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May 1, 1943
10:00 a.m.

GROUP

Present: Mr. Bell
Mr. Graves
Mr. Sullivan
Mr. Buffington
Mr. Odegard
Mr. Thompson
Mr. Schwarz
Mr. Haas
Mr. Paul
Mr. Blough
Mr. Robbins

H.M.JR: I just thought I would kind of get acquainted again. I had nothing special. At our end everything was all right. It was more like a campaign trip than anything else I was ever on.

MR. ODEGARD: It sounded good on the radio.

MR. PAUL: Any rough weather?

H.M.JR: Lots of it. The men are going to feed me a teletype to the speaker's desk - to give me the speech - type it as I read it. (Laughter)

MR. ROBBINS: I hear you had some lightning photo finishes.

H.M.JR: Yes. We left the Palace Hotel with a speech at seven minutes past eight, with the ink not dry on it, and went on the air at eight-thirty. While they introduced me, I read it. (Laughter)

MR. PAUL: That is like me before the committee, sometimes. (Laughter)

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H.M.JR: It was all right. I was glad I didn't go to San Francisco first. They gave us a wonderful reception there. They went over the top with the worst grace I ever saw. (Laughter) But at least they did it, so I think the joke is on them instead of on us. I guess what's-his-name told you some of it.

MR. ROBBINS: That is right. I spent two very interesting hours with him last night.

H.M.JR: But it is interesting and it is worthwhile. You can't get it sitting here. But some spots in the country are wonderful and some aren't so good. But the drive is all right. That is the main thing.

MR. ROBBINS: The volume is fine, sir. I still think we have plenty of room for improvement.

H.M.JR: I am not going to do very much this morning. After this meeting I want to see Paul, Bell, Blough, and Sullivan. I will get around Monday or so to talking about deferments.

MR. THOMPSON: I have a list all ready. There are about twenty-nine names which can be boiled down, I think.

MR. BELL: The subject came up yesterday at Cabinet meeting. Ickes made quite a plea for a statement by the President on this whole subject of deferment. He said that everybody was being criticized, particularly the boys where the heads of the departments had asked to have them deferred. They were getting ashamed and asking to go into the service. He thought it was quite necessary for the President to make a statement. The President asked Ickes and Biddle, I believe, to get together and see if they could draw him up a statement.

H.M.JR: If he is going to do something like that, we had better wait, hadn't we?

MR. BELL: I should think you might.

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MR. THOMPSON: This group was all 3-A and 3-B. It isn't urgent except for two cases which might need action next week.

H.M.JR: Is Monday time enough?

MR. THOMPSON: Plenty, yes. I went over the list with Mr. Gaston first.

H.M.JR: Three-A and 3-B?

MR. THOMPSON: Yes.

MR. BELL: They were complaining about the Costello committee. Apparently Ickes had been taken over the coals up there at these hearings. The curious thing about it was that the State Department, which probably had more deferments than any other department, got a clean bill from the committee.

MR. PAUL: Mr. Prentiss Brown asked yesterday how old Costello was.

MR. BELL: I don't know.

MR. PAUL: I met him; I wouldn't say he was over thirty-five. He is pretty sore about Ginsburg and Nathan.

MR. THOMPSON: I think he was sore about some of the Interior Department employees who were very young - eighteen and twenty years old - six months' service, and put up as indispensable men.

H.M.JR: I am not worrying about the public at all. I mean, I think what we have done here I don't have to explain, but I am just thinking about the future. I am satisfied inside that what I have done is all right, so I am not worrying about what anybody else thinks. I thought Ickes' statement was one of the stupidest statements he has made, and that is saying a lot. (Laughter)

MR. THOMPSON: He had some very poor cases.

H.M.JR: Dan?

MR. BELL: Nothing.

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H.M. JR: Bill?

MR. ROBBINS: No, I haven't anything. I think you have seen the figures.

H.M. JR: Yes, they are thrilling - they were last night. If I get any time this morning I want to go in the Chart Room and see how they look in there.

MR. BELL: By the way, we are writing a statement for Monday morning's papers - the figures up to last night. Would you like to see that?

H.M. JR: Yes.

MR. SCHWARZ: Would you care at all, Mr. Secretary, to have a conference today?

H.M. JR: I would rather not.

MR. SCHWARZ: You still can make some more comment on Monday.

MR. BELL: This statement will be for quote.

MR. PAUL: I think I will send you a little memorandum for your press conference Monday about Knudsen's reply to our statement, so if they ask you about it you can be prepared.

H.M. JR: Have you got to make another statement for Monday?

MR. BELL: We thought we ought to, and that was the sort of schedule --

H.M. JR: You mean through tonight?

MR. BELL: Through last night we have sort of followed a schedule. You have given out figures at your regular press conferences and I have sort of followed that since you went away - given it to the boys each Monday and Thursday. Now, tonight is the first statement following that schedule.

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H.M.JR: When do you want to bring it in?

MR. BELL: I think George Wanders has it.

MR. BUFFINGTON: It is ready now.

H.M.JR: We will get around to it later on. It is for Monday morning?

MR. BELL: Yes.

H.M.JR: There is no hurry this morning?

MR. BELL: No.

MR. ROBBINS : I have nothing.

H.M.JR: Harold?

MR. GRAVES: Nothing.

H.M.JR: Chick?

MR. SCHWARZ: Nothing.

MR. HAAS: I have nothing that can't wait. You sent a letter around you received from Vaughn.

H.M.JR: There is no hurry about that. I want you (Blough) to stay for this meeting.

MR. BLOUGH: Would you like to hear a very short story from this trial in New York?

H.M.JR: Yes.

MR. BLOUGH: The judge is Clarence Opper - the tax-exempt security case; and Opper is doing a very fine job as judge, but he excluded some evidence that Leming, our attorney, wanted to put in. So Leming quoted from St. Mark and said he was going to be reversed on this,

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and that it would be a case of the stone that the builder rejected that had become the head of the corner. During the recess Phil Wenchel dropped in to see Oppen in his chambers, and Oppen said to Wenchel, "You tell Leming if he is going to quote any more from the scriptures that he should use the Old Testament." (Laughter)

H.M.JR: I don't get the significance of that. It is over my head.

George, I think you had better stay for the tax meeting, on second thought.

MR. HAAS: All right.

H.M.JR: Peter?

MR. ODEGARD: I haven't anything, Mr. Secretary.

H.M.JR: Did you get a telegram from me?

MR. ODEGARD: Yes.

H.M.JR: Are you going to have some stuff for me?

MR. ODEGARD: Monday morning.

H.M.JR: Have I excited the enemies at all?

MR. ODEGARD: Only one reference to the earlier speech. The report on the other just came in today.

H.M.JR: OWI certainly went to town on those three talks.

MR. PAUL: An OWI man came over to see me following the conference with you - Rogers. I am talking more with them. OWI wants to do some publicity work to help us on taxes.

H.M.JR: Anything else, Paul?

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MR. PAUL: No.

MR. BUFFINGTON: I have nothing.

H.M.JR: It looks as though your estimate is going to be reached, doesn't it?

MR. BUFFINGTON: I think it will.

H.M.JR: Was there any question of reaching seventeen?

MR. BELL: It will be close to seventeen. We are over the sixteen, now.

MR. BUFFINGTON: You saw the savings bonds yesterday - a hundred and forty-five?

H.M.JR: Yes.

MR. SULLIVAN: Wednesday was the deadline on which we could purchase paper if we were to have our forms out for withholding by July first. We bought two hundred and fourteen thousand dollars' worth of paper, and there is a memo for you from the Commissioner describing that. I think that it might be well--

H.M.JR: What does he want me to do - approve it now that he has bought it? (Laughter)

MR. SULLIVAN: No, I told him I would approve it and you wouldn't have to. (Laughter)

H.M.JR: What is this, a schedule? (Memorandum, undated, signed by Mr. Heilvering, handed to the Secretary.)

MR. SULLIVAN: Yes, and the correspondence with the Public Printer and the whole story. Now, we have had photostats made of that. I thought, to protect ourselves, it might be well if Guy and I gave copies of this memorandum to the chairmen of the ranking Republican members of the Ways and Means, Senate Finance, and both Appropriations Committees,

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so they know we are doing everything we can to be physically equipped to handle whatever goes through.

H.M.JR: Yes, sir.

MR. SULLIVAN: You recall the correspondence you had with Jere Cooper over the salary stabilization matter, and you wanted me to talk with him on the phone rather than write him. I talked with him on the phone, and he said, "That is all right, John, but give me a letter so I can send it down." I have such a letter.

H.M.JR: You sign it.

MR. SULLIVAN: I have it right here for my own signature.

H.M.JR: That is O.K.

MR. SULLIVAN: I didn't want to send it until--

H.M.JR: That is what he wants?

MR. SULLIVAN: Sure.

H.M.JR: All right.

Anything else? O.K.

May 1, 1943
10:15 a.m.

TAXES

Present: Mr. Bell
Mr. Haas
Mr. Paul
Mr. Blough
Mr. Sullivan

H.M.JR: Mr. Paul, I read your memorandum of your meeting before Justice Byrnes; and as far as the tax thing is concerned, nothing I have read has upset me as much as your memorandum and what you did. (Memorandum attached.)

MR. PAUL: Nothing what?

H.M.JR: Nothing has upset me as much on taxes as your memorandum on how you represented the Treasury. I don't see how you get that way. Certainly there is nothing that has ever taken place--

MR. PAUL: What upset you?

H.M.JR: I mean, you so far overstepped your authority - you are speaking for the Treasury. I don't see how you get that way.

MR. PAUL: I don't see how I exceeded authority, I didn't take any position.

H.M.JR: What is more, you go over there as the General Counsel and tax person and then take this position, that there is no chance of getting any additional taxes for this year.

MR. PAUL: I was asked for a political judgment, and I had to give the best judgment I could.

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H.M.JR: Why didn't you talk the thing over with Bell before you went over?

MR. PAUL: I spoke to Dan before I went over.

H.M.JR: You didn't discuss what you were going to say.

MR. PAUL: I didn't discuss what I was going to say because I hadn't the slightest idea what I was going to be asked.

H.M.JR: I am certainly not going to back you up on this thing. "We discussed the subject of compulsory savings. I stated that this was one of the items in the broad tax program which the Treasury had been discussing within its own walls earlier in the year. A number of questions were asked as to details of the compulsory savings and as to the Treasury attitude on the question. I stated that the political situation was now such that there could be no hope of securing any additional taxes on 1943 income--"

MR. PAUL: That isn't the opinion--

H.M.JR: ..."but that there still remained some possibility of collections out of future 1943 income by way of compulsory lending."

How do you know there is no chance?

MR. PAUL: I was asked that question; that is a matter of judgment. I was asked what my opinion was.

H.M.JR: "I stated that the political situation was now such that there could be no hope of securing any additional taxes--"

MR. PAUL: On '43 income.

H.M.JR: Yes. Well, how do you know? Have you talked to George?

MR. PAUL: I didn't know; I was asked for my judgment.

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H.M.JR: You didn't say this was - I mean, anybody reading that would say, "Well, you have been consulting on the Hill. That is what the Hill feels."

MR. PAUL: I have no doubt that is what the Hill feels.

H.M.JR: How do you know that?

MR. PAUL: Because I have talked with Doughton. I talked at times with George, and I talked to Barkley - everybody on the Committee. It is the opinion of Stanley Surrey, and it is Roy's opinion. It is the opinion of everybody who has been up there. I was asked what my judgment was on that.

MR. BLOUGH: The only exception I can see to it is in case they adopt the Ruml plan and forgive '42. They might then be willing in exchange for it--

H.M.JR: You were asked the Treasury attitude - I am just reading from your own memorandum. Did you say, "This is the way I feel personally; I don't know how the Secretary feels or how Mr. Bell feels"?

MR. PAUL: I was only talking personally there.

H.M.JR: That whole crowd--

MR. PAUL: If you want to repudiate it - I was there--

H.M.JR: Look, the position you place me in with all those people there - every one of them. I mean, they will take it for granted that you have discussed the thing with me and that is the way I feel.

MR. PAUL: I said nothing about discussing it with you. The only thing that I was asked on that particular point was, "What do you think about the possibility of getting any additional taxes?" That was a very vital point to them because of their interest in inflation.

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Now I might have said, "I am not capable of giving you any political judgment," but that would have been pretty silly, I think.

H.M.JR: I don't think it would have been silly, because I don't think you know. Why didn't you say what you and Bell and I said beforehand, that we were going to go after sixteen billion plus four, which is twenty billion dollars?

MR. PAUL: I didn't want to reveal all the details.

H.M.JR: You revealed it to Eccles; you revealed it to the other people; and you never told me that.

MR. PAUL: I did; I sent you a memorandum on it.

H.M.JR: That you told Eccles?

MR. PAUL: I don't remember particularly Eccles, but I certainly did Byrnes and Smith. I remember that.

H.M.JR: You told them that?

MR. PAUL: I gave you a file and memoranda when you came back disclosing that whole story.

H.M.JR: I never read it.

