. Gamble  
Mr. Gaston  
Mr. Rogers  
Mr. Cowles  
Mr. Tripp  
Mr. Barnum  
Mr. Bridge

MR. COWLES: Mr. Tripp, as you know, has very kindly consented to be chairman of this Allied Newspaper Council. I wanted an announcement to go out today by wire - it seemed to me it should be made by you - a news story.

Mr. Barnum is going to assist him, and Mr. Tripp wanted Mr. Bridge to be available to help him, too, during this period. I wanted Mr. Tripp to see what Mr. Peabody and others around here had in mind in the way of material to go to the newspapers. If it doesn't look right to Frank, to make it right, and so on.

H.M.JR: Now, you are talking about advertising material?

MR. COWLES: Any kind, either editorial or advertising - any stuff going to the newspapers if it goes under the name of this Allied Newspaper Council.

What that group voted was, unanimously, to ask Mr. Tripp to head the committee, and that he could speak for the committee; and any material that the Treasury wanted to send to newspapers, and felt that it would be more effective going under the name of the Allied Newspaper Council, Mr. Tripp could handle.

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H.M.JR: Well, now - look. There was a statement which was to have gone out Friday or Saturday, and I thought it was a mistake the way it was written. I mean, I thought it ought to be a joint statement. Did they get that over to you?

MR. ROGERS: I think you are thinking of the telegram, Mr. Secretary. I have that right here.

H.M.JR: Is that where we start? Do we start on that, I mean? I am very much flattered that I should be speaking for the newspapers of America, but I thought it had better be a joint statement rather than just for me.

MR. ROGERS: The telegram is in terms of specific promotion material rather than the Allied Newspaper Council. This is a request of the newspapers to write in--

(Mr. Gaston entered the conference.)

H.M.JR: I thought, with all the newspaper men here, that you had better sit in and help.

Does that come first, Rogers?

MR. ROGERS: This is the first thing in the promotion - specific promotion package, so to speak. It is to go out April 2. One telegram for newspapers and one telegram for weeklies. (Copies of telegrams attached.)

H.M.JR: Have you changed it, or does it still go out over my signature?

MR. ROGERS: Yes, I understand from Peabody that the suggestion was it was to have your name and Mr. Tripp's on it.

H.M.JR: I thought so. Then we thought we wouldn't do anything until you (Mr. Tripp) got down here, anyway.

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MR. COWLES: Mr. Secretary, it seems to me the kind of a news story that ought to go out today is a story quoting you saying, "A group of leading newspaper publishers and editors met with me March 20 and pledged their support in the forthcoming Treasury April Victory bond campaign. The group voted unanimously to ask Mr. Frank Tripp of Gannett newspapers to be chairman of the Allied Newspaper Council which was set up by that group. I am very happy to announce Mr. Tripp has accepted and was in conference here today on plans for that campaign."

H.M.JR: Am I correct - because evidently there is some misunderstanding - that Mr. Tripp and Mr. Barnum representing this Allied Newspaper Council have come down here to help us with the second war bond drive?

MR. COWLES: That is right.

H.M.JR: That is correct? That is their job?

MR. COWLES: That is right; to help as regards newspaper support.

H.M.JR: Because there was some misunderstanding around that they were to do other things, but that is incorrect, is it?

MR. COWLES: Until this drive is over, they aren't going to do anything else. We talked, LaRoche, Mr. Tripp, and I, about keeping this same committee together to help on other Government problems as they came along, and to keep it together for future Treasury campaigns.

H.M.JR: Future Treasury campaigns?

MR. COWLES: And some other Government projects, but until you get this April one off, nothing will be mentioned of any kind.

H.M.JR: All right.

MR. TRIPP: At the moment, it is entirely a Treasury matter.

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H.M.JR: That is what I think it should be because it is a big enough job, I believe. One thing at a time.

Saying that Mr. Tripp would also function for other Government projects bothered me.

MR. COWLES: That can be eliminated.

MR. TRIPP: Is that a release? (Copy of suggested press release handed to Mr. Tripp. Copy of final release attached.)

H.M.JR: Yes. I don't think it is too hot. I don't know who wrote it so I can criticize it, but I think you fellows can improve that.

MR. TRIPP: That is superfluous at this time. If, when we finish this job, we see any value to the thing, we can put it to work on something else.

MR. COWLES: I am glad to see the Editor and Publisher gave us a pretty good kick-off. (Copy of Editor and Publisher handed to the Secretary.)

H.M.JR: Another thing I ask is - I always think it is best to state all your misgivings at the beginning and then there won't be any as we go along. I am going to leave that with you to let you polish it up.

MR. TRIPP: The sentence you are speaking of is the second one, I believe: "Mr. Tripp will also function for Allied Newspaper Council on other Government projects."

H.M.JR: I just raised that at this time.

MR. TRIPP: You don't want that?

H.M.JR: Well, I think--

MR. COWLES: At this time, why raise the point?

MR. TRIPP: That is well out. It doesn't add anything to it now.

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H.M.JR: I am sure that after you have helped us make a success of this, you will be in great demand for other projects.

MR. TRIPP: That is what I am afraid of. (Laughter)

H.M.JR: I just wanted to make sure that OWI will let you concentrate on helping us from now until the first of May. You see, we have got to watch--

MR. TRIPP: You know there is an extra fee for exclusive representation. (Laughter)

H.M.JR: Well, we are prepared to pay the fee. (Laughter) Two dollars a year.

The other thing, I take it that you want Mr. Bridge's services just from now until the first of May, and then he can continue after that working with us. Is that the idea or not - because we think he is good. I mean, I would like to have that cleared up.

MR. TRIPP: I don't blame you for that. We would like to have him throughout this campaign, at least. Then if someone else picks on us, maybe they can loan us a little boy.

H.M.JR: Frankly, I would hate to see him leave us and then go on to something else. In other words, he is available to you for this drive? Is that all right?

MR. COWLES: That is right. Let me clear up any misunderstanding on this point.

H.M.JR: I am being blunt enough about it.

MR. COWLES: The problem comes up on any one of these major Government campaigns about putting the newspapers together as a group, and after the lunch the other day, this newspaper, a dozen or more men who were in the room said, "If we get the Allied Newspaper Council put together it is primarily to help the Treasury, but can't we keep

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it together and have it function if somebody else has to turn to the newspapers, instead of calling another separate new group down to Washington, and so on. Can't we have this same Council function?"

H.M.JR: That makes sense.

MR. COWLES: But nobody will raise a single point until this one is out of the way.

H.M.JR: Fair enough.

MR. TRIPP: Until you are ready for another Treasury drive, perhaps.

H.M.JR: Just a little nervousness that Mr. Tripp and Mr. Barnum might be in the middle of this drive and be called off to tell if there are enough tires to go around, or meat, or something. I mean, in other words, if they are going to get started, we would like very much that they would feel free to concentrate on our problem until it is finished.

MR. TRIPP: That will be true; that is the way it will be.

H.M.JR: Fine.

MR. COWLES: Mr. Tripp feels one thing - if I am misquoting you, you correct me - or do you want to tell the Secretary, yourself, your feeling on this taxable feature?

H.M.JR: If you are going into that, may I have Mr. Sullivan join us?

MR. BELL: He is out of town making a speech in Boston.

H.M.JR: Who knows that besides John?

MR. BELL: What is it?

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MR. TRIPP: I will tell you the situation. The situation with respect to local newspapers is this. They have been urged, from time to time, to do a job very similar to this. They have been furnished campaigns and developed some themselves at the request of the Government - urgent requests. They have gone out and sold a large amount of advertising for different projects.

There has developed against them a resistance and a resentment based upon the belief of plenty of manufacturers and industrialists that it is a case of the newspapers trying to capitalize on the war effort, and that they are just passing a tin cup and the situation isn't good. The situation, as it exists now, isn't good for this drive in local fields.

H.M.JR: You will have to explain that a little more. Is it bad from the newspaper publisher's or from the Government's standpoint?

MR. TRIPP: No, this comes from the standpoint of those to whom this advertising is sold - by whom it is sponsored.

H.M.JR: Explain it a little bit more.

MR. BELL: A corporation?

MR. TRIPP: A corporation asked to sponsor advertising in any campaign. Am I right in assuming--

MR. COWLES: Assuming the DesMoines Register and Tribune goes to "XYZ" corporation in DesMoines and that corporation buys a paid Treasury ad. Well, the DesMoines Register has gone around so often for the Treasury, asking for sponsorship on advertising and for some other Government campaigns, that the "XYZ" corporation in DesMoines is getting the feeling we are passing the tin cup and the newspaper is reluctant to go out asking for sponsorship. Now--

H.M.JR: May I interrupt you? Do they feel it is the DesMoines Register or the Treasury that is passing the tin cup?

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MR. TRIPP: The Register. There hasn't been back of this thing, at any time, in our opinion - at least not enough to protect us - any direct approach from Government. That puts us in much of another category, then, in going out to try to do this thing. It is obvious that the newspapers, alone, can't carry this load. They have neither the finances nor the newsprint to do it - nor the manpower, I might say. They will do the best they can.

MR. BELL: They feel the newspapers are drumming up business.

H.M.JR: I get it now, but I wanted to understand it. I didn't understand it.

MR. TRIPP: Then there is a widespread misunderstanding as to the deductibility of this advertising expense, particularly among those advertisers who have had no past advertising experience. Cases already exist of disputed charges in the 1942 accounts, where a manufacturer had been sold in good faith, to cooperate in one of these campaigns, and his expenditure is disputed on the ground that he has never been an advertiser, that he has nothing to sell the public - never had and never will have.

MR. BELL: That is what I talked to you about this morning - policy.

H.M.JR: It couldn't be in '42 because we haven't made any examinations of '42 returns, yet.

MR. TRIPP: I only know of the one case. I was lead to believe it came out through an examination of some Government agency.

H.M.JR: Could you get the case?

MR. TRIPP: I can get it, yes.

H.M.JR: Because it would be most unusual because, after all, you just filed your '42 returns.

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MR. TRIPP: That is right. I couldn't exactly understand that. I only heard it this last week.

H.M. JR: If you get the facts, maybe we could clear that up.

MR. TRIPP: Regardless, here is something quickly and crudely drawn, that you may or may not think is too broad. (Paper handed to the Secretary, copy attached.)

Furthermore, it would be very helpful for the Treasury and for the sale of the bonds, if newspapers promoting this campaign had in their possession, signed by you, something like that.

H.M. JR: Well, of course, what you have got in your hand was something they wanted me to sign and I couldn't sign that one, but let me see this.

MR. TRIPP: That is sales, too, pure and simple. You sold advertising; you know what I am talking about. (Laughter)

MR. COWLES: This would not be for public release, but would be sent to newspapers, that they could show to the prospect that they were trying to get to sponsor a Treasury ad.

H.M. JR: (Reading) "This is an urgent appeal to American business and industry to participate as liberally as possible in the effort which the Treasury Department has asked newspapers to put forward in connection with the Government's 13 billion dollar bond sale drive.

"The localized advertising presentation is made by newspapers on behalf of the Treasury Department. By so doing, they carry their share of the local effort which will be necessary for all America to be awakened to the emergency. To deliver the message as effectively as will be required, the cooperation of all business and industry is needed locally

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throughout the Nation. Generous sales support in every city and hamlet is a vital part of the program. The sponsorship of the Treasury Department advertising in this campaign is a deductible item in any company's or individual's advertising account, or is deductible up to five percent of gross sales or income, with respect to those who have had no advertising experience or account."

Let me just get the past history.

Ted, do you know, or does Mr. Bridge know - have we ever done anything like this?

MR. BRIDGE: You haven't, Mr. Secretary, to my knowledge, with the exception of one telegram of a similar nature that went to the newspapers' advertising executives last October. Mr. Sloan has signed a letter that has been issued rather generously along this line, if I may say so, though entirely separate and distinct from what Frank had said, because we had had no discussion on this. He has put his finger on it, as a newspaper man would, on the primary points of resistance in the successful sale of this advertising.

Point one is this feeling that it is tin-cup advertising, because it seems to have some of those elements. This article that Editor and Publisher requested, which is before you, is directed largely to answering that question as best I know how to do it. But it is a vital problem.

The question about taxes comes up time after time, and we give them no answer because we don't feel that we can give an answer. We give no answer.

H.M. JR: Well, the tax thing - on that there can be a clean-cut statement written as to the facts. I was under the impression that Mr. Helvering did do something.

MR. BELL: He did, but each case must be determined on its own merits - whether or not they have been advertising in the past, and whether it is reasonable in relation to its business.

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MR. GAMBLE: It can't be done blanket.

MR. TRIPP: We can't sell it on that basis. It is impossible to publish it and get it distributed before the campaign.

MR. BELL: In this memorandum going out on both points, one is the corporate sponsorship, and the other is the cash contributions - as to whether or not they are deductible.

MR. GAMBLE: If the Treasury asks the newspapers, or puts it in the hands of newspaper people for their own program, they would, it seems to me, place themselves in the position where they had to do the same thing for all other Government agencies.

H.M.JR: Say that again.

MR. GAMBLE: If you were to issue such a letter you would have to have a similar letter for OPA when they went out for a scrap campaign or a grease campaign.

H.M.JR: That doesn't bother me so much. I will tell you in a minute what does bother me.

MR. GASTON: So far as I know, we have never issued any statement or put out any policy which would distinguish between War Bond advertising sponsorship or any other kind of sponsorship of advertising for Government purposes - which would distinguish between those and commercial advertising.

In other words, the space that they - advertising is judged to be reasonable on the basis of what we have said heretofore, on the score of what the business warrants; the present business, present sales, or reasonable prospect of future sales - what they warrant in the way of advertising expenditure, without any relation as to whether this is Government-sponsored advertising.

MR. BELL: It is just treated as straight advertising regardless of the purpose.

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MR. TRIPP: That is right.

H.M.JR: This isn't so easy.

MR. BELL: No, it isn't.

MR. TRIPP: I knew it wasn't. There is something else that isn't easy that you have not mentioned.

H.M.JR: This does not have to be settled between now and four o'clock when I have my normal weekly press conference, does it? And you are going to be here and we can go ahead if you will steam on this and try to work out something if possible.

MR. TRIPP: I would like to get this out of the way as soon as possible because the time is short.

H.M.JR: I am not trying to stall, but there is - the reason I drew back - I always try to be frank - that other letter was - I didn't want to go around with a tin cup as Secretary of the Treasury. Now there are certain niceties of feeling, what I should or shouldn't do, not as an individual, but the position. I sort of instinctively drew back. Wasn't I going around with a tin cup? I have got to be awfully careful because I can't, on the one hand, urge these people to do it, and the next day send my investigators around and say, "What you have done can't be deductible." "But take a look at the letter. Here is your letter."

MR. TRIPP: That is right.

H.M.JR: That is why I got rid of the American Agriculturist the day I moved in here, and every other business interest I had, because I couldn't - there is the best example. I couldn't solicit advertising directly or indirectly for any publication because I would be in that fellow's books the next year. I don't know anything that would be worse for the Secretary of the Treasury to have than to own a publication that took paid advertising.

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MR. TRIPP: A bad thing for anybody to own. (Laughter)

H.M.JR: I was very conscious of it. The minute I came in here I realized it was the one thing I should get rid of.

MR. TRIPP: I am raising the fundamental objection - the resistance.

H.M.JR: Well, the will here is to be helpful. I want to be ethical; we want to be ethical. We don't want to ask the newspapers to do something that we are not willing to do ourselves.

MR. TRIPP: That is, frankly, what we thought.

H.M.JR: Now, there is good - as good will between men, I think we can find a happy medium, but it can't just be found in a couple of minutes.

MR. TRIPP: I didn't think I wrote a Treasury order when I wrote that, Mr. Secretary.

H.M.JR: But I think if we could get this publicity straightened out for this afternoon, announcing your coming here, and then if Mr. Bell and Gaston could take over this meeting in Mr. Gaston's room - have you another meeting this morning?

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

H.M.JR: Could you continue this discussion?

MR. BELL: Yes.

H.M.JR: And send for some tax lawyer.

MR. BELL: Sullivan ought to be in on it.

H.M.JR: He is gone for two days.

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MR. COWLES: I happen to know that Phil Wenchel has been passing on a great many cases that have been submitted to the bigger companies. He has been giving opinions almost daily.

H.M.JR: I would like to have the Commissioner in on this.

MR. GASTON: I think he will feel he should be.

MR. TRIPP: Might I suggest that the last part of that can be separated as a separate discussion? What do you think of the first part?

In my first communication to newspapers and associations I would like to be able to assure them that they are going to have some tools to work with that they haven't had in the past, because, frankly, they look at this thing as just another headache that they want to do a job on, but they view it with a lot of groans, to put it mildly, and I would like to have them get at it with a little spirit of enthusiasm. You see, I want to say, "Here is something different; here is something we can do. Now let's do it right. We have no excuse. Let's let the excuse land back to the fellow who absolutely refuses to cooperate - not in our laps."

H.M.JR: What does the American Red Cross do?

MR. TRIPP: They have this same problem.

H.M.JR: Do you know how they handled it? Did they get a letter from Norman Davis?

MR. TRIPP: Yes, they had a letter, I imagine.

MR. BRIDGE: The local Red Cross itself goes out and raises the money, rather than the newspapers. The local committees raise the money, and in turn they spend it on the newspaper advertising.

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MR. BELL: Rather than sponsored, it is a cash contribution.

MR. BRIDGE: They get the sponsor, but the Red Cross - the Baltimore committee solicits the sponsor rather than the Baltimore Sun soliciting the sponsor.

MR. TRIPP: The difference is, in the case of the Red Cross you have an established local contact in existence. Here the Treasury Department is working through newspapers. There is no local setup. That is what I hope to create, eventually, after this drive; such a contact between all Government agencies and localities, whether it be for enlistment or what have you. Whether it can be done or not, remains to be seen. There isn't time to do it in connection with this drive.

H.M.JR: I don't want to give you an answer. I will put it this way. I would like to be helpful. I want these people advising me to think this thing over. I am not going to go off half-cocked. If I can do it ethically, I will do it.

MR. TRIPP: That is sufficient.

H.M.JR: If they can assure me on the ethics of this thing, I will do it, but I have got to be assured on the ethics.

MR. TRIPP: I will have to bring to you that the success of this thing is going to depend largely to what extent you can do it.

MR. BARNUM: Mr. Secretary, let me say this from the local angle in the field. Your bond committees have had no general rule; in some instances they have sold separate advertising, some sponsored by the "A" company, or the "B" company. In other instances, the bond committees have raised a pool of money from, we will say, retailers as a whole, manufacturers as a whole, and those funds then were spent by the local committee.

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Now then, the Red Cross and the scrap drive have gone out and sold either individually or collectively, so there is a definite confusion of operation as far as newspaper selling across the country is concerned, to back these drives.

Now, your manufacturer, today, is wondering, and the retailer, too, where the demand for space is going to stop, because it keeps coming on; yet many of them are hiding - I call it hiding - behind a barrel, on the theory that they subscribed last year five thousand dollars, or a thousand dollars for the local committee's work.

Now, on top of that comes the Red Cross with the demand for the increased funds this year, and many of your factories have stepped up their contributions as much as five times, and reluctantly they have done it, you might say, almost with a fight, in some instances, because they had given three or four times as much to their local war Fund last fall.

All right, now in the meantime - this is the only reason I am bringing it up - in steps the Ordnance readjustment committees, hammering down contracts, and items are questioned. So your manufacturer, in this instance, feels he has a proper defense in refusing further appeals for purchase of advertising, and that is why that particular document would definitely clear it. Not that particular document, but one that will help it out.

H.M.JR: Gardner Cowles is going to slay me for saying this, but this is one of the - I would much rather go to Congress and get an appropriation for this thing, but they say they don't want us to do it. I mean, that is--

MR. COWLES: No--

MR. TRIPP: I don't think it needs to be done yet.

H.M.JR: I would like to go to Congress and say, "We need so much money." Then it is, "What are you going

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to do with the radio stations," and so forth and so on. But I want you to know we have thought a lot about this thing. But give these people a little chance to mull on this thing. Bell is available now. You could continue this, couldn't you?

MR. BELL: Yes, sir.

H.M.JR: What about this publicity for four o'clock about your coming down here? Do you want to go over that, too, and maybe let me have something after lunch?

MR. TRIPP: Yes. What time do you want it?

H.M.JR: Quarter of three. If you give it to Herbert - if you work that out with Gaston and see that he has it, he will give it to me. If you people and OWI agree on it, and Gaston agrees on it, I will just take it, that is all.

MR. TRIPP: You don't mean this thing?

MR. GASTON: Just this announcement of your coming.

MR. TRIPP: Yes, we should work that out very simply.

H.M.JR: I meant your coming down here. I take it that we will give you office space. Is that the idea?

MR. TRIPP: I want to know about that. I don't know where we are going to operate. I wouldn't be surprised if we might better operate from New York City.

H.M.JR: If you want a couple of hall bedrooms here in the Treasury, we have got them. (Laughter)

MR. TRIPP: I would rather sit down and discuss - I am very green on this thing. I would like to discuss the job a little more.

H.M.JR: Do you want to talk any more today or tomorrow with me?

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MR. TRIPP: It seems to me that I have got to find out whether this work emanates more from the Advertising Council in New York, or from Washington. The mechanics of this thing, so far as I am concerned, won't have much to do with it. We are only going to try and stir up the animals.

MR. COWLES: I think Mr. Tripp needs to get very familiar with what Peabody is working on and all of that material, first.

H.M.JR: He isn't here today, but if they want a place to hang their hats, Bell, will you take care of that?

MR. TRIPP: If we could have a place to work today for a couple of hours, I think we can get somewhere.

H.M.JR: Do you want to drop in here again at quarter of three with that publicity statement?

MR. TRIPP: Yes, or we can send it back to you.

H.M.JR: Either way. I will either see Gaston with you or not.

MR. TRIPP: I can clear it through Mr. Gaston.

MR. GASTON: I think it is a simple thing.

H.M.JR: Have you got something else?

MR. COWLES: I have got to go to another meeting.

H.M.JR: Have you something else as far as we are concerned?

MR. COWLES: No.

H.M.JR: I am delighted with this. I think that whatever time you have today, between Mr. Gamble and Mr. Bridge and Mr. Rogers, they ought to bring you up to date as to what we have in the works. We have a lot of good stuff in the works.

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MR. TRIPP: Frankly, I am not so much concerned about the stuff in the works. I know what has gone through the hands of the people. That can almost be rubber-stamped so far as the Newspaper Council is concerned. They don't want to set out on any pseudo censorship campaign. I am not interested in that. It seems to me what you want out of this Newspaper Council is a little cooperation and enthusiasm on the part of the newspapers, to do the job they are going to get.

H.M.JR: I didn't mean to pass on. I meant I would like you to know what has already been accomplished.

MR. TRIPP: Yes.

H.M.JR: Then you build on top of that. The boys have done a lot already.

MR. TRIPP: All right.

112 Stuart Peabody

Expense of Loans WFC

April 2, 1943

TO ALL DAILY NEWSPAPERS:

The Second War Loan Drive is the largest war financing campaign in the world's history. It will start April 12. The goal is 13 billion dollars. During the drive a complete assortment of seven government securities will be sold.

To be successful our effort must reach into every home in the land, because money must come primarily from individual Americans.

The people of your community look first to their newspapers for leadership when united action is needed. This loan can only succeed through such action. Speaking for the Treasury and the Allied Newspaper Council, we ask you, therefore, to give this drive your enthusiastic support both in your news and editorial columns and, wherever possible, by enlisting sponsored advertising support.

Within a short time you may expect a call from a representative of the President of your Federal Reserve Bank, who is acting as Chairman of our War Finance Committee. After your meeting with him, we should be glad to have you write us if you develop any plans you feel we might pass on to others. We need your all-out support to make this drive a success and to demonstrate to our armed forces, our allies, and our enemies what a voluntary and united effort can accomplish on the American home front.

Henry Morgenthau, Jr.  
Secretary of the Treasury

Frank Tripp,  
Chairman, Allied Newspaper Council

Expense of Loans WFC

April 2, 1943

TO ALL WEEKLY NEWSPAPERS:

The Second War Loan Drive is the largest war financing campaign in the world's history. It will start April 12 and will run for approximately three weeks. The goal is 13 billion dollars. During the drive a complete assortment of seven Government securities will be sold.

To be successful our effort must reach into every home in the land, because money must come primarily from individual Americans.

The people of your community look first to their newspapers for leadership when united action is needed. This loan can only succeed through such action. Speaking for the Treasury and the Allied Newspaper Council, we ask you, therefore, to give this drive your enthusiastic support both in your news and editorial columns and, wherever possible, by enlisting sponsored advertising support.

After you have received our promotion kit, we should be glad to have you write us if you develop any plans you feel we might pass on to others. We need the all-out support of weekly newspapers to make this drive a success and to demonstrate to our armed forces, our allies, and our enemies what a voluntary and united effort can accomplish on the American home front.

Henry Morgenthau, Jr.  
Secretary of the Treasury

Frank Tripp,  
Chairman, Allied Newspaper Council

This is an urgent appeal to American business and industry to participate as liberally as possible in the effort which the Treasury Department has asked newspapers to put forward in connection with the government's 13 billion dollar bond sale drive.

The localized advertising presentation is made by newspapers in behalf of the Treasury Department. By so doing they carry their share of the local effort which will be necessary if all America is to be awakened to the emergency.

To deliver the message as effectively as will be required the cooperation of all business and industry is needed locally throughout the nation. Generous sales support in every city and hamlet is a vital part of the program.

The sponsorship of Treasury Department advertising in this campaign is a deductible item in any company's or individual's advertising account; or, is deductible up to five percent of gross sales or income, with respect to those who have had no advertising experience or account.

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Monday, March 29, 1943.

Press Service  
No. 35-90

Secretary Morgenthau announced today that Frank Tripp of Elmira, New York, has agreed to serve as Chairman of the Allied Newspaper Council in connection with the sale of Treasury bonds.

Mr. Tripp, who is General Manager of The Gannett Newspapers and Chairman of the Bureau of Advertising of the American Newspaper Publishers Association, was the unanimous choice of the publishers and editors who attended a meeting Saturday, March 20, in the Treasury to consider what newspapers might do to help the Second War Loan Drive starting April 12.

The goal of the drive is \$13,000,000,000, of which it is intended that \$8,000,000,000 will be obtained from non-banking sources. It is the largest war financing campaign in history.

Don Bridge, well-known newspaper advertising executive, formerly of the New York Times and of the Indianapolis News, has been assigned by the Treasury War Finance Committee to work with Mr. Tripp. Jerome T. Barnum, former publisher of the Syracuse Post-Standard, also will give his time to the effort, directly representing Mr. Tripp.

-oOo-

March 29, 1943  
11:34 a.m.

HMJr: Hello.

Operator: Mr. Biffle.

HMJr: Hello.

Leslie L.  
Biffle: Good morning, Mr. Secretary.

HMJr: How are you?

B: Just fine, thank you. I'm very grateful to you for the nice letter that you had sent to me.

HMJr: Well, you are always helpful to us.

B: Thank you.

HMJr: Biffle, I'm coming to you for some more help. You may have been reading in the papers something about a stabilization plan of money after the war is over?

B: Yes, sir.

HMJr: And there's quite a story on the front page of this morning's New York Times out of London on it. Now we've had this plan and we've been developing it for about a year, and the plan that we were going to do, and it's all been approved by the President and the State Department, to invite these experts from the various United Nations to come to this country to discuss the thing, you see?