MR. PAUL: It certainly came to your office.

MR. BELL: Is the Committee report out yet on the agreement?

MR. PAUL: It is being printed.

MR. BELL: Have they said anything about '43 taxes in that?

MR. PAUL: No, I don't think so. They didn't put in the statement that - we tried to keep them from putting in that statement.

MR. BELL: There was some indication that--

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MR. PAUL: That was the discussion during this compromise business, that the rates would be frozen.

H.M.JR: Do you mean to say that you feel now that we are going to rely for the rest of this year on compulsory savings entirely for any additional revenue?

MR. PAUL: You understand, of course, that this present bill before Congress increases the revenue for the fiscal year of '44 by two billion seven?

H.M.JR: No, I didn't understand it.

MR. BLOUGH: Yes.

H.M.JR: All right.

MR. PAUL: Apart from that - now when you mention the fiscal year '44 you have got to bring in beginning January 1, 1944--

H.M.JR: But let's stick to what the President asked for, the sixteen billion dollars. Where do we stand in relation to that?

MR. PAUL: We stand in this position, that we have probably about three billion dollars of it in this present bill.

H.M.JR: After you have deducted what we lose through this bill?

MR. PAUL: We don't lose any revenue through this bill.

MR. BLOUGH: We don't lose any receipts. You pick up in collections about three billion this year.

MR. PAUL: That leaves thirteen, approximately, of the sixteen, and the point is that there isn't the slightest chance of getting any of that thirteen out of the '43 income. That doesn't mean you wouldn't get some of the thirteen out of the '44 income, because you are on a current basis, but the effect of the Ruml plan discussion was to take valuable time away

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and put Congress in a mood not to impose any additional tax.

MR. BLOUGH: I still think we should try with Congress to get something out of '43.

H.M.JR: With this group Paul went before yesterday there isn't one chance that the thing - I am not going to go before the people of the United States, and--

MR. BLOUGH: Senator George has already announced publicly that he is against it.

MR. PAUL: He made a speech Friday against it at the Chamber of Commerce.

H.M.JR: Sure, they are all against it, but that doesn't mean the temper of the people--

MR. PAUL: I didn't say that I didn't want taxes.

H.M.JR: You didn't say once that you did.

MR. PAUL: I certainly did.

H.M.JR: There is nothing in this report here.

MR. PAUL: Well, I can't put in every remark in the two and a half hour discussion in a memorandum.

H.M.JR: The impression that this thing - all I can get out of this thing - anybody else can read - is you went before them and said that there was no chance of getting any additional taxes this year; the only thing left is to go for compulsory savings.

MR. PAUL: If you want collections, yes - the only thing on '43 income, not fiscal '44.

H.M.JR: You didn't talk about '44.

MR. PAUL: We did talk about '44. I said that you couldn't get any additional taxes until you came to the '44 income.

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Now if you are dissatisfied with the thing or with me - of course, you realise that my feelings aren't in it. If I wasn't right, then you can put somebody else in the picture--

H.M.JR: But Randolph--

MR. PAUL: ... a man that would act--

H.M.JR: You didn't have to act - I mean, you didn't have to. I am now in exactly the position where the Director of the Budget was, or else you are; and the only thing left is to come out for a sales tax.

MR. PAUL: We discussed the sales tax at great length.

H.M.JR: I mean, let's be honest with each other on this thing. If you put me in the position just where the Director of the Budget was and we fought him--

MR. PAUL: I don't follow you there.

H.M.JR: I mean, how can I go on Monday before these people and make the fight when they all know that you are not for this thing?

MR. PAUL: No, they don't know I am not for taxes.

H.M.JR: Somebody read it. I mean, just read this thing; read the memorandum. You have read it, haven't you?

MR. BELL: Yes.

H.M.JR: Well, Dan, you can think for yourself. What impression did you get?

MR. BELL: I got the same impression that you did, that he was against - that it was his judgment that they won't get any more taxes out of '43 incomes, but then I think that--

MR. PAUL: You didn't get the impression I was against taxes?

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MR. BELL: You said nothing there except that you were reporting what you said before this group.

Now I think that Randolph was under pressure over there to say something. Maybe this memorandum doesn't reflect all of your conversation over there. What have you said on the Hill, anything?

H.M.JR: Well, gentlemen, let's just stick to the impression you get from what he said over there. I can only read his own report; I wasn't there.

MR. PAUL: That is right; it is my own report. I dictated the report. I don't say that it says everything I said in two hours, but I certainly did not say I didn't want taxes. Everybody who was there and talked with me knows that I do want taxes - additional taxes.

(Miss Chauncey entered the conference and handed the Secretary the file on taxes, and left the conference.)

H.M.JR: I haven't read this. You referred me this morning on the phone to a statement I made in the House. What I talked about in the House was sixteen billion plus four net, or twenty billion dollars additional revenue.

MR. PAUL: That is right, we didn't discuss amounts there.

H.M.JR: That is one thing to talk about, and another thing is to get down to a lousy - to kick over all additional revenue and get down to a question of compulsory saving.

MR. PAUL: I am not kicking over all additional revenue for the fiscal year '44. I am saying that it is utterly impossible to get any additional taxes on 1943 income.

MR. BELL: Do you think it is possible to get additional revenue through enforced savings on '43 income?

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MR. PAUL: I think that is very possible, because you have some very powerful support for it. George made a speech on it before the Chamber of Commerce Thursday in which he came out very strongly for it.

H.M.JR: Do you know what our E bond sales have been this week, or this month?

MR. PAUL: This week? I have only heard that they are four hundred million a month.

H.M.JR: Well, you see, you don't know. If you would talk with Bell you would have known what was happening in the Treasury. You just don't know.

MR. PAUL: I have nothing to go on.

H.M.JR: Why didn't you get posted before you went over half-cocked like this?

MR. PAUL: Well, I think I had better step out of the picture if you feel that way. I will be very glad to do it. I am only trying to do my best. Then you will be perfectly free to repudiate me.

H.M.JR: No. I am in the position - I don't know what I am going to do myself. You have this whole gang with you now.

MR. PAUL: You seem to have the impression that I am against taxes. I haven't said anything against taxes.

H.M.JR: I mean, coming down - there is no use talking that way. It is a question of what are you going to do. The only thing that is left for me to do - the shoe is on the other foot. I can't buck that crowd after you have gone over there. I have nothing to buck them with. I mean, you can go up, and you can go up on the Hill and present the Byrnes picture or let Jimmy Byrnes do it. I can't do it, because I don't believe in it. I mean, we are going to sell between nine hundred and a billion dollars worth of

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E bonds alone this month. Now, I have no technical staff, I have no position. I have nothing left. I mean, the shoe is on the other foot. I am certainly not - after what the men and women who worked in the factories of this country have done this month - going to go up and sell them down the river before the public. I am just not going to do it. You and Jimmy Byrnes can do it.

MR. PAUL: Well, I don't seem to be able to get across to you the distinctions involved in this picture. Everybody that I have ever talked with on the Hill or at that meeting or anywhere else knows that I am for additional taxes, and the only thing I said was not what I wanted or what the Treasury wanted, but what it was possible to get politically on '43 income. I wasn't even categorical about that, but I don't think there is anybody that has been up on the Hill that thinks there is any reasonable chance of getting any appreciable amount of additional taxes on '43 income.

H.M.JR: You have - now look, you got me in the position where I had to back publicly Doughton on a straight twenty-percent withholding tax. We went to town on that, and we had some breaks, and we got the thing through.

Now, we have another thing where we have - what is it, about forty-percent forgiveness?

MR. PAUL: No, about ten percentage points - forty percent of the total, nine five.

H.M.JR: About forty percent. Everybody said they weren't going to have any forgiveness, and you have a forty-percent Ruml plan.

MR. PAUL: That isn't a forty-percent Ruml plan at all; it is entirely different. You are talking in terms of total forgiveness, whereas, that is not the point. The Ruml plan distributes the forgiveness wholly different.

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H.M.JR: But after all the speeches on the Hill against any forgiveness and everything else - now it will be a forty percent - the difference between '41 and '42 taxes.

MR. PAUL: Forty percent of the total, but that is the whole point of the discussion.

H.M.JR: Well, anyway - and then Smith and Byrnes - that whole crowd said right along, "No more income tax this year - we can't increase it." Isn't that right? That has been their position.

MR. BLOUGH: No.

MR. PAUL: No, their position has been for income tax. They wanted to make a whole lot of recommendations.

H.M.JR: Does Smith want income tax?

MR. BLOUGH: Yes.

MR. PAUL: Smith has been after us right along.

H.M.JR: Anyway, you now have the country going over the top and people digging down into their jeans the way they never have before in the history of any country anywhere, and the day that is over, or the day after, I am put in the position that it is no good - and opposite the President. I mean, it leaves me in an impossible position. All I would have to do is to just - I mean, if it isn't already done - tell about yesterday's meeting, and the bill wouldn't pass Monday or Tuesday.

But I can't go into it with what's-his-name acting more or less as assistant to the President - with that whole gang that way, it doesn't leave me a foot to stand on.

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MR. BELL: Do you think that group over there would be against asking for additional taxes?

MR. PAUL: No.

MR. BELL: They would not?

MR. PAUL: No. They would be for it.

MR. BELL: You think if the Secretary went up and proposed additional taxes immediately, that they would be for that?

MR. PAUL: Well, the question is not doing it immediately, Dan.

MR. BELL: I say '43 incomes.

MR. PAUL: What they were afraid of is that there won't be another tax bill this year, and in the Senate this is the last chance to get any additional collections. That is a perfectly reasonable fear. Nobody can--

MR. SULLIVAN: Has Doughton made any expression of opinion about another tax bill?

MR. PAUL: Not a very definite one. He said he gets tired sometimes and says, "Let's have a sales tax and forget it all."

MR. BLOUGH: Well, there has been no disposition on the part of anybody up there to say we aren't going to have another tax bill this year, has there? I haven't noticed that. I have certainly heard a good deal of comment.

MR. PAUL: Probably the opposite, that they vaguely intend to have one sometime.

MR. BLOUGH: I think they can be forced into having another tax bill this year. I don't doubt that a bit. I think there certainly ought to be, and every pressure should be brought on them. And everybody I have talked to--

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MR. PAUL: This year?

MR. BLOUGH: This year the bill would have to be passed - this year in any event.

MR. PAUL: That is different. I didn't say they wouldn't have a tax bill this year. I said they wouldn't have a tax bill that would impose taxes on '43 income.

MR. BLOUGH: I misunderstood that. I think we should even ask for that with respect to that period of time which remains after the bill is passed.

MR. PAUL: That would be what?

MR. BLOUGH: Would be probably three or four months of the year. But I think your assessment of the political situation is quite right, that they are not going to retroactively impose income taxes on the income of '43 up to the time the bill passes.

H.M.JR: Well, now, look - go ahead, you finish.

MR. BLOUGH: And that there ought to be a strong effort made to get those taxes, but that it is a correct statement of the political situation that they aren't going to pass them.

H.M.JR: Now, look - may I interrupt? Don't use the word "political" for heaven's sake, because if you think, in a presidential year, you are going to pass an income tax increasing taxes, you are crazy.

MR. BLOUGH: It has to be passed this year, of course.

H.M.JR: That is what I am saying.

MR. BLOUGH: But whether it applies to this year's income, is another question.

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H.M.JR: All right, then you are going to sit back and kill a perfectly volunteer program to possibly get four billion dollars of people's savings out of the savings banks, and then think next year you are going to get a tax bill - with a presidential year on - if you are going to talk politics, I know something. I mean, I have learned something from being with Mr. Roosevelt for fourteen years. I have never heard Doughton say that he wouldn't give me another tax bill.

MR. BLOUGH: Isn't the point that you have got to have a tax bill this summer, and that they will pass a tax bill this summer? The only question is, will they apply that tax to the income which has already been received in 1943?

H.M.JR: I don't know, Roy. I don't know until I sit down and talk with these people. I don't believe - I mean, there is nothing - there is no sense - I can talk in this room, straight and frank, and I think that Paul ought to be able to take it.

MR. PAUL: I can take it.

H.M.JR: Because I am the man that is on the spot - he isn't. He has got this whole group with him.

MR. PAUL: I have no group with me.

H.M.JR: Randolph, let's be - what chance have I got after the testimony - your testimony yesterday - to go over there? Everybody would laugh at me. They will say, "All Morgenthau is interested in is his bonds." I mean, the Director of the Budget feeds it all the time to Cissy Patterson and all the rest of them. I mean, he fed the remark to them that the only reason I wasn't for the Ruml plan was because I hadn't thought of it first. And in the Saturday Evening Post, if you didn't read the article - they had the meeting - did you read that article?

MR. BLOUGH: Yes.

MR. PAUL: This week's?

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H.M.JR: Where he said everybody was for compulsory savings except Morgenthau, and the reason we got inflation, and so forth and so on - direct quotes - and the author said he got it directly from Smith.

I called Smith on it and he said, "Now, wait a minute before you go too far. I want to speak to the author." He never called me back.