B: Yes.

HMJr: And that letter went out about a week ago. Now what's happened, the English got together a plan and their plan leaked out of London, and there's been great pressure on us to say what our plan is, and we, frankly, don't know whether we should publish it or not, but we would like very much to have an opportunity to explain it to the Committee on Foreign Affairs in the Senate and also the Banking and Currency, who's interested in the stabilization fund, and

(cont.)

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HMJr: (cont.) I was wondering whether those two committees would care to have me come up with Dr. White, just as soon as convenient, and explain to them what it's all about before we release it to the public.

B: I think that would be a wise thing to do.

HMJr: Hello?

B: I think that would be the wise thing to do, Mr. Secretary.

HMJr: Yes, and we don't know whether we want to release it to the public and we'd like to ask their advice.

B: Uh huh.

HMJr: But - now Senator Vandenberg - hello....

B: Yes, sir.

HMJr: ....is very much interested, and he's corresponded with us, and I've told him that we would, at the appropriate time, explain it. Now we're ready now to come on up.

B: Uh huh. Most any time?

HMJr: Well, if....

B: That is - I mean within reason. It'll....

HMJr: Oh....

B: ....be a few days' notice.

HMJr: ....if you give me a day or two's notice, and I'll adjust myself, and it's - then if Senator Connally has his committee on post-war problems which - I don't know - that committee of eight?

B: The Post - I mean the....

HMJr: The Post-War Committee - they....

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B: That's - no, it's ten.

HMJr: Ten.

B: That's right.

HMJr: Now what - post - what is that? Is that Banking and Currency or is it....

B: Well....

HMJr: ....just Foreign Affairs?

B: No, it's a special committee, and not - it includes one or two from each of the committees....

HMJr: Yeah.

B: ....of those two committees.

HMJr: Well, here's the point. I'd like to make - explain to the Senate what we have in the process. We're just formulating a plan, you see?

B: Yes, sir.

HMJr: There's been interest displayed, particularly by Vandenberg. I'd like to consult with them, and I'd like you or Senator Barkley to tell me who should be invited to such a meeting, see?

B: I see, uh huh. All right.

HMJr: Now there're so many people, I don't know. But, after all, you do know, and - and if you would talk to the Senator about it....

B: I'll talk to him at lunch today.

HMJr: Will you?

B: And let you hear from me this afternoon or the first thing in the morning.

HMJr: Will you do that?

B: Be glad to.

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HMJr: And, in the meantime, we'll just sit tight  
and not say anything until I hear from you.

B: All right, fine. I'll be glad to call you  
back.

HMJr: Thanks so much.

B: Fine. Goodbye.

March 29, 1943  
11:40 a.m.

HMJr: Hello.

Operator: Sir Frederick.

HMJr: Hello.

Sir Fred.  
Phillips: Yes.

HMJr: Phillips, Morgenthau speaking.

P: Good morning.

HMJr: Good morning to you. Phillips, do you know when your people are going to publish your plan on post-war stabilization?

P: Well, the last - the last suggestion I heard was April the 6th.

HMJr: April the 6th.

P: Yes.

HMJr: Is that - is that official?

P: Well, it was official as far as they could keep to it. They may find they can't quite hit that date.

HMJr: Well, would - you mean they might go off earlier?

P: No, I - it won't be earlier, I don't think.

HMJr: Well, the reason I'm asking you is that I was - it was running through my mind that we might want to publish simultaneously.

P: I see.

HMJr: And would you mind getting a cable off....

P: I will.

HMJr: ....and saying that's running through my mind.

P: Yes.

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HMJr: And, therefore, I would like to know the date.

P: Right, right, sir. And now wait a minute, have you got any particular choice about these dates?

HMJr: Well....

P: I thought if they could do it on Tuesday. Tuesday is April the 6th, and does it make any difference to you whether it's the 6th or 7th or the 8th.

HMJr: No, except 7 is a lucky number.

P: Ah - oh, I see.

HMJr: I don't care.

P: All right. I was getting a cable off, but I'll get one off anyhow now.

HMJr: Gives us a little more time.

P: Yes, 7th.

HMJr: Yes. And what do you think of this thing which is sort of going through my mind about publishing simultaneously?

P: Well, frankly, I always thought you'd - you'd be unable to stand to not publishing.

HMJr: You'd - we'd do what?

P: I always thought you couldn't stand to the policy of not publishing yours.

HMJr: Well, if we don't what would you think if we did it simultaneously?

P: Oh, I think it'd be good.

HMJr: Good.

P: Yes.

HMJr: Well, it's running through my head and you might get off the cable to the Chancellor and see what he thinks.

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P: Right.

HMJr: And get the date.

P: Yes. Very good.

HMJr: Thank you.

March 29, 1943  
12:01 p.m.

HMJr: Hello.

Operator: Mr. Pehle.

HMJr: John?

John Pehle: Yes, sir.

HMJr: I told the President something about this Lazard Freres business....

P: Uh huh.

HMJr: ...but I didn't know an awful lot about it. Now - so he asked me some questions, and I'd like to know more about it.

P: Right.

HMJr: When are you going to see these people?

P: Five o'clock today, it was scheduled.

HMJr: I see. Gosh! Well, the only time that I would have would be at quarter of three.

P: Right.

HMJr: Could you come over and tell me - in fifteen minutes tell me something about it?

P: Certainly.

HMJr: Well, supposing - supposing you do that and - can you do it in fifteen minutes?

P: I think so, uh huh.

HMJr: What?

P: Yes, I can.

HMJr: Okay.

P: I might want to bring someone else along. Is that all right?

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HMJr: That's all right.  
P: Right.  
HMJr: That's all right.  
P: I'll do that.  
HMJr: Thank you.  
P: Quarter of three.  
HMJr: Right.

March 29, 1943  
2:37 p.m.

HMJr: Where are you?

William  
Robbins: I'm at a meeting of the group here in Los Angeles at the Second National Bank.

HMJr: Good. How are things going?

R: Why, I think things are going splendidly. I wouldn't have missed this trip for a million dollars.

HMJr: Good.

R: I've learned an awful lot; I've met a very ardent group of people; and I'm - well, I just am getting a world of benefit out of this. I think we were right to have me come.

HMJr: Good. Now I've got a message that - it's a question of whether you should come right back or stop at Cleveland.

R: That's right.

HMJr: Well, I want you to come back.

R: Oh, my! I would love to stop at Cleveland, but I'll....

HMJr: Well....

R: .....do what you say.

HMJr: ....who's going to - I'm doing your work and Peabody's, and I'm just swamped, and I can't do it. That's what I brought you and Peabody down here for.

R: Yes, that's right.

HMJr: Every - every damn thing has been dumped on my desk.

R: Oh, no! Well, that's wrong.

HMJr: Well, it - you left no orders behind you who should do it. I mean there's complete chaos here. Nobody knows; there's no authority, nothing; and as a result that - that I'm doing your job.

- 2 -

- R: Well, that shouldn't have been because I think George and Harold both understood that they were to carry on their part of the show, and that any - any reconciliation which we didn't anticipate would be very great would have to be - would logically be taken to Mr. Bell.
- HMJr: Well, now for example....
- R: Yes.
- HMJr: ....I'm with - I - this - here this morning complete chaos with this man that this Allied Newspaper people appointed, Frank Tripp.
- R: Yes.
- HMJr: I went over the whole thing with Peabody. The thing - they walk in here and nobody knows anything of what they're to do - Gardner Cowles, Rogers, and the whole group - and I've been struggling most of the day with the help of Gaston to pick up the loose ends. Now I can't....
- R: Well, where is Peabody?
- HMJr: He isn't here.
- R: Well, where is he, sir?
- HMJr: He's up in New York.
- R: On this job.
- HMJr: Well, I don't know. He said he wanted to go and stay Monday in New York, and I said, "Okay." And it's just too much. I can't do it.
- R: Well, I'll - all right, sir. But that is not - that shouldn't have happened.
- HMJr: I know it shouldn't, Robbins. I mean it's - the whole purpose of bringing you in is - is to bring more manpower and take something off my shoulders.
- R: That's correct.
- HMJr: But I'm just sunk today, and they're - they're sitting here and they - they want these letters to these publishers and they've all - every

(cont.)

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- HMJr: letter's got to be rewritten, nothing is  
(cont.) right, and I don't mind doing it but it - it's  
just I can't do it all.
- R: Well, do they have to have that - if Peabody is  
in New York can't that all wait until his re-  
turn tomorrow?
- HMJr: Uh....
- R: I presume he'll be back tomorrow, won't he?
- HMJr: Well, it looks - I mean to bring these repre-  
sentatives of all these publishers in and have  
nobody here to meet them and have nobody to  
do the thing, it makes a very bad impression.  
We built up this big show and I don't want them  
to think that the Treasury can't function.
- R: Well, I think you're dead right, but I'm - I'm  
completely baffled as to why all that should be.  
Peabody is completely capable of handling that.  
If he's not in Washington, of course, he can't  
handle it there today.
- HMJr: No, but he - but there's - but the point that  
I'm complaining about is Peabody asked me could  
he go away, and I said, "Yes," but I thought  
there'd be somebody who would be here when  
these people walk into my office who would know  
what it was all about.
- R: That's correct.
- HMJr: But there isn't, and - and when I started to  
inquire what authority you'd left behind you,  
I couldn't find that - that anybody was in  
charge.
- R: No one individual, no, of course not, sir,  
because you've got - you've got Graves in com-  
plete charge of his part....
- HMJr: Yes, but....
- R: ....and in complete and direct communication  
with the field, you've got Buffington the  
same with his part....
- HMJr: Well....

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R: ...and any reconciliation necessary, which wasn't anticipated to be a problem, would be for Mr. Bell.

HMJr: Well, it was all dumped in my lap, and there you are.

R: Well, now do you want me to skip both St. Louis and Cleveland?

HMJr: Well, now I tell you what you'd better do on - I'd forgotten about St. Louis. Eccles is in with Bell now.

R: He is?

HMJr: He has a recommendation to make and the Board's approved it. I don't know what it is. How many days - when did you plan to leave Los Angeles?

R: I was leaving tonight on an eight o'clock plane. I'd fly all night and be in St. Louis tomorrow.

HMJr: Yes.

R: Then I would work my way as fast as possible over to Cleveland. I'd probably be in Cleveland on Wednesday afternoon.

HMJr: Well, let's do this. I think as long as you've got your reservation go to Cleveland - I mean go to St. Louis.

R: Yes.

HMJr: Then I'd skip Cleveland.

R: All right.

HMJr: And then come on back and pick up the pieces.

R: Well, I think what - if I can make a suggestion from this end, I think that you should get Peabody on the phone in New York.

HMJr: Well, he'll be back here tomorrow. There's no use - the damage is done and the work is done, and it's finished. And he'll be in tomorrow but it's - it's placing too much on me, too much details and - and the thing that confuses me and

(cont.)

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- HMJr:           upsets me is in picking up somebody else's work.  
(cont.)           I mean if it was - you know - if there was some -  
                  if it....
- R:               Well, I know but aren't Graves and Buffington  
                  functioning?
- HMJr:           I - I - as - I think so.
- R:               After all, sir, you know the - the set-up between  
                  the field and those offices is complete.
- HMJr:           Yeah, well....
- R:               The correspondence, the communication, the  
                  authority and all is complete.
- HMJr:           Well, I don't - from Buffington's side - I mean  
                  when I ask him he says - well, he can decide  
                  what kind of a typewriter they want, but anything  
                  else over and above that, he can't decide any-  
                  thing.
- R:               Oh, now that, of course, is a misrepresentation,  
                  sir.
- HMJr:           Yes. Well, and then I asked him again - that  
                  was Friday or Saturday, and I said, "Today what's  
                  happening?" and he said, "Well, I've got to  
                  function on things because nobody's here so I'm  
                  doing it." But there was no directive, Robbins.
- R:               There was a directive to the field, and there  
                  certainly was a perfect understanding between  
                  us - among us.
- HMJr:           Well - well, if there was, they - they've left  
                  me with the distinct impression that there  
                  wasn't so I - I tried to get you in San Francisco  
                  and mislead you, because I thought that if you  
                  would talk to Bell or some - Bell preferably, and  
                  just tell him what you have in mind. I don't  
                  want to deflate you when you're out in the field,  
                  but I'm flat as a pancake myself.
- R:               Uh huh.
- HMJr:           And I - just when I'm through talking, have a talk  
                  with Bell.

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- R: Well, I - I want to do that in any event, but this is very distressing because it - the only - the only conclusion I can draw is that somebody either doesn't understand or doesn't want to understand, sir.
- HMJr: Well, I - I think - well, do you see there's nothing - I - I don't know. Did you get the people together and have a talk before you left, and....
- R: I certainly did.
- HMJr: Well....
- R: I certainly did. It was the last event that took place in my office the day that I started for New York and we went around the circuit and everybody understood. If my understanding is correct, everybody completely understood.
- HMJr: Well....
- R: Now this advertis.. - this newspaper situation is something that we didn't know was coming up at that time, but even so that shouldn't have been a problem. Peabody was right in the middle of it.
- HMJr: Yeah, well, he - he shouldn't - he knew it was coming. They knew the arrangement - I mean....
- R: Now I don't know whether he knew that this - that the group was coming in to Washington today.
- HMJr: Oh, yes. Oh, yes. But I told him he could go, but I - I thought somebody - he would say to somebody - I mean they left a very, very important document which they wanted me to sign to go out, do you see?
- R: Yes.
- HMJr: I went over it with Peabody, and I said, "Now, Peabody, I don't want to sign this. Let's send this as a joint statement," do you see?
- R: Yes.

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HMJr: And then they come in this morning and there's just complete confusion. Now he should have said to somebody, "I'm not going to be here, and will you please carry on and explain to Mr. Morgenthau and so forth and so on." But none of that was done.

R: Well....

HMJr: And so we had to....

R: I - I'm at a loss to explain that at this long distance....

HMJr: Well....

R: ....but this other thing, I don't know what other details are coming to you, but certainly nothing should, and if anybody tells you that they've got no authority except what typewriters go, why, Mr. Morgenthau, that just isn't right.

HMJr: Yes. Well, that was - I - I don't - I'm not trying to make trouble, but I've got to tell you the facts because I - I don't want it to happen again. That's the point.

R: Uh huh.

HMJr: And I - I'm - I don't know where - where the fault lies but - I mean I - it's - it's - it's a thing which - I've got to work in a happy atmosphere where everybody is working together, and we - we've got to get everybody together and knock their heads together and get them in a frame of mind of cooperation.

R: Well, I agree to that.

HMJr: And I thought we had that when - when you left, and now whether - what it is, I don't know, but....

R: Have you been meeting each morning with the group?

HMJr: I think I met with them twice, I think.

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- R: Uh huh. Nobody has tried to contact me from the group in the field.
- HMJr: Yes. Well, I asked each day and then I - let's see, Friday I think - that's - the day you called I was at Cabinet, and Saturday I tried to get you and I wasn't able to, and then I was waiting....
- R: Yes, I was at the Federal Reserve Bank all day Saturday.
- HMJr: Well, I tried in the afternoon and - but the main thing is if the thing is going well in the field, that's the important thing, or is it just....
- R: Well, it is. It's going beautifully in the field. I think we're making some real progress, and I think that this trip has helped to put the two organizations together in a constructive way at those points where I've made contact.
- HMJr: Well, I'm delighted at that, and this other thing can be and will be straightened out when you....
- R: Do you want me to contact Peabody?
- HMJr: No, no, no, Peabody will say - he'll - I'll talk to him quietly. He - he - tomorrow I'll tell him myself - I mean as - he'll be here in the morning and I'll ask him just what went wrong....
- R: Yes.
- HMJr: ....and - but it's upset me all day anyway, but....
- R: Well, I'm sorry for that. It certainly upsets me right here right now.
- HMJr: Yeah. Well, I'll - no, I'll talk to Peabody tomorrow morning and tell him that - that another time - that when - either postpone these important people or leave somebody at my hand who can pick up the pieces.
- R: Yes. He arranged the meeting for them, did he?
- HMJr: I - I don't know, but he knew all about it because he submitted the letter for - for them, which they wanted me to sign and which I wouldn't sign.

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R: Uh huh.

HMJr: And then they had for me, either Friday or Saturday, to work out another letter.

R: Uh huh.

HMJr: And it's - as you know, how much trouble we went to to get these publishers straight....

R: That's right.

HMJr: ....and all day long Mr. Gaston's been wrestling with it. I mean he - he's stepped in to help me out.

R: Uh huh. Uh huh.

HMJr: Yes.

R: Well, I think it's a shame because I - I'm at a loss to explain that, but....

HMJr: Well, we'll get it. It's - it - it isn't something which sitting around a table for half an hour we can't settle for once and all so that it won't happen again.

R: Uh huh.

HMJr: Because it upsets me and now I've upset you, and none of that should happen.

R: Well, I - I - I'm - if it's just the publicity thing, that may have been some - that's something about....

HMJr: No, no.

R: .....the details of which I don't know.

HMJr: No, it's just that - that back here I don't know what's the trouble, but it doesn't - they don't seem to feel that where the - of course, another thing, Friday noon Bell went home, you see?

R: Yes.

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HMJr: So he wasn't here Friday afternoon or Saturday so I was here all by myself, so it was just a bad time all around, and....

R: Well, it's a shame.

HMJr: ....and I suppose I'm over-tired because I've had more to do than any one person can handle, but you - you do St. Louis, and call me up from St. Louis and maybe things will have quieted down by then.

R: All right. I'll call you from St. Louis tomorrow evening - tomorrow - well, it'll be probably in the evening. I get over there at ten o'clock, eleven until one.

HMJr: Well....

R: It'll be after lunch tomorrow.

HMJr: That's all right. And maybe by that time, with Peabody back, things will have quieted down.

R: Yes. But if those other two departments aren't functioning, sir, why, there's just a definite - either a misunderstanding or - or something.

HMJr: Well, I've - there's been no complaints from War Savings. The only - as I say, the only complaints - I mean Buffington particularly didn't seem to know where he stood, and....

R: Oh, well, that - that's absurd, sir.

HMJr: Well, that's - I'm repeating just what he told me, and I said, "Well, how about it this morning?" Well, he said, "I had to go ahead." So he said, "I am contacting the field."

R: (Laughs) Well, all right, I - we can't settle it over the phone, but....

HMJr: No, no, well, don't let it worry you too much but I just had to tell you, that's all, and explain to you why I wanted you to come back.

R: Uh huh.

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HMJr: But you call me up from St. Louis and see - see - see how we feel tomorrow.

R: All right. Now I want to talk to Mr. Bell.

HMJr: And I'm glad that the meetings have been good, and I'm glad you've gotten a lot out of it, and you'll be pleased to know that I talked to Mr. Sproul and he was very enthusiastic about your trip to New York and said everybody liked you and you made a very favorable impression.

R: Uh huh. Well, that's good.

HMJr: So I - I wanted you to know that.

R: That's good.

HMJr: Okay.

R: All right. Now I'm going to talk to Mr. Bell.

HMJr: Just a moment, please.

Operator: Yes, sir.

HMJr: Mr. Robbins wants Mr. Bell.

Operator: All right. Thank you.

March 29, 1943  
2:53 p.m.

Operator: Go ahead.

HMJr: Hello.

Dan  
Koshland: Hello.

HMJr: Dan?

K: Yes, Henry.

HMJr: How are you?

K: Fine. How are you?

HMJr: Good. And your family?

K: Well, Eleanor hasn't been very well, but otherwise we're all right.

HMJr: She's no....

K: You-all all right?

HMJr: Yes.

K: Get good news from the boys?

HMJr: Fine.

K: That's good.

HMJr: Dan, do you know Professor Max Radin?

K: Yes.

HMJr: I was thinking of bringing him in here in a very important position, and I wanted to get confidential information from you as to what you thought about him.

K: Well, he's - he's a brilliant - brilliant man, a brilliant law teacher.

HMJr: Yes.

- 2 -

- K: He's been under some -- I won't call it a cloud....
- HMJr: Yes.
- K: ....but he was appointed by Governor Olson to the Supreme Court and his appointment was not confirmed....
- HMJr: Yeah.
- K: ....by a committee, one member of which was our present governor, Earl Warren.
- HMJr: Yeah.
- K: That had something to do with advice that he gave some students in connection with carrying out certain W.P.A. regulations.
- HMJr: Oh.
- K: He's - he's highly regarded, considered on the left - on the left-wing side....
- HMJr: Yeah.
- K: ....but - and for that reason I think most conservatives would speak ill of him. But he's a brilliant man and certainly a man of integrity himself.
- HMJr: Well, would he carry that cloud with him if he came here?
- K: Possibly, yes. But just possibly. I mean having been appointed to the Supreme Court and turned down by a very - a very fine committee that investigated him, I think there is a little cloud there.
- HMJr: Was it a good committee?
- K: Yes, yes, it was the - head of the - head of the State Supreme Court and the - and Earl Warren, who was then Attorney General and who now is Governor - I can find out a little more if you want me to.

- 3 -

HMJr: Well, if - there was some talk about his having Communistic leanings?

K: Well, that's - that's the usual talk about anybody you don't like.

HMJr: Yeah.

K: One side, but he is - he's - he's very - very liberal in his views.

HMJr: But you think that - from what you say, I'd be taking some risk in bringing him here.

K: I think there'd be a slight - a slight risk on that, yes.

HMJr: Uh huh.

K: Particularly if it was before the - if there was much publicity or....

HMJr: Well, there always is.

K: Yeah. I'd - I'd like to - I could check a little more on it in a few hours if you....

HMJr: Well, supposing....

K: ....would want to know more.

HMJr: Supposing you do that and send me an air mail letter, will you?

K: Send you an air mail letter today.

HMJr: Yeah.

K: All right, I'll do that.

HMJr: And....

K: On - on that - just on the one point, because as far as ability and brilliance he - he stands very - very far out in front.

HMJr: Yes.

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K: All right.

HMJr: Will you do that?

K: I'll - I'll send you an air mail letter later today.

HMJr: And my ad.. - send it to my house, 24....

K: What?

HMJr: 2434....

K: 2434....

HMJr: Belmont Road.

K: Belmont.

HMJr: Yes.

K: B-e-l-m-o-n-t.

HMJr: Road.

K: Road.

HMJr: Yes.

K: 2434.

HMJr: That's right.

K: All right, I'll send it air mail today.

HMJr: Thank you.

K: All right. Thank you. Goodbye.

March 29, 1943  
5:43 p.m.

Operator: Mrs. Brady.

HMJr: Hello.

Kathryn  
Brady: Hello. Yes, sir.

HMJr: Mrs. Brady, have you got a pencil?

B: Yes, sir.

HMJr: I got an important message for the President  
from Lyndon Johnson.

B: From him?

HMJr: From Lyndon....

B: Yeah.

HMJr: ....Johnson for the President. He says that  
today we made very good headway against the  
Ruml plan.

B: Against?

HMJr: Against.

B: Yes, sir.

HMJr: That Sam Rayburn gets in tomorrow morning on  
the B. & O. train....

B: Uh huh.

HMJr: ....and that Lyndon Johnson strongly recommends  
that the President see him at once....

B: Uh huh.

HMJr: ....and have Sam Rayburn tell McCormack -  
Congressman McCormack and Congressman Rams-  
peck to stop talking compromise....

B: Uh huh.

- 2 -

HMJr: ....and to get behind the Doughton bill, you see?

B: Uh huh.

HMJr: And also that Sam Rayburn should see that for once the - all of the Democratic members attend and vote.

B: Uh huh.

HMJr: That they shouldn't happen to be absent.

B: Yes, sir.

HMJr: And again that Lyndon Johnson is very much encouraged and the - and the Republicans are really worried now.

B: All right, sir. I'll tell him.

HMJr: And, of course, if you could get him that to-night....

B: I will.

HMJr: .....so that he can have Sam Rayburn in the morning.

B: I will. Yes, sir.

HMJr: Ever so much obliged.

B: Thank you.

Mr. Paul's conversation with Congressman Lyndon Johnson  
March 29, 1943

J: I think we have this thing on the run now. The thing we ought to do is make McCormack quit issuing statements about compromise. The first thing the boss ought to do is see Sam when he gets in in the morning. They have called off those meetings. They always had the leaders in when he got back. Do you know whether the boss has made arrangements to see him when he gets back?

P: I don't know, but I can check that.

J: Any time tomorrow would be fine. In that conversation I think he ought to begin by saying there is a lot of talk around about substitution and let the Speaker go to work. This Mills boy and then this Disney speech today and the fact that Martin Dies cracked up the other day - he got back with the Administration - that has given us some breaks.

P: Did you hear Vinson this afternoon?

J: Yes. All that stuff is interesting. It's doing some good if we can get it out to the country. They ought to have some pretty good boys like Mills and Gore \*\*\* they have the Republicans scared now.

P: Let me call the Secretary right away. I'll call you back. Where are you going to be?

J: I'll be at the office or at home. My humber is Ordway 7273. The first thing the boss ought to do -- the leadership is Rayburn. Recognizing that, when he gets in here the boss ought to talk to him in general terms, but the tenor ought to be, "This is the time that everybody gives up everything they can, including life." So that Rayburn can come back and knock this talk of compromise out. And second, "Sam, I hope that the Democratic party will vote as a party one time and that everyone ought to be on the floor all the time."

P: In other words, you think that no compromise is necessary to lick the Ruml plan?

J: I do. The first thing to do is to make them quit giving out statements.

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P: I am going to get right in touch with the Secretary and we will follow that up by getting in touch with other people. I will call you either at your office or at your home.

March 29, 1943  
3:00 p.m.

LAZARD FRERES

Present: Mr. Pehle  
Mr. Lesser  
Mr. Schmidt  
Mrs. Klotz

H.M.JR: Give me this story on Lazard Freres, will you, please?

MR. PEHLE: As you know, it started in the United States - in New Orleans - about a hundred years ago by the Lazard family, which was a family of French extraction. They opened an office in New York. It spread from New York to Paris, and then to London, but the Paris firm has always been the most successful. Next is the English firm; and last, until recently, the New York firm, which hasn't been making money for some time.

H.M.JR: Which has?

MR. PEHLE: Has not.

The Paris firm has always been pretty successful. They stuck closely to whatever government was in power and shifted as governments came and went. They floated a lot of government loans, had a thriving exchange business and there were very smart people throughout heading the business. One of their big jobs was to reorganize Citroen, the big automobile company over there, which they did very successfully.

Until it was liquidated officially under German direction, the Paris office, run by three managing partners, Andre Meyer, who is here, David-Weill, who is here, and his father, David David-Weill, who is still

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in France and wouldn't come over. He is quite old, and he wouldn't leave. His son, I know, is irritated because he wouldn't leave. He is still over there.

There were other partners, but they just had a small share in the profits and didn't have any money in the business. The New York partnership had five million dollars in it, two-thirds of which the Paris partnership put in, and one third of which Mr. Altschul put in. There were a number of New York partners, but Altschul was the principal partner. He was supposed to run the New York office, but he has been more or less retired and he hasn't taken much interest in it.

When Pierre David-Weill was in to see me about three months ago, he said he realized the New York office had gone down hill because Altschul wasn't interested. They want to reorganize; part of their reorganization is to have these two French partners now come in actively into the New York partnership, Altschul taking a back seat, and they will go ahead. They are both, according to our information, intelligent men. They have some money of their own, and they are willing to take some risks; they want to do a business.

Now, the nature of the violations are these. There have been quite a series of them which we can explain in as much detail as you want. Mostly their violations are concerned with their own money, not other people's money.

H.M.JR: When did these two Frenchmen go into the New York office?

MR. PEHLE: They haven't gone into the New York office; they are here. They have been down to the New York office. Do we know when Meyer came over?

MR. SCHMIDT: Right after the fall of France in June 1940. David-Weill came about May or June 1942. Andre Meyer got out right after the fall of France. He and his wife arrived here in June 1940.

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Pierre David-Weill, however, didn't get here until about June '42, the spring of '42.

H.M.JR: The reason I am asking - have they been active in the firm during the time that these things happened you are now going to tell me about?

MR. PEHLE: Andre Meyer more so than David-Weill, who came more recently, although the firm has been run by Altschul and by Singer, who is one of the minor characters, but he is always the man who has to do the dirty work. He is the one who has the little black box and knew the intricacies and decided how the reports would be filed.

Some of the violations went on because Andre Meyer, who was here first, and who is very skeptical about reporting things to the Government, didn't want to reveal David-Weill's interest. At least that is what he said. David-Weill was still in France, and he would say that he didn't know who the real owner was, while obviously he did.

Some of them were participated in to some extent by the law firm, which gave them very bad advice. Most of them concerned either the money of David-Weill or Andre Meyer. Usually it wasn't other people's money, but it was the money that had been tied up in all sorts of holding companies which should have been blocked on the books of Lazard Freres and wasn't.

A million two hundred thousand was transferred to Switzerland.

H.M.JR: From where?

MR. PEHLE: From New York. This was before Switzerland was blocked, but after France was blocked, and it shouldn't have been transferred without a license.

H.M.JR: For what purpose?

MR. PEHLE: They said they were repaying some money owed to people in Switzerland. Then they got into this Silesian-American matter.

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H.M.JR: Did they do that as a firm or as individuals?

MR. PEHLE: As a firm.

MR. LESSER: It wasn't firm money; it was an account on the books of the firm in the name of a corporation that belonged to Andre Meyer and Pierre David-Weill.

H.M.JR: Those two?

MR. LESSER: Yes.

H.M.JR: And it was done contrary to our regulations?

MR. PEHLE: Without a license.

MR. LESSER: September 1940.

H.M.JR: Without a license?

MR. LESSER: Yes.

MR. PEHLE: That was before Pierre David-Weill got here, but Andre Meyer was here.

H.M.JR: What would they be sending a million two hundred thousand from here to Switzerland for?

MR. PEHLE: They had customers.

MR. LESSER: I think this is possible, that this company, which we now know to have been an Andre Meyer-Pierre David-Weill holding company, perhaps might have been the holding company for other people as well at that time, and this may have been a drawoff by those other people, but it is not clear. They paid it into an account at the Bank of Manhattan, and the account was held in the name of Les Fills Dreyfus, a Swiss banks.

MR. PEHLE: They they got into this Silesian-American matter. Jøidens brought them into that. In the Silesian-American they were acting as agents here for a group of Swiss, supposedly, headed up by a consorter by the name of Ikap.

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There were numerous applications before the Treasury to allow the transaction, the underlying character of which was that some Swiss interests, who may or may not be acting on behalf of Germans - we always thought they were - were trying to buy the American interests and some properties in Germany and in Poland.

H.M.JR: Coal mines?

MR. PEHLE: Coal mines in Poland and Silesia. Jeidens also brought that in. Lazard Freres was to get three hundred thousand dollars. It never went through. The ABC has since vested the Silesian-American, and the ABC is now trying to put the deal through, or something very much like it. But they can't do that without approval. That is still being talked about. Jeidens during the investigation left, as you know, and went to the Bank of America. He, according to our way of looking at it, was the worst influence in there. He certainly had had a dubious background, which would lead anybody to be much more suspicious of the firm.

Pierre David-Weill has been fairly frank in giving us background information and telling us what he knows is going on in France under German domination.

Andre Meyer, of course, knew very little because he left right after the fall of France.

H.M.JR: Why did his wife stay there so long?

MR. LESSER: Also, why did he leave his wife there?

MR. PEHLE: His wife is still in France; his father is there. We have heard - I don't know if it is true - that his father has now been restored to citizenship, although it was taken away from him.

H.M.JR: That is David David-Weill?

MR. PEHLE: That is right.

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H.M.JR: Isn't there a son David David-Weill? I wonder if Pierre has any brothers.

MR. PEHLE: I don't know about that. Pierre's wife is, as Mr. Lesser says, in Cannes.

H.M.JR: She is staying there?

MR. PEHLE: Yes.

H.M.JR: Whose citizenship has been restored?

MR. PEHLE: Pierre's father's, David David-Weill. There is no way of verifying these things, of course.

H.M.JR: How did this David-Weill get to this country so late?

MR. PEHLE: He got a visa. I don't know, but I suspect if we traced back we would find that some prominent Americans - he has a lot of friends here - somebody like Robert Murphy, or one of that group, arranged to get him in.

H.M.JR: Do you say that advisedly?

MR. PEHLE: No, but that would be what I would expect to find.

MR. LESSER: There have been people coming out. There was this merchant of Casablanca who came here after visiting occupied France just about a year ago.

H.M.JR: That big - that Dreyfuss?

MR. LESSER: No, no.

MR. PEHLE: Continental Grain man?

MR. LESSER: No, no, there was another one. I can't recall his name. He was tied up in that Eastern Province case. He is now over in England fighting with the free French.

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H.M.JR: What do you propose to do?

MR. PEHLE: What they want to do is to reorganize somewhat. When France was blocked they needed a license or else they would have to close. They were given a license, not a public one, but a private one; and they have been operating under it ever since. It is a very free license. It lets them operate like any other New York banking house would operate. What they want to do is reorganize and let these two Frenchmen participate in the management. They say they want to bring in two Americans. Before they bring in anybody they have to clear it, but they don't want to put the proposition before us before they know just what the answer is. Schubart may come in. I would guess that if the Treasury lets them reorganize that he would come in.

Frankly, I don't see that the reorganization would make them any worse off than they are now - maybe better - because I think that you get a more active participation in the company by the people who are really concerned with it. Whereas, it has just been sort of running along without Altschul paying much attention to it.

H.M.JR: The thing that they have done - they have transferred a million two hundred thousand dollars to Switzerland without a license.

What is the other thing they tried to do?

MR. PEHLE: They have done a lot of things, Mr. Secretary.

H.M.JR: What else?

MR. PEHLE: Do you want to recite that?

MR. LESSER: That million two was in September 1940, and then in January 1941 they transferred a hundred and ninety-three thousand dollars out of the same account to two individuals. Then in January 1941 they transferred out of the same account half a million dollars to Bella Meyer, who is Andre Meyer's wife.

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MR. PEHLE: On that, for example, it may very well be that that money is hers or his and that they were entitled to it, but at least all these transactions should have been with our permission.

H.M.JR: None of them did?

MR. PEHLE: No.

MR. LESSER: In September 1941 they transferred two hundred thousand dollars out of the same account to Andre Meyer without a license. In September '41 they transferred twenty thousand dollars to one Moser, an employee of Lazard Freres, out of the same account again without a license.

Then there was another company, an English corporation, that was fifty percent owned by the David-Weill family other than Pierre, and that had an account with Lazard Freres, and between August 15 and November 27, 1940, after that company's account should have been blocked, they transferred a million seven hundred eighty-one thousand dollars out of it to a dummy corporation for purposes of hiding its identity, I assume.

H.M.JR: Were all these transfers to Switzerland?

MR. LESSER: No, only two involved Swiss people, the one million two in September, 1940 and the hundred ninety-three thousand in January 1941.

H.M.JR: Where did the other money go, to what country?

MR. LESSER: It stayed right here, out under different names so that the identity of the money changed.

H.M.JR: But they should have asked for permission?

MR. LESSER: Yes.

H.M.JR: How many more?

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MR. LESSER: Then between March 31 and April 2 they transferred a portfolio security of indeterminate value belonging to this company which was half owned by the David-Weill family to the name of a Cuban company, without license. The money all stayed right here. The Cuban company turned out to be a dummy, I believe, but it went out of this name that was demonstrably half French and half English, under cover of a Cuban name.

H.M.JR: Any more?

MR. LESSER: Well, Andre Meyer apparently had thirty thousand dollars in cash in a safety deposit box and only reported ten thousand dollars of it in the TFR-300 questionnaire.

H.M.JR: What was it that you and Paul recommended the other day?

MR. PEHLE: What we recommended - and it was concurred in by everybody who has worked on the case - was that we allow the reorganization, that we require as a condition without which we wouldn't allow the reorganization, that they put a substantial sum of money - we were thinking in terms of about five hundred thousand dollars - in the Federal Reserve Bank in an account, all of which can be forfeited to the United States without any further to-do on their part if they are caught in any violation by the Treasury Department.

H.M.JR: Well now, have we had any other cases like this?

MR. PEHLE: Well, we had the Chase Bank case where we had some serious violations. They were much more serious than this, I would say.

H.M.JR: What did you do?

MR. PEHLE: It was relating to some violations by other people, and we referred it to the Department of Justice.

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H.M.JR: What happened?

MR. PEHLE: It was referred to you, and he (Bell) handled it in your absence. It was referred to the Attorney General, and the Attorney General asked the United States Attorney to take it before the Grand Jury. It is going before the Grand Jury, and it is not impossible that the Chase Bank will be indicted.

That was a case which was stronger than this, Mr. Secretary, in this respect, that the Chase Bank through several of its officers failed to block an account of a diamond dealer in New York. They allowed it to run, and he kept on drawing funds out of it and doing his business; although he had a license from the Treasury with regard to other accounts to do a certain amount of business, he did business with this account. They also let him open an account with the branch in Panama of the Chase Bank. As a result, and in connection with his operations, he was dealing with the Japanese and he was dealing with the Germans. He was sending - one of the things he did, for example - he couldn't get export licenses for industrial diamonds, so he - under a freak in the law he could export bits in which there were industrial diamonds. So he exported bits and sent instructions along to dissolve the bits in hydrochloric acid and you have the diamonds.

MR. LESSER: Worse than that, he used this money made available to him through the Chase Bank's negligence or more - to buy industrial diamonds in Brazil and ship them from there to Japan and Switzerland and Sweden for Axis use, notwithstanding the fact that the State Department at that time had denied him export licenses to ship to the same customers from the United States.

H.M.JR: I went all through this thing when we were trying to reorganize that Aniline Company. We threw people out of there right and left.

What I don't get is this: Why do you men have confidence in these two Frenchmen, that they will continue this business and do it--

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MR. PEHLE: Mr. Secretary, I will tell you why I feel that way. There is nothing to indicate that these men are pro-German. There is nothing to indicate that these men have done anything designed to or which they felt would hurt the United States.

What they have done is, they have money; they have had it concealed in all sorts of holding companies. Before one of them got over here and while one of them was here, the money in these holding companies was switched around. The great bulk of it never left the United States. They should have gotten licenses; their counsel should have told them they needed licenses, and they didn't. Therefore, we just didn't feel we could let them reorganize without putting something in there that would bring to their attention forcibly that if they violate they are going to suffer a very severe penalty.

H.M.JR: Did their counsel advise them that they could do this?

MR. LESSER: We haven't been able to check that down fully. That is a rather difficult thing to check into because they always say, "We talked to our counsel." When we say, "What did you talk about?" they are not quite sure. Counsel's records are rather difficult to decipher.

H.M.JR: But what makes you think that these two men going in here won't do other things not necessarily - you don't know what happened to the money in Switzerland?

MR. PEHLE: We don't know.

H.M.JR: How do you know, for instance, that this may not have been Laval's money, or Bonnet's?

MR. PEHLE: You never can--

MR. LESSER: Truthfully we don't know whose money it was.

H.M.JR: How much money actually went to Switzerland? How much went to Cuba?

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MR. LESSER: None went to Cuba, just into a Cuban name.

H.M.JR: How much to Switzerland?

MR. LESSER: One million two.

H.M.JR: That is the only one?

MR. LESSER: Yes.

H.M.JR: Who does that ostensibly go to?

MR. PEHLE: A Swiss banking house. We can go into that more thoroughly and see whether there is any further evidence as to who that went to. This Swiss banking house was one that was affiliated very closely with Lazard Freres. They had very close ties with them.

We haven't seen anything, I would say, that would lead us to feel that these people are going to play with the Germans. There is always a certain amount of risk as to whether they will, that is true; but there is a risk with regard to other institutions, too.

H.M.JR: But you haven't seen anything which would indicate that they would live up to our laws?

MR. LESSER: The thing that gives me hope in that connection is this, that their commercial accounts, their regular banking accounts, seem to have been handled with pretty decent regularity. The only accounts in which we found substantial violations were these hidden funds of the French partners themselves. The transactions mostly took place while one or both of them were not in this country and were apparently for the most part intended to further conceal or further safeguard these funds from any attack from the occupying forces in France or from anybody else who might want to grab them. That is the most I can recapitulate.

H.M.JR: Whom are you seeing at five o'clock?

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MR. LESSER: Altschul and the two French partners.

H.M.JR: And their counsel?

MR. LESSER: There is no indication as to whether they are bringing counsel with them. I don't know.

H.M.JR: You are seeing them yourself?

MR. PEHLE: Yes, sir.

H.M.JR: I would certainly ask more about that.

MR. PEHLE: I will. There need be no final disposition one way or the other. We can tell them we are considering requiring them to put up this amount of money, and we can ask them for a fuller statement on this million two.

H.M.JR: What about this man you say who actually does the--

MR. PEHLE: Mr. Singer?

H.M.JR: Yes.

MR. PEHLE: I don't--

MR. LESSER: I don't think he is dangerous in himself, he is just following out instructions; that is my guess; there is nothing in it for him.

H.M.JR: Have you cross-examined him?

MR. LESSER: I haven't, no.

H.M.JR: Has anybody?

MR. PEHLE: No, we haven't taken formal--

H.M.JR: I would like you to send for Singer alone and ask him who gave him these orders.

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MR. LESSER: That was on the program, sir.

H.M.JR: Send for him and say, "Who gave you these directives?" Get them verbally; get them in writing. What is he, chief clerk or something?

MR. LESSER: That is what he amounts to.

H.M.JR: Does Altschul say he knows or doesn't know about these--

MR. PEHLE: On the whole I think he says that he doesn't know, and on the whole he probably didn't. He is in the office very little; he doesn't pay much attention.

H.M.JR: Another thing to ask Singer is whether Altschul told him - somebody gave Singer these orders.

MR. PEHLE: We will take all that up this afternoon directly with him too, and find out.

H.M.JR: Supposing you do that and then let's have another session.

MR. PEHLE: Leave the question open?

H.M.JR: Yes. I am not entirely satisfied.

MR. PEHLE: We thought the case was a close case.

H.M.JR: Well, I will go into it again when you are ready. I would like you to send for Singer.

MR. PEHLE: We will go into it.

H.M.JR: Have we the right to send for Cook?

MR. PEHLE: Anybody. The trouble with Cook is - he was down before - Cook is just in his dotage.

H.M.JR: Really?

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MR. PEHLE: Very much so. He starts telling you all about his child and his past history; his mind wanders.

H.M.JR: Who advised them?

MR. PEHLE: Not Cook. Mr. Rohrllich.

H.M.JR: Who?

MR. LESSER: Chester Rohrllich, I believe. At least we found one instance where he gave them very, very bad advice and gave it to them in writing so that we were able to pin it right on him.

H.M.JR: You people look at it as trading with the enemy - that is the thing?

MR. PEHLE: I wouldn't want to say that. I would say that what they have shown is that on their own affairs they have shown that they were going to act like Frenchmen and not pay any attention to Government regulations. I think that the investigation has unnerved them a great deal. I am sure they are very worried.

I called Mr. Altschul on Saturday, and I said, "How about coming down next Tuesday?" He said, "Couldn't you make it Monday?"

I said, "All right."

He said, "Can't you tell me over the telephone?"

I said, "No, I don't think we can discuss these things over the telephone." He meant I should tell him then. I know he spent a bad week end, because they were very, very worried. So I don't think it is a case of just going in and whitewashing them or anything like that.

I think if we allow them to reorganize and put up a very substantial bond which the United States can forfeit, they will toe the mark.

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H.M.JR: But who is the master mind?

MR. LESSER: Of these violations that were involved?

H.M.JR: Yes.

MR. LESSER: I don't think there is any master mind to it; I think each one is a more or less isolated instance. I don't think it shows that; it doesn't show any common design.

H.M.JR: I would be very curious to know if Altschul knows. He used to know everything in that firm.

MR. LESSER: We have some indication as to one of these transactions.

H.M.JR: Which one?

MR. PEHLE: One of the smaller ones.

H.M.JR: Such a thing as a fine - we don't have such things, do we?

MR. PEHLE: No. OPA, Mr. Secretary, has a system whereby they say to a firm under such circumstances, "Well, you pay us a couple hundred thousand," or something like that. But OPA has been very highly criticized for that, and, frankly, they are - we are afraid to do it. They would be glad to pay it, but it is sort of government by threat. OPA has been criticized for going to people and saying, "Either you pay or we are going to get you indicted," and that is what the threat always is. I think it is a very bad practice.

This isn't that. This says, "You put up that money. If you violate we are going to forfeit it."

H.M.JR: What do you do then?

MR. PEHLE: This is a bond in effect.

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H.M.JR: You either say it should go to the Department of Justice or it shouldn't?

MR. PEHLE: Yes.

H.M.JR: And there is no in-between?

MR. PEHLE: No, not in this case. I don't see any in-between. You can just say, "We will close the New York office and put you out of business," but that is a very serious thing.

H.M.JR: Well, after you have this thing I want to spend another half an hour on it. Needless to say, you needn't tell them I am following this, but when this is through I want to make a detailed report to the President on it.

MR. PEHLE: We had better leave everything wide open as to where we are.

H.M.JR: That is right. When we get through I want to give the President a written report on this. I spoke to him the other night, and he is keenly interested.

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

There will be a meeting of the Joint Committee in  
Room 314 Senate Office Bldg., on Monday, March 29  
at 10:30 a.m.

To hear Mr. John H. Fahey of the Federal  
Home Loan Bank System.

HARRY FLOOD BYRD,  
Chairman.

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Mrs Klafy 21

TREASURY DEPARTMENT  
WASHINGTON

March 29, 1943.

MEMORANDUM ON MEETING OF THE JOINT

COMMITTEE ON REDUCTION OF NON-DEFENSE EXPENDITURES

A meeting was called at 10:30 A.M., Monday, March 29, 1943, in the Senate Finance Committee Room in the Senate Office Building. There were present:

Senators:	Home Owners' Loan Corporation:
Byrd	Mr. Fahey
Rye	Mr. Penniman, Assistant to the Commissioner
McKellar	Col. Lee, General Counsel
George	Mr. Andrews, Comptroller
Bureau of the Budget:	Mr. Moore, Secretary.
Mr. Lawton	

The meeting opened at 10:30 A.M. Senator George did not arrive until 10:50 A.M. and left at about 12:30 P.M. The Committee reporter made a stenographic transcript of the meeting. Reporters were present.

Senator Byrd opened the meeting and said that Mr. Fahey of the Home Owners' Loan Corporation would make a statement.

Mr. Fahey submitted a prepared statement, a copy of which is attached hereto, and undertook to read such statement. At times he departed from the printed text by skipping certain non-essential matters and at other times he made further elaboration of the matters contained in the prepared statement.

While Mr. Fahey was reading from page 3 of the prepared statement with respect to personnel, Senator McKellar made a comment in which he questioned the necessity for the continuation of regional offices. The Senator asked that there be submitted for the record a breakdown showing the cost of running each regional office, the number of persons employed in each, their salaries, the kind of work they were doing, such as attorneys, etc.

Senator Byrd asked what percentage of equity borrowers had in properties covered by their loans and Mr. Fahey replied that as of June 30, 1943 it is estimated that \$1,445,000,000 of loans will be

FOR DEFENSE



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outstanding, of which 460,000 loans amounting to \$589,000,000 have been paid off to an average of about 30%. The Committee endeavored to obtain information as to the value which the Corporation placed on its various categories of loans and Mr. Fahey called the Committee's attention to the fact that it would be unwise to publish such information because if the Corporation is called upon to liquidate its loans it would not be good business to furnish persons who might be interested in buying such loans information of this character. The Committee agreed with this position.

Mr. Fahey furnished the following information, in addition to that contained on page 19 of the prepared statement, showing a breakdown of the number and amount of loans estimated as of June 30, 1943:

<u>Group</u>	<u>Amount of principal reduction</u>	<u>No. of Loans</u>	<u>Unpaid Balance</u>
1	None	12,000	\$46,023,000
2	Up to 10%	28,000	103,918,000
3	10% to 20%	114,000	355,261,000
4	20% to 30%	132,900	351,017,000
5	Over 30%	462,500	588,779,000
	Total - - - - -	<u>749,400</u>	<u>\$1,444,998,000</u>

In addition to outstanding loans the Corporation held real estate acquired or in process of acquisition on December 31, 1942 involving 31,621 parcels carried at a book value of \$226,925,000, located in about 3,000 separate communities.

In a discussion as to the disposition of acquired properties, Mr. Fahey indicated that such properties were disposed of at an average write down of 30%. Senator Nye asked how many original owners come back as purchasers at such sales and Mr. Fahey replied that practically none come back.

There followed a discussion of the Corporation's estimate of losses that would be involved if liquidation was required in one to five years, which losses range from a maximum of \$440,000,000 on the basis of a one-year liquidation to \$180,000,000 on the basis of a five-year liquidation, a reference to which is made on page 20 of the prepared statement.

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Senator Byrd, in commenting upon the estimates of loss which would be incurred by forced liquidation, asked if any consideration had been given to the possibility of a post-war depression and what would be a reasonable time during which the Corporation could liquidate its activities. Mr. Fahey said in his opinion no definite time for liquidation could be fixed, but he believed the Congress, especially the Appropriation Committee, should follow the liquidation of the Corporation from year to year and when the time comes when the Corporation can be liquidated without absorbing a big loss, the Congress could then take steps to accomplish this liquidation. He said that lending institutions will not take over loans having any doubtful characteristics except at a big discount. He also said that the savings and loan associations, which have been most active in urging the liquidation of the Home Owners' Loan Corporation, have not, as a matter of fact, examined the problems involved in the liquidation of the Corporation or in taking over its loans. Mr. Fahey referred to the bill introduced by Congressman Dirksen to provide for a swap of assets of the Home Owners' Loan Corporation for shares of savings and loan associations. He said this proposal did not appeal to him.

Senator McKellar reverted to the estimates of loss which would be incurred by forced liquidation and Mr. Fahey replied that the estimates submitted were conservative and that as a matter of fact he thought the \$440,000,000 estimated loss, if the Corporation is to liquidate in 1944, would be much larger. He also said that while estimates had been prepared as to probable losses on a forced liquidation basis, he thought it would be impossible for the Corporation to liquidate. He said it would be necessary to recruit a large force of additional employees to handle the liquidation and that the estimated cost for such purpose would be about 1% of outstanding loans, or nearly \$15,000,000. Senator McKellar said that the Congress when it organized the Home Owners' Loan Corporation in 1933 anticipated that there would be losses and he thought Mr. Fahey and his Corporation had done a good job. The Senator was impressed with the amount which the Corporation is collecting, both from scheduled payments and from prepayments, and also the amount of its debt which had been paid off. Senator McKellar stated that notwithstanding this situation he wondered if it would be better to wind up the Corporation at this time and to take the loss involved. He asked Mr. Fahey if this was not done what Mr. Fahey thought of providing for liquidation by July 1, 1945. Mr. Fahey replied that he was in favor of any plan that could be presented to close out the Home Owners' Loan Corporation without severe losses to the Government.

Senator Nye observed that in his opinion the answer as to when the Corporation should be liquidated will be answered by what happens within the next year. He stated if there is a continuation of increased payments on mortgage loans by the debtors, thus increasing

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their equity in the properties, a year from now there will be much better prospects of unloading the properties. Mr. Fahey laughingly replied that the properties would not be unloaded; that the purchasers would see to it that they obtained them at a substantial discount.

Mr. Fahey said that home owners are paying their loans better now than at any time in the history of the Corporation and that in his opinion the Government should take full advantage of this situation. He reiterated his suggestion that the Congress watch the situation from year to year and determine at some later time whether liquidation should be undertaken.

Mr. Fahey during his testimony was well received by the Committee; they indicated their confidence in his administration of the Corporation and were favorably impressed by his views. On the whole he made a very favorable appearance, and while he did not have time to read completely his prepared statement, it was agreed that the statement would be included in the record.

The meeting adjourned at 12:55 P.M.

WJH

Attachment.

STATEMENT PRESENTED BY JOHN H. FAHEY, COMMISSIONER  
OF THE FEDERAL HOME LOAN BANK ADMINISTRATION

BEFORE THE

JOINT COMMITTEE ON REDUCTION OF NON-ESSENTIAL  
FEDERAL EXPENDITURES

Monday, March 29, 1943.

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At the conclusion of our last hearing we were expected to return here and present additional information which you requested concerning the sale of properties by the Home Owners' Loan Corporation, and the status of our mortgages. You also wished to know what, if anything, could be done wisely to dispose of all the assets of the Corporation quickly and terminate its operations.

Knowing the insistent demands upon your energies and the difficulties you encounter in devoting time and thought to such problems as Home Owners' Loan Corporation and many others, I believe it will be advantageous if you will permit me to present a general statement as a basis for your consideration of the questions which have been raised.

It is our duty to carry out to the best of our abilities any policy which Congress decides upon relative to Home Owners' Loan Corporation. It is likewise our plain duty and our responsibility to Congress and to this Committee as your servants to place before you all the facts as a basis for that determination of policy. I assume that you also expect us to express our judgment as to the best methods to pursue.

If it is agreeable, therefore, I will, as suggested, present a statement of our general problems, in connection with which I will endeavor to

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answer the questions raised at the last hearing. I understand, of course, that it will doubtless be necessary for you to ask questions as I proceed.

I am sure you will agree that a proposal which involves sale, with the least practicable loss, of a billion and three-quarter dollars worth of Government property is one that calls for careful thought and planning. It involves the largest operation of its kind in which the Federal Government has ever engaged.

Any discussion of the liquidation of the Home Owners' Loan Corporation must necessarily take into consideration the circumstances under which it was organized, the type of operation Congress contemplated, and the progress made thus far in carrying out the mandate of the Congress.

A great deal of misinformation has been circulated as to the present status of Home Owners' Loan Corporation liquidation and I believe that any understanding of the subject must be predicated upon an examination of the facts. May I summarize them briefly:

The Corporation made over 1,017,000 loans in the amount of \$3,093,000,000. Subsequent additions increased this to \$3,481,000,000. Of this total amount, \$3,278,000,000 is represented by original borrower and subsequent vendee accounts, which by December 31, 1942 had been reduced to \$1,567,000,000, a reduction of 52% of the total loan amount. The number of accounts at December 31, 1942 had been reduced to 780,000.

The Corporation was forced to acquire through deaths, abandonment, foreclosure, etc., 194,163 properties. We have sold 164,236 properties, a liquidation of about 84% of the properties acquired.