I mean, I go over there and those people, the Chamber of Commerce and Jesse Jones and O'Neal - and I say I want taxes, that I don't want compulsory savings, and then the whole thing appears in the press.

Now, I think that--

MR. PAUL: The last conversation I had with you on the subject was at your house and Dan was there.

H.M.JR: That is right.

MR. PAUL: You said then that you did accept the idea of compulsory savings.

H.M.JR: What I said was this - and that was January 14 and this is May 1 - it is here; it is signed by both of you. What we talked about was sixteen billion dollars' worth of revenue and four billion dollars' worth of savings. We were talking about twenty billion dollars.

MR. PAUL: That is right.

H.M.JR: I said what I wanted was - in order to close the gap, I wanted twenty billion dollars, and I didn't care very much how I got it. Now we are talking about - you still can't get more than four.

MR. PAUL: We didn't talk amounts yesterday. The only reference to the amount was afterwards when I went on the record - Prentiss Brown said, "How about twenty billion?" I didn't say anything.

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H.M.JR: Now, look, all I can go by is what you said here, yourself. I don't know what you said other than what you wrote down. But what chance is there for me to go over there Monday and say I want - I am going to stick by what the President said in his Budget Message. And to get the thing tacked on--

MR. BLOUGH: What did the President say in his Budget Message?

H.M.JR: Why ask me?

MR. BLOUGH: He said sixteen billion of taxes or savings, or both.

H.M.JR: But why try to tack something in the Senate on this thing?

MR. BLOUGH: I didn't get to that. Is that in here?

MR. PAUL: That is another matter. That is based on the fear there won't be another tax bill this year, and should something be done? They raised the question and it was not answered.

MR. BLOUGH: I am opposed to that.

MR. PAUL: I didn't express my opinion on that.

MR. BLOUGH: It would hold up the bill indefinitely, I think, to try to put it in the Senate.

H.M.JR: The three things where you and I - I mean, where you didn't represent how I feel, are: One, I think we should have another tax bill this year because we haven't got the chance of a snowball in hell of getting another one.

MR. PAUL: I agree with you there.

H.M.JR: Number two, I don't think anything should be tacked on in the Senate because there isn't one chance - the

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thing will be held on and on and on, and we won't get this thing through quickly.

MR. PAUL: There was no expression of opinion by me on that point at the meeting.

H.M.JR: Yes, but when the thing is held up again, I can only say that you didn't say, "Don't put anything on in the Senate."

MR. PAUL: I didn't express an opinion, because I think it is a very grave question. I certainly did say--

H.M.JR: But it was left that way - the impression you get from Byrnes and the rest - the thing to do is to tack this thing on this compulsory savings thing in the Senate.

MR. PAUL: I didn't express an opinion on that.

H.M.JR: And the third thing is that certainly a man is entitled, after five months, to take a fresh view of compulsory savings.

MR. PAUL: Certainly.

H.M.JR: I can't be held for something I said on the 14th of January.

MR. SULLIVAN: That is what you can say Monday, Mr. Secretary. You have taken thirty-seven or thirty-eight billion dollars out of the American people in five months. You have got almost thirteen billion dollars in December - the first three months of this year you got five - you got eight and a half billion dollars in bonds and in taxes; and you got your sixteen or seventeen billion this month. That will run up to thirty-seven or thirty-eight billion dollars in five months. I think that that is beyond anything we expected and I think that it does entitle you to change your position.

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H.M.JR: What I want to say is, anything that is said in this room is absolutely sealed - it never goes out of this room, see, for anybody. Now, I can talk and Paul can talk just as hard at me as he wants, but we are in this thing until the war is over, through thick and thin. No question of anybody - I am not going to offer to tell Byrnes I am going to quit because he is against me on compulsory savings, and you are not going to tell me you are withdrawing because you and I--

MR. PAUL: I wouldn't on that account. The only thing is that I would want you to feel that I was ready to step right out at any moment.

H.M.JR: Well, don't let's - listen, we are in the middle of a war.

MR. PAUL: I know it, but I just don't want to embarrass you.

H.M.JR: You are not going to embarrass me, I mean, but--

MR. BELL: Is there a meeting Monday? Is that the Byrnes meeting?

H.M.JR: Yes, they want him to come back. Let me just get down--

MR. HAAS: It seems to me there are two things here: One is on the position you should take for the Secretary of the Treasury on taxes, and the related situation is what is your judgment as to whether or not that position should be accomplished. You discussed the possibility of accomplishment. That does leave the Secretary free and you (Paul) free - both of you are together on what should be done. If there is a meeting Monday - they may have misunderstood those two situations - couldn't that be straightened out on Monday?

MR. PAUL: I don't think they did.

H.M.JR: I don't, either.

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MR. PAUL: On another tax bill - the first point of the Secretary was another tax bill this year - the only thing I said is that there was something to be said for the thought that it was problematical whether you would get one. That was relevant to the question of whether you should try to move in the Senate for compulsory savings.. Nobody can say anything categorical. I didn't say anything categorical, but I did not disagree with the thought there was doubt whether you would get one.

MR. HAAS: Couldn't that be straightened out?

MR. PAUL: Another thing - nothing on in the Senate that tied in with the first question. If you are not going to get a tax bill, it is a reasonable thought that you might want to put something on in the Senate. It certainly isn't to be despised. But other than that, I took no position.

H.M.JR: May I interrupt you? If you do put it on in the Senate, your chances of getting a tax bill are practically nil. That would be a good way to kill a tax bill.

MR. BLOUGH: I think that is probably correct.

MR. HAAS: Isn't this true, that irrespective of whether it goes through Congress, doesn't the Secretary of the Treasury have to come out for more taxes? There is criticism in the papers only for that thing on this inflation; they are going to switch around and say that the fiscal part wasn't even pushed strongly enough, and the Secretary, irrespective of whether he gets it or not, he has to say, "I am for it." That is what it looks like to me.

H.M.JR: That is the way I feel.

MR. BELL: But I would understand that Randolph feels the same way. I don't think you are far apart, Mr. Secretary.

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MR. PAUL: That is the way I feel. That is a wholly different matter from--

MR. BELL: From getting it.

H.M.JR: Look, there are two things here. I have gone up on the Hill I don't know how many times, talking about taxing municipals. You don't get it. But I think it is right; I think some day we will get it. I think you have got to keep talking about it.

MR. PAUL: That is why we are having this case in New York, now.

H.M.JR: We wouldn't fool anybody if we tried to get the compulsory savings amendment on in the Senate - we were just ducking the tax issue. I don't know how you feel--

MR. PAUL: I am not - as to whether we should do it, I expressed no opinion yesterday. I said it was a question--

H.M.JR: All right, are you in the position that you can go back Monday and intellectually and honestly say that the Treasury's position, after consultation with me and with the rest of the people here, is that nothing should be done in the Senate which would in any way impede or retard a presentation of an additional tax bill as soon as Mr. Doughton is ready?

MR. PAUL: I am certainly in the intellectual position

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to do that because I didn't express an opinion on that.

H.M.JR: That is number one.

MR. PAUL: The only place where you and I have different views is on the question of compulsory savings.

H.M.JR: Well, all I am saying to you on that is, after the figures come in, I would like you to be brought up to date.

I would like people like Mr. Eccles to be brought up to date. I would like everybody to take a fresh look at it.

MR. PAUL: I certainly want to keep up with it.

H.M.JR: I want everybody to take a fresh look at it.

Bell said before you came in - he said that nobody has presented a plan to him where he can see there would be in any way a net gain - isn't that what you said?

MR. BELL: Yes, I have heard no compulsory savings program that will do the trick.

All I have ever heard talked of is four or five billion dollars, and nothing has been suggested about locking up past savings or taking care of eighteen billion dollars of savings bonds, and I just don't think it will work - what has been proposed.

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MR. SULLIVAN: I think you have something even deeper than the fiscal--

MR. PAUL: That has been Dan's view right along.

MR. SULLIVAN: I think you have something even more important than the fiscal picture here, Mr. Secretary. I think that before the end of this year it will be apparent to everybody that the American people - the ordinary fellow in the street - are more completely in partnership with Uncle Sam in financing this war than the common people of any country in any war in history. And they enjoy doing it. They think that that is the way that gets them into the war along with their fellows who are fighting, and I think compulsory savings will rob them of the thing that gives them the greatest patriotic stimulus that can ever reach them in the course of this war.

H.M.JR: Of course I am just one hundred percent with you. And after this trip which I made around the country, which was a terrific physical killer, the people have no idea how far the working man is ready to go. And I don't give a damn what the Senators or Congressmen think, the only hope to fight this war for is to look for something a little bit better, and these people - it isn't true everywhere, but they love to give this money. We didn't hear a murmur about taxes.

I got the feeling that there is no - that as far as the working men and women - and those are the ones they keep talking about all the time, the people they want to get - they say there is no trouble at all as far as they are concerned in getting this.

MR. PAUL: There was one person who did express an opinion, which I didn't put in. They got to talking about the tax on the stenographer here in Washington - and we have got some figures on them - I think it was the fourteen or sixteen hundred - and Mrs. Perkins expressed the opinion that the taxes were too high now on them.

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H.M.JR: Well, Mrs. Perkins - she doesn't know what is going on in the country. She has demonstrated right straight along that she doesn't. That isn't the person they are worrying about. It is the man getting from fifty to a hundred dollars a week they are worrying about.

MR. PAUL: Sure, the inflation question.

H.M.JR: And what they do with the money.

MR. PAUL: But there is the other difficulty in the picture, the people living in Washington.

H.M.JR: I stood and faced eight thousand men and women at the lunch hour at one shipyard. It was a great experience, and in between I had their labor leader talk. I wish you could have heard him talk - AFL. A Washington stenographer of fourteen hundred dollars - the Washington atmosphere is all wrong, anyway.

MR. PAUL: What I said to Mrs. Perkins in response to that was that that was one of the difficulties in the tax picture, that the tax didn't bear equally on urban and rural communities.

H.M.JR: Let me just sum up for the immediate on this thing. Let's see, in the first place, if we can agree on one thing - a couple of things.

Is there anybody in disagreement here that we should try to have another tax bill and go after the sixteen billion dollars that the President asked for?

MR. PAUL: You mean involved in that question is that we should not do it by tacking anything onto the Senate here?

H.M.JR: Well, I will put it the other way. I was going to put it this way, that if we try to do anything on the Senate it will kill the chance to get another tax bill.

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MR. PAUL: I think the only reason - yes, I agree with that, and the only reason for putting it on in the Senate is that you won't get another tax bill. That accepts that fact. That is a reason for doing it.

H.M.JR: Well, I--

MR. BELL: We shouldn't accept that as a fact, should we?

MR. PAUL: That is what I want to get at.

H.M.JR: I can get hold of Doughton and Cooper and get a promise out of them that they will have another tax bill.

MR. BLOUGH: I am not a political prognosticator, but I don't see how Congress can stand the pressure. If the Executive departments want another tax bill, they can't stand up against it.

H.M.JR: Damn it, shouldn't we want one?

MR. BLOUGH: Sure.

H.M.JR: Then are we going to be so insincere as these people are across the street and tack something on that we know is going to kill that? I don't want part or parcel of it.

MR. BLOUGH: I am not in favor of doing it. I said so. I thought in January that the pay-as-you-go and the sixteen billion dollars should be hooked together in one bill, and I still think that is what should be done.

That wasn't done, but it seems to me that since it wasn't done the thing to do is to get that pay-as-you-go out of the way and start to work very earnestly on the sixteen or twenty billion dollars.

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H.M.JR: Let me put the question the other way around, if that is what Paul wants. Does anybody here think we should try to tack anything on in the Senate other than what is in the Doughton bill now?

MR. PAUL: Well, that was the question on which I did not express an opinion yesterday. Now you are asking me for my opinion. In answering the question I have to appraise these alternatives. On the one hand there is a strong probability we won't get any tax on '43 incomes in the 1943 tax bill. There is, on the other hand, a possibility you could get something in this acute inflation situation if you tack something on in the way of compulsory savings, possibly a large amount.

Now, you take a risk if you make a decision for another tax bill - you take a risk that you won't get anything. What is the answer to that question?

H.M.JR: That is a very--

MR. PAUL: I can't feel too categorical about it.

MR. SULLIVAN: I can.

H.M.JR: I can.

MR. SULLIVAN: I can, because if you have only two choices, Randolph, which are compulsory savings and no tax bill or no tax bill and no compulsory savings, it is a very easy decision for me.

MR. PAUL: You have always been against compulsory savings.

MR. SULLIVAN: That is right, Randolph, but the things that have been happening in this country in the last three or four months make me feel so much stronger about it. I think if you reviewed the question you would be in accord with it.

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MR. PAUL: If I were against compulsory savings then there wouldn't be any question in my mind.

H.M.JR: No, but, you see, the thing is - let's say that we got four billion dollars through an amendment to the Doughton bill in the Senate and then no tax bill.

MR. PAUL: Then I have no hesitation in answering it.

H.M.JR: That is what we are facing.