Of the remaining properties (capitalized at \$226,925,000), 29,876 were listed with sales brokers and being persistently pressed for sale. The list prices fixed by us on the average represent a mark-down of approximately 30% from our book value. Brokers are, however, instructed to present all offers and we accept all that are reasonable in view of what is clearly the fair value of the property. Of the units in these properties available for occupancy, 92% were rented, and the rents collected in December totalled \$1,391,000. The total cumulative rentals received have totalled \$122,104,000.

Employing at the peak 20,611 people, as of the first of this year, the number has been reduced to 4,306. The appropriation for next year contemplated a further reduction to 3,832.

Home Owners' Loan Corporation has reduced the number of its offices from 458 to but 8 Regional Offices and 25 temporary field offices.

Its administrative expenses have been reduced from a high of \$37,679,998 for a single year to an estimated \$10,001,466 for the fiscal year ending June 30, 1944. This is a reduction of \$27,598,532 from the top, or over 73%.

From year to year, regardless of the appropriations granted, Home Owners' Loan Corporation has honestly and persistently striven for the utmost economy and endeavored to make a record of reliability in that respect. It has succeeded every year in effecting savings below appropriations amounting thus far to a total of over \$10,000,000.

We respectfully submit that this is a record of liquidation, far exceeding the expectation of Congress when the Home Owners' Loan Act was passed, the significance of which has not been fully understood.

Ten years have passed since the Home Owners' Loan Corporation was organized. Much has been forgotten as to the objectives Congress intended it should achieve and as to the conditions which prevailed then and for several years after. Following the stock market crash of 1929, millions

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of home owners in all parts of the country were threatened with the loss of their homes, because of inability to meet interest and principal payments on their mortgages. Urban home foreclosures had increased from 6,800 in 1926 to nearly a quarter of a million in 1932 and to more than that number in 1933. Over half a million urban properties sheltering about four million persons were foreclosed in 1932 and 1933. Such a mortgage panic had never afflicted any country before. If not stopped, it was apparent that great numbers of additional home mortgages would be foreclosed. It was necessary not only to prevent further spread of foreclosures but also to restore the country's private mortgage lending institutions to a position where they could resume normal operations and support the mortgage credit structure. To meet the situation the Congress, on June 13, 1933, with but four dissenting votes in the House and none in the Senate set up the Home Owners' Loan Corporation. It was not a banking institution. It was essentially a relief agency designed to stop the tidal wave of foreclosures and prevent the spread of still greater disaster which threatened home owners, mortgage banking and the real estate structure. It was also intended to help our cities and towns confronted with grave difficulties because of their inability to collect taxes on real estate.

It is doubtful if many of the existing mortgage institutions could have continued in operation if it had not been for this Act of Congress. By extending the Government's credit to distressed home owners, home ownership was not only protected but the resumption of saving was encouraged, money was brought out of hoarding and the savings and mortgage lending institutions were helped back to their feet.

The Home Owners' Loan Act of 1933 authorized the Corporation for a period of three years to exchange its bonds and advance cash in an amount not

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to exceed \$2,000,000,000 for first mortgages on urban homes in imminent danger of foreclosure, which could not be refinanced elsewhere or that had been lost through foreclosure subsequent to January 1, 1930. Such loans were limited to 4-family dwellings and no loan could be made in excess of \$14,000 or 80% of the Corporation's appraisal, whichever was smaller. Borrowers were given fifteen years to repay their loans by monthly amortized payments. The interest rate was limited to a maximum of 5% in the case of loans made by the exchange of Corporation bonds and to 6% where all-cash loans were made for the payment of delinquent taxes or the cost of protective, maintenance and repairs. The Act further provided for a moratorium on principal payments until June 12, 1936. After that the principal was to be amortized within a twelve-year period.

Under this plan Congress anticipated that all of the loans would mature and be paid off by 1951. The Act however allowed a period of one year thereafter to clean up loose ends and provided that the Corporation should issue no bonds coming due after 1952.

Despite the liberality of the Act, difficulties developed promptly and slowed up the efforts of the Corporation to extend relief. Many hard-pressed financial institutions continued to push their distressed mortgagors and expedite foreclosures while declining at the same time to accept the bonds of the Government because while the interest was guaranteed the principal was not. Because of the lack of principal guarantee many mortgagees who accepted the bonds sold them immediately and forced the market down to the low 80's. This development added resistance to the acceptance of Home Owners' Loan Corporation bonds in exchange for distressed mortgages. Accordingly on April 27, 1934, Congress promptly amended

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the Act to provide for a Government guarantee of the principal of the Corporation's bonds as well as the interest. Meanwhile with foreclosures still rising the applications of home owners for the refinancing of their mortgages was increasing in such volume that on June 27, 1934 Congress voted to increase the authorization of the Corporation to issue bonds to \$3,000,000,000 from \$2,000,000,000.

The applications continued to mount to a total of nearly 2,000,000 representing over \$6,000,000,000 of mortgage indebtedness. Congress thereupon, in the Spring of 1935, again increased the authority of the Corporation to issue bonds up to a total of \$4,750,000,000. This bond authorization, plus the \$200,000,000 of capital initially given the Corporation, allowed it to expand its investments, if necessary, to the amount of \$4,950,000,000. Of this, the Corporation was authorized to employ \$400,000,000 to finance immediately necessary repairs and reconditioning (long neglected as a result of the panic) of homes securing the Corporation's loans, and for rehabilitation of those properties which it might be obliged to take over and put in condition for sale. Also, \$300,000,000 was set aside by Congress for investments in the shares and deposits of qualified home financing institutions. This provision was made for the purpose of rehabilitating and strengthening the financial position of such institutions and enabling them to make mortgage money available in areas where private resources were not obtainable.

By the Summer of 1939, however, in spite of the 15-year direct monthly reduction mortgage features, thousands of the Corporation's borrowers were unable to meet these moderate payments and increased foreclosures threatened. When Congress became aware of the borrowers' difficulties, the Mead-Barry amendment was introduced and passed by both the House and Senate,

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without dissent, on August 11, 1939. This authorized the Home Owners' Loan Corporation to extend its loans under certain circumstances from the original fifteen years up to as much as twenty-five years from the date such mortgage was written. While, as I have explained, the original Act provided that the Corporation should make no loans for a longer period than fifteen years, the last of which would mature in 1951, it expected that the Corporation would need a year to close up its affairs and granted it authority to issue bonds maturing in 1952. If all the mortgages, therefore, were not fully paid or assigned, the Corporation would have twelve months in which to sell any mortgages left on hand at the best price possible, and to pay off the last of the maturing bonds. The Mead-Barry Amendment, however, extended the authorized maturity of loans ten years to 1961 but it made no provision for the issue of bonds maturing after 1952.

Now, when we discuss the liquidation of the Home Owners' Loan Corporation, we must remember that by extending the amortization period of 253,565 borrowers under the Mead-Barry Act and eliminating their delinquency, the rate of liquidation of the Home Owners' Loan Corporation was retarded because the payments on their loans were reduced by about 40% over what was necessary to liquidate within the original fifteen years.

In the prompt execution of the mandates of the Congress, as I have explained, Home Owners' Loan Corporation between June 13, 1933, and June 12, 1936, received a total of 1,886,491 applications, and approved 1,017,821 loans. Indicative of the distress existing in the home-mortgage field is the fact that, at the time they were taken over, these loans were in default on the average, nearly two years in principal and interest and almost three years in taxes.

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Here, I think it is well to recall that the terms of the Home Owners' Loan Corporation mortgages, were the most liberal ever made in this country up to that time. They resulted in the development of a type of mortgage - uniform and standard - applicable to every section of the country and providing for regular monthly amortization payments over a period of fifteen years at 5% interest, with the subsequent reduction to 4%, and with the later extension up to 25 years. The influence which the Congress exerted by the Home Owners' Loan Act, has had far-reaching effects in revolutionizing the home mortgage business in the United States. It gave a very definite impetus to the development of the sound, long-term, amortized mortgage, at a reasonable rate of interest. As a result, the amortized mortgage principle is now pretty generally accepted over the country and, when the Federal Housing Administration was set up, that organization followed the same principle. The immediate effect, of course, was to end the mortgage panic and to check promptly the threat of foreclosure on millions of homes. Real estate values were stabilized, mortgage lending markets were strengthened, and help was given to towns and cities which found themselves financially mired because of excessive tax delinquency.

The Corporation had completed its lending operations on June 12, 1936. It had in its portfolio mortgages of distressed home owners secured by properties in every community with a population of 2,500 or more and in all but 64 out of the total of 3,072 counties in the United States, and in Hawaii, Puerto Rico, and Alaska, as well.

During the lending operation, employment conditions still remained such that by December 31, 1936, 604,734 of these refinanced Home Owners' Loan Corporation accounts were again in arrears. 146,016 were in arrears 12 months

and over, of which 27,455 were in arrears 24 months or more. At this time, accumulated arrearages had reached a high of \$128,700,000 and most of these borrowers were again delinquent in taxes.

To combat this situation patient but persistent and comprehensive measures were necessary. Every opportunity and assistance was afforded to distressed home owners to enable them to regain a sound home ownership position as Congress contemplated. More than 120,000 letters were mailed and over 130,000 interviews conducted monthly. Every delinquency problem was carefully investigated, and wherever possible solutions were developed. Employment was found for some, while others, who were overhoused, were assisted with the sale or rental of their properties. Those behind on taxes were offered the use of special deposit account, in which they could accumulate funds for the payment of taxes and insurance. Advances were made for the payment of home owners' delinquent taxes; the amount advanced for this purpose by December 31, 1942 totaled \$158,836,005.

In spite of the sympathetic consideration and generous assistance accorded by the Corporation, a large number of those who took advantage of the moratorium on principal payments until June 12, 1936, were unable to meet the required regular amortized payments after that date and remain current in their payment of taxes and insurance. It was apparent that, if these home owners were to maintain their loan payments, as well as taxes and insurance, an adjustment would be necessary in the terms of the mortgages. Such cases were segregated, and the loans recast or extended for short periods of time, under authority contained in Section 4(d) of the Home Owners' Loan Act of 1933. This temporary recast or extension of loans, however, proved inadequate to meet conditions. To cover this situation and avoid

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the necessity of foreclosures, and the losses they would cause, Congress, upon its own initiative, by passing the Mead-Barry amendment, authorized the HCLC to extend the period of amortization of home loans. A total of 253,565 such extensions were granted under this amendment, by December 31, 1942, at which date 233,329 were still in effect. In granting these extensions, the Corporation required the establishment of a tax and insurance account to make sure funds would be available for these annual carrying charges and to prevent future tax and insurance delinquencies.

Thus, the immediate effects of the Mead-Barry extensions were to reduce the foreclosures, increase loan balances and extend the maximum maturity date of large numbers of the Corporation's loans from 1951 to periods ranging up to 1961. Of course, all such recasting and extension was not made for the full 25-year limit. Wherever it could be worked out over a lesser time, we did it. Of the total extensions, 16% were recast and extended up to 20 years, and 84% had to be extended to periods between 20 and 25 years in order to come within the borrowers' ability to pay.

The result of this constructive legislation was reflected in the immediate decline in foreclosures. Property acquisitions had reached a peak of 55,190 in 1938 and which have declined rapidly to the present low of 7,241 for the year 1942. Supported by this clear legislative mandate the Corporation was enabled to carry 250,000 mortgages, a large proportion of which would otherwise have been foreclosed. This would have resulted in tremendous loss to the Corporation, and the economic effect of adding that many accounts to the large overhang of institutional real estate would have been serious. It is plain that in the interest of the mortgagor, the Government, and the mortgage and real estate field, the only sound program to follow is to go along with these

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borrowers until their loans are on such a basis with the Corporation that they are out of danger. Experience thus far shows it.

Notwithstanding the policy of the Home Owners' Loan Corporation to resort to foreclosure only when every possibility of rehabilitating the home owner had been exhausted, some foreclosures were inevitable. To date, 194,163 or approximately 19% of the original loans, have been foreclosed. Of these 50.2% were caused by the home owner's inability to pay, the remainder being attributable to obstinate refusal to pay, lack of cooperation from the borrower, abandonment of property, death of the borrowers, or legal complications. The average age of delinquency at time of foreclosure on mortgage loans unextended was 24 months and on those extended, 6.3 months.

At our last meeting your Committee asked whether we could show the cost of servicing each of the different classes of mortgages, particularly the 250,000 accounts that are less than 90 days delinquent, and those 30,000 that are delinquent more than 90 days. Records are not available which would provide the servicing cost on this basis.

For the fiscal year 1942, the Corporation's servicing costs averaged 33¢ per \$100 of principal balance, this was for servicing all types of loans, delinquent, slow and current. This cost not only covers the expense of the Loan Service Division including the Tax and Insurance Sections but reflects its proportionate share of the Accounting, Legal, Treasury, Appraisal and Reconditioning Sections' expenses as well as travel costs and overhead expenses.

Of our servicing costs of 33¢ per \$100 of principal balance, 70% or 23¢ per \$100 of principal balance is chargeable to the servicing of delinquent or slow loans and 30% or 10¢ per \$100 of principal balance for the servicing of current loans.

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This servicing cost of 33¢ per \$100 of principal balance is compared with the 3/4 of 1% or 75¢ per \$100 of principal balance paid to savings and loan associations and other mortgage lending institutions for servicing the insured mortgages in the portfolio of the Federal National Mortgage Association. The banks, savings and loan associations and other institutions which are servicing the insured loans held by the FNMA have maintained they could not afford to render this service for less than 75¢ per \$100 of principal balance, and this notwithstanding the fact that this service is on prime loans, mostly loans on new dwellings, certainly, preferred in character over the HOLC's portfolio.

At the previous hearing the question was raised whether, assuming we could dispose of the 500,000 accounts that are being paid pretty regularly on schedule, the remaining 280,000 could be sold readily. Undoubtedly some of them can be sold at a price but they cannot be disposed of quickly. Some of the factors which affect most of these loans and which would make their sale extremely difficult if not impossible at present even at a substantial discount, are: the small extent to which the loan has been reduced, the age and credit standing of the borrower, the age and type of the property securing the loan, the scattered location of the loans, the extended maturities and, in some instances, the extremely small loan balances.

Returning to a discussion of the acquisition, management and sale of properties, may I point out to you that up to December 31, 1942, the cumulative gross income from interest, dividends and rents reached \$1,099,000,000. This income has been applied to the operating expenses of the Corporation and to the losses incurred in the acquisition and sale of properties, with the result

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that the Corporation has thus avoided the necessity of asking the Treasury for a single dollar.

Up to the end of last December, the net operating income, before provision for losses, was \$174,000,000. This has covered 86% of the Corporation's capital losses on sales and 72% of all the losses incurred by the Corporation (\$241,000,000) including commissions and selling expense, fire, flood casualty and all other losses, with the result that the net loss has been kept down to \$66,736,562.

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May I summarize the cumulative figures of income and expense from the beginning of operations to December 31, 1942? Our income was as follows:

Interest on outstanding loans	\$932,586,459	
Rental Receipts	122,103,606	
Dividends from Investment in Capital Stock of Federal Savings and Loan Insurance Corporation	3,035,326	
Dividends from Investments in Shares of Savings and Loan Assns.	37,832,009	
<u>Miscellaneous Income:</u> Reimbursement from Fire Losses, Rental of Office Bldg., etc.	<u>3,977,913</u>	
TOTAL INCOME		\$1,099,535,313
Our expenses were:		
Interest Paid on Outstanding Bonds	573,255,635	
Cost of Managing Properties Between Date of Acquisition and Sale	100,798,120	
Administrative and General Expense	<u>251,419,165</u>	
TOTAL EXPENSES		<u>925,472,940</u>
NET INCOME BEFORE LOSSES		174,062,373
Losses on Sales of Properties	239,856,773	
Mortgage Loan and Other Losses	490,911	
Fire and Windstorm and Other Damages	223,670	
Fidelity and Casualty	<u>227,581</u>	
TOTAL LOSSES INCLUDING ADJUSTMENTS		<u>240,798,935</u>
CUMULATIVE NET LOSS		\$ 66,736,562

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In considering the Corporation's deficit up to date (surprisingly small as compared with anything expected when the Home Owners' Loan Act was passed), it should be remembered that it took three years of work by a large organization to place Home Owners' Loan Corporation loans on the Corporation's books.

The total expense for examining applications and closing loans was \$50,500,000. The Corporation had to incur that expenditure in setting up its business. In normal business operations this item would be considered organization and development expense. If this cost were amortized over the 15 years fixed by Congress originally as the loan term, the net loss of the Corporation on December 31, 1942 would have been reduced almost one-half.

If it had not been for the activity of the mortgage lending institutions in canvassing our borrowers and taking away many good loans, the interest income to date would have been increased materially. The loss of interest income to the Corporation on these refinanced loans (as compared with the interest income if the loans had continued to pay on the regular basis until maturity) represents a total of approximately \$39,000,000. Over the next five years, the deficit, under normal operations, would be much less were it not for the raiding of our portfolio by many of the same lending institutions which we pulled out of the hole in the early 'Thirties.

It would have been wholly impractical, and, in fact, impossible, for the Corporation to handle its acquired properties without the cooperation of the Nation's real estate brokers. In order to get the maximum benefit of business experience in the disposal of acquired properties, arrangements were made with some 27,000 local brokers throughout the Nation. Brokers were paid established fees for management and sale of our properties on the basis of

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the results obtained. Listings of the Corporation's properties have been issued regularly to all approved brokers.

As of December 31, 1942, the Corporation had 31,621 properties, owned or in the process of acquisition, with a capitalized value of \$226,925,000. Although these were scattered among the 3,252 separate communities throughout the United States, the major portion, 26,881, were distributed over 1,413 separate communities in the New York Region and 8,442, with a capitalized value of \$74,400,000, were located in the five boroughs of the New York Metropolitan area. Of the Corporation's properties 90.1% were available for rent, of which 92.2% were rented at an average monthly rental of \$38.06 per dwelling unit. At this point, while dealing with rentals, may I answer a question raised at our last meeting. Rental collections during December 1942, of \$1,391,000, increased the total of such collections for the calendar year to \$18,500,000 and cumulative rental receipts to over \$122,000,000 as I have already explained.

The Corporation is continuing to conduct an energetic campaign to sell its properties as rapidly as possible commensurate with the ability of the market to absorb them. Its sales policies have consistently avoided the dumping of properties on the market. It should be remembered, however, that recent restrictions imposed by the Office of Price Administration have retarded somewhat the Corporation's sales program.

I have endeavored to give you as briefly as possible a review of our beginnings, the problems confronted, and what we have accomplished by way of an orderly and efficient liquidation in conformance with the amortization schedules fixed under the original legislation and subsequent amendments. May I now turn to your Committee's request that I present a statement as to what

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would be the effects of an accelerated liquidation of the Home Owners' Loan Corporation.

You will appreciate, I know, that there are many problems involved in the hurried liquidation of a Corporation of this magnitude and nature, with its ramifications reaching out into the homes of some 780,000 families in more than 19,000 cities, towns, and villages throughout the Nation.

Even before the Corporation completed its refinancing and before it ceased taking over a major portion of the country's distressed mortgages, it began to be subjected to pressure for the sale of its better mortgages. Various proposals were advanced for the transfer of its assets back to private hands. Consequently, this is not a new subject with us. These proposals have been gone into carefully.

As early as November 1935 (8 months before the Corporation wound up its lending activities) the United States Savings and Loan League adopted a resolution requesting that the Corporation sell to private lenders such of its loans as would qualify for FHA insurance or without insurance, would meet the specifications of these lending institutions. One year later at the October 1936 convention of the League, its Executive Vice President suggested that such securities as the Home Owners' Loan Corporation owns "which are acceptable to private investors and trustee institutions, should be pressed in that direction". In December of that year, the President of the League addressed a letter to President Roosevelt suggesting a program by which the Corporation would transfer its better mortgages to savings and loan associations and perhaps to other mortgage lending institutions. Again, in October 1937 the Board of Directors and the Executive Council of the United States Savings and Loan League approved a bill, for the acquisition of Home Owners' Loan

Corporation mortgages, that had been drafted by the League. A few months later in February 1938 its Board and Executive Council reaffirmed this approval. Section 15 of their proposed bill would have authorized the Corporation not only to sell its mortgages and properties for cash but to exchange them for shares of savings and loan associations.

In the same year, the Committee on Reserve Credits and Banking Relations of the League recommended that the Home Owners' Loan Corporation be liquidated by exchanging its assets for investments in savings and loan shares. It then commented: "With the passage of time, this tremendous operation created for an emergency purpose will become more and more subject to political influences and several million votes cannot help but be attractive in connection with such matters as reduction in interest rates, so-called leniency as to foreclosures, moratorium on principal, and eventual waiving of the debt. The target is removed with the transfer of the obligations to private enterprise."

If any plan could be developed for the immediate transfer of the assets of the Home Owners' Loan Corporation to private institutions, which would at the same time protect the home owners and safeguard the Government's large investment, continue to stabilize the real estate market and the country's mortgage credit structure, you may be sure it would have my approval. However, our experience with the proposals thus far received convinces us that a step of this character is not feasible at the present time.

Since our loans were made in over 19,000 communities throughout the United States and on properties from five to one hundred years old, and wholly to borrowers who were unable to refinance their loans prior to acceptance by the Home Owners' Loan Corporation, it is evident that many loaning agencies would be reluctant to purchase certain of our loans on any basis at present because of the type and location of the loan.

The only definite suggestion that has been made has been that we offer them for sale on a package basis. If this were undertaken, it would be necessary for us to recruit a staff of qualified employees especially selected to analyze, appraise and prepare adequate information regarding each of the mortgages to be sold in order to furnish prospective purchasers with proper evidence of the Corporation's experience with the respective borrowers. None of the present employees of the Corporation would be available for this work, since all billing, posting, and servicing would have to be continued with increased effort to induce our borrowers to meet their payments regularly and to maintain our operations on a current and normal basis. It is anticipated that the additional expense necessary to dispose of our accounts would amount to a minimum of 1% of the outstanding balance. # 15-A

In order to estimate what losses would be incurred and what further burdens would be placed upon the Treasury and the taxpayers by forced liquidation, we have had studies made of the results if this work were spread over a period of one to five years. In estimating loan losses as conservatively as possible, we have classified our mortgage loans and vendee accounts into five groups, (1) those on which no principal reduction has been made since the loan was granted; (2) those on which up to 10% reduction has been made; (3) those on which a reduction of over 10% and up to 20% has been made; (4) those on which more than 20% and up to 30% reduction has been made; and (5) those accounts on which more than 30% has been paid.

In addition to our mortgage loans and vendee accounts, it would also be necessary to sell at the best prices obtainable the real estate we expected to have on hand at the beginning of the fiscal year in which the Corporation would be forced to liquidate. It has been conservatively estimated that, under forced liquidation, our houses would have to be sold at a discount of 60%, whether liquidated for cash or sold on terms. While in the latter cases

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much smaller losses are sustained when sales are made with a nominal cash payment, the immediate sale of the vendee accounts with small equities would subject the Corporation to an additional substantial loss.

The Corporation would also be confronted with an estimated loss in bond interest, due to the necessity of holding the cash received in payment for its assets until it would be possible to retire the outstanding bonds of the Corporation. It is estimated that at June 30, 1943, the following unmatured bonds will be outstanding:

3% Series A - callable for payment May 1, 1944 -	\$778,578,075
1 $\frac{1}{2}$ % Series M - callable for payment June 1, 1945 -	754,904,025
1% Series Q - callable at any time -	225,000,000

At the present time, all repayments of principal received are being applied against Series Q bonds. When this issue is paid in full, no further bonds can be retired until May 1, 1944, when 778,578,075 could be paid off. The balance of the funds would have to be held idle until June 1, 1945.

Assuming we could maintain our organization and personnel and at the same time quickly recruit a field organization qualified to dispose of these assets (which is absolutely impossible to do at this time), it is estimated that, should a forced liquidation be concluded by the end of the fiscal year 1944, the loss, viewed conservatively would be \$440,000,000.

Each year thereafter the loss would be reduced correspondingly. If the Corporation were closed out by the end of the fiscal year 1945, the estimated minimum loss would be \$351,000,000; by the end of the fiscal year 1946, \$285,000,000; by the end of the fiscal year 1947, \$230,000,000; and by the end of the fiscal year 1948, \$180,000,000. That is, if normal operations continued through fiscal year 1947, and final liquidation were to be accomplished by

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June 30, 1948, the savings to the Government would be \$260,000,000, the difference between the \$440,000,000 loss by liquidation in 1944 and \$180,000,000 for liquidation in 1948.

In preparing these estimates we have given consideration to all important factors of operations based on our years of experience in handling the affairs of the Corporation. These factors include continued trend of normal liquidation, extensions and reamortizations, paid-in-full loans, foreclosures and property acquisitions and sales, with the resulting effect on capital structure and on income and expense.

In projecting the estimated losses if HOIC were required to dispose of all of its assets by forced liquidation as of the fiscal years from June 30, 1944, to June 30, 1948, consideration has been given to a normal operation up to the beginning of the fiscal year in which the Corporation was to be liquidated with all assets then on hand disposed of throughout that year in equal parts. For instance, if we were to liquidate by June 30, 1945, the Corporation would continue to operate in a normal manner until June 30, 1944 and then liquidate 1/12 of the assets each month during the fiscal year 1945. Thus, as of December 31, 1944, one-half of the assets owned as of June 30, 1944 would have been sacrificed.

The losses which I have indicated, as I have explained, are predicated on a markdown of a certain proportion of the Corporation's mortgages. Without such a markdown they could not be sold within the time specified. Again, this 5-year analysis is merely an estimate, based upon the operations and experience of the last 3 years. I cannot forecast the future. No human being can tell what is going to happen now in the midst of an unprecedented war.

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Certainly, the progress that has been made indicates it is good business to give borrowers an opportunity to continue building their equity, working toward the time when we can get them on a sound basis.

In this connection, the efforts of the Corporation to encourage and persuade its borrowers to pay more than the regular amounts due on principal have met with encouraging response. We have proof that it is advantageous to continue that encouragement by the Corporation so as to build up further increased equities and put a larger proportion of the loans in safe condition.

Please bear in mind again that these figures do not take into account the many problems and difficulties that will grow out of an announced liquidation, resulting in the resignations of our best workers. They would have to be replaced by untrained and inadequate personnel, with serious impairment of our ability to service our loans and to maintain proper records on the Corporation's daily receipts of more than \$1,000,000. We would also have plenty of new troubles with already worried and frightened borrowers who may cease making payments until they know for certain their status with us, thus piling up delinquencies.

I think it is only fair to you as creators of this Corporation, and to me as trustee, to point out that an organization such as the HOLC cannot be liquidated in a hurry without enormous loss and extensive reactions among real estate and financial institutions.

The effects of forced liquidation on employed personnel and the functioning of the Corporation are far-reaching and serious. This task of liquidation is a tremendous undertaking similar in magnitude and inherent problems to those of the lending days. It took a large organization with carefully selected personnel three years to handle and approve approximately

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2,000,000 applications, resulting in 1,000,000 loans. It is now suggested that we quickly dispose of nearly 800,000 loans, and properties, spread throughout the cities, towns and hamlets of every state, and this without disturbing the home and mortgage structure of the Nation which the Corporation has done so much to build.

The difficulties of carrying on normal operations while engaged in such a task of liquidation are such that the Corporation would have to have employees who can concentrate wholly on liquidation in addition to those who must continue to look after the Corporation's current accounts, records, real estate and other assets. The available supply of labor qualified and competent for either purpose is now inadequate and becomes more so daily. Purely from the standpoint of personnel, an early liquidation of HOLC presents staggering problems.