MR. BLOUGH: If it isn't ten billion dollars it isn't worth mentioning.

H.M.JR: You won't get it.

MR. PAUL: If you ask the question that way, I haven't any doubt.

H.M.JR: You won't get it. What you are worrying about is additional--

MR. PAUL: I would go higher than Roy. I wouldn't think it was worth while fooling with ten billion.

H.M.JR: But what have you got when you get this compulsory savings? You are simply adding a load on the postwar. You are going to have to repay in taxes or repudiate, one or the other.

MR. PAUL: There is no question in anybody's mind that taxes are better than compulsory savings. I think that is the question on which I certainly wouldn't say that it should be done.

H.M.JR: Well, the matter as far as my own mind is concerned is this--

MR. PAUL: So I haven't embarrassed you.

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H.M.JR: As far as I am concerned, I certainly would want to sit down with the Democrats in the House and find out where they stand. I don't see why there is all this rush about it, why this thing has to be done Monday. This thing will leak. I don't see why they can't wait until the bill passes in the House.

MR. PAUL: They want to do that. Byrnes enjoined that very strictly.

H.M.JR: What?

MR. PAUL: Not to say anything until the bill passes the House.

H.M.JR: Listen, if there are leaks right out of the Cabinet room and Cabinet meetings, why shouldn't there be leaks out of Byrnes' room?

MR. PAUL: The leak will only be that the subject has been under discussion.

H.M.JR: There must have been leaks because I was cross-examined on this thing of compulsory savings in San Francisco the way I haven't been cross-examined in I don't know when.

MR. PAUL: It wouldn't be as a result of a leak there.

H.M.JR: Well, something was very funny, why these men were hammering me on compulsory savings. I couldn't understand it.

MR. PAUL: That must have been something else. What time was that?

H.M.JR: Wednesday.

MR. BELL: They asked me Monday. I had a press conference Monday.

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H.M.JR: There is something cooking.

MR. PAUL: Maybe Byrnes had said something before.

MR. SULLIVAN: That isn't the feeling of the country, Mr. Secretary.

MR. PAUL: I think Byrnes has talked with some of the leaders, but I don't know that.

MR. SULLIVAN: I talked with people the last month in Boston, in New Hampshire, in Ohio, and people come out and say they have been very strong for compulsory savings and now they are against it; and they have expressed the opinion and the hope that it was dead.

H.M.JR: The only thing that the President can count on today where he has got unity of action between labor and management and production is on this volunteer bond program. There isn't another thing and there isn't another organization in the United States that will go to town for him. There isn't.

MR. SULLIVAN: That is right.

H.M.JR: And there is complete disunity, complete dissatisfaction, and department after department cutting each other's throat; and this is the only one that the people stand up together shoulder to shoulder, banker, working men, labor, and everything else, and they go to town on it. And we are getting the money.

MR. BLOUGH: Are you going to have an analysis made of where that money comes from?

H.M.JR: George can answer that.

MR. HAAS: We have it currently.

MR. BLOUGH: I mean as far as the lower income levels are concerned.

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MR. PAUL: You can't do that, can you?

MR. HAAS: Yes.

MR. BLOUGH: I am perfectly willing to let the compulsory savings rest on the record of the bond campaigns; and it has been my opinion, which I am willing to express now and I will be proved wrong, probably, next week - but it is my opinion that when you analyze these statistics you will come to exactly the opposite conclusion Mr. Sullivan has come to.

H.M.JR: Well now, let's just say that you are right and let's say we are not getting the money. This thing doesn't - this decision, as far as I am concerned, doesn't have to rest today on whether I am for or against compulsory savings.

MR. BLOUGH: I agree on this decision.

H.M.JR: Now wait a minute, let me just argue with you. This question of compulsory savings doesn't have to be settled today or tomorrow, in my opinion, or until this bill is passed.

MR. BELL: That is right.

H.M.JR: Now, the decision that has to be made is, do you want another tax bill? Can you get another tax bill? Paul said no. I don't know whether he is right or wrong.

MR. PAUL: No, I didn't say you couldn't get another tax bill. I said you couldn't get a tax bill taxing '43 incomes.

H.M.JR: Yes, that is right.

MR. PAUL: That is quite different.

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H.M.JR: Yes, but if we put on - I think everybody is agreed here if you put on a compulsory savings amendment in the Senate to the Doughton bill you won't get any kind of a tax bill this year.

MR. PAUL: The very theory of doing it would be you are not going to get more.

H.M.JR: You don't get any additional revenue, and I say you won't get one next year, either. This is your last chance of this Roosevelt administration to get a tax bill through on income of corporations and individuals - increased tax.

MR. PAUL: They were very hostile to that. I urged that there should be an additional tax on corporations.

H.M.JR: Look, would Jesse Jones want it? No. Would Jimmy Byrnes? No.

MR. PAUL: Jimmy Byrnes, no. The man that argued most against it was Eric Johnston.

H.M.JR: Chamber of Commerce. (Laughter)

And the fellows you had for it were who?

MR. PAUL: Green and Patton.

MR. SULLIVAN: O'Neal?

MR. PAUL: No.

H.M.JR: Who for it, Green, Patton of the Farmers Union, and who else? Wasn't Davis for it?

MR. PAUL: I don't think he expressed a view. I may be wrong.

MR. BELL: I thought Jones was a little in favor of it.

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MR. PAUL: Davis, to my surprise, expressed himself strongly against the sales tax.

MR. BELL: He is a labor man.

MR. PAUL: His history doesn't show that, Dan. He is a very successful patent attorney in New York City, one of the biggest ones there.

H.M.JR: But very pro-labor.

MR. BLOUGH: I don't think, personally, that it is very hard to answer the questions you have put up.

H.M.JR: How would you answer them?

MR. BLOUGH: What was the first one, should there be another tax bill? Of course there should be another tax bill. We have always assumed it from the beginning.

H.M.JR: All right. Should we try to do anything in the Senate now?

MR. BLOUGH: My answer to that, for the third time, is no. I don't think if you put something on in the Senate it means you have accepted the idea there won't be a tax bill. I don't believe anybody is accepting that idea. I think everybody is expecting a tax bill. I think the country would laugh at the administration if you didn't get one, and I think that the pressure can be put so strongly on Congress that you will just have to have one.

MR. PAUL: When you say "tax bill" do you mean a tax bill taxing all '43 income?

MR. BLOUGH: I mean a tax bill passed in '43. I didn't say what it applied to. I think that such a bill should be passed and such a bill can be passed.

MR. PAUL: If you put it that way, I think it can.

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MR. BLOUGH: I see no reason why this compulsory savings, if it is going to be in the picture, can't be put in that bill just as well as being hooked onto pay-as-you-go. I think that pay-as-you-go should have been in conjunction with the tax bill. That is water over the dam. I am opposed at this time to messing up this pay-as-you-go any more by hitching anything onto it in the Senate.

H.M.JR: I am perfectly willing to sign my name to what Roy just said as to what my policy is.

MR. BELL: You would say that you want a tax bill this year?

MR. PAUL: Certainly.

MR. BELL: Everybody would agree with that. Now, the question is whether you can get taxes on '43 incomes; if you can get those, yes.

H.M.JR: At least try it.

MR. BELL: Try it, and that makes the record clear.

H.M.JR: On the record, try.

MR. BLOUGH: That is the thing Paul said he didn't think could be done, and I agree with him.

MR. BELL: He didn't say "shouldn't" be.

MR. PAUL: I wasn't asked that question.

MR. BELL: You still feel that an attempt should be made to get taxes on '43 incomes? When the Secretary goes up and recommends taxes should he talk about '43 incomes?

MR. PAUL: I think there should be taxes on '43 incomes. I don't think you have a Chinaman's chance to get them.

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H.M.JR: I should recommend it.

MR. BLOUGH: I have some doubts in my own mind. I don't mean to take the policy position here--

MR. PAUL: That is all right.

MR. BLOUGH: ... but I have some doubts whether the Secretary of the Treasury from here on ought to ask for income tax increases retroactively.

MR. PAUL: That is my view.

MR. BLOUGH: I think it got us into trouble, that the Ruml plan agitation is largely due to that retroactiveness of the '42 act.

H.M.JR: That doesn't have to be settled today.

MR. BLOUGH: That is right.

MR. BELL: That may settle itself. It may be so late when you make your statement that it would be ridiculous to ask for it.

MR. PAUL: The other point was compulsory savings, wasn't it?

H.M.JR: Any amendment.

MR. SULLIVAN: I think we have been talking about whether or not we would be willing to accept an amendment in the Senate. I think our position has to be very much firmer than that, that we have to be resolutely opposed to anything over there.

It is going to be touch and go as to whether we can get these forms printed and out by July 1st, and if there is any discussion of anything else - anything new - in the Senate, I think the chances of putting withholding into effect on July 1st are so remote we can dismiss them from our minds.

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H.M.JR: I personally feel this way. I take it we are going to get the Doughton bill through the House.

MR. PAUL: I am not sure of that.

H.M.JR: Let's go on that assumption for the sake of this argument. Then we come to the Senate, and I haven't the foggiest idea of what the Senate will do, but if the administration comes along and begins to make amendments, in the first place you have got a picture now - I am out on the end of a limb on this thing; I put my name to your statement - you have a picture now, after all of this discussion, of suddenly introducing something entirely new.

MR. PAUL: I don't think we should introduce it, anyway.

H.M.JR: No, but I think we should be against it.

MR. SULLIVAN: That is right.

MR. PAUL: If we came in now--

MR. SULLIVAN: Anything.

H.M.JR: Anything. I think we should stick by the Doughton bill before the Senate and say, "Let's get that on the books."

MR. HAAS: And give this reason, that you have to have it fast in order to get it effective.

H.M.JR: We will lose it.

MR. PAUL: If you want a forecast, the information I get is there is a very strong chance the Robertson bill will pass because the Republicans may flop for it.

H.M.JR: But, Randolph, I feel here - and I think that everybody here is with me - I don't know where you

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(Bell) stand - that we should oppose anything at this time other than the Doughton bill or something in the form - a bill which will get this country current, and don't let's introduce something entirely different.

Where do you and I stand on that?

MR. PAUL: Certainly I don't think the Treasury should introduce anything.

H.M.JR: No, but opposite this committee over here.

MR. PAUL: I didn't express an opinion there. I am trying to think now.

H.M.JR: But you have to go back Monday, and just to say we are taking a position--

MR. PAUL: That is right, I am trying to give the question consideration. You are asking me, and for the first time I am trying to make up my mind about it.

H.M.JR: Well, take your time.

MR. PAUL: Certainly it is clear that the Treasury should not introduce anything because the Ways and Means people would be very sore if you did and you would be accused of being late in introducing anything. If it were to be done it should be done by George, and I am not sure it won't be done by George. The situation is very much tied up with inflation.

The only reason I hesitate is that if you don't get it now I am fearful you won't get anything, and then I am afraid of the inflation situation.

MR. BLOUGH: Suppose the administration does nothing, absolutely nothing, it is assumed that this pay-as-you-go is what is going through the Senate, and then the question really comes down to this: If George

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succeeds in getting an amendment under active consideration in the Senate committee, then should the administration actively oppose it.

MR. SULLIVAN: That is right. That is exactly it, Roy.

MR. BLOUGH: You could answer the first question that the administration should not try to get this thing through.

MR. PAUL: That is clear. I don't feel we should move in at this time to the Senate.

MR. BLOUGH: Nor should we let anybody else in the administration move in in our place, should we?

MR. PAUL: Not in the administration.

MR. BELL: Shouldn't we oppose the first attempt to tack anything onto this Doughton bill?

MR. SULLIVAN: That is the question.

MR. BLOUGH: That becomes the real question, what should be the attitude if through spontaneous action in the committee the matter comes up.

MR. BELL: We may have to change our position and go along with it. If it gets so strong, oppose it in the first instance.

H.M.JR: Oppose it vis-a-vis Byrnes, that is the question. On Monday you are facing that.

MR. SULLIVAN: Oppose it all the way through.

(Discussion off the record.)

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MR. BLOUGH: I think it is all a little bit of misunderstanding.

H.M.JR: I think Randolph had better take a historian with him next time - he doesn't do himself credit - to write up your minutes for you. (Laughter)

MR. PAUL: I don't have time to editorialize those memos I write to you. You have to write them under a good deal of pressure. I don't consider it necessary to make a record or go into all the refinements. I try to dash something off so you will be able to know approximately what went on. I think that - my judgment is that for a variety of reasons it would be unwise to tack anything on in the Senate - and I say that without prejudice - on compulsory savings. I mean - I am assuming I am for it - and I also say it in full realization of the risk involved, what the Treasury revenues will suffer, what the Treasury collections will suffer - might suffer - I don't say they will, but they might very well. You are taking a risk.

MR. BELL: If we lose altogether, you have taken that risk - if you lose out on a tax bill - subsequent tax bill--

MR. PAUL: Here the risk you are taking - there are certain collections which would be going on from, say, July 1st, or August 1st through the rest of the year. If you succeeded in the Senate, you won't get it. That is your risk.

Now, I certainly expressed no opinion yesterday on this question at all, so I am not at all precluded from taking a position Monday.

H.M.JR: Just restate it. It isn't quite clear in my mind what you propose to say.

MR. PAUL: Maybe it isn't in my mind. I am addressing myself to the question of whether we should be in favor-- I won't say introduce - be in favor of adding something to this present pending bill in the Senate or whether we should rather be in favor of quickly disposing of this present

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bill limiting that bill to what now is contained in it. On that question my judgment is that we should not be in favor of complicating the bill with any additions in the Senate, and I say that with realization that we are taking a risk that the Treasury collections will suffer.

H.M.JR: But that means in my language that if we actively oppose any amendment to the Doughton bill it passes in its present form.

MR. PAUL: I don't know what I would feel on that. Suppose George comes up - I am trying to think about it practically - suppose George comes up in favor of the twenty billion dollars - it is hard to answer that question unless you know what the addition is.

H.M.JR: Let's just put it across the street - Monday. We don't have to - I mean, the President might do something without asking us at all. Then that would be something else again. But you haven't answered it to my satisfaction. It is one thing to say we will get the bill through quickly; another thing is, across the street Monday are we in favor of adding an amendment to the bill, or say, "No, we want this bill passed in order that we can get on a pay-as-you-go basis as rapidly as possible."

MR. PAUL: Putting it that way, we ought to be in favor of passing it quickly and not putting it lightly. But the other question was that if somebody introduced - if George came in with an amendment, say, twenty-billion-dollar compulsory savings, I am not so clear that--

H.M.JR: I am not asking--

MR. PAUL: No use having any ten-billion-dollar compulsory savings, because you would lose income. What you would get wouldn't be worth it.

H.M.JR: I talked to George in terms of the bigger one. When you get out and figure it, it is ridiculous.

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MR. PAUL: Fifteen is the figure George mentioned to me.

H.M.JR: All you have to do with George is take out your pencil and say that so much is your withholding, so much this, and so much that, and then ask him - say, "I am not asking you to commit yourself whether you are for or against compulsory savings. We are talking about unknown quantities, four billion or twenty billion."

All I am saying is the Treasury's position - where I would like to have the Treasury's position is that we are for the Doughton bill, to get it through just as quickly as possible without any amendments.

MR. PAUL: That is true with any amendment.

MR. BLOUGH: You mean hitching on anything that doesn't involve pay-as-you-go?

H.M.JR: That is right, or put it through in a way--

MR. PAUL: I am for that.

H.M.JR:...to get this country on a pay-as-you-go basis just as promptly as possible without introducing anything new. Now, are we together on that?

MR. PAUL: I think that is the wisest thing to do, and there is nothing there to prevent my taking that position, because I didn't express myself on that question yesterday.

MR. SULLIVAN: I think you ought to know that Senator George's position on forced savings is based upon the feeling that if there are very widely held Government bonds the people would prevent any subsequent administration from repudiating in any way the repayment of our securities, and I think that when Senator George discovers how widely they are now distributed he will find out that his own objective has already been accomplished.

H.M.JR: Well, I am sorry that they had to bring this thing up while the bond drive isn't even over and we don't

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know what the results are, and also before we have even gotten this bill through the House, because you know - we all know in this room - that with the exception of the Treasury, you just can't go out and sit down with a cross section of the people like that Chamber of Commerce fellow--

MR. PAUL: That is the reason I didn't want to mention any figures.

H.M.JR: The Chamber of Commerce fellow will tell his board of directors, and O'Neal his, and Patton tells his board, and we will all be in the dope sheets over the week end which you will get Monday - Goldsmith, and Whaley-Eaton, and Kiplinger, and all the rest of them.

Shall we leave it? Have we covered the ground, Dan?

MR. BELL: I think so.

MR. PAUL: The program.

MR. BELL: Can't Randolph say over there Monday that he would like to impress upon everybody that this bill is pending, and that we are discussing this in a confidential way, and nothing should be said to interfere with that bill?

MR. PAUL: Byrnes said that.

MR. BELL: Can't you reiterate it?

MR. PAUL: Sure.

H.M.JR: Is this a full meeting of the committee?

MR. PAUL: I don't know.

MR. BELL: They weren't all there, but it is practically--

H.M.JR: I mean Monday.

MR. PAUL: I think so. It wasn't made entirely clear.

H.M.JR: I mean, I could go if I wanted to?

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MR. PAUL: I don't know what the views are about that.

MR. BELL: There is a meeting of the committee Monday to hear you on forced savings?

MR. PAUL: No, Marriner was pressing for going on the record right then, and there he was, talking about compulsory savings vaguely, and he didn't know what he was talking about - which kind of a plan. So I said, "What do you mean" - this, or that, or the other thing. There were several kinds of plans. Whereupon they decided they couldn't make it a blanket endorsement. They wanted to consider specific plans.

H.M.JR: But you told me when they invited you that they said they called me first, and then you went through the rigmarole.

MR. PAUL: They called you first, Byrnes said. I don't know whether he did. Byrnes told me he tried to get you. I will show you the conversation on that.

H.M.JR: Well, it is not - look--

MR. PAUL: I suppose he did what he said he did.

H.M.JR: I could go there because I am a member of the committee, but I am not going to go. I will let you represent me.

MR. PAUL: If you would rather--

H.M.JR: No, we will leave it just that way.

MR. PAUL: The proposition is to particularize their minds on what forced savings means and say, "If you want forced savings, here is what you can have." One plan, of course, is a flat thing like our spendings tax. Another one is the one we drew up early this year, Roy, and they didn't understand any of that. I didn't want them to vote on it.

H.M.JR: But the point is, we decide here now we don't think that this is the time to discuss it. The time to

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discuss that thing is when we take up another tax bill, and not in connection with this pay-as-you-go bill. We are together on that, aren't we?

MR. PAUL: That is right.

H.M.JR: That is all I am trying to say.

MR. PAUL: That means, of course, that if you are going to collect on '43 incomes the quicker the tax bill is taken up the better, because it will take months to pass. I don't think you should ask for a tax on income already earned.

H.M.JR: The opinion here is that that is a question we didn't discuss, and no commitments were made anywhere here on compulsory savings. I want to take a fresh look at it.

MR. PAUL: I do, too. I am not being categorical about that. I expressed no opinion on compulsory savings.

MR. BELL: Why shouldn't you try to avoid a vote on this thing? That is unusual anyway for this committee to take a vote. It is not a voting committee. They never express their opinions for the record at all. The whole discussion is advisory to Byrnes. He makes up his own mind on what the board does, and the meetings and everything are advisory.

So I don't see why we should get a vote or an expression of opinion from this group on forced savings at this time. Why can't we suggest that after you go over all these plans the Treasury would like to discuss this at a later date when the tax bill is up for discussion?

MR. BLOUGH: I would like--

MR. BELL: As well as when it goes into the tax bill.

MR. PAUL: It might be possible to postpone it until after the tax bill is passed.

MR. BLOUGH: May I take the opportunity to say here that it seems to me we owe it to the country to make a very strong campaign for a very strong tax bill the minute this pay-as-you-go business is out of the way, and that we

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ought to be laying our plans ahead of time; that we ought not to let Stam or Doughton or anybody else try to shove this thing over until August; that regardless of our own personal comfort in the matter, the situation is getting bad so far as this fiscal picture is concerned; and that we need to get at the tax bill immediately. I don't think we should say anything publicly until the pay-as-you-go is out of the way, but the minute that is out of the way, I think we ought to work and work hard.

H.M.JR: I am in total agreement. That is what I would like to do.

MR. SULLIVAN: When these Congressmen get back home after talking with the ordinary fellow on the street, they will be much more receptive to a new tax bill than two weeks ago.

H.M.JR: I was coming down this morning to have a nice time and a nice chat, and I am exhausted. So, if there is no more, I would like to stop here.

MR. HAAS: Couldn't this meeting be postponed? Is that a legitimate question?

MR. PAUL: I might be able to postpone it until Wednesday.

H.M.JR: I think that would be good.

MR. HAAS: I mean, after they pass the bill.

MR. PAUL: They will want to--

H.M.JR: Why don't you try for a postponement?

MR. PAUL: I don't think there will be any trouble until Wednesday, but I don't think you can postpone it until after the whole bill is passed.

H.M.JR: No, no; that is all right. O.K.

MR. PAUL: I will call Byrnes and suggest it be put over to Wednesday.

H.M.JR: Will you do that?

MR. PAUL: The bill will be voted on Tuesday.

May 1, 1943
12:38 P. M.

Grace
Tully: How are you, sir?

HMJr: Fine. How are you all?

T: Very well indeed, thank you.

HMJr: How do you like Mexican food?

T: Well, the food was very good.

HMJr: It was?

T: Uh huh.

HMJr: Good. Look, I'm sending you over after lunch a letter to the President which gives him a description of this tax bill that's coming up Monday before the House.....

T: Yes.

HMJr:and I thought he might like to glance at it over the week-end.

T: Uh huh. Fine.

HMJr: If - if you'd give it to him.

T: Indeed I will.

HMJr: And if you'd say to him that any help he can give us in the House to get the thing through will be greatly appreciated by us.

T: Yeah.

HMJr: And last time he called Lyndon Johnson....

T: Yeah.

HMJr:although - which was very helpful.....

T: It was?

HMJr: Yeah.

T: Should he call Lyndon again or has he any other ideas?

HMJr: No, Lyndon Johnson - if he'd call him Monday - that will be - and I think maybe John McCormack.

T: Yes.

HMJr: Those two.

T: All right.

HMJr: Well, there're three really - I don't want him to call all - but it's Rayburn, McCormack and Lyndon Johnson.

T: Right.

HMJr: And if he has time Monday, - it would - it would be helpful. Because we haven't....

T: Might even do it Sunday.

HMJr: Sunday would be fine.

T: Yeah. All right, fine, Mr. Secretary, I'll make a note of it and if you will send that over to me I'll take it up with him as soon as I have a chance.

HMJr: It will be over right after lunch.

T: Right, sir.

HMJr: Thank you.

T: All right. Goodbye.

5-1-42

TO:

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Miss Chauncey

This was sent to The
White House at 1:10 p.m.

From: MR. PAUL

May 1, 1943

My dear Mr. President:

I am sending you herewith a summary of the Tax Bill which will come up before the House on Monday and Tuesday.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

May 1, 1943

MEMORANDUM FOR THE PRESIDENT:

Subject: The Ways and Means Committee Bill
(H. R. 2570) for current payment
of the individual income tax

The Committee Bill, to be debated in the House on Monday, May 3, inaugurates current collection for the latter half of 1943 beginning July 1 and disposes of the 1942 tax liability over a three-year transition period. Payments made in March and June, 1943, are not treated as 1942 tax payments, but as current payments of the tax on 1943 incomes. Collection at source from the wages and salaries of 34 million out of a total of 44 million taxpayers begins July 1, 1943, at a rate of 20 percent above exemptions -- sufficient to cover the Victory tax, the normal tax, and the surtax at the first bracket rate. Current payment of the liabilities not collected at source will be made quarterly beginning with September, 1943, by about 14 million taxpayers on the basis of estimates of current income.

To facilitate the transition to current payment, the Bill reduces the tax on 1942 income in accordance with a schedule which, in effect, restores the 1941 rates and exemptions for the taxable year 1942. The reduced 1942 tax is spread over a three-year period: One third is payable by March 15, 1944, one-third by March 15, 1945, and one-third by March 15, 1946. Discounts are provided for prompt payments: 6 percent of the reduced 1942 tax if paid in full by March 15, 1944; and 2 percent of the reduced 1942 tax if one-third is paid by March 15, 1944, and the balance

by March 15, 1945. These discounts are equivalent to an interest rate of 6 percent per annum on the prepaid amounts.

Restoring the 1941 rates and exemptions for 1942 incomes will cancel \$4.7 billion of the aggregate 1942 tax liability of \$9.5 billion which remains after taking account of the special relief for military personnel. Payment of the \$4.8 billion balance will provide \$1.6 billion a year of added collections during 1944, 1945, and 1946. Discounts may speed up payments so as to concentrate more of the increased collections in 1944 and 1945. Allowing for the advancement of 1943 and 1944 tax collections it is estimated that the Bill will add at least \$2.7 billion of tax collections in the fiscal year 1944.

The tax bills of both the majority and minority of the House Ways and Means Committee have identical provisions for current collection at source and current payment of liabilities not collected at source. Controversy centers on the transition problem of how to treat the 1942 tax. All are agreed that some forgiveness is necessary, but the amount and distribution of forgiveness are in dispute. The majority bill, as indicated, would forgive about 50 percent of the aggregate 1942 tax liability of \$9.5 billion in accordance with a schedule which would permit a distribution of tax increases substantially paralleling the distribution of tax forgiveness. The minority bill would forgive an entire year's tax, subject to only partially effective safeguards against undeserved windfalls. It would result in a redistribution of wealth from the lower to the higher brackets since subsequent tax increases on high incomes would not be sufficient to parallel the tax forgiveness.