An immediate liquidation, such as is the intent of the Dirksen Amendment, is impossible. It will, in effect, stop all but clean-up operations by next November. The Dirksen Amendment provides for \$833,333.33 a month to cover all administrative expenses, including personnel services, travel, and other obligations, for the first six months of fiscal year 1944, but cuts the amount for the last six months by 75% to \$208,333.33 for each month. The effect of this would be that 1,064 employees would have to be terminated by next May and 2,330 more would have to be terminated by next November. This would leave 777 employees on the payroll as of next January 1. This is not enough to even take care of the Home Office accounting controls and the auditing, and carry on the necessary accounting and billing operations in the Regional Offices. All accounting and billing would fall far behind and the delinquency chaos would start. The Dirksen Amendment evidently did not

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take into consideration that the volume of work in connection with liquidating the Corporation will require not only the services of our present staff of employees but large additions, in order to adequately do the job of liquidation.

Obviously it was not realized that the curtailment of the Home Owners' Loan Corporation appropriation meant that this record-breaking sale of Government property would really have to be accomplished in less than six months. The plan for selling all the Corporation's property within such a limited time is based upon the theory that its "good" loans could be sold easily for par and the slower, extended loans should be marked down to the point where they would be so attractive to private institutions that they also would be bought at once.

It is proposed that "packages" should be made of the "good" and the "slow" loans and offered to the lending institutions and mortgage agencies of a community or an area. These "packages" would be available to any prospective purchasers and of course the Corporation would be expected to get the highest price for the property. This scheme would mean that in each community or area the Corporation would have to list the accounts which it considers worth par and mark down all others on the basis of the Corporation's judgment of what they are worth. The "package" would then be presented for examination by savings and loan associations, commercial banks, mortgage bankers, life insurance companies and any syndicate or syndicates formed to bid for the loans. It would be necessary in offering these "packages" for the Corporation to furnish prospective purchasers with full information about each loan. Such a statement must include the amount of the loan, number of years it has to run, the balance due, the payment record of the borrower, the physical value of the property, the status of taxes and insurance in connection with the loan

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and the age of the borrowers. It is hardly to be assumed that any well-managed lending institution would accept the Home Owners' Loan Corporation estimate of value and bid for the "package" without checking. Each prospective purchaser would make its own appraisal and secure its own report as to the credit risk involved. It would then decide whether to make an offer on the whole "package" or join a syndicate which would bid for all the loans and real estate owned by the Corporation in the area covered.

Even in communities of moderate size there are from three or four to a dozen or fifteen institutions and mortgage commission agents engaged in mortgage lending. It is easy to imagine the disturbance which would be caused as representatives of these competitive institutions began calling on home owners to ask questions, check on the property, etc. Innumerable controversies would arise as to whether the value placed on the loans and properties of the Home Owners' Loan Corporation was justified. It is inevitable that prospective buyers would attempt to purchase at the lowest possible prices. The result would be that responsible offers of purchase would be on a basis quite different from values regarded as fair by the Corporation.

We cannot reasonably authorize Home Owners' Loan Corporation workers in the field to negotiate and fix lower prices for prospective purchasers. Any proposals for readjustment would have to be referred to our Regional Offices. It would be physically impossible for the Regional Manager himself to pass upon demands for lower prices. They could be dealt with only by a competent Review Committee, able to pass upon such proposals quickly under the Regional Manager's direction. In some cases it would be necessary to refer extraordinary problems to the General Manager's office and possibly to Washington. Any such plan as that suggested must involve payment in cash if an offer were accepted.

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A bill pending in the House endorsed by the United States Savings and Loan League carries a provision that the loans and property of the Corporation could be transferred in exchange for the shares of savings and loan associations. The measure provides that these shares would be taken up by the association over a period of ten years at the rate of 10% a year. Of course it is clear that shares of savings and loan associations could not be disposed of for cash or used to retire the bonds of the Corporation. The Corporation would have to be kept in existence for at least ten years and its bonds would have to remain outstanding, or obligations would have to be issued by the Treasury to take up present Home Owners' Loan Corporation bonds.

Certainly such a plan for the sale of \$1,750,000,000 of Government property can be described as little less than fantastic.

Will the savings and loan associations, the life insurance companies, the mortgage bankers, the commercial banks and other lenders buy Home Owners' Loan Corporation "packages" for cash? They certainly will not do so except on a bargain basis which would cause losses to the Government of extraordinary amounts. The fact is that mortgage lending interests which talk so freely about acquiring Home Owners' Loan Corporation loans and properties are interested only in taking over such loans as involve no risk whatever to themselves.

Moreover, you may be sure that if Home Owners' Loan Corporation puts out lists of 780,000 borrowers with the full facts concerning each Home Owners' Loan Corporation loan, few offers of purchase will be received worthy of any consideration. With full information concerning the "good" loans, the mortgage lending interests will go directly to borrowers to induce them to

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refinance and leave the Corporation to work out the slow loans as best it can.

The only object of the present drive on Congress is to force Home Owners' Loan Corporation to sell its loans which may be regarded as safe.

The proposal to wipe out Home Owners' Loan Corporation within a year, aside from disposing of loans and properties raises problems with reference to investments made by the Corporation by direction of Congress. Aside from dealing with the distress of the home owners and steadily slumping real estate values, Congress intended that the Corporation should help to restore more normal conditions in the country in the financing of home mortgages. As I have explained, it provided that the Corporation could invest up to \$300,000,000 in the shares of savings and loan associations. These associations were to pay back the advances over a period of ten years. They still hold over \$125,000,000 of the Corporation's money and have five years to pay back this investment. If Home Owners' Loan Corporation is to be liquidated within a year it would appear that the Treasury would have to supply this \$125,000,000, take over the shares of the associations and wait for the balance of the amount due, to come in.

A similar problem is presented in the case of the Federal Savings and Loan Insurance Corporation. By Act of Congress on June 27, 1934, Home Owners' Loan Corporation was authorized to subscribe \$100,000,000 for capital stock of the Federal Savings and Loan Insurance Corporation. This Corporation was established to insure up to \$5000 savings placed in the shares of savings and loan associations just as Federal Deposit Insurance Corporation insures deposits in commercial banks. The purpose was to restore the confidence of

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savers in these institutions and get money back into home mortgages. It has been most effective. The insured savings and loan associations have steadily shown greater gains in savings entrusted to them as a result of this insurance than any other class of savings institution in the country. The \$100,000,000 of capital stock in the Insurance Corporation belongs to Home Owners' Loan Corporation as well as an accumulated surplus of \$22,500,000 earned on the Home Owners' Loan Corporation investment. If Home Owners' Loan Corporation is to be closed up within a year, this \$122,500,000 must be returned to it in order to retire bonds outstanding.

In this case, of course, the Treasury could supply the money and take over the stock of the Federal Savings and Loan Insurance Corporation if so authorized by Congress. It is clear, however, that Home Owners' Loan Corporation should have returned to it in cash the \$247,500,000 referred to in order to complete the retirement of its bonds.

The Corporation has at all times sought to finance its sales of acquired properties with private funds through private lending institutions. Not only has it encouraged purchasers to seek outside financing, but through its brokers and through favorable relationships with banks, savings and loan associations and other mortgage lenders, it has endeavored to place the financing of such sales in private hands.

Before accepting an offer to purchase on terms, the Corporation has uniformly required the broker submitting the offer to certify whether or not private lending institutions would be willing to make a loan on the property for that portion of the purchase price not paid to the Corporation in cash.

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The unwillingness or inability of private institutions to finance these purchases is demonstrated by the fact that, as of December 31, 1942, out of 164,236 sales made by the Corporation, only 10,590, or 6.4%, were cash sales. This small figure includes an unknown number of sales in which private lending institutions participated by providing some portion of the purchase funds.

The principal reason why it was necessary for the Corporation to take back a purchase money mortgage or an installment contract for the unpaid balance of the purchase price is that the large bulk of the Corporation's sales have been made with a cash down payment of about 10%. Sales on such terms have enabled the Corporation to secure better prices for its properties and also dispose of them more speedily than would have been possible if a larger cash down payment had been required.

Most financial institutions are prohibited by State laws or by their charters, except where insured by Federal Housing Administration, from making loans of more than 80%. Many, in fact, are restricted to loans of 60%. For this reason, they could have financed only those sales where the cash down payment was at least 20% or 30%. Furthermore, private lenders were reluctant to make loans on the older type of properties which the Corporation was selling as they did not represent attractive security for long-term loans.

In areas not benefited by war contracts, the real estate market is depressed. Not a few are suffering from loss of population. Many are carrying heavy burdens of accumulated taxes. Throughout the northeast there still remains a large volume of institutionally foreclosed real estate competing for purchasers. If into this depressed market an excess of Home Owners' Loan Corporation properties is cast, both private and institutional investment will suffer.

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Where necessary, our properties have been repaired and reconditioned to make them attractive to purchasers, and we have offered them at fair prices and on extremely liberal terms. Without disrupting the real estate or mortgage market, the HOLC has rapidly and in an orderly manner conducted the largest salvaging process ever undertaken in the field of home ownership.

With respect to the Corporation's dealings with its borrowers, any program of forced liquidation would not only prove injurious but cause many unhappy repercussions. The borrowers of the HOLC consist of over 750,000 American families whose record with the Corporation has demonstrated conclusively their determination to discharge their obligations to the best of their ability. They are an unrecognized group without a responsible organized leadership to speak for them, yet their interests are as important to the country as are those of the pressure groups which, although more vocal, are less numerous.

Through our servicing efforts we have lived closely with this large group of American citizens; we are familiar with the sacrifices they have made to meet their obligations to their Government. Perhaps better than anyone else, we can speak for them and understand the effect that an abrupt transfer of their loans from the Government to private interests would have upon them. One of the most disturbing factors which should have careful consideration is the fact that many of these loans will find purchasers only if offered at a discount. The borrowers who now owe these obligations will expect an opportunity to purchase them at the same price and at the same rate of discount that their Government would be willing to accept from banks and other lending institutions. As a matter of fact, we are daily receiving letters from

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borrowers protesting a transfer of their loans and some where the borrowers who have lagged behind inquire as to why they themselves should not get the benefit of possible discounts they are hearing about. If this privilege were not extended to them, their reaction, quite rightfully, would be one of resentment and indignation. To allow them this advantage, however, would be to place a premium upon poor performance, for the home owner who has not maintained his obligation in good standing would be allowed to discount his loan, whereas the home owner who, through greater sacrifice or more favorable circumstances, had always made his loan payments promptly would be denied this opportunity.

From an outside point of view, such an operation as Home Owners' Loan Corporation often appears easy and the fruits attractive. Hence, the tendency of some of the least informed to clamor for a hand-out from its resources. The generally-known fact that the Corporation took over only poor financial risks in loans that no private institution was willing to carry, and that many of them are now good risks that any institution would be glad to acquire, makes some of the Corporation's assets uncommonly attractive. The fact also that the Corporation has a current net income of about \$25,000,000 a year with which to offset its losses, appeals to some who desire to take from the Federal Government the Corporation's profitable assets and leave to it only the unprofitable loans and properties.

Those who administer the affairs of the Home Owners' Loan Corporation have sought to carry out the mandates of Congress as expressed in the Home Owners' Loan Act and its amendments. When in the judgment of Congress the Corporation should be dissolved and its activities terminated, we shall

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whole-heartedly devote ourselves to that purpose. Before Congress acts, however, it is important to make clear that because of the scope and magnitude of the operations, the prospective effects of liquidation should be fully understood. We have undertaken to present the facts. Let me, in conclusion, submit and emphasize one further fact. A decision by Congress to require the early sale of the Corporation's assets will immediately create a buyers' market. The very setting of an early time limit for the sale of so large a volume of assets will encourage possible buyers to wait until the time expires or is about to expire as a means of driving a better bargain. It is evident that a too hasty liquidation of the Corporation will destroy much of what has been accomplished, and incur unnecessary losses.

In cold reality, no soundly-managed lending institution wants the Corporation's slow assets. Simply stated, the present proposal of sale and early liquidation means: Give the Corporation's best loans to a few private lenders, keep the worst, and pass on to tax-payers heavier and more certain losses. It is disguised as a war service to the public. Actually it is a raid on the United States Treasury in time of war, a disservice to the public and to the Corporation's borrowers. At this juncture it could easily prove a serious liability also to our real estate and financial institutions.

\* \* \*

HOME OWNERS' LOAN CORPORATION  
CONDENSED BALANCE SHEET  
December 31, 1942

<u>Assets</u>		<u>Liabilities</u>	
Mortgage Loans and Vendee Accounts	\$1,567,366,913.24	Bonded Indebtedness	\$1,951,942,975.00
Interest Receivable	4,678,420.87	Accounts Payable	25,757,855.35
Property Owned and in Process of Acquiring Title	226,925,126.92	Accrued Liabilities	5,040,639.27
	<u>\$1,798,970,461.03</u>	NHA Home Conversion Funds	13,263,383.93
Less Reserve for Losses	45,796,223.76	Deferred and Unapplied Credits	3,778,090.35
	<u>\$1,753,174,237.27</u>	Reserves	717,850.33
Investments - at Cost	252,311,210.00		
Bond Retirement Fund	13,923,872.16	<u>Capital Stock</u>	
Cash	64,430,494.99	Authorized, issued & outstanding	\$200,000,000.00
Fixed Assets - less Reserve	2,642,806.83	Less Deficit	<u>113,250,636.19</u>
Other Assets	655,378.67		<u>86,749,363.81</u>
Deferred and Unapplied Charges	112,158.12		
	<u>\$2,087,250,158.04</u>		<u>\$2,087,250,158.04</u>

TABLE 1  
 HOME OWNERS' LOAN CORPORATION  
ESTIMATED LOSSES  
FROM FORCED LIQUIDATION

	<u>1.</u> <u>1944</u>	<u>2.</u> <u>1945</u>	<u>3.</u> <u>1946</u>	<u>4.</u> <u>1947</u>	<u>5.</u> <u>1948</u>
1. Debtor Accounts	\$242,514,000	\$212,654,000	\$165,706,000	\$157,993,000	\$127,949,000
2. Property	120,000,000	78,960,000	47,040,000	23,520,000	12,600,000
3. Bond Interest	<u>27,100,000</u>	<u>6,500,000</u>	—	—	—
4. Total Losses	369,614,000	298,114,000	232,746,000	181,513,000	140,549,000
5. Net Income	<u>12,500,000</u>	<u>12,500,000</u>	<u>11,500,000</u>	<u>11,000,000</u>	<u>10,000,000</u>
6. Net Losses	377,114,000	285,614,000	221,246,000	170,513,000	130,549,000
7. Previous Net Losses	<u>63,000,000</u>	<u>65,600,000</u>	<u>63,800,000</u>	<u>59,400,000</u>	<u>49,900,000</u>
8. Total Net Loss from Forced Liquidation	<u>440,114,000</u>	<u>351,214,000</u>	<u>285,046,000</u>	<u>229,913,000</u>	<u>180,449,000</u>

SUMMARY OF STATEMENT BY JOHN H. FAHEY  
COMMISSIONER OF THE FEDERAL HOME LOAN BANK ADMINISTRATION  
BEFORE THE JOINT COMMITTEE ON REDUCTION OF NON-ESSENTIAL FEDERAL EXPENDITURES

The forced liquidation of the HOLC within one year, as proposed by an amendment to the pending Independent Offices Appropriations bill, would cost the Government at least \$440,000,000 - some \$373,000,000 more than the Corporation's present net deficit - and put a wholly unnecessary burden on the U. S. Treasury and taxpayers.

An operation being carried out far better than Congress ever anticipated, despite the fact it was created to meet a social as well as an economic need, would be turned into an auction and scramble for mortgages on 750,000 American homes and for a great number of home properties.

No one knows exactly how much would be lost in this transaction, for the simple reason that no one is certain how it can be carried out. No one knows how many thousands of unnecessary foreclosures would be caused. No one knows, in fact, just how a vast number of HOLC borrowers will react when their mortgages suddenly are handed over to certain groups - or, for that matter, just what groups will take these mortgages or on what basis.

This attempt to abolish the HOLC can be described as nothing but a raid on the Treasury in the midst of war. As a matter of fact, the HOLC continuously has been engaged in steady liquidating - at a greatly accelerated rate, of course, under the wartime program. Summarized the facts are:

1. The HOLC's total investment of \$3,481,000,000 already has been liquidated by 48.5% in orderly fashion and by July 31 the figure will be over 50%. Its personnel in the fiscal year 1944 will be reduced nearly 80% from a peak of nearly 21,000; its administrative expense will be down 73% from 37,600,000 to 10,081,466. Nearly 165,000, or 84% of the 195,000 properties the HOLC was forced to acquire, already have been returned to private hands and the rest are being sold as rapidly as the market will absorb them.

2. To help borrowers overcome their difficulties Congress in 1939 authorized the HOLC to extend its loans from a 15-year amortization period up to 25 years. Over 250,000 accounts thus were lengthened and the borrowers' monthly payments reduced some 40% - avoiding many thousands of foreclosures but necessarily retarding the rate of liquidation.

3. The HOLC's net operating income up to December 31, 1942 amounted to \$174,000,000. This has covered 72% of the Corporation's total losses of \$241,000,000, leaving a net deficit of only \$67,000,000 in the HOLC's original \$200,000,000 capital stock.

4. Forced liquidation of the Home Owners' Loan Corporation in fiscal 1944, under the present legislative proposal, would result in a loss of at least \$440,000,000. Even this estimate is theoretical, based on the assumption that the Home Owners' Loan Corporation could keep its present trained staff and recruit additional qualified personnel - which it could not do. Moreover, such a proposition assumes that the Corporation could dispose of all its slow loans and assets at a moderate sacrifice - which it could not do.

-2-

5. The cost of liquidation over periods of more than a year would show heavy but declining losses - \$351,000,000 in fiscal 1945; \$285,000,000 in fiscal 1946; \$230,000,000 in fiscal 1947; and by the end of 1948, \$100,000,000. By 1952 - the date originally set by Congress to wind up HOLC operations - the loss should be only nominal if present trends continue. By that time the Corporation's assets will be only one-fourth of the present amount, its remaining loans will be seasoned and practically free from risk and its properties virtually disposed of.

6. Liquidation could not possibly be carried out as proposed by the present amendment because it would require termination of all but about 700 employees by next Fall. In the last half of fiscal 1944, but one office would be left in the entire country.

7. The Corporation cannot liquidate troubled loans under pressure, except far below par. Immediately, borrowers will raise the question: "If you will sell my \$3,000 mortgage to someone else for \$2,000 or \$2,500, why not to me?" The sale of a mortgage below par to a delinquent borrower obviously would place a penalty on every borrower who has kept in good standing - and the resulting confusion and protests would become a serious issue in every section of the country.

8. If good loans are disposed of and slow loans left on the HOLC books, nothing will have been "accomplished" but to place a huge burden on the U. S. Treasury and taxpayers. More than 70% of HOLC servicing costs are for "slow" loans; these costs would continue, without compensating revenues.

9. On December 31, 1942, the HOLC owned 29,876 properties of which 26,662 were in the northeastern part of the country, where there also remains an excess of unsold houses in the hands of lending institutions. There is no mass market for these properties except at virtual auction. Such auctions at depressed prices would have a disastrous impact on community real estate values where HOLC holdings are concentrated.

The present effort to rush the HOLC into liquidation is not the first one. As early as November 1935 the U. S. Savings and Loan League asked the Corporation to sell to private lenders such of its loans as would meet the specifications of these lending institutions. A year later when more than 600,000 loans were delinquent the Executive Vice President of the League pressed for the sale of such HOLC securities as were "acceptable to private investors and trustee institutions." A few months later the League asked President Roosevelt to transfer the HOLC's better mortgages to savings and loan associations or perhaps to other mortgage lending institutions. In 1937 and again in 1938 the League again sought the HOLC mortgages not only for cash but in exchange for shares of savings and loan associations.

If any sound plans could have been developed for the transfer of the assets of the HOLC to private institutions - at the same time protecting home owners, the Government's investment, the stability of the real estate market and the country's mortgage credit structure - they would have had the support of officials of the HOLC. Any such plan suggested now would get that support.

-3-

Any analysis of the liquidation of the HOLC is merely an estimate based upon the operations and experiences thus far. No one can forecast the future, especially in the midst of an unprecedented war. I can say this, however: The task of liquidating the HOLC under pressure would be a tremendous undertaking, similar in its magnitude and inherent problems to that of our lending days when it took a vast organization with carefully selected personnel three years to examine approximately two million applications and close one million loans. Yet it is proposed that, with no money for the purpose and in a most difficult labor market, we now dispose of 600,000 loans and properties located in over 19,000 cities, towns and hamlets throughout the country without disturbing the home mortgage structure which the Corporation has done so much to safeguard.

The achievements of the HOLC in helping to rehabilitate hundreds of thousands of borrowers are well known. It took over a million defaulted, unwanted mortgages to prevent foreclosures on American home owners and to rescue financial institutions and their investors. We now witness the spectacle of some of these same institutions clamoring loudly for a handout from the resources the HOLC recovered from their frozen assets after Congress extended a helping hand to courageous home owners in the depths of the depression. But make no mistake: These interests seek only the best HOLC loans. No soundly-managed lending institution wants the Corporation's slow assets which, however, HOLC is steadily making into good loans which in a comparatively short time can be sold at par.

If the Congress decides on liquidation now or within a stated future, we shall wholeheartedly devote ourselves to that purpose. It is our responsibility, however, to tell you that the present proposal means: Give the Corporation's best loans to a few private lenders, keep the worst and pass on to taxpayers heavier and more certain losses. It is disguised as a war service to the Government. Actually it is a disservice to the Government, the taxpayers, the general public and to the Corporation's borrowers. It will may prove a serious liability also to our real estate and financial institutions, as many thinking real estate and financial leaders already realize.

\* \* \*

## UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	March daily sales	Cumulative sales by business days				March as percent of February
		March	February	January		
March 1943						
1	\$ 8,744	\$ 8,744	\$ 6,746	\$ 12,810		129.6%
2	11,888	20,631	21,814	15,621		94.6
3	13,006	33,638	27,284	31,021		123.3
4	19,923	53,561	52,930	47,128		101.2
5	32,229	85,789	84,847	69,173		101.1
6	25,404	111,193	116,513	101,696		95.4
8	30,810	142,003	150,809	137,214		94.2
9	27,617	169,620	178,154	174,074		95.2
10	21,582	191,202	201,187	219,267		95.0
11	53,187	244,389	222,972	275,292		109.6
12	23,937	268,327	247,684	299,033		108.3
13	25,344	293,671	270,009	334,496		108.8
15	28,648	322,319	298,196	368,901		108.1
16	25,791	348,110	325,541	399,974		106.9
17	19,973	368,084	344,701	442,974		106.8
18	23,302	391,386	381,882	467,638		102.5
19	24,360	415,746	403,131	482,446		103.1
20	21,486	437,233	431,840	521,869		101.2
22	33,492	470,724	472,939	555,213		99.5
23	25,184	495,909	496,283	577,518		99.9
24	24,235	520,144	512,890	619,257		101.4
25	26,632	546,776	545,207	654,194		100.3
26	28,791	575,567	583,605	680,776		98.6
27	22,062	597,629	633,572	715,030		94.3

March 29, 1943.

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

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

(At issue price in thousands of dollars)

Date	March daily sales	Cumulative sales by business days			March as percent of February
		March	February	January	
March 1943					
1	\$ 2,442	\$ 2,442	\$ 806	\$ 2,716	303.0%
2	2,869	5,311	9,720	3,036	54.6
3	6,642	11,953	11,290	6,137	105.9
4	4,467	16,420	28,198	14,820	58.2
5	15,596	32,016	48,264	18,428	66.3
6	9,058	41,074	65,106	29,726	63.1
8	14,290	55,364	75,526	47,612	73.3
9	10,125	65,489	92,154	63,556	71.1
10	6,100	71,589	100,852	91,679	71.0
11	12,185	83,774	110,431	115,896	75.9
12	6,344	90,118	123,086	129,017	73.2
13	7,343	97,461	131,457	149,603	74.1
15	5,617	103,078	140,385	167,385	73.4
16	9,809	112,887	148,989	181,245	75.8
17	5,809	118,696	156,921	198,750	75.6
18	6,096	124,791	164,831	220,263	75.7
19	7,196	131,988	171,301	227,892	77.1
20	6,924	138,911	182,096	248,246	76.3
22	6,326	145,237	192,398	271,851	75.5
23	7,585	152,823	198,132	285,143	77.1
24	6,648	159,470	202,778	302,286	78.6
25	8,150	167,620	216,367	327,084	77.5
26	8,006	175,626	236,316	340,664	74.3
27	7,052	182,678	253,623	367,657	72.0

March 29, 1943.

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

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

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

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

March 29, 1943.

TO Secretary Morgenthau  
FROM George Buffington G.B.

The Chicago War Finance Committee would like very much to have Secretary Hull speak at a dinner to launch the Second War Loan drive on the evening of April 12, at 6:15 P.M., in the Grand Ballroom of the Palmer House. Governor Green, and probably Mayor Kelley, will attend the meeting, which will include approximately one thousand Treasury War Finance Committee people. If the Secretary would make a fifteen or twenty-minute address it is believed it would do much to stimulate the organization.

If Secretary Hull accepts the engagement I will immediately arrange for an appropriate invitation to be sent to him by Mr. C. S. Young, President of the Federal Reserve Bank of Chicago.

HAROLD B. THOMAS  
170 VARICK STREET  
NEW YORK

*Ph...*  
*Thurs.*

11-  
March 29th  
1943

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

Dear Mr. Secretary:

Thank you very much for your kind and generous note of the 24th. It was really a pleasure for me and for those who worked with me, to try and be of some help in the matter.

I am glad to know that you will call on me again if the occasion arises and I assure you that I will be very happy to try and be of help.

I expect to be in Washington some time soon. If you should happen to be free at that time, I would like to stop in to pay my respects.

Sincerely yours

*Harold B. Thomas*

H. B. Thomas

SIDNEY G. STRICKER  
RIDGE ROAD, AMBERLEY VILLAGE  
R. R. 6 BOX 31 A CINCINNATI, OHIO

March 29, 1943.

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

Dear Mr. Morgenthau:

I have your letter of March 25th, acknowledging receipt of my letter of March 18th, in which I enclosed copy of letter of TIME, in reply to my letter to them of February 2nd, relative to the Article they featured in their issue of January 25th.

I am gratified that you find my protest and letters justified. The Article was so personal and unfair; and its purpose so plainly an attack on the President and the Administration, I just could not sit back and take it, "lying down", as it were.

I am too old (72) to fight in the front line of battle, but not too old to fight partisan and vicious attacks on the President and his administration, particularly, when they are so clearly malicious, as was the Article in Time Magazine of January 25th.

I agree with you that "well-reasoned remonstrances have their effect even though it may not be immediately apparent." Statements made on the floor of Congress if made within the Rules, are privileged, because they can be refuted by members present who can rise and defend the Administration when unjustly attacked. But magazines, such as Time, which make a practice of attacking the Administration to destroy confidence of the people - in time of WAR - are seditious and should be suppressed.

I don't know what, if anything, TIME will have to say, in reply to my last letter of March 18th; neither do I care. If I hear further from them will keep you advised.