The Bill also gives extensive relief to persons in the armed services.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, April 30, 1943

Press Service
No. 36-20

Secretary Morgenthau announced today that the Treasury fully supports the current tax payment plan introduced by Chairman Doughton and recently reported by the Ways and Means Committee to the House of Representatives. If this bill becomes law, American taxpayers will be paying their income taxes currently before the end of 1943. In order to make the shift from the present system to the new system without overburdening taxpayers, the bill proposes to reduce the 1942 tax to 1941 levels and to give the taxpayer three years in which to pay the reduced tax. The March and June instalments payable in 1943 will be treated as current payments of 1943 income tax, and withholding of the income tax from wages and salaries will begin at a 20 percent rate on July 1st. The 20 percent withheld is not an additional tax, but is merely a means of collecting the regular income and Victory taxes.

The bill, in effect, recomputes the tax on 1942 incomes at 1941 rates and exemptions, and cancels the difference. Treasury figures indicate that the bill will cancel \$4.7 billion of the aggregate 1942 tax liability of \$9.5 billion which remain after taking account of the special provisions for military personnel.

The remaining \$4.8 billion will be collected over the period from 1944 to 1946, thus providing \$1.6 billion a year of the added collections needed to finance the war. Discounts provided for paying taxes ahead of time will probably speed up payments so that the increase in collections for 1944 and 1945 will be even greater.

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Restoring 1941 rates and exemptions for 1942 incomes and holding off the application of 1942 rates and exemptions until 1943 will cancel the entire 1942 tax for 7 million new taxpayers at the bottom of the income scale and substantially reduce the 1942 tax for the great bulk of the remaining taxpayers. For a married person with no dependents, the tax reduction on a \$2,500 net income is 63 percent of the 1942 tax; at \$5,000, it is 52 percent; at \$10,000, it is 40 percent; at \$25,000, it is 26 percent; at \$100,000, it is 18 percent; and at \$1,000,000, it is 14 percent. Taxpayers in the lower brackets, who are least able to provide in advance for taxes, are given the most relief in percentage terms.

All members of the armed forces will be entirely exempt from income taxation on service pay up to \$3,500.

The reduced 1942 tax will be payable in three instalments, the first, by March 15, 1944; the second, by March 15, 1945; and the third, by March 15, 1946. However, taxpayers anxious to pay up their 1942 taxes will be given the incentive of discounts for payment in advance of this schedule. The person who pays the full amount of his tax on or before March 15, 1944, will get a 6 percent discount. Those who pay the full remaining amount on or before March 15, 1945, will get a discount of 2 percent of their total liability, or 6 percent of their remaining liability. In cases of hardship, the Commissioner of Internal Revenue is authorized to grant extensions totalling 3 years for any instalments of the reduced 1942 tax.

The reduced tax and the effects of the discount provisions are shown in Table 1, while total income and Victory tax payments in 1944 are shown for selected levels of income in Table 2.

As a convenient means of paying income taxes currently, the bill provides for collection at source, or withholding, from wages and salaries to begin on July 1 at a rate of 20 percent. This rate consists of 3 percent for the Victory tax and 17 percent for the income tax, and applies only to the excess of the total wage above exemptions and an allowance for deductions. The Victory tax exemption will remain at \$624 for all individuals, and the exemption in withholding income taxes will be the regular \$500 for a single person, \$1,200 for a married person, and an additional \$350 for each dependent, each increased by 10 percent to allow for average deductions.

Employers will be provided with special tables to simplify their withholding task. These tables will indicate the combined tax to be withheld for each wage bracket according to the exemption status of the employee. While collection at source applies generally to wages and salaries, remuneration paid to domestic servants, men in the armed forces, farm labor, and a few other limited classes are not subject to withholding. Such employees will pay their taxes directly to the Government on the basis of current estimates of income.

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A separate system of current payment is provided for incomes not subject to withholding under the Committee Bill. Such incomes, excepting farm income, must be estimated on March 15 of each year and the taxes thereon must be paid in quarterly instalments or earlier. In computing the tax on the estimated income each year, allowance will be made for amounts, if any, to be collected at source. The taxpayer will be permitted to revise his estimate of tax during the year and to increase or decrease his remaining instalments for the year.

A special rule permits farmers to pay their taxes at any time before December 15 of the taxable year on the grounds that they do not have a reliable basis for forecasting their income. They are, however, given the option of paying their taxes in instalments.

Penalties will be applied for gross underestimates of current income and tax. Taxpayers other than farmers are required to pay currently at least 80 percent and farmers at least $66\frac{2}{3}$ percent of the final tax liability. To the extent that payments fall short of these percentages, a penalty of 6 percent is applied.

The system of current payment of taxes not withheld at source will come into operation during the third quarter of 1943 to parallel the new withholding system which begins July 1.

In the opinion of the Treasury, the Committee Bill will make income taxes far easier to pay. At the same time it will strengthen the Federal revenue system. It will fit tax payment directly into the budgets of the millions of small income recipients. Taxes will rise and fall as income rises and falls from week to week and month to month and will stop when income stops.

By providing a true pay-as-you-go system, the bill will bring in revenue more certainly and more promptly, thus helping to curb inflation. Without excessive doubling up and without permitting undeserved windfalls, the Committee Bill will definitely improve the tax system for both the taxpayer and the Government.

Table 1

Reduced 1942 income tax ^{1/} after discounts under H. R. 2570 if paid by various dates

Married person - no dependents.

	: Reduced 1942 :		
	tax under	Reduced 1942 tax after	
Net income before personal exemption ^{2/}	: H. R. 2570 :	discounts in Section 6	
	: if paid by :	of H. R. 2570 if paid by	
	: March 15, 1946 :	March 15, 1944 :	March 15, 1945
	: (No discount) :	: (Discount of 6%) :	: (Discount of 2%)
\$ 1,200	-	-	-
1,500	-	-	-
1,800	\$ 22	\$ 21	\$ 21 ^{3/}
2,000	40	38	39
2,500	86	81	84
3,000	132	124	129
4,000	236	222	231
5,000	358	337	351
6,000	505	475	495
8,000	861	809	844
10,000	1,292	1,214	1,266
15,000	2,705	2,543	2,651
20,000	4,581	4,306	4,489
25,000	6,824	6,415	6,688
50,000	20,393	19,169	19,985
100,000	52,703	49,541	51,649
500,000	345,394	324,670	336,486
1,000,000	732,874	688,902	718,217
5,000,000	3,922,844	3,687,473	3,844,387

Treasury Department, Division of Tax Research

April 28, 1943

^{1/} Exclusive of Victory tax.

^{2/} Maximum earned income assumed.

^{3/} The exact amount payable would be \$21.56.

Table 2

Tax payments and effective rates under H.R. 2570 at selected levels of net income in calendar year 1944 assuming (a) taxpayer avails himself of no discount and (b) taxpayer avails himself of the 6% discount
Married person - no dependents

Net income:	Income before personal exemption:	Income tax liability on 1944 income:	Victory post-war credit:	Reduced 1942 tax payable:			Total tax payable in 1944:	
				If no discount is taken (One-third of reduced tax):	If 6% discount is taken:	If no discount is taken:	If 6% discount is taken:	
1/	2/	3/	4/	5/	6/	7/	8/	9/
<u>Amount of Tax</u>								
\$ 1,200	-	\$ 21	-	-	\$ 21	\$ 21	\$ 21	\$ 21
1,500	48	31	-	-	79	79	79	79
1,800	103	41	7 1/2	21	151 6/10	165	165	165
2,000	140	48	13	38	201	226	226	226
2,500	232	65	29	81	326	378	378	378
3,000	324	81	44	124	449	529	529	529
4,000	532	115	79	222	726	869	869	869
5,000	746	148	119	337	1,013	1,231	1,231	1,231
6,000	992	181	168	475	1,341	1,648	1,648	1,648
8,000	1,532	248	287	809	2,067	2,589	2,589	2,589
10,000	2,152	315	431	1,214	2,898	3,681	3,681	3,681
15,000	4,052	481	902	2,543	5,435	7,076	7,076	7,076
20,000	6,452	648	1,527	4,306	8,627	11,406	11,406	11,406
25,000	9,220	815	2,275	6,415	12,310	16,450	16,450	16,450
50,000	25,328	1,747	6,798	19,169	33,873	46,244	46,244	46,244
100,000	64,060	4,524	17,568	49,541	86,152	118,125	118,125	118,125
500,000	414,000	26,747	115,131	324,670	555,878	765,417	765,417	765,417
1,000,000	854,000	45,000 3/10	244,291	688,902	1,143,291	1,587,902	1,587,902	1,587,902
5,000,000	4,374,000	125,000 3/10	1,307,615	3,687,473	5,806,615	8,186,473	8,186,473	8,186,473
<u>Effective rates</u>								
1,200	-	1.8%	-	-	1.8%	1.8%	1.8%	1.8%
1,500	3.2%	2.1	-	-	5.3	5.3	5.3	5.3
1,800	5.7	2.3	0.4%	1.2%	8.4	9.2	9.2	9.2
2,000	7.0	2.4	0.7	1.9	10.1	11.3	11.3	11.3
2,500	9.3	2.6	1.2	3.2	13.0	15.1	15.1	15.1
3,000	10.8	2.7	1.5	4.1	15.0	17.6	17.6	17.6
4,000	13.3	2.9	2.0	5.6	18.2	21.7	21.7	21.7
5,000	14.9	3.0	2.4	6.7	20.3	24.6	24.6	24.6
6,000	16.5	3.0	2.8	7.9	22.4	27.5	27.5	27.5
8,000	19.2	3.1	3.6	10.1	25.8	32.4	32.4	32.4
10,000	21.5	3.2	4.3	12.1	29.0	36.8	36.8	36.8
15,000	27.0	3.2	6.0	17.0	36.2	47.2	47.2	47.2
20,000	32.3	3.2	7.6	21.5	43.1	57.0	57.0	57.0
25,000	36.9	3.3	9.1	25.7	49.2	65.8	65.8	65.8
50,000	50.7	3.5	13.6	38.3	67.7	92.5	92.5	92.5
100,000	64.1	4.5	17.6	49.5	86.2	118.1	118.1	118.1
500,000	82.8	5.3	23.0	64.9	111.2	153.1	153.1	153.1
1,000,000	85.4	4.5 3/10	24.4	68.9	114.3	158.8	158.8	158.8
5,000,000	87.5	2.5 3/10	26.2	73.7	116.1	163.7	163.7	163.7

Treasury Department, Division of Tax Research

April 28, 1943

See footnotes next page.

Table 2 (cont.)

- 1/ Maximum earned net income assumed. 1944 net income assumed to be same as 1942 net income.
- 2/ Assuming gross income to be ten-ninths of net income. Net Victory tax is used on assumption that taxpayer receives current benefit of postwar credit.
- 3/ Taking into account maximum effective rate limitation of 90 percent on combined net income and Victory tax.
- 4/ The exact amount payable would be \$7.33.
- 5/ The discount of 6 percent is allowed if the entire amount of the reduced tax for 1942 is paid on or before March 15, 1944.
- 6/ The exact amount payable would be \$151.33.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 1, 1943.

TO Secretary Morgenthau

FROM Harold Graves

If you have not already seen it, you might like to look at Tuesday's issue of the Cedar Rapids Gazette, attached.

Clipping is in Dean's scrap book.



TREASURY DEPARTMENT
WAR SAVINGS STAFF

April 28, 1943

OFFICE OF STATE ADMINISTRATOR

500 Walnut Bldg.
Des Moines, Iowa

Hon. Harold N. Graves
Assistant to the Secretary
Treasury Department
Main Treasury Building
Washington, D. C.

Dear Mr. Graves:

At Mr. Clark's request I am enclosing a copy of the Cedar Rapids Gazette which carries considerable coverage of the appearance of Secretary of the Treasury, Henry Morgenthau, Jr., at Cedar Rapids.

We thought you would be interested in seeing this.

Sincerely,

C. R. Dudley

C. R. Dudley
Publicity Director
(Iowa Office)
War Savings Staff
Treasury Department

CRD:HA



May 1, 1943

MEMORANDUM FOR THE PRESIDENT.

In accordance with your request of April 19, I am returning to you the memorandum submitted to you by Mr. John Franklin Carter. Mr. Carter passes on a suggestion originating in Canada in regard to War Stamp purchases for pasting on bombs to be dropped in Germany.

Mr. Carter's interest in passing on this suggestion is much appreciated. As it happens, a similar plan was proposed at a regular meeting of the War Savings Staff some time ago. It was rejected at the time because it was felt that War Savings Stamps thus purchased and pasted on bombs would represent gifts made by the purchasers, who would not be able to secure any return on their investment.

Furthermore, in any campaign of this kind it is usually the ones who cannot afford it that make the contribution, while those who can afford to donate usually take interest-bearing securities. Also, the public debt accounts cannot accurately reflect the reduction in the debt resulting from such action on the part of the owner.