With high personal regard, I am

Sincerely,

*Sidney G. Stricker*

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HONORABLE HENRY MORGENTHAU JR

SEC OF THE TREASURY

FOR REASONS IN LETTER WHICH FOLLOWS REGARDING MATTER DISCUSSED  
WITH YOU MARCH TWENTY FIFTH HAVE REGRETFULLY BUT DEFINITELY  
DECIDED THAT I MUST DECLINE

FRANCIS G GOODALE.

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WAR DEPARTMENT  
HEADQUARTERS OF THE ARMY AIR FORCES  
WASHINGTON

MAR 29 1949

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

My dear Mr. Secretary:

It has come to my attention that during your trip to Fort Riley on March 3, a bi-motored C-78, 4 passenger cabin army airplane was made available for your use from Chicago to Fort Riley. I sincerely regret that there was no larger army airplane available at that time in Chicago, or that it was not possible to fly such an airplane there in time to meet your train.

It is true that airplanes larger than the C-78 are in operation on the Chicago Airport; however, I find that these airplanes are being operated by civilian airlines under a contract with the Air Transport Command, and were not at the disposal of the Sixth Service Command, through whom these facilities were arranged.

Please be assured of my desire to render assistance to you whenever I may.

Very sincerely,



George E. Stratemeyer,  
Major General, U. S. A.  
Chief of the Air Staff.



WAR DEPARTMENT  
HEADQUARTERS OF THE ARMY AIR FORCES  
WASHINGTON

MAR 29 1943

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

My dear Mr. Secretary:

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Please be assured of my desire to render assistance to you whenever I may.

Very sincerely,



George E. Stratmeyer,  
Major General, U. S. A.  
Chief of the Air Staff.



March 29, 1943

COLLECTOR OF INTERNAL REVENUE

---

THE REPORT ON COLLECTIONS TO DATE SHOWS THAT YOUR DISTRICT HAS ACCOMPLISHED A MOST DIFFICULT TASK UNDER TRYING AND ADVERSE CIRCUMSTANCES. I AM INFORMED THAT THIS RECORD COLLECTION WAS ACCOMPLISHED WITHOUT REGARD TO OFFICIAL WORKING HOURS. THE RESULT REPRESENTS A MOST SUBSTANTIAL CONTRIBUTION TO THE WAR EFFORT. I EXTEND TO YOU AND THE EMPLOYEES OF YOUR OFFICE MY DEEPEST APPRECIATION FOR A JOB WELL DONE

Henry Morgenthau, Jr.  
SECRETARY OF THE TREASURY

## The Ruml Plum

The Ruml plan is a snare and a delusion.

The CIO is 100 per cent in favor of the pay-as-you-go principle. It is urging Congress to adopt proposals whereby workers can pay their current tax obligations through deductions each payroll period throughout the year—instead of having to pay them all at one time and a year late.

But that isn't the big idea of the Ruml plan—not by a long shot.

All the big business interests and their press are spending good money to promote the Ruml plan, because they hope to put in their thumb and pull out a nice juicy plum.

The big idea of the Ruml plan is to provide big cash windfalls for the rich through cancellation of 1942 taxes. Any pay-as-you-go features added later are purely incidental.

If the Ruml plan is adopted, the rich will benefit automatically by cancellation of taxes for a year of extremely high profits. At the time of death there will be particularly large windfalls for the estates of the wealthy—a saving of a whole year's taxes.

Moreover, the savings will be much larger proportionately for the rich than for the poor. The Ruml plan means a saving of \$64,000 or 64% on an income of \$100,000, as against a saving of \$140 or only 7% on an income of \$2,000.

The House committee's proposal is no solution either. For it would require a worker to pay two years' taxes this year in order to become up-to-date on his taxes.

The real solution is that proposed by Pres. Murray, on behalf of the CIO, and embodied in the Robertson-Forand proposal—namely to limit the cancellation of 1942 taxes to a single low level, such as the normal tax and first surtax bracket.

This will enable all lower-income taxpayers to go on an immediate pay-as-you-go basis, without unjustified windfalls for the wealthy. Urge your representatives in Congress to vote down the Ruml plum, and to adopt this real pay-as-you-go plan.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 29, 1943

TO Secretary Morgenthau

FROM Mr. Hase

SUBJECT: The Business Situation,  
Week ending March 27, 1943.

Summary

Stock market: Price rise is resumed with increased trading volume after a month of sidewise movement. The Dow-Jones industrial stock average gained 4 percent last week, reaching a new high since 1940.

Food supply outlook: Centralization of authority over food production and distribution by appointment of a new Administrator, together with actions to relieve farm labor and machinery shortages, may lead to greater food production than indicated by farmers' preliminary planting reports.

Commodity prices: Recommitment of the inflationary Pace bill, together with possibility of a Presidential veto of the Beveridge-Steagall bill, caused a hesitant tendency in commodity prices last week, although the basic commodity index showed a moderate upturn. Lower farm product prices in the week ended March 20 brought the first recession since last October in the BLS weekly all-commodity index.

Department store sales: Although sales increased slightly in the week ended March 20 they were 2 percent below 1942 levels, thus recording the first year-to-year decline in 1943. However, this decline is more than accounted for by the fact that sales in March 1942 were swelled by an earlier Easter.

Department store stocks: Last month's heavy consumer buying caused department store stocks to decline contra-seasonally in February. At the end of the month stocks were about 8 percent below the corresponding date in 1942, thus recording the first decline from year-earlier levels since July 1939.

Industrial production: The FRB adjusted index of production rose to 203 in February from 199 (revised) in the previous month. The gain was largely due to increased output of munitions, steel and coal.

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- 2 -

Stock prices and trading activity at new highs

While gains in commodity prices were restrained last week by uncertainties surrounding farm price legislation, stock prices broke out of the recent trading range and moved up on heavy volume to new highs since 1940. After fluctuating within a narrow range since the beginning of the month, stock prices advanced briskly in the latter part of the week. Testifying to the breadth of the advance, trading activity on Friday reached the highest level since December 30, 1941, with dealings in 399 of the 1,238 issues listed on the New York Stock Exchange. Moreover, 351 issues on that day attained new highs for the year. By the end of the week the Dow-Jones industrial average was 4 percent higher than a week earlier, and similar gains were shown by the railroad and utility averages. (See Chart 1.)

As a result of last week's upsurge, industrial stock prices now stand 45 percent above the 1942 low touched last April, and slightly above the level prevailing immediately before the outbreak of war in 1939. The latest upturn in stock prices was preceded by numerous predictions of a decline, and the short interest has shown a substantial increase. The sudden resumption of buying for the rise has brought forth a reiteration of familiar bullish factors, including the pressure of surplus funds and the prevalence of inflationary psychology. While fear of inflation undoubtedly has contributed in some degree to the rise in stock prices, the persistent upswing in the market itself has probably been a strong influence in drawing investment funds into the market.

Despite the statement of the President of the New York Stock Exchange earlier in the month, in which he cautioned the public against indiscriminate buying of low-priced stocks, and despite the recent break in bankrupt rail stocks, trading in low-priced shares had continued in relatively heavy volume. As a further step to help check this trend, the New York Stock Exchange after the close on Friday announced that effective April 1 purchases of securities selling below \$5 must be for cash only. Previously most brokers are believed to have voluntarily followed this practice, hence it may have little significant effect on speculative activity.

Actions taken to improve food outlook

Important actions affecting the food situation were taken last week, following rising criticisms of the handling of food production and distribution problems, and growing indications that food production this year may be seriously short of

- 3 -

national requirements. The appointment of Chester C. Davis by executive order as Administrator of Food Production and Distribution will centralize authority in this important field. The President has indicated that the authority of the Administrator will extend to farm prices, although this is not specified in the executive order. To what extent he will have power to fix food prices to distributors and to consumers is not entirely clear, but wide authority to determine prices would seem essential, since the food problem is in large part a problem of price levels and price margins.

The President has also indicated that further action will be taken against two bottlenecks in farm production--labor and farm equipment. He stated that by the end of the year 2,000,000 more farm workers will be deferred from military service, following deferment of 550,000 farm workers so far under the Tydings amendment to the Selective Service Act. In order to make more farm machinery available, large manufacturers will again be allowed to produce this equipment, which had previously been concentrated in the smaller plants, and more steel will be allotted by the WPB for this purpose.

The prospect that farm labor and machinery shortages may be alleviated, together with the possibility of adjustments in farm prices that will encourage shifts into the more essential crops, may improve the food production outlook as compared with that recently indicated by farmers' March 1 planting intentions.

#### Bankhead-Steagall bill passed

Despite testimony by Price Administrator Brown that the Bankhead-Steagall bill (which forbids the inclusion of benefit payments in ceiling prices) would add \$1,500,000,000 to the consumers' food budget, the Senate last Friday passed the bill and sent it to the President. If the bill becomes a law, its effect will be eventually to raise retail food prices about 7 percent, according to Mr. Brown's testimony. His estimates indicated that sugar prices would be raised about 1 1/2 cents a pound; corn, 5.5 cents a bushel; family flour, 18 percent; and bread 1 cent a loaf. Higher feed costs would cause increased retail prices for meats and for dairy and poultry products.

On the other hand, the more inflationary Pace bill (which would include farm labor costs in parity computations) has been returned to the Senate Agriculture Committee for further study and hearings. Mr. Brown's estimates indicated that the Pace bill would raise retail food prices 10 1/2 percent and add \$3,330,000,000 to the consumers' annual food budget. The two bills together, Mr. Brown added, would increase the annual food bill by \$3,750,000,000, and would cost the Government an additional \$1,250,000,000 a year for military and lend-lease food purchases.

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An argument of farm bloc senators for the Pace bill, that food prices now compare unfavorably (from the producers' standpoint) with those of the first World War, was countered by Senator Taft with the statement that a rise in food prices like that of 25 years ago is exactly what the Government is trying to prevent. The War Labor Board, after voting down requests for a change in the "Little Steel" formula has indicated, according to press reports, that the enactment of laws increasing farm prices may make revision of the wage formula inevitable.

Press reports this morning mention that the President and the new Food Administrator will confer Tuesday with farm organization leaders, in an effort to reach an understanding regarding farm prices which will lessen the demand for special price legislation.

The Fulmer bill, authorizing the Commodity Credit Corporation to sell 100 million bushels of wheat for feed, has been signed by the President, and a heavy demand for this wheat is expected. The feed grain situation continues acute, largely because farmers in the Corn Belt can get more money for their corn by feeding it to hogs than by selling it in the cash market under present ceilings. There is no easy solution to this problem. While the situation would be relieved if a relatively low price ceiling were placed on live hogs, this would tend to discourage hog production. On the other hand, if cash corn prices were allowed to rise, it would increase production costs for dairy and poultry farmers.

#### Commodity prices hesitant

Uncertainty over a possible Presidential veto of the Bankhead-Steagall bill, and over the increased opposition to the Pace bill which forced its recommitment, caused some hesitation in price trends for basic commodities last week, despite the more optimistic feeling in the security markets. Nevertheless, the BLS price index for 28 basic commodities recovered the slight losses of the previous two weeks and rose to its high of March 5. (See Chart 2.) Prices for hogs and steers, and for cotton, rosin, and wool tops showed noticeable increases, while wheat prices were somewhat lower.

The BLS all-commodity index in the week ended March 20 receded 0.2 percent to 103.0 percent of the 1926 base, marking its first setback since mid-October. The downturn was due almost entirely to a reduction of 0.9 percent in prices of farm products, largely grains and livestock.

### Comparison with British and Canadian prices

Wholesale prices in the United States have risen since the outbreak of war in August 1939 by about the same amount as the rise in wholesale prices in Canada, according to approximately comparable price indexes. (See Chart 3.) Monthly data for February show a rise of 36.7 percent in the BLS all-commodity index since August 1939, which compares with a rise of 34.9 percent in the Bureau of Statistics index for Canada. A significant fact, however, is that prices in the United States in recent months have been rising more rapidly than in Canada.

Wholesale prices in Great Britain, on the other hand, have risen 56.0 percent since August 1939, according to the Board of Trade index. (Even this, however, is substantially less than the 72 percent price rise in the United States during the comparable period of the first World War). The difficulty of controlling prices in Great Britain was accentuated, of course, by the weakening of sterling exchange early in the war, coupled with the dependence of that country on imports. Despite its great dependence on imported foods, however, it may be noted that food prices at wholesale have risen only 19 percent more than the rise in the combined price index, while in the United States the rise in food prices since August 1939 has been 56 percent greater than the increase in the combined index. This discrepancy doubtless reflects in part the diversion of foodstuffs from the United States to Great Britain.

### Expanded rationing program in effect today

Rationing of meats, fats and oils, which begins today, finds the country with short retail stocks of meat in many areas after a week-end of heavy pre-rationing demand. However, consumers will again be able to buy canned meats and fish, which have been frozen since February 18, as well as butter and other fats which have been frozen for a week.

Changes in point values for many processed foods, effective today, which were announced over the week-end, revealed that dried fruits previously given the highest point values per pound had been put on the free list. This followed widespread complaints from the food industry that the high ration value for such items as dried prunes and raisins was causing them to accumulate on retailers' shelves and in warehouses, with danger of spoilage during warm weather.

Complaints have been made that some 75 million pounds of quick-frozen vegetables have been immobilized in warehouses

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because of the high point values, but on these no reductions were made. Point values were reduced on all fruit and vegetable juices and dehydrated soups in order to increase sales. On the other hand, values were raised on a number of items, including applesauce, canned peaches, pineapple and lima beans.

#### Department store sales relatively steady

After declining in the previous 2 weeks, department store sales in the week ended March 20 turned up slightly. Despite the moderate gain, sales fell below 1942 levels for the first time this year, the decline amounting to 2 percent. However, no real significance can be attached to this decline because March sales last year were swelled by the earlier Easter. It is estimated that this factor alone could be expected to cause March 1943 sales to run about 6 percent behind 1942 levels. Preliminary reports indicate that retail trade improved somewhat last week, although sales totals continued to fall slightly below the corresponding period of last year.

#### Department store stocks decline

Last month's heavy wave of scare buying brought about a contra-seasonal decline in department store stocks, which carried the PRB adjusted index of stocks down to the lowest level since January 1942. (See Chart 4.) Normally stocks expand in February, but this customary trend was reversed last month, and stocks also fell below year-earlier levels for the first time since July 1939. Despite a slight intervening rise in prices, stocks at the end of February were about 3 percent lower than on the corresponding date in 1942.

Data on the composition of department store stocks at the end of February are not yet available, but at the end of the previous month, men's and boys' wear, piece goods and women's apparel showed the largest increases over 1942 levels with gains ranging between 12 and 17 percent. On the other hand, stocks of home furnishings and small wares were only 2 percent higher than in 1942 while "miscellaneous items" were 9 percent lower.

#### Consumer's goods and services dwindle as incomes rise

Although department stores have seen their stocks decline considerably from last summer's peak, these stores are still in a more comfortable position to withstand the impact of war-expanded consumer spending than many other groups.

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Figures recently released by the Department of Commerce reveal that total consumer expenditures for goods and services in 1942 reached the record figure of \$81.9 billions--a gain of about 10 percent over the previous year. However, this gain is estimated to have been slightly less than the intervening price rise, and the actual volume of goods and services procured by consumers last year was about 1 percent under 1941. The actual amount of goods and services available for consumers will undoubtedly show further shrinkage during the current year, but the amount of dollars expended for them will depend very largely upon the effectiveness of price control, rationing and fiscal policy.

Consumer expenditures for services in 1942 rose about 3 percent over the previous year, while expenditures for goods rose 11 percent despite curtailed outlays for automobiles, gasoline and household furnishings. The composition of consumer expenditures for goods in 1942 as compared with the previous year is shown in the following table.

	1941 (Millions of dollars)	1942	Percent change
Food	22,320	27,647	+24
Clothing	3,407	10,439	+25
Tobacco	2,213	2,436	+12
Gasoline	2,884	1,981	-30
Furniture, etc.	4,294	4,035	-6
Automobiles	3,264	513	-84
Other goods	6,233	7,169	+15
Total goods	49,175	54,399	+11

#### Industrial production still rising

Industrial activity continues to expand, and further gains in February carried the FRB adjusted index of industrial production for the month to 203 from 199 (revised) in January. (See Chart 5.) At the February level, aggregate industrial output was about 22 percent higher than in November 1941, just before our entry into the war. The gain in industrial output in February was largely due to increased production of munitions, steel and coal. Prominent among the month's achievements was the completion of 130 merchant vessels--a new record monthly total.

# STOCK PRICES. DOW-JONES AVERAGES

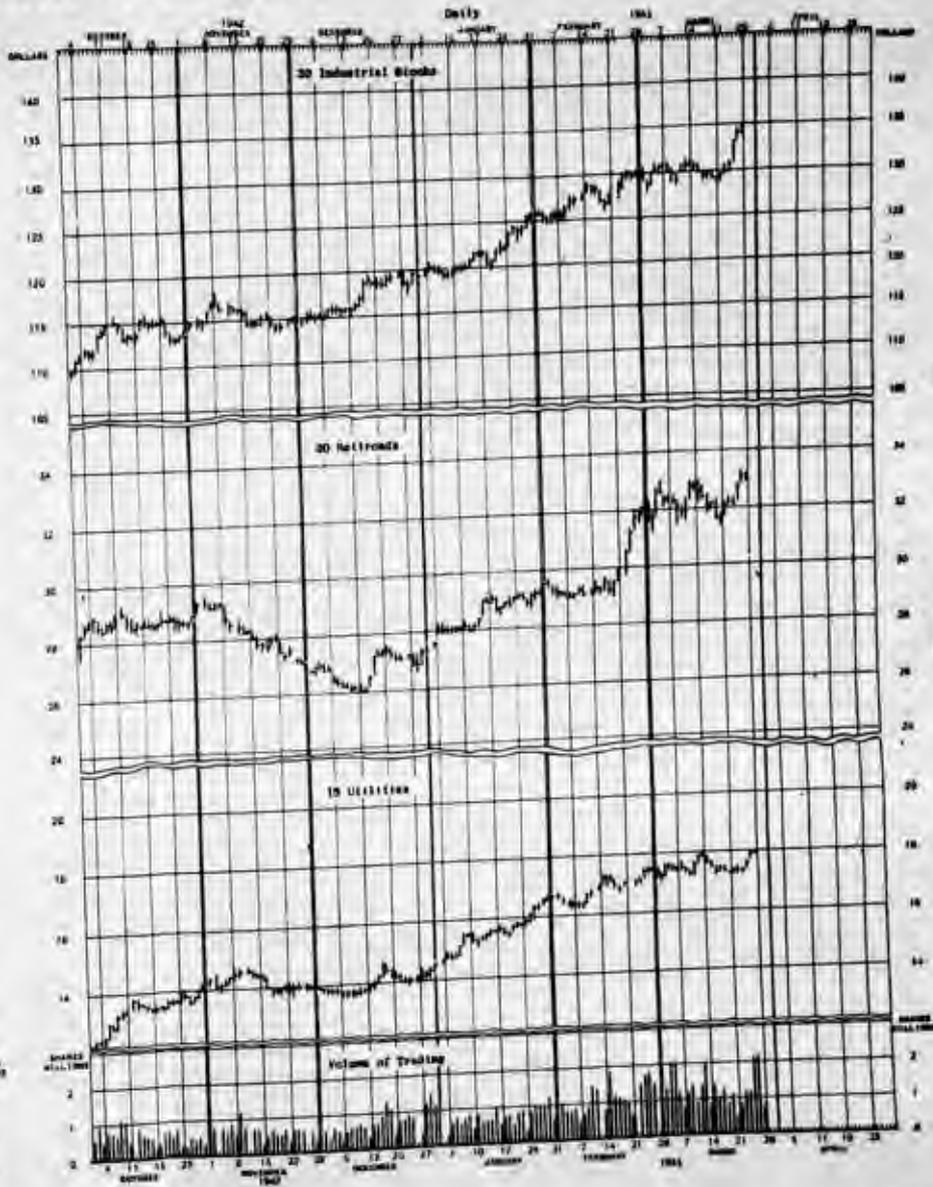
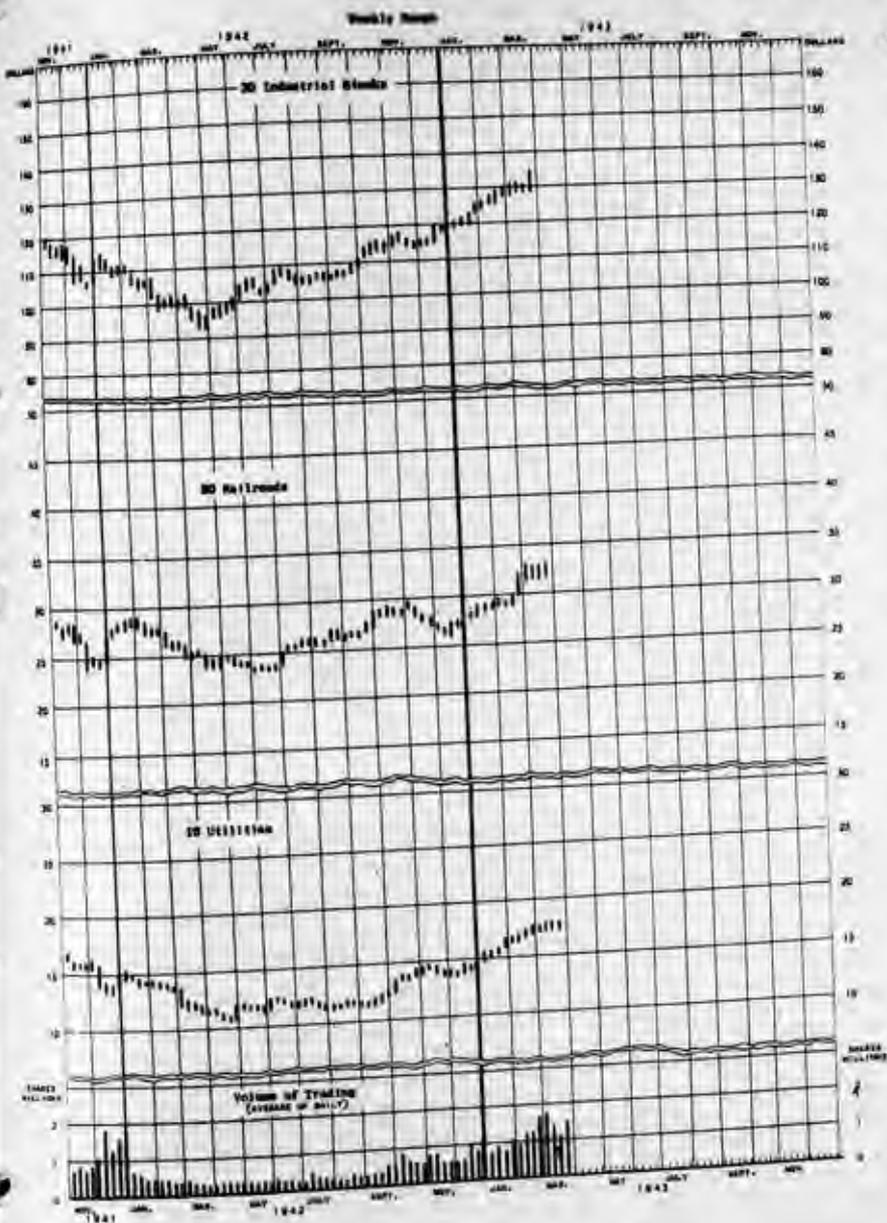
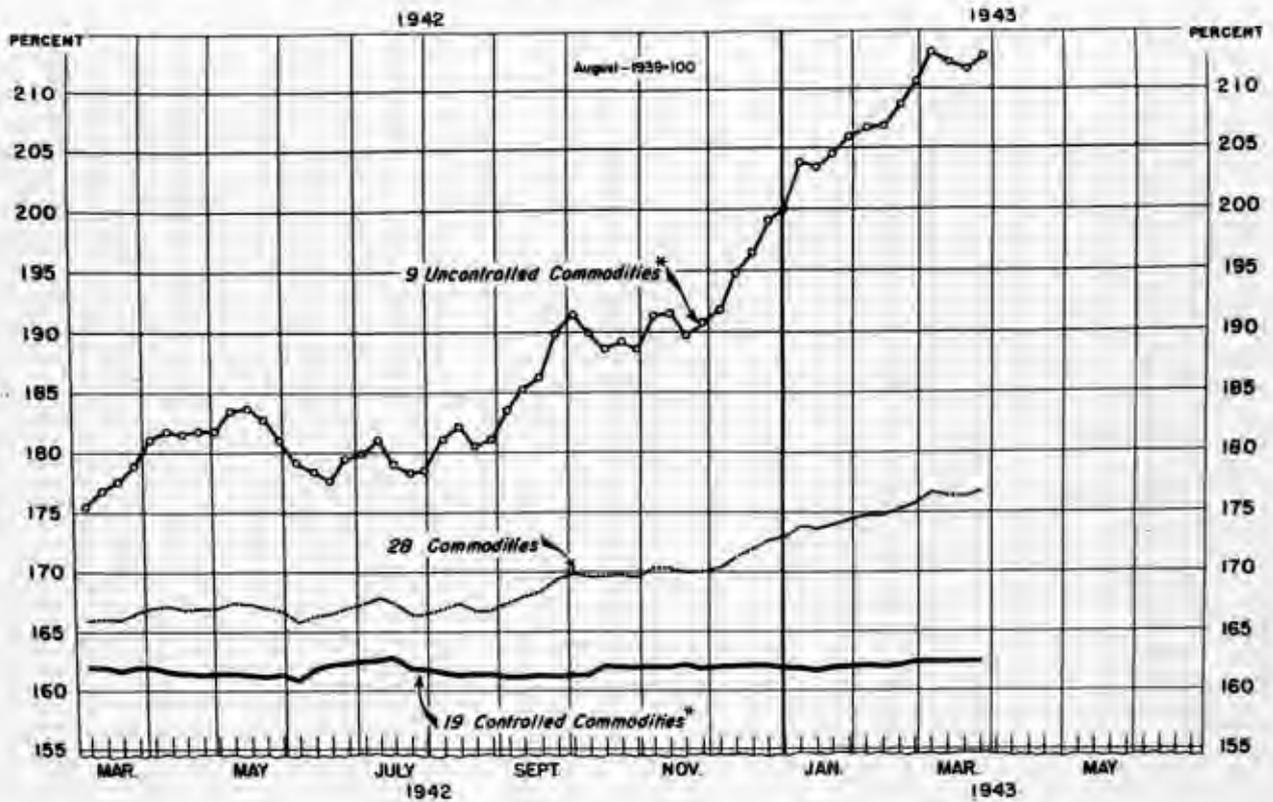
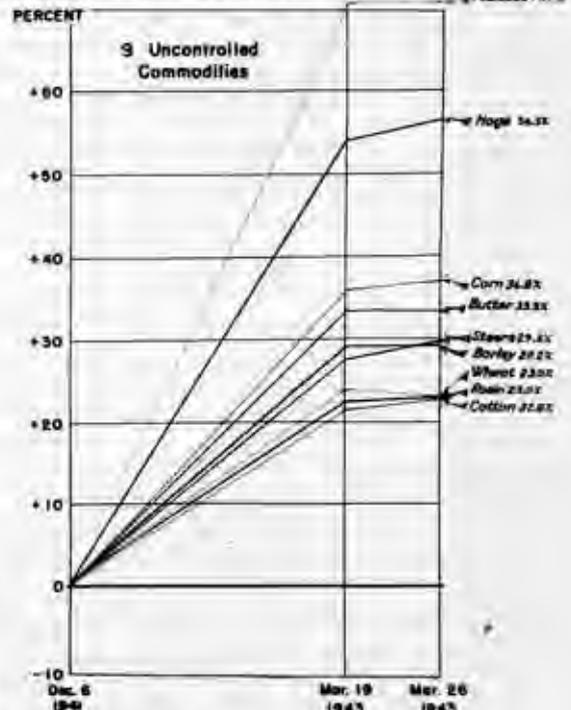
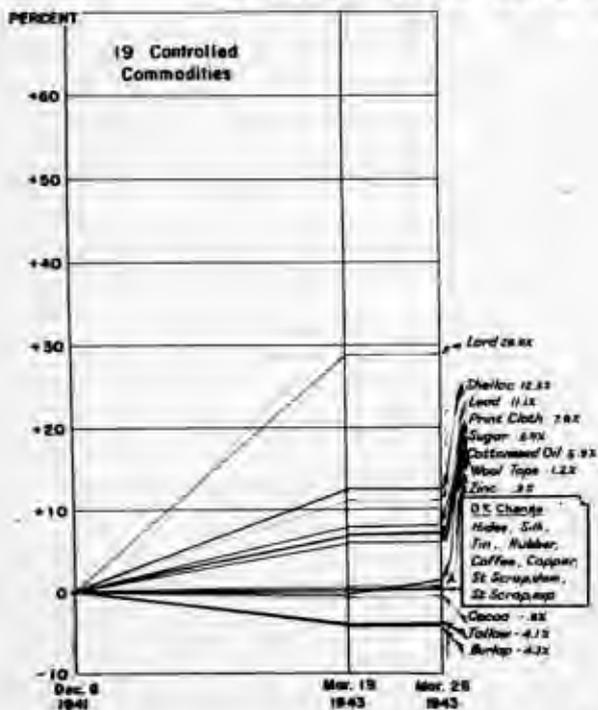


Chart 1

# MOVEMENT OF BASIC COMMODITY PRICES



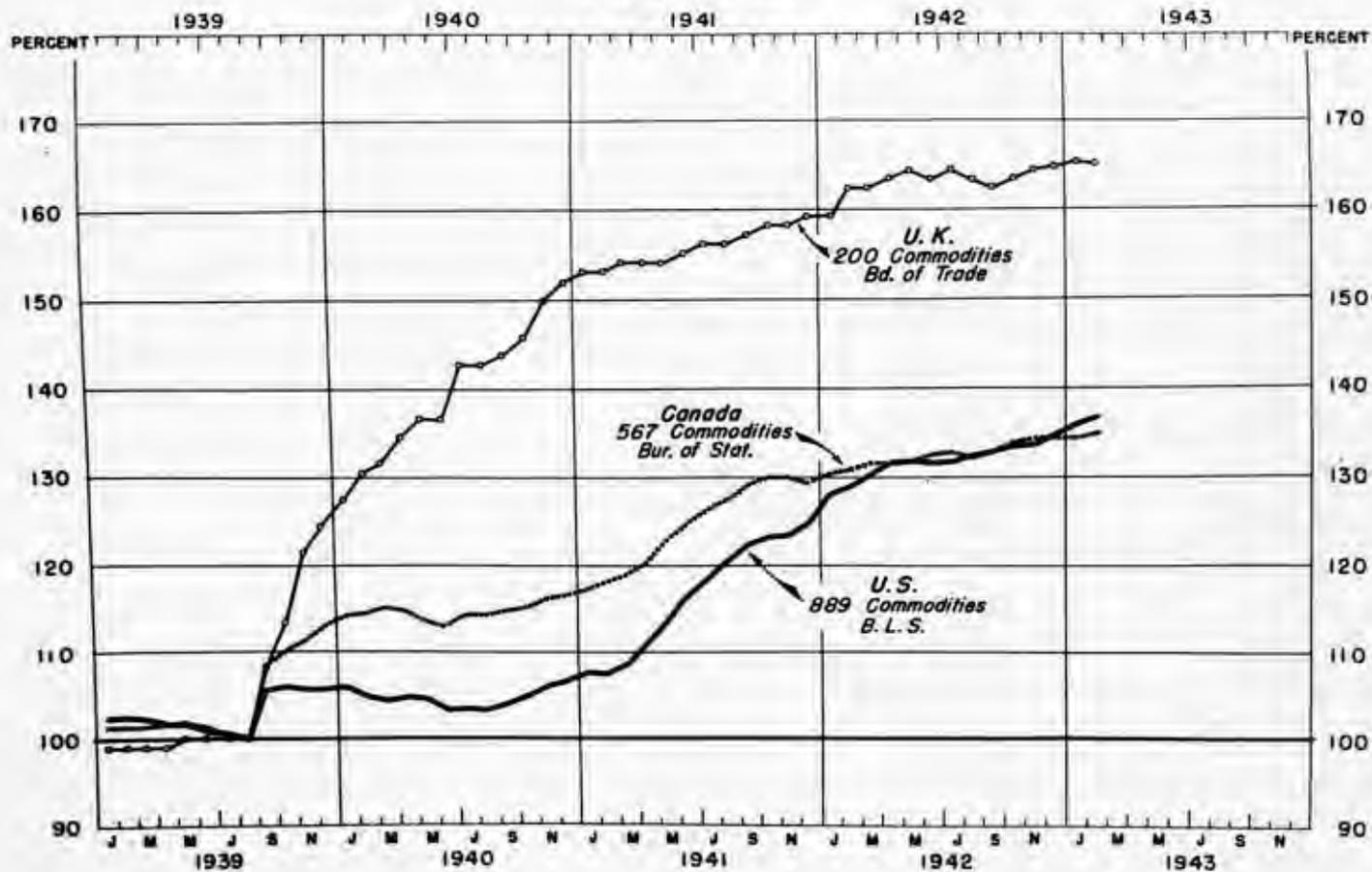
PERCENTAGE CHANGE DEC. 6, 1941 TO MAR. 19, AND MAR. 26, 1943



\*20 Controlled and 8 Uncontrolled previous to June 26

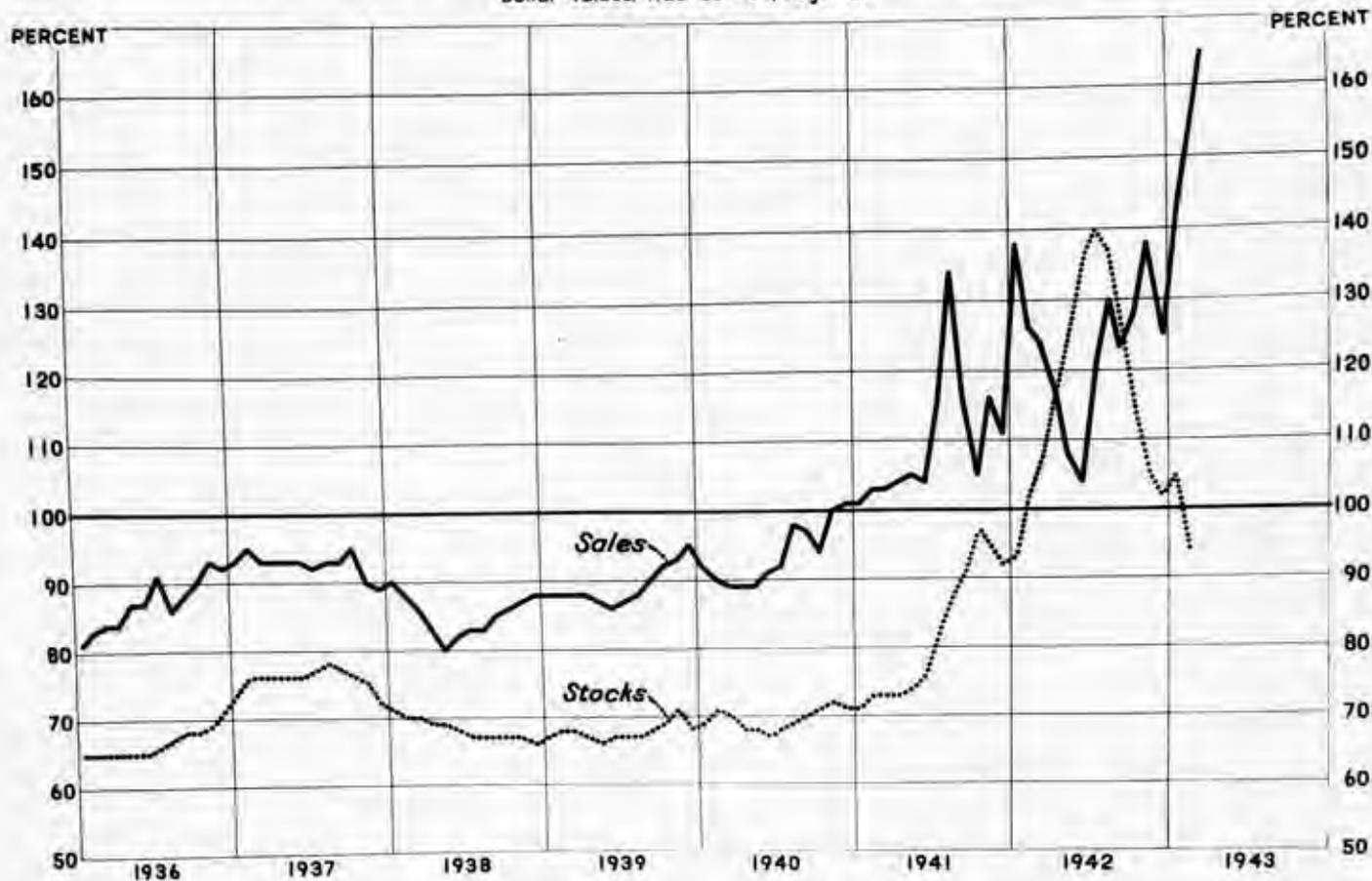
# WHOLESALE PRICE INDEXES IN U.S., CANADA AND U.K.

August 1939 = 100



# DEPARTMENT STORE SALES AND STOCKS

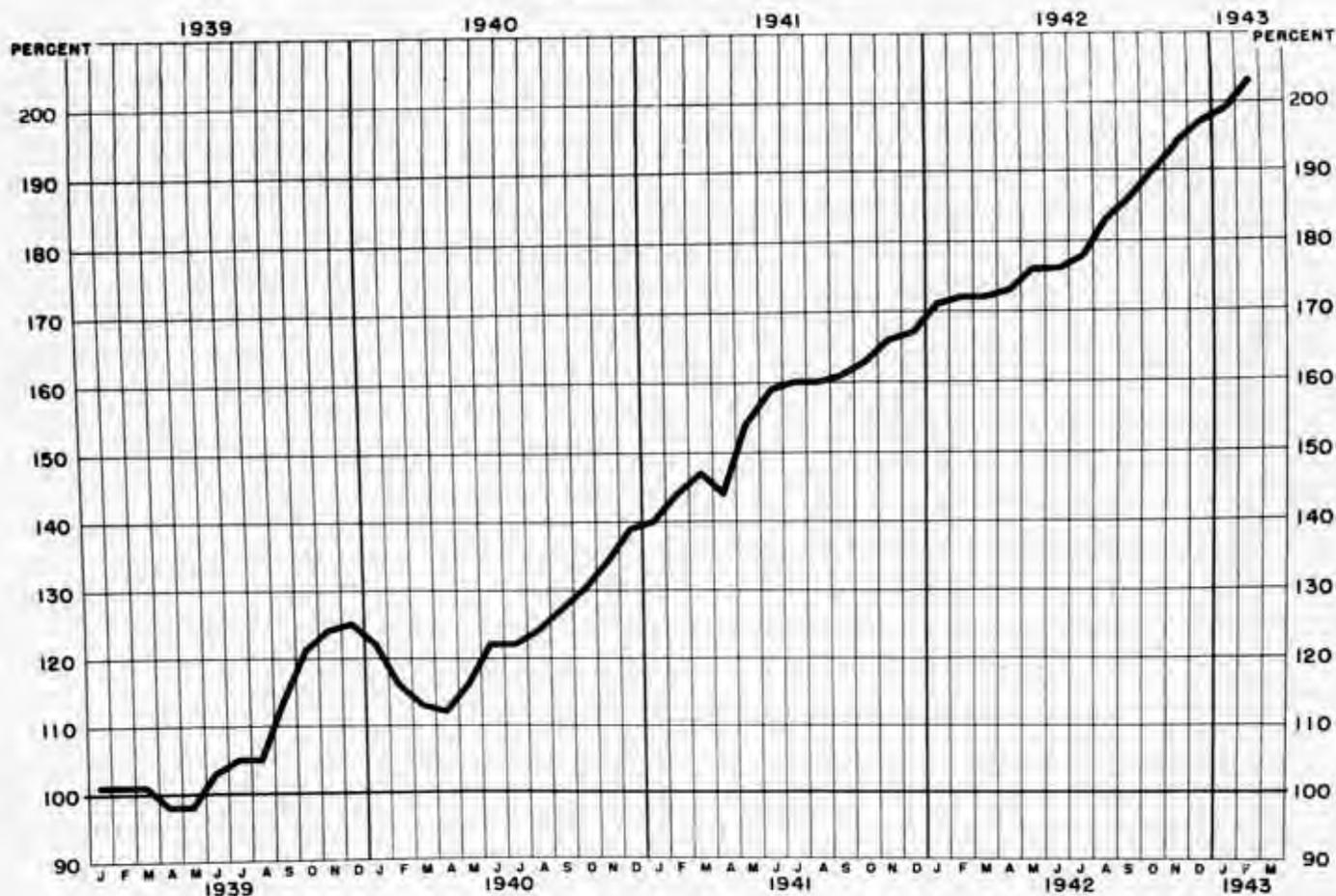
Dollar Values, 1923-25 = 100, Adjusted



Source: Federal Reserve Board

# F.R.B. INDEX OF INDUSTRIAL PRODUCTION

1935-'39 = 100, Seasonally Adjusted



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

C-349-A

Regraded Unclassified

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Frances McCathran

March 29, 1943

## CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax Legislation - The House will start its fourth day of debate on H.R. 2218 "to provide a method for the payment currently of individual income taxes and for other purposes" at eleven o'clock today, an hour earlier than usual. Supporters of both the Ways and Means Committee Plan and of the Ruml Plan have announced their intention of recommitting the whole matter to the Ways and Means Committee before they will give an inch to their opponents, but rumors persist that some compromise plan may be adopted. Representative Ramspeck is one of the main prophets of compromise, but Chairman Doughton has announced his decision of "standing pat" and Representative Martin continues to predict passage of the Carlson-Ruml Plan. Among the compromise methods offered are: (1) the Forand-Robertson Plan to forgive taxes on lower bracket incomes; (2) a proposal submitted by Representative Clare Boothe Luce to cancel the 1942 tax on incomes up to \$25,000 and provide percentage abatement for other incomes; (3) the so-called "second Doughton plan" which would forgive the second half of the '42 liability and the first half of the 1943 taxes. Representative Martin Dies in a speech to the House on Saturday urged the Carlson Plan proponents not to attempt to insist upon their method because if passed by the House, it would probably never pass the Senate, he predicted, but if the Senate should approve it, the President undoubtedly would veto it and thus "in the final analysis no action would be obtained." "It is ridiculous," he maintained, "to talk about giving up \$10,000,000,000 in order to go on a current basis," but he suggested that a "fair compromise that will allow for a fair abatement distributed equally among all classes" would be acceptable to the majority of the House. However, whether compromise is really "in the air" or not, will be evident sometime this week as the House winds up its general debate on the issue today, and a final vote is expected by Wednesday or Thursday.

Maritime Commission - As President Roosevelt's renomination of Rear Admiral Emory S. Land as Chairman of the Maritime Commission is expected to reach a Senate vote tomorrow, Senator McCarren on Saturday joined Senator Aiken in demanding an investigation of charges that the Commission has wasted public funds. McCarren condemned what he called "its obvious habit of paying outrageous prices" in buying ships from private sources, but Chairman Bailey of the Senate Commerce Committee claimed, "Admiral Land never has paid as much for ships as they would have commanded in the world market."



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 29, 1943

SECRET

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of March 22, 1943, the purchases against the North African Rehabilitation Program from March 22, 1943 to March 28, 1943, totaled \$205,268.82, or a total of purchases for the program thus far of \$20,980,684.47.

Attached is report giving status of shipping against these purchases.

*J. E. Mack*  
Wilton E. Mack  
Director of Procurement



SHIPPING REPORT AS OF MARCH 27, 1943**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>
New & used clothing	2018.75		381.5	2
Cotton piece goods	5939.5		3002.5	1184.5
Shoes, Boots, & soling	211.25	47.75	134	
Refined sugar	4196.5			
Raw sugar	1545			
Powdered milk	119.5			
Tea	171.5			
Matches	381.75			
Copper sulphate	4676.25	1084.75		451
Drugs	6.067			
Books & booklets	2			
Nails	100	5	22	
Lamp chimneys			17	
Newsprint	673	78	23	346
Printers ink	.1			
Mach. finished book paper	2			
Cordage & twine	225	5	40	
Cotton thread	29.25	11.75	48	
Chemicals	163.5	82.5	301	148.5
Cotton hose	25.5	9	14	
Nipples, bottles, eye cups			9	
Phonograph records			1000 Each	
Tooth brushes			.75	
Wash basins			7	
Spark plugs		2		
Storage batteries	47			
Tires, tubes, & tape	175.75			
Parts for autos, tractors & harvesters	190	7	203	28
Tin plate	845			
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	36.5	52.5		
Pig tin		64		
Shoe tacks		13.5		
Babbitt metal	53.5			
Steel		90		495
Horse shoes & nails		101		47
Gelatin	1			
Paint pigments	11		1.5	
Asbestos sheet packing		2		
Glycerine	12.75			
Calcium carbide		247		95
Sheet copper-				67
Brass rods & sheets			25	93
Files		45		
Bone glue				33
Saws				.25
Bricks	56	20		
Rubber cement			10	
Lumnite		30		
Light bulbs				6.25
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	21,909.917	2,009.75	4,310.25	2996.5

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 29, 1943

TO Secretary Morgenthau

FROM Mr. White *HDW*

Subject: Recent Developments in North African Program

1. Unsatisfactory food production in French West Africa

Allied representatives are experiencing considerable difficulty in persuading French West Africa to cooperate in producing foods for the economic war effort.

French North Africa appears to be making unjustifiably large demands upon the export surplus of critical goods from French West Africa. At the same time certain of the leaders of the French West African Government appear to be interested only in producing soldiers and have evidenced an apathy toward measures to push the production of essential foodstuffs for the Allied cause.

Allied representatives in Dakar feel that unless the United States and the British are prepared to withhold consumer goods above the absolute minimum essential to the war effort from French West Africa little headway will be made in solving this problem.

2. Shipments to French Africa for civilian consumption

American representatives in Algiers have cabled that very little has been received in French Africa since November 8, except cotton goods, coal, petroleum and food, and that as a result there are serious shortages of certain essential materials, especially industrial equipment and supplies. They further point out that imports since the Allied occupation have been less than 1/5 of the pre-1939 normal and as a result the economy of French Africa, already seriously deteriorated by the demands of Vichy and the Nazis, is facing a breakdown because of the lack of critical U. S. supplies.

3. Port congestion in North Africa

The urgency of critical civilian supplies is complicated by the fact that congestion in North African ports arising from lack of transportation to forward areas and scarcity of

warehousing facilities have made it necessary to limit the shipments of civilian supplies by U. S. convoys to 15,000 tons in each convoy. This is compared with the previous figure of 30,000 tons per convoy arriving on the average of once every twenty-five days.

American representatives are pressing the French to help by placing into operation a satisfactory method for the receipt and disbursement into the interior of civilian goods. This problem is especially difficult in view of the demands of the Army upon the available warehouses and the limited railroad and trucking facilities.

#### 4. Treasury program for Tangiers and Spanish Morocco

Communications are now being exchanged with Treasury representatives in Algiers with a view to establishing a rate of exchange between the dollar and the peseta in planning a financial proclamation for Tangiers and Spanish Morocco should the Allied Governments occupy that area. Special study is also being made of the financial and economic problems that may be presented.

#### 5. Treasury program for Tunisia

A detachment of the Civil Affairs Section of the North African Economic Board is closely cooperating with the French authorities on Tunisian affairs. A special problem is the treatment of the large Italian civilian population in Tunisia. To prevent as far as is practicable a disruption of the economy, it is presently planned to arrest the fascist leaders and agitators but leave the large bulk of the Italian population in possession of their property and free to carry on their normal activities.

A stockpile of supplies against the needs of Tunisia on its occupation is now in the course of accumulation through earmarking part of the current supplies of U. S. convoys for this purpose. Difficulty has been experienced in warehousing these stocks and in transportation to forward areas but active steps are being taken to solve these immediate problems.

On this side study is being given to the Treasury problems that will be presented by the occupation of the area.

#### 6. Dollar position of French North African Government

The French North African authorities have available to them \$68 million held in the name of the Central Banks of Algeria and Morocco. In addition a minimum of \$50 million in yellow-seal currency is held by the state banks in French Africa for which dollar credits will be granted in the United States bringing the dollar assets of French North Africa to at least \$118 million.

This figure is misleading in that Lend Lease has not presented the French North African authorities with a bill for Lend Lease goods already shipped to French Africa. The present arrangement is that payment will be made in francs. As a result we have been accumulating a franc balance of unknown size while the War Department has been paying dollars to the French to obtain the francs necessary for its expenditures in the area.

The Treasury Department is now exploring this problem with Lend Lease and War with a view to having a bill for Lend Lease goods prepared and submitted as soon as possible and reaching an agreement with the French to have future payments for Lend Lease goods made in francs or dollars at our option to prevent this Government from accumulating a large franc balance while the French increase their already large dollar assets.

A preliminary estimate, prepared by the Treasury, indicates that the French North African in-payments in dollars will approximate \$52.5 million quarterly and out-payments \$48 million quarterly or a net accrual to French North Africa of \$4.5 million during each quarter. This estimate assumes that Lend Lease imports into North Africa for civilian consumption will approximate \$40 million quarterly as estimated by the Board of Economic Warfare and that payment for Lend Lease goods will be made in dollars. A cable is being sent to American representatives in French Africa to obtain additional information to revise this preliminary estimate.

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Division of Monetary  
Research7. The French request to use dollar funds for diplomatic expenses

On March 11 the French North African authorities requested approval of the payment of \$100,000 from the dollar account of the Banque de l'Algerie for the purpose of providing funds for the operation of certain French diplomatic offices in the Western Hemisphere.

We feel that this application should be denied in view of the political considerations which are necessarily involved in permitting the support by the North African regime of the diplomatic missions in Latin America of the former French Government. However, favorable consideration would be given to authorizing the use of dollars to provide reasonable living expenses to the members of such French diplomatic offices. With the exception of the State Department this view received the support of the representatives of the interested departments with whom the matter was discussed.

On March 26, State informed Treasury that it had thoroughly canvassed the matter and wanted the transaction licensed. The Treasury indicated that it would be guided accordingly as soon as the matter had been cleared with the Army, but that it was to be clear that Treasury did not agree with the decision of the State Department.

8. Use of frozen funds of former French Government by General Giraud

The French High Command has noted the desire of this Government not to bring up the question of using the funds belonging to the former French Government by the present French North African authorities. However, High Command expresses again the desire of General Giraud, that in his capacity as trustee of French interests, he reserves the right to again bring up the question of his authority to use those funds.

9. Arrangements to regain control of yellow-seal currency outstanding

The Treasury has cabled representatives in Algiers instructing them to take custody of all yellow-seal currency

outstanding in North African banks. The banks will be provided with equivalent dollar credits in New York. We estimate the yellow-seal currency presently held by these banks at a minimum of \$50 million.

10. Arrangements for handling non-yellow seal currency in French Africa

American representatives in Algiers requested Treasury's views on plans for destruction of the large volume of non-yellow seal currency held by American authorities in French Africa. Treasury has cabled a reply suggesting that to avoid unnecessary destruction of such currency a careful survey should be made of the future needs of the Army Finance Officers for supplying notes to military personnel returning to the United States and also to the possibility of shipping the currency to the United States or to other areas where it can be used. The Treasury also indicated that it wished to be advised of the amounts of excess currency before authorizing a destruction procedure should the alternative programs prove to be impracticable.

11. Local currency for French North and West Africa

The manufacture of banknotes in the United States for the Bank of West Africa and the Bank of the State of Morocco and the procurement of materials for the Bank of Algeria for printing its own notes are proceeding satisfactorily. A partial shipment of currency will be made to the Bank of West Africa on April 15, 1943.

12. Reverse Lend Lease from French Africa

It is the intention of this Government to provide supplies and equipment for the French army under credit lend lease. The views of the American representatives in Algiers have been requested as to whether it is feasible to obtain military supplies and services from the French on reverse lend lease. This arrangement would be similar to reverse lend lease arrangements in existence with the United Kingdom, Australia, and the French National Committee.

It is not considered advisable to attempt to obtain strategic materials from the area by reverse lend lease as we are experiencing considerable difficulty in obtaining satisfactory quantities of critical goods from the French on a cash basis.

The British have indicated that they intend to pay cash for all services and supplies received from the French and, in turn, expect cash payment for all services and supplies provided by them to the French.

13. Inflationary problems in French Africa

Black markets and increasing prices remain problems of real importance in French North and West Africa. The Treasury representatives in Africa are preparing a report on this problem, including full details as to the present and proposed price controls and the fiscal systems in the areas.

14. Program for securing economic intelligence in North Africa

The Treasury personnel in North Africa are cooperating in the formulation of plans for setting up a joint trade intelligence center between British and American representatives in North Africa and also for cooperation with the British Prisoners of War Interrogation Service.

It is expected that this arrangement will facilitate the obtaining of economic intelligence concerning enemy and enemy-occupied countries and at the same time add to the effectiveness of Allied financial and trade controls in this area.

Study is now being given to the general problem of obtaining an effective flow of economic warfare intelligence between Treasury and our representatives in North Africa.

15. Treasury personnel in North Africa.

Treasury personnel have been assigned to Dakar, Casablanca and Algiers and are actively cooperating in handling the administrative problems and policy questions of a financial and

- 7 -

Division of Monetary  
Research

economic nature in these areas. Mr. Taylor and Mr. DuBois have returned to the United States. Their experience will be used to a good advantage in formulating and in crystallizing the Treasury program for future occupation areas.

16. Independent purchases by the French

American representatives in Algiers have been instructed to inform the French that it is essential for the programing of supplies for French Africa that the determination of the sources and shipment of supplies must remain with the combined British and American supply authorities to insure an equitable division of materials available for the war effort.

Negotiations are being undertaken to have the French agree that no independent transactions with third countries will be made without consulting and obtaining the approval of the North African Economic Board which will in turn obtain the approval of the Anglo-American supply authorities.

C O P Y

WCC/DO

Ottawa, March 29, 1943.

Dear Plumptre:

I find that I have been terribly delinquent in sending to you Prof. Knox's February compilation and forecast of our U.S. exchange position for transmittal to Dr. White. It has been on my desk since the first of the month but as I think I indicated to you previously the last three months here have been the "toughest" I have ever gone through. You will have to make my apologies to Dr. White and to explain to him that I am wholly the guilty one--and can only plead in extenuation the weakness of human flesh.