It has been felt that these are valid reasons for not adopting a promotional idea of this type.

(Signed) H. Morgenthau, Jr.

File in Diary

Initialed copy to Bell

By Sturgie 4:45 5/3/43

GEF:DWB:ik

(initialed by S.P. and DWB)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
April 21, 1943

TO Secretary Morgenthau
FROM Stuart Peabody S.P.

A plan, similar to the one here discussed by John Franklin Carter, was proposed at a regular meeting of the War Savings Staff some time ago. The idea was rejected because the War Savings Stamps purchased and pasted on bombs would be contributions by the purchasers and there would be no return available to the investors.

This seems to me to be a valid reason which I will be glad to pass along to Mr. Carter if you so desire. On the other hand, if you wish to reopen the matter for reconsideration, we will be glad to do so.

*to you minor suggested
changes. AWB
4/24*

Retyped as suggested
S.P.

APR 28 1943

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THE WHITE HOUSE
WASHINGTON

April 19, 1943.

MEMORANDUM FOR THE
SECRETARY OF THE TREASURY

FOR YOUR INFORMATION AND
RETURN FOR MY FILES.

F.D.R.

COPY

JOHN FRANKLIN CARTER
1210 National Press Building
Washington, D. C.

April 13, 1943.

REPORT ON BRITISH WAR-FUND METHODS.

While in Ottawa last week, Lewis Clark, our Charge d'Affaires, suggested to me that our Treasury might make use of a method employed by the British Government in raising war-funds. They put a large empty air-bomb in some public place and invite the public to buy war-stamps and paste them on the bomb. When the bomb is covered with the stamps, it is filled with explosive and dropped on Germany. In this way, not only is the public given a sense of active cooperation but no charge is incurred by the Treasury.

Perhaps Mr. Morgenthau would be interested in this suggestion of Mr. Clark.

S/ J.F.C.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 1, 1943

TO: Secretary Morgenthau
FROM: Robert A. Le Roux

LOS ANGELES

While the situation in Southern California was dismal up to two weeks ago, there are two factors being credited with the gratifying results in the Southern California Second War Drive. The report by the President as to the execution of American pilots of the Doolittle brigade gave a strong impetus to the campaign, and then came the visit to the State of California of Secretary Morgenthau and his presence added to the enthusiasm of the workers in the state generally.

On Friday night, April 30th, the closing date of the Drive, Southern California had exceeded its goal of 221 million dollars. Reports were being received from many organizations and industries and business firms as to additional purchases and when these reports are compiled, the over-quota subscriptions may exceed two million dollars. Credit for this devolves on the splendid staff with which State Administrator Mills has surrounded himself. All are tireless in their efforts and their enthusiasm is unbounded.

The splendid showing in Southern California is the more remarkable when one considers the serious handicap occasioned by reports of alleged coordinated efforts to extend aid in the fight against Hitler to the detriment of the Pacific War effort. Naturally, California is extremely vulnerable and therefore is very sympathetic

with the expression that General MacArthur in Australia and the North Africa front were being sacrificed. This situation necessarily entailed "smoothing" salesmanship.

The Los Angeles War Savings Staff has done a remarkable "selling" job among the workers, contractors, the aircraft manufacturers and other industries.

It was pointed out by Mr. Hodge that of 77,000 employment units in Southern California, with a total of 1,355,000 employees, the Payroll Savings Plan is in effect in 4,849 units, covering 984,334 workers. It will thus be seen that approximately 97% of all employers of 100 or more workers are now enrolled. Mr. Hodge further stated that his office is now working for the enrollment of 58,000 units of from 1 to 5 employees, thus covering an estimated 162,400 workers.

The difficulty in the enrollment of these small units, is the turn-over among workers. The Los Angeles office is now endeavoring to perfect a plan whereby itinerant workers will be placed on a Payroll Deduction Plan and should their employment be so brief as not to allow sufficient earnings to purchase a bond, the payroll deduction will then be transferred to the future employer. Thus the workers might be employed during the month by four or five firms, but deductions would have been made by each one and the worker finally has earned sufficient funds for the purchase of a Bond.

(It should be stated that these men are not affected by the freezing order, because their employers are operating on subcontracts of brief duration.)

Worthy of mention is the cooperation being extended to the War Bond Payroll Deduction Plan by the Southern California Chapter of the Associated General Contractors of America. Five hundred contractors are operating under this plan and the Board of Directors, through Mr. F. J. Connolly, Manager, has provided all employers with a detailed plan of operation for payroll deductions. A mimeographed letter has been prepared instructing the head of the firm as to how he should proceed in the operation of the plan. Cards are provided to all contractors so that employees can be signed up immediately on their acceptance of employment.

Colonel Putman of the U. S. Engineers, has prepared a special letter which he sends to the contractor with the notice of his bid acceptance and the Colonel also attaches a copy of a letter, signed by Manager Connolly, as to the suggested procedure for installation of the plan.

While in Los Angeles I had interviews with international representatives of the United Automobile and Aircraft and Agricultural Implement Workers of America (U. A. W. - CIO); with the Council of Electrical Workers, Painters and Decorators; the Steel Workers of America; the Motion Picture employees (AFL); the Building Trades and Construction Council and the Ship Builders. All of these labor organizations are pledged to the Payroll Deduction Plan and they state that their individual locals are insisting that the companies by which their members are employed have the plan in operation. Heads of various councils (AFL) were particularly proud of their organizations in the War Bond drive. For instance,

the Boiler Makers have purchased \$200,000 in Bonds through the union treasury, and the Teamsters Union and the Carpenters and Joiners have each done likewise.

The Musicians Union has bought Bonds totaling \$150,000, while the head of the Screen Actors Guild stated that its treasury had purchased in excess of \$200,000, and he stated that it had always been the policy of his organization, and others in the A. F. of L. to invest in Government Bonds and thus keep its money in circulation. "Now we are putting the money in airplanes and bombs to circulate to the Japs and the Germans."

As is natural in a city which has enjoyed such tremendous growth as has Los Angeles, with its war contracts in excess of \$4,000,000,000 and where more than one and a quarter million men and women are employed in aircraft plants alone, both criticism and praise of the War Savings Bonds program are heard from leaders of organized labor, officials of corporations, workers in the war plants and in business establishments, and employers and employees engaged in general construction work. And from those interviewed, one also receives suggestions as to how the program could be operated more satisfactorily and with consequent greater volume of bond purchases.

Analyzing the situation generally, the conclusion is reached that despite the criticisms, Southern California is enthusiastically back of the war program and the method of its financing; that it realizes the tremendous cost of the war will necessitate further and regular War Bond drives, and that it stands ready and eager to continue such financing. These leaders, workers and the citizenship

generally comprehend that a program entailing expenditures of approximately one hundred billion dollars per year will not be possible under any plan of payroll deductions approximately 10%, and they express themselves as fully prepared for increases to 15%, 20% and even 25% should this become necessary.

Here are some statements from labor leaders who were interviewed:

(a) "We can't be shy in putting down the coin, although we would like it much better if Washington could see the light and put more pressure on the Pacific war. We out here feel this is our war. We don't know what Russia and England and the other Nations will do, but we know what Japan intends to do, and that's our great menace."

(b) "Taking these Japs from evacuation centers and putting them to work on some of these swanky farms in the East certainly gets our goat. These fellows lived on our land and made their money here, and for years they've been busy cutting our throats. When it's all over, I say clean them all out."

(c) "The differential between wages, even of highest skilled mechanics, and prices of commodities is out of all reason. The workers in our aircraft industry would be perfectly willing to have the freezing of both wages and commodities got back to March first."

(d) "I believe they should institute a policy of compulsory bond purchases from one's earnings. Too many of these fellows are holding off altogether and it's not right for one fellow to dig down for a couple of bonds each month and the worker alongside of

him not putting up a dime. This is everybody's war and everybody should take part in winning it."

(e) "You'll hear considerable talk about absenteeism and loafing on the job, but the system itself, favored by the Army and Navy, is responsible. For instance, the military services are dictating the policy prevailing in the awarding of contracts and they are insisting that contracts be awarded to firms whose workers are for the greater part in the lower pay brackets. If the Army and Navy would discontinue discriminating against the Coast manufacturers which employ a larger percentage of experienced and skilled workers, then you would find production speeded up."

(f) "The overall planning for aircraft production is all wrong. The Army and Navy have great pets in the East and they are the boys who find no difficulty in obtaining materials and contracts."

(g) "No better evidence of our loyalty and enthusiasm could be brought forth than the fact that here at C. I. O. Regional Headquarters, our organizers and the office staff are participating 100% in payroll deductions, with an average better than 20%."

(h) "It's to be hoped that an adjustment will be made to equalize the cost of living with wages. For instance, the Little Steel formula made possible an increase in wage of 15%, but here in California, it is conservatively figured that living costs have increased from 28% to 31%."

(i) "For many months, it has been the practice at all meetings of the Trades Council to have savings stamps on sale, and it's surprising the total that comes in that way."

(j) "In my Trades and Construction Council, we have nine separate regional units, with 360 Locals, and at no time have I heard the suggestion that the payroll deduction plan would be more satisfactory if it were made compulsory. While you can lead a horse to water, you can't force it to drink, and it's more satisfactory to operate under a voluntary plan."

(k) "As a whole, the operation of the war program by the Army and Navy in the fighting, and the Treasury Department in its financing is satisfactory. Criticism by the rank and file of our membership is against the War Labor Board and the O. P. A. If the W. L. B. would act on disputes and the O. P. A. control prices, then things would right themselves. If they'll freeze the prices, we'll freeze the wages."

(l) "With our Electrical Workers, Painters and Decorators, we encounter very little trouble in getting the men on the payroll deduction plan. When we are sending them to their new jobs, we inquire if they wish to be included in the payroll deduction. And when assured they do, we stamp the card: 'Bond Deduction Ten Per Cent,' and the job is complete."

And here are some statements from the workers themselves:

(a) "Here at Hollywood, they have the right system. All of the studios clear their payroll deductions through 20th Century Fox. I may put in two and three days each month for ten separate studios, but my Bond money goes from one to the other, and I get my Bonds regularly immediately when there is sufficient money."

(b) "The last war was a pink tea compared to this one, and as a World War veteran, I'm making sure that the fellow working next to me is not a slacker in the financing of this struggle for freedom. In our shipyard, we don't think a compulsory plan is necessary because we see to it that if the fellow wants to stick, he's buying his Bonds regularly. We have our own method of salesmanship and it's working effectively."

(c) "When we get some complaint from a fellow that ten percent of his wages are being withheld without his having signed a pledge card, we inquire: 'Why in the hell haven't you signed?'. And he signs."

(d) "While there have been some difficulties among workers for the sub-contractors, this has been caused by some men going on three and four separate jobs within a very short time. However, we're remedying that through our unions and through the contractors themselves. Ours is quite a problem when you consider that most of these sub-contractors employ from but three to five men."

(e) "You hear a lot these days about the very high wages received by the men in the aircraft industry and the shipyards. This high wage level comes from overtime and working steady six days a week as compared to the 1940 average of but four days."

(f) "The War Bond people sold many of us in the shipyards on their statement that Bonds are easy to redeem if urgent need presents itself. I'm convinced that if every worker could be educated on that score, Bond sales would jump rapidly. The fear of lack of ready cash in emergencies has held many of our workers back from making any purchases."

(g) "In our yard, we have a Bond Squadron, and if the new worker has not enrolled, we get after him right away. I'm proud to say most shipyards have their flags and that's because of the policy of signing 'em as you hire 'em."

In a survey of retail stores in Los Angeles, the fact was brought out that these employees, most of whom are in the lower wage brackets, are not enlisted in the payroll deduction plan but buy stamps regularly from their employing establishments or through the post office or banks.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 1, 1943

TO: Secretary Morgenthau
FROM: Mr. Waldman

Working men at the New York Shipyards (approximately 33,000 workers), in Camden, New Jersey; the Sun Shipyards (approximately 34,000), in Chester, Pennsylvania; and the Cramp Shipyards (approximately 15,000) in Philadelphia, Pennsylvania made the following important statements in conversation with me:

1. There is a wastage of man hours, causing the workers to feel that our war needs cannot be so very serious. (This statement was made only of the Sun Shipyards, by Sun workers.)
2. Safety precautions in the Sun Shipyards are very inadequate; five men were killed in March...not to mention those who were crippled in serious accidents.
3. Labor relations are very bad in the Sun Shipyards and the CIO men feel that there is discrimination against them, which discrimination is evidenced in handing out "pink slips": The first such "pink slip" handed to a man is a warning. The second pink slip means that the man is laid off for a week's time. The CIO men say that there is indiscriminate handing out of pink lay-off slips, which again causes the men to feel that our war needs cannot be so serious.