Two copies of the report are attached hereto. You will note it was prepared in the latter half of February and takes no account of the effect of the recent arrangement. Indeed it is based on the assumption that all the trends at work at the time would continue--and that is, of course, a very dangerous assumption.

On this basis, however, it reveals to me some rather interesting conclusions. Perhaps I can bring them into relief by the following summary table:

	<u>1942</u>	<u>First half 1942</u> (Millions of dollars)
Current Account surplus on commercial transactions	48	19
War imports -	<u>436</u>	<u>260</u>
Deficit excluding Hyde Park	388	241
Hyde Park receipts	<u>342</u>	<u>267</u>
Net current deficit	46	26 (surplus)
Net capital imports	<u>150</u>	<u>78</u>
Increase in U.S. dollar position*	104	104

\* The figures in this table do not include of course the special receipts of U.S. dollars from U.K. in December 1942 and the first two months of 1943, which are non-recurring.

Handed by Mr. Plumptre to Mr. White in Mr. White's office, 4/1/43, at 11:30 A.M.

2.

One important fact apparent from the table is that Hyde Park receipts did not produce enough U.S. dollars in 1942 to pay for our war imports from U.S.A. but are estimated to produce just slightly more than enough for that purpose during the first half of 1942. A second and rather disturbing point is that net capital imports in the 18 months period more than account for the increase in our U.S. dollar reserves -- apart from the non-recurrent special receipt of dollars from the U.K. This external borrowing disturbs me greatly; it should be stopped, as it is bad borrowing in almost every sense, but we were reluctant to intervene when we needed dollars so badly and had hoped that the movement would soon come to an end automatically by the exhaustion of the available supply of optional payment securities.

Yours sincerely,

Original signed by  
W. C. Clark

A. F. W. Plumptre, Esq.,  
Financial Attache,  
Canadian Legation,  
Washington, D.C.

General Comments

The estimate of Canada's balance of payments with the United States made in the following tables has been drawn up on the assumption of the continuance of present trends. No attempt has been made to allow for radical changes in merchandise imports and exports which may conceivably take place; nor has any account been taken of new arrangements under negotiation as to Canada's United States dollar position. In the present quarter a very high level of American purchases of outstanding Canadian securities has been attained. The present forecast of its continuance at a decreasing rate into the second quarter of 1942 takes no account of the possibility that such high cost borrowing may be restricted.

1. Canada's U.S. dollar position as set out in the following tables may be summarised thus:

(in millions of U.S. dollars)

	<u>1942</u>	<u>First six months of 1943</u>
<u>Needs for United States dollars</u>		
Current account deficit, excluding Hyde Park receipts.....	\$463	\$270
Increase in Canada's U.S. dollar position, excluding certain non-recurrent receipts of U.S. dollars from the United Kingdom....	104	104
Total	\$567	\$374
<u>Sources of U.S. dollars.</u>		
Net Hyde Park receipts, excluding imports of materials and components under Lend-Lease to the United Kingdom.....	\$342	\$267
United States purchases of outstanding Canadian securities.....	112	90
Other forms of capital imports from the United States.....	38	-12
United States dollars from ordinary transactions with other countries..	60	29
Errors and omissions in the estimates.....	15	-
Total	\$567	\$374

FORECAST OF CANADA'S UNITED STATES DOLLAR POSITION

February 1943

General Comments

- Table I. Financing Canada's Needs for United States Dollars.
- Table II. Canada's Deficiency of United States Dollars on Current Account Transactions with the United States.
- Table III. Capital Account Transactions with the United States.
- Table IV. Effect of Hyde Park Transactions, Gross.
- Table V. United States Dollars Obtained from Newfoundland and Other Non-sterling Area Countries.
- Table VI. Canada's Liquid Reserves.

Footnotes to the Tables.

March 1, 1943.

In the calendar year 1942 Canada's United States dollar position increased by \$131 million. If \$27 million of special non-recurring receipts from the United Kingdom be excluded, the increase amounted to \$104 million. By coincidence the increase forecast for the first six months of 1943 (again excluding special receipts from the United Kingdom which have to date in 1943 amounted to \$138 million) is also \$104 million.

It will be observed that in 1942 the American purchases of outstanding Canadian securities were more than enough to account for the increase in our United States dollar position of \$104 million; the purchases of these securities for the first half of 1943 are forecast at a level which, if attained, would explain all but \$14 million of the \$104 million increase in our United States dollar position here forecast for the first six months of 1943. Apart from this form of capital import our balance of payments with the United States would still have been unfavourable in 1942 despite Hyde Park receipts of \$342 million had it not been for other forms of capital imports and receipts of United States dollars from our ordinary transactions with other countries. Since the latter two sources of United States dollars will become of less importance in 1943, the higher level of net Hyde Park receipts forecast for the first six months of 1943 will be required merely to maintain our United States dollar position.

Table I. Financing Canada's Needs for United States Dollars.

(in millions of U.S. dollars)

	Item No.	Calendar Years		Quarters of 1942				1943	
		1941	1942	I	II	III	IV	I	II
<b>Canada's Needs for U.S. Dollars</b>									
Balance of current payments (excluding Hyde Park transactions) (Table II).....	1.	286	463	86	151	116	110	132	136
Chief items in this category are (Table II)									
Imports for war production and military equipment.....	2.	292	436	100	107	112	117	123	137
Other imports.....	3.	550	386	136	165	144	141	124	118
Total of all current payments.....	4.	1,191	1,445	318	385	362	360	341	399
Exports.....	5.	306	367	140	139	133	155	119	129
Total of all current receipts.....	6.	905	982	232	234	246	270	209	250
Long maturities and other credits on capital account (Table III).....	7.	33	25	5	8	8	6	114	11
Imports of components and materials obtained by the U.K. under Lend-Lease for execution of British orders in Canada....	8.	3	62	5	26	15	16	13	7
<b>Total Needs for U.S. Dollars (1 + 7 + 8).....</b>	<b>9.</b>	<b>322</b>	<b>550</b>	<b>96</b>	<b>185</b>	<b>137</b>	<b>132</b>	<b>259</b>	<b>154</b>
<b>Means of Meeting These Needs.</b>									
Hyde Park Transactions, Gross, (Table IV).....	10.	61	404	60	109	111	124	138	149
which includes the estimated U.S. dollar content of Hyde Park exports amounting to....	11.	-	34	2	6	12	24	15	-
United States dollars obtained from Newfoundland and other non-sterling area countries outside the U.S. (cont) (Table V)	12.	24	60	11	23	10	16	12	17
Sales of securities and other capital account credits (Table III).....	13.	94	175	52	53	33	38	163	40
Total (10 + 12 + 13).....	14.	179	639	123	185	153	178	313	206
Balance of Receipts over Needs (14-9).....	15.	-143	189	127	0	116	146	154	150
Total change in stocks of gold and U.S. dollars.....	16.	-142	151	142	14	117	153	-	-
Total receipts of U.S. dollars from the United Kingdom.....	17.	-	127	-	-	-	127	-	-
Total change in stocks of gold and U.S. dollars (16 - 17).....	18.	-142	124	142	14	117	131	-	-
Debits and Commissions, i.e. changes required in item 15 to equal item 18.....	19.	1	15	15	14	11	-15	-	-

Note: Item 8 This item is introduced in Section I of this Table because it is included in Section II Item 10, and because in the absence of the Hyde Park agreement Canada would presumably need U.S. dollars to cover the imports in this item. On the reliability of this item, see the footnotes to Table IV, Item 7.

Table II. Canada's Deficiency of United States Dollars on Current Account Transactions with the United States

(in millions of U.S. dollars)

Item No.	Calendar Years		Quarters of 1942				1943		
	1941	1942	I	II	III	IV	I	II	
<b>I. Payments by Canada to the U.S.</b>									
Imports									
War production and military equipment (incl. Lend-Lease).....	1.	292	436	100	107	112	117	123	137
Other imports.....	2.	550	586	136	165	144	141	124	115
Total imports (1 + 2).....	3.	842	1,022	236	272	256	258	247	252
Receipts payable in U.S. dollars.....	4.	86	130	21	35	39	35	27	30
Tourist and other travel to the United States.....	5.	15	14	4	4	3	3	4	3
Interest.....	6.	85	88	19	24	20	25	20	25
Dividends and profits.....	7.	118	114	20	32	23	39	23	28
Miscellaneous.....	8.	45	77	18	18	21	20	20	20
Total payments (3 + 4 + 5 + 6 + 7 + 8).....	9.	1,191	1,445	318	385	362	360	341	358
<b>II. Receipts by Canada from the United States.</b>									
Exports of merchandise by Canada (excl. Hyde Park).....	10.	506	567	140	139	133	135	118	129
Exports of newly-mined goods.....	11.	185	167	44	42	40	41	35	30
Receipts in U.S. dollars.....	12.	54	74	16	18	19	21	17	17
Tourist and other travel by U.S. in Canada.....	13.	73	52	7	11	22	12	6	8
Interest, dividends and profits from the U.S.....	14.	47	53	12	10	14	17	9	9
Miscellaneous.....	15.	40	69	13	14	18	24	24	27
Total receipts (10 + 11 + 12 + 13 + 14 + 15).....	16.	905	982	232	234	246	270	209	220
Excess of payments over receipts.....	17.	286	463	86	151	116	110	132	138

Table III. Capital Account Transactions with the United States

(in millions of U.S. Dollars)

	Item No.	Calendar Years		Quarters of 1942				1943	
		1941	1942	I	II	III	IV	I	II
<u>Receipts by Canada:</u>									
Sales of U.S. and other foreign securities.....	1.	23	21	8	5	4	4	5	3
Sales of other U.S. assets.	2.	17	23	11	3	5	4	4	3
Total (1 / 2) .....	3.	40	44	19	8	9	8	7	6
Sales of Canadian securities	4.	31	112	27	40	19	26	60	30
Sales of other Canadian assets.....	5.	23	19	6	5	4	4	4	4
Total (4 / 5).....	6.	54	131	33	45	23	30	64	34
Total (3 / 6).....	7.	94	175	52	53	32	38	71	40
Receipts from new issues and new borrowing.....	8.	-	-	-	-	-	-	92*	-
Total receipts (7 / 8).....	9.	94	175	52	53	32	38	163	40
<u>Payments by Canada:</u>									
Redemptions of Canadian bonds held in the U.S. ....	10.	26	20	4	6	5	5	113	10
Other debt payments.....	11.	7	5	1	2	1	1	1	1
Total payments (10 / 11)....	12.	33	25	5	8	6	6	114	11
<u>Net Capital Inflow from the U.S. (9 - 12).....</u>	13.	61	150	47	45	26	32	49	29

This amount includes the \$39 million proceeds from the Dominion of Canada issue and \$3 million bank loan raised in the United States by a Canadian paper company.

Table IV. Effect of Hyde Park Transactions, Gross.

(in millions of U.S. Dollars)

	Item No.	Calendar Years		Quarters of 1942				1943	
		1941	1942	I	II	III	IV	I	II
Prepayments and capital advances.....	1.	50	79	44	34	1	-	-	1
Receipts on orders placed through War Supplies Ltd. ....	2.	2	231	7	42	83	99	100	120
Net exports.....	3.	6	32	4	7	12	9	14	18
Total (1 + 2 + 3) .....	4.	58	342	55	83	96	108	114	139
Petroleum products purchased by the U.S. on account of the U.K. for the Combined Air Training Plan.....	5.	-	-	-	-	-	-	11	5
Exports of components and materials obtained by the U.K. under Lend-Lease for execution of British Orders in Canada.....	6.	3	62	5	26	15	16	13	7
Total (4 + 5 + 6).....	7.	61	404	60	109	111	124	138	149
<u>Additional Information</u>									
Expenses against prepayments and capital advances of Items of this Table.....	8.	-	17	2	2	5	8	12	14
Net exports under Hyde Park (2 + 6 + 8).....	9.	6	280	13	51	100	116	126	152
Estimated U.S. dollar content of net exports under Hyde Park.....	10.	-	34	2	6	12	14	15	18

Table V. United States Dollars Obtained Outside the United States.

(in millions of U.S. dollars)

Item No.	Calendar Years		Quarters of 1942				1943		
	1941	1942	I	II	III	IV	I	II	
<u>Receipts by Canada:</u>									
From Canadian exports to non-sterling area countries outside the U.S.....	1.	-	47	15	15	10	9	8	7
Of dividends from Canadian companies operating in Latin-America.....	2.	-	35	3	13	4	15	8	15
Total (1 + 2).....	3.	88	82	18	26	14	24	16	22
<u>Payments by Canada:</u>									
For imports from non-sterling area countries outside the U.S. ....	4.	79	55	14	13	12	16	12	12
Net Receipts (3 - 4).....	5.	9	27	4	13	2	8	4	10
Net Receipts of U.S. Dollars from Newfoundland.....	6.	15	35	7	10	8	8	8	7
Net Receipts. (5 + 6)....	7.	24	60	11	23	10	16	12	17

Table VI. Canada's Liquid Reserves

(in millions of U.S. dollars)

	Gold#	U.S.† Balances#	Total Official#	Private Balances##	Total
<b>(a) Actual-</b>					
Sept. 15, 1939....	205	56	261	130	391
Dec. 31, 1940....	136	194	330	-	330
Dec. 31, 1941....	136	52	188	-	188
Mar. 31, 1942....	126	104	230	-	230
June 30, 1942....	125	119	244	-	244
Sept. 30, 1942....	123	138	261	-	261
Dec. 31, 1942....	155	164	319	-	319
<b>(b) Estimated-</b>					
Mar. 31, 1943....			373*		373*
June 30, 1943....			423*		423*

Changes in amounts from previous period:

Memo  
Estimated Net  
capital import

<b>(a) Actual-</b>						
Sept. 15, 1939....	-	-	-	-	-	
Dec. 31, 1940....	-69	†138	‡69	-130	-61	61
Dec. 31, 1941....	-	-142	-142	-	-142	47
Mar. 31, 1942....	-10	‡52	‡42	-	‡42	45
June 30, 1942....	-1	‡15	‡14	-	‡14	26
Sept. 30, 1942....	-2	‡19	‡17	-	‡17	32
Dec. 31, 1942....	‡32	‡26	‡58	-	‡58	
<b>(b) Estimated-</b>						
Mar. 31, 1943....			‡54	-	‡54	46
June 30, 1943....			‡50	-	‡50	40

† Total "official" holdings - Foreign Exchange Control Board,  
Minister of Finance and Bank of Canada.

‡ Total holdings of U.S. dollars by all other residents of Canada,  
excluding Canadian banks and insurance companies whose holdings of  
U.S. dollars are required for the purpose of their U.S. business.  
The totals shown are exclusive of \$80 million in minimum working  
balances.

Prior to the war, a very large proportion of Canada's exchange  
reserves was held by private rather than official agencies. In the  
spring of 1940, the Foreign Exchange Control Board, which had been  
charged with responsibility for managing the country's exchange  
reserves, took over all such balances in private hands other than  
the minimum amount considered essential for day-to-day working  
balances.

\* Exclusive of U.S. dollars received from the United Kingdom in 1943.

## Footnotes to the Tables

### Footnotes to Table II. Current Account.

#### Items 1, 2 and 3. War Imports; non-war imports; total imports.

The forecast for "total imports" from the United States was arrived at by studying the past trend of each of the nine groups into which the Dominion Bureau of Statistics classifies our imports from the United States. Particular attention was paid to the total imports of the larger individual items in each group for 1942.

The subdivision of "total imports" into "war imports" and "non-war imports" is necessarily arbitrary in part. The division between them here made is based on estimates of the U.S. dollar costs of our war production and information currently available on the trends of non-war imports. The line between the two is difficult to draw and in any case it is the figure of total imports which is significant for the balance of payments.

#### Item 4. Freight payable in U.S. dollars.

This item includes inland freight on coal and other commodities imported from or through the U.S., ocean freight on imports which is payable in U.S. dollars to U.S. or other foreign agencies, and such part of the freight on Canadian exports to sterling area countries as is payable by Canada in U.S. dollars. Estimates on some of these payments, e.g., freight on coal imports, are based on up-to-date information; for other parts of the estimate the basic data is usually one quarter behind. As a record, the estimates of the larger part of the freight payments are probably quite accurate.

#### Item 5. Tourist payments.

These are based upon Foreign Exchange Control Board data as to funds sold to tourists for travel in the United States.

#### Item 6. Interest Payments.

Based upon Dominion Bureau of Statistics estimates of the holdings of Canadian bonds in the United States. The quarterly distribution was made after studying the seasonal tendency in the

... by the Foreign Exchange Control Board of U.S. dollars for servicing of Canadian bonds.

Item 7. Dividends and Profits Payments.

Based on F.E.C.B. records of approvals for the remittance of dividends and profits to residents of the U.S. dollar area, the forecast has been made on the assumption that remittances will continue to be below earnings as they have been in the recent past and that there will be no tendency to remit to the U.S. the considerable volume of profits eligible for remittance under the regulations of the F.E.C.B. which have thus been built up.

Item 8. Miscellaneous.

This item includes mainly payments for services such, for instance, as payments to companies in the U.S. for management, engineering and similar professional services.

Item 10. Exports (excluding Hyde Park exports).

For the past the figure of exports to the United States is arrived at by adjusting the Customs figures to eliminate some items for which no U.S. dollars are received and to exclude as far as possible the exports made under the Hyde Park agreement which are included in Table IV.

As in the case of "total imports", the forecast of "total exports" was made by the examination of the recent trends of exports in each of the commodity groups, and the individual items within each group.

Item 11. Exports of newly-mined gold.

The exports for the past are from data compiled by the Bank of Canada. It is still difficult to forecast accurately the effect which restrictions on gold-mining may have on the volume of gold exports. The estimates here made may well turn out to be too high.

Item 12. Freight receipts.

This item includes Canadian railway earnings on exports to

the United States; United States payments to Canadian railways on freight in transit through Canada; and expenditures in Canada by United States railways, particularly those in southern Ontario. For the past an estimate is made on the basis of railway revenue and traffic statistics as these become available; the record is therefore subject to revision in future compilations. The forecast is made upon the basis of probable future traffic.

There is also included expenditures in Canada on account of U.S. and other foreign ships and some earnings of Canadian ships which are received in U.S. dollars.

Item 13. U.S. tourist travel in Canada.

This estimate is based on F.E.C.B. receipts of U.S. dollars which are believed to originate in the tourist trade. The Dominion Bureau of Statistics estimate is based on tourist traffic and includes Canadian dollar receipts which cannot be separated from U.S. dollar receipts. However, the F.E.C.B. data appear to be in line with the estimates based on the figures for the tourist traffic to Canada.

Item 14. Interest, dividends and profits from the United States.

F.E.C.B. data, including income from other than U.S. securities. Dividends received from Canadian companies operating in Latin America are excluded, as these appear in Table V, item 2.

Item 15. Miscellaneous.

The income included here is mostly from services. It includes receipts originating in the activities of the U.S. government in Canada, as for instance the Alaska Highway.

Footnotes to Table III. Capital Account.

Items 1, 2, 4 and 5.

For the past data compiled by the Foreign Exchange Control Board. The forecasts are rough estimates of future sales.

Item 3.

The figures for the past record the amount of exchange purchased from the F.E.C.B. to meet maturities of Canadian bonds.

The forecast is based on the estimated foreign holdings of maturing Canadian bonds.

Item 9.

F.E.C.B. data for the past. The forecast is for payments at the present level.

Footnotes to Table IV. Effect of Hyde Park Transactions, Gross.

Item 1. Prepayments and Capital Advances.

As recorded by the Department of Munitions and Supply.

Item 2. Receipts on Orders placed through War Supplies Ltd.

As estimated by the Department of Munitions and Supply based on their estimate of the value of war production dated February 1, 1945.

Item 3. Sales to Metals Reserve Corporation.

Sales of aluminum, lead, mercury, mica, cobalt and other metals as reported by the Department of Munitions and Supply.

Item 5. Petroleum Products purchased by the U.S. on account of the United Kingdom for the Combined Air Training Plan.

To date no U.S. dollars have been received by Canada under these arrangements. The forecast for the first two quarters is based on the best available information.

Item 6. Imports of components and materials obtained by the United Kingdom under Lend-Lease for execution of British orders in Canada.

Since, in the absence of the Hyde Park agreement, Canada would presumably need U.S. dollars to cover the imports in this item, the estimated amounts of such receipts have been included in this table. They are therefore included also in the "gross receipts from Hyde Park transactions" which appear in Table I as Item 10. Since goods moving into Canada under this arrangement are not included in the merchandise imports into Canada for which we must pay (Table II, Item 3) they are entered in Table I as a separate item, Item 6. As this item thus appears on both the

credit and debit side of our balance of international payments with the United States, it has no effect on the net debits or credits shown in Table I.

Records of this inward movement of goods into Canada are still very unsatisfactory and therefore the amounts here entered are very rough estimates indeed.

Items 8, 9 and 10, are added to the table as matters of information; they do not enter into the balance of payments calculation.

Item 8 is as reported by the Department of Munitions and Supply. Item 10 is 12% of Item 9. This is a rough estimate of the probable purchases in the United States which must be made by Canada in order to produce the total exported (Item 9) under the Hyde Park arrangements. This proportion is indicated as roughly accurate by the investigations of the Department of Munitions and Supply.

Footnotes to Table V. United States Dollars obtained outside the United States.

Items 1 and 4.

Customs figures adjusted to eliminate items producing no U.S. dollars or for which no payment in U.S. dollars is required. Wheat exports to neutral countries in Europe from U.S. ports are included in Item 1.

Item 2.

F.E.C.B. data on dividends transferred to Canada by Canadian companies operating in Latin America. The irregularities in the second and fourth quarters of 1942 are due mainly to the payment of dividends by International Petroleum Co.

Item 6.

Net amount of exchange sold to the Foreign Exchange Control Board.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE  
WASHINGTON, D. C.

TELEPHONE HOBART 9000

QUOTE

REFERENCE NO. ....

With the compliments of British Air Commission  
who enclose Statement No. 78 - Aircraft Despatched  
- for week ended March 23, 1943.

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

March 29, 1943.

SECRETSTATEMENT NO. 78

March 27, 1943.

Aircraft Despatched from the United StatesWeek ended March 23rd, 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>CONSOLIDATED</u>					
Liberator GR V	U.K.	Canada enroute		7	
Liberator GR V	Bahamas	Nassau		1	
Catalina 1B	U.K.	Bermuda enroute		1	
<u>CURTISS</u>					
Seawew	Canada	Canada			11
Seawew (A)	Canada	Canada			11
Kittyhawk	Middle East	Port Sudan	12		
<u>DUNSTER</u>					
Wildebeest	U.K.	U.K.	9		
<u>DOUGLAS</u>					
Beaton III A	U.K.	Canada enroute		7	
Beaton III A	Canada	Canada			1
Dakota I	Nassau enroute	Nassau enroute		9	
Dakota I (B)	Nassau enroute	Nassau enroute		1	
<u>FAIRCHILD</u>					
Cornell PT26	Canada	Canada			7
Cornell PT26	Middle East	Middle East	2		
<u>LOCKHEED</u>					
Hudson VI	Canada enroute	Canada enroute		7	
Ventura	S'Africa	S'Africa		1	
Ventura	Canada	Canada			1
<u>JOHN MARTIN</u>					
Baltimore III A	Nassau enroute	Nassau enroute		8	
Baltimore IV	Nassau enroute	Nassau enroute		20	
Baltimore IV-(C)	Middle East	Middle East		1	
<u>NORTH AMERICA</u>					
Harvard	U.K.	U.K.	2		
Harvard	India	Bombay	22		
<u>VULCAN</u>					
Vengeance	India	Bombay	2		
<u>WACO</u>					
Waco Gliders	U.K.	U.K.	13		
			<u>Total</u>	62	31

(A) Exported week ended March 9th

(B) Exported week ended March 16th

(C) Exported week ended March 2nd.

\*Please note Baltimore III A-14 in Statement No. 77 should read 13.

Movements Division  
British Air Commission

Regraded Unclassified

BRITISH MOST SECRET  
U.S. SECRET

OPTEL No. 103

Information received up to 7 A.M., 29th March, 1943.

INFORMATION  
TREASURY  
NAVAL  
1943 MAR 30 AM 11

Early 28th 3 of our motor gun boats attacked a ship escorted by 2 trawlers off the Dutch coast. The ship was probably sunk. 2 of our destroyers were in action with E-boats last night off the east coast, no further details yet. A Dutch submarine sank a 4,000 ton ship off the ANDAMAN ISLANDS on 13th.

2. MILITARY

TUNISIA. 27th. 8th Army. 7th Armoured Division and 4th Indian Division maintained pressure in the direction of TOUNANE. Southwest of EL HADBA heavy fighting by 1st Armoured Division and New Zealand Division continued. During the afternoon there was much enemy movement from east and south east towards EL HADBA which appears to be strongly held. 1st Army. Our troops made a successful local attack in the DJEBEL ABIOD sector. North and northwest of MEDJEZ EL BAB our patrols penetrated deeply and found little sign of the enemy. French patrols have been active in the AIR MESTOUR area and in the hills north east of PICHON. They have taken up new positions astride the MAKTAR-PICHON road. Operating south of the Chett DJERID French camel corps troops have made progress towards DOUZ. U.S. SECTOR. U.S. forces entered FONDOUK on the evening of the 27th meeting only slight resistance.

3. AIR OPERATIONS

WESTERN FRONT. 27th/28th. BERLIN. About 440 tons of H.B. and 41 tons incendiaries were dropped including 162 4,000 pound bombs and over 12,000 30-pound incendiaries. Main force attacked from 10:45 to 11:35 p.m. Fires were scattered at first, but later good concentrations were seen on both sides of the river in the north and south parts of the city. anti-aircraft moderate, many searchlights but defences neither accurate nor well coordinated. 28th. 70 escorted Fortresses dropped 209 tons of H.B. at ROUEN railway centre. Good results reported 1 bomber and 4 fighters missing. Shipping and ship building yards at ROTTERDAM were bombed by 24 escorted Venturas. A minesweeper was hit. 6 Mosquitos attacked factories at LIEGE from low level. 2 Mosquitos missing. 28th/29th. Following aircraft sent out: ST. NAZAIRE 323 (2 missing); sea mining 7; leaflets 5, intruders 7. Preliminary reports - ST. NAZAIRE indicates high proportion of aircraft attacked, visibility excellent and bombing well concentrated, many fires seen increasing in size and intensity during the operation. About 18 enemy aircraft operating over EAST ANGLIA, enemy casualties 1, nil, 2.

TUNISIA. 26th/27th. Wellingtons and Halifaxes dropped 110 tons of bombs at GABES, fuel installations, railway sidings and barracks were hit. 137 fighters and fighter bombers successfully attacked enemy concentrations in the EL HAMMA/GABES area. Enemy casualties 3, nil, 7. Allied 9, nil, 2.

FRENCH NORTH AFRICA. 27th. Fighters destroyed 7 out of 12 enemy torpedo bombers which attacked convoy near BOUCLE.

BURMA. 27th. Hurricanes intercepted 2 formations of 25 escorted bombers attacking COX'S BAZAAR and shipping in the NAFK river. Enemy casualties 12, 9, including 2, nil, 2 by A.A. 27th/28th. Liberators dropped 3 tons of bombs on ROUNGOO airfield starting fires in the dispersal area.