- 2 -

4. A Negro versus white situation has arisen at the Sun Shipyards. There are 10,000 Negro workers at the Sun Yards, and the Negro housing situation is extremely bad, which has caused a worsening of Negro morale. According to the CIO this housing problem is due to local politics which is extremely prejudiced against Negro housing. But the CIO blames the Negro versus white situation at the plant mainly on the management, which the CIO characterizes as reactionary. The CIO says that the management is surreptitiously backing the formation of a "Negro" union within the plant. Previously, says the CIO, there was harmony between Negro and white members of the union, which was achieved only after a long struggle with white shipyard workers who resented Negro membership in the union. But this was overcome ... at the loss of many white workers who refused to become reconciled to membership of Negroes in the union. Now, says the CIO, this new "race" problem has arisen, at the instigation of the management, to keep unionization out.

5. What's going to happen after the war? This question was made vocal by the Sun Shipyard workers with whom I spoke. The moment that one Sun worker brought forth this question all the others (six or seven) repeated this thought and agreed that this weighed heaviest in the minds of the workers at the Sun plant. (If I may add this note here: I got this same inference in conversations with workers in Baltimore, Norfolk and Pittsburgh. However, the Sun worker was the

first to put this thought into words. It seemed to me that, elsewhere, working men hesitated to open up this subject for fear that I -- as a Government representative -- would think them selfish and unpatriotic.) The Sun worker who asked "what's going to happen after the war?" answered his question in this manner: "There'll be a long stretch of unemployment for us. These shipyard jobs are going to dry up. There's not much use in putting every dollar into saving for a 'rainy day' because, no matter how much you save, it won't be enough...." I cannot help but feel -- as a result of my conversations with working men and women in the areas I've been -- that it is vitally important, not only to post-war America but to America-at-war, that every effort be made to draw up and legalize a plan to guarantee decent post-war employment to every American man and woman who is willing to work. Such a plan in being, I think, would tremendously stimulate production and morale and be of incalculable aid in winning the war.

At the present time I find the following feeling almost universal among those working men and women with whom I've spoken: "Sure ... we'll win the war ... It'll take time, but we'll win. Of course ...!" I cannot help but think that, since the working men and women feel this way and, too, since they feel a great insecurity for the time after the war -- as compared with their job security during the war -- that, subconsciously, they may not be doing their jobs or buying War Bonds as speedily or

wholeheartedly as they might. They have no such "spur" as bombing raids, the immediate threat of invasion or actual invasion of the homeland. As yet, the casualty lists have not been tragic enough to have such an effect. So far, the only such spurs have been sporadic: Pearl Harbor, the shelling of the Pacific Coast by a Jap submarine, and the execution of American flyers by the Japanese.

6. At all three shipyards there was a complaint against the long delay in getting Bonds through the payroll savings plan. The men I talked with said that many among them have stopped buying Bonds -- or are buying much less than formerly -- through the payroll savings plan due to the inefficient way in which the plan was operating. (At the Cramp Shipyards, where the plan now operates very efficiently, the men who dropped out are very hesitant to come back to the payroll plan.)

7. Two other important complaints were voiced against the payroll savings plan operation, by the Cramp Shipyard workers. Said the Cramp Shipyard workers: "If a man is out sick for four days out of the week -- which means he only gets a paycheck for two days work -- the management still deducts his full Bond payment. This may mean that a man gets as little as \$1.25 for his weekly pay. Because of this, many men have dropped out of the payroll saving plan..." The men said that they thought, if the management would institute some rule whereby a man would have no money deducted for Bonds during the week in which he drew only two or three days pay then

many more men would sign up in payroll savings.

The other complaint voiced was in connection with a special drive, during which the men were asked to buy "another Bond this week in honor of Pearl Harbor." The men were asked to buy their Bond by signing up to have the money deducted from their pay; in the same manner as their payroll savings deduction. But the management would not remove the "special" Bond purchase at the end of the week. Instead, this was lumped with their regular payroll savings deductions. This seemed to the men to be deception and, in many cases, worked hardship on them. As a result many of them dropped out of the payroll savings plan.

8. At all three shipyards the rate of pay was considered quite reasonable. A not-unordinary wage is \$100 a week. As a result of this there was no talk at the New York Shipyards and at Cramp of the high cost of living; and this was but barely mentioned by the Sun workers.

9. There was the greatest understanding of the war among the workers at the New York Shipyards; next at Cramp and last at Sun. At the New York Shipyards, the local union of the CIO has spent \$139,000 on athletic equipment, cigarettes, etc., for the men in service. The working men have voted to give 50 cents a month to such a fund. In addition, the men have complained, at union meetings, that they were not doing enough for the men in service. The CIO local at New York Shipbuilding has bought a house, is furnishing it for service men.

* * * * *

THE SUN SHIPYARDS

Following are direct and indirect quotes gained during a conversation with four working men:

"The workers don't like management methods which result in a loss of man hours of work. These lost man hours are due to the fact that the management insists on running the plant as it was run before the war. Of course this situation is spotty and it may be due to the fact that some materials are not available at a time when they are needed. Or lost man hours may be due to the fact that one department is way ahead of the others and has to hold back ... but the management doesn't take the trouble or has not the means to tell the workers why these man hours are lost. As a result, the workers get the idea that -- if man hours are that valueless -- the war can't be so serious..."

Another worker said that "the management could tighten up these lost man hours if it wanted to but it knows the Government is paying for them so it doesn't bother...."

One brought up and all chimed in on the discussion of lack of safety precautions, which was mentioned earlier in this report: "There's an average of one man a week killed at the Sun Shipyards ... and you ought to see the cripples walking around this town, who were injured in accidents at the plant..."

"The straw bosses and their 'pink slips' are enforcing absenteeism not preventing it. Those straw bosses give out those pink lay-off slips mainly to union men ... The workers can't understand how the Government needs ships so badly if the

management is allowed to lay-off men for a week so freely ... Only a representative of the Government should have the power to lay men off..."

"Just how bad the labor situation here is, and how important that 'pink slip' angle is, you can see from the fact that three weeks ago there was a spontaneous walkout of 15,000 workers -- because of the way the straw bosses were handing out those lay-off slips."

"...The War Bond situation at Sun is good. The Company has done a good job on its payroll savings plan set-up. But it takes too long to get your Bonds... It takes from one month to a couple of months after you pay for your Bond before you get it."

"...the morale among the Negro workers would be better if they had housing. They don't have any housing developments in Chester, while housing is all right for white workers."

"And the way the management is trying to split up the Negro and white workers is causing a highly combustible, dangerous situation."

"At the Sun plant there are workers from all of the 48 states. There are Negroes and whites. There are 1,800 coal miners. There are Negroes from the deep South who made \$100 a year before they came here. Now they're making as much as \$100 a week. There's a surprising number of middle-class workers who gave up their jobs and came here to make a contribution to the war..."

"The morale of the workers would be a lot higher at Sun if the management would explain to them as well as just tell them;

like the management just telling them that there's going to be a reduction in the work week. Why that is, I don't know -- maybe it's because this yard is ahead of other yards, or there's a material shortage, or something else reasonable. But, anyway, there's no explanation and the workers feel that the war cannot be so serious after all..."

"The workers don't seem to feel as though their War Bonds are savings..." (At this point this man was on the verge of saying that "the workers did not seem to feel that they'd ever get their money back".) They buy War Bonds out of patriotic reasons... because their wages are so much higher than formerly.

"...War Bond sales would be a lot better if the workers could see something good happening to them after the war ... like regular jobs. Then they'd have a reason for buying War Bonds with every dollar they could..."

"...You'd be surprised at the way John L. Lewis' stock has come up since the coal miners' strike. The workers at Sun and everywhere I know feel that the coal miners got a real case and Lewis is sticking up for them against the big shots ... The miners deserve their raise and, because Lewis is championing their cause, the workers feel that Lewis is their friend."

* * * * *

THE CRAMP SHIPYARDS

Quotes from a conversation with seven Cramp Shipyard workers:

"In the beginning 88% of the men were buying Bonds through payroll savings. But they had to wait so long for their Bonds that they started dropping out. This was not the fault of the management but, instead, was due to the fact that the Navy Yard was buying the Bonds for them at first. Now, Cramp is its own issuing agent and the Bonds are delivered promptly, but the men haven't forgotten how long they used to wait ..."

"...I'll tell you why I buy Bonds! If a man has \$25,000 and that American flag stops flying then his \$25,000 is not worth anything. What good would \$25,000 be if the Rising Sun flag was put up instead? We got to lend our money to our Government. That's the only way our money will be any good to us. Our Government needs this money right now to build and provide our boys with ships and other stuff... The only way to keep that American flag flying and to keep your money safe so you can get it back and use it when you need it is to put it in War Bonds ... We got to do everything to keep that American flag flying because if it ever stops then we'll see what worry is..."

"I think the management ought to be investigated by the FBI for the way the 'boys at the mahogany table' (management) play favorites in handing out blue buttons." (The award of such a button to a man means that he is a "leader" and thus entitled to a higher rate of pay.) "Leadership buttons are handed out to favorites and experienced workers are passed by... Lots of good men quit because of that and lots of others would quit now if they could ..."

"Lots of men make \$100 a week..."

* * * * *

THE NEW YORK SHIPYARDS

Nine New York Shipyard workers joined in the conversation which produced the following statements:

"The only aim of our union local is to bring this war to a successful end. There are many points in our union-management which, in other times, might have been objected to. But not in these times..."

"The payroll savings plan at the plant is very inefficient. Sometimes you wait three months for your Bond and sometimes they lose the record of your payments ... That's why lots of the men have lost enthusiasm for the payroll savings plan... If payroll savings worked better Bond sales would go up..."

"...we never have gotten any cooperation from the management on payroll savings. The union signed up every worker who's buying Bonds..."

"Sure... I quit buying Bonds through payroll savings. I had to wait too long. Now I buy my Bonds at the post office and get them right away..."

"... I'm buying Bonds to help win the war. It's the best use for your money today..."

"On Bond pledges for the Second War Loan, many departments in the plant pledged \$9,000 for Bonds and the shop stewards took the money right away and got the Bonds at the bank..."

"I'm a saloonkeeper along with working as a mechanic at the plant. I work on the four to twelve midnight shift and look after my bar after that. At my bar the men talk about the war

and about their production record for the day and about what their production record is going to be for the night ..."

(The latter, explained the saloonkeeper-mechanic, had nothing to do with war industry.) Also, said the saloonkeeper-mechanic, "on paydays the boys come into the bar waving a Bond in their hands, saying 'well, here's another one!' And lots of them get me to cash their checks ... ask me to hold back part of their money so they won't spend it and will have it to buy a Bond the next day..."

"I buy Bonds ... and I guess this goes for lots of the men ... first, to help win the war. Next, to save. Say -- I remember how it was right after the last war...!"

At the New York Shipyards they have what is known as the "incentive system." All the men spent some time discussing this and agreed that this system was a good one for production and better labor-management relations. The only point of disapproval concerning the "incentive system" concerned the fact that it applied to some departments and not to others. (Under the incentive system a man gets "paid" so many hours time for a specific job done, even though he may do the job in fewer hours than estimated for him.) Due to the incentive system, last year, many men made between \$6,000 and \$7,000.

"...We got to do even more for the boys in service ... We don't forget that when the boys go out of our plant they're still union men even if they wear a uniform..."

"...I don't want my year's deferment even if it is coming to me because of my job and the fact that I'm a skilled mechanic. I'll go when they call me. I can do a job on an aircraft carrier. Sure I can be replaced..."

"...When one of our boys from the local sees a service man in a bar, he buys him a drink ... right off."

- 0 -

May 1, 1943

TO: HAROLD N. GRAVES *SA*
SUBJECT: WEEKLY REPORT FROM WAR SAVINGS STAFF

FIELD DIVISION

Education Section

Fifty of the best posters from Virginia's statewide poster contest will be on exhibit in Fredericksburg, Hampton, Williamsburg, Bristol, Winchester, Richmond and Alexandria schools.

Ninety-four teachers of Rockbridge County, Virginia, have invested approximately 20% of their salaries during the first semester of the current school year in War Bonds. Eighteen in the Lexington District have averaged over \$400 per teacher during the same period of time.

The Sacred Heart School in San Jose, California, reports January War Savings sales totaled \$372.70, February

*WV
5/1/43*

FIELD DIVISION

Education Section (Continued)

\$518.70, March \$9,139.95, with the Jeep Campaign responsible for the huge increase in March sales. District of Columbia shut-in children who are taught in their homes and hospitals, contributed \$2,939.25, covering the cost of three jeeps.

Twenty-three states have sent in scrapbooks from their "Schools At War Program". Some of the unusual schools which are represented by the reports are the Virginia School for the Blind whose book is written in Braille; the 36-pupil Chinese School of Cleveland, Mississippi; the Navajo School of Window Rock, Arizona; the Alexander Graham Bell School for the Hard of Hearing in Chicago; and the one-room, ten-pupil school of District 99 in Barton County, Kansas, where every pupil owns at least one Bond and many Stamps.

Payroll Savings Section

Attached is a list of companies that have been reported as having achieved the goal of 10% during the past week. (Attachment No. 1)

Attached is the analysis of exposure to Payroll Savings for April 17, 1943. (Attachment No. 2)

Motion Pictures and Special Events Section

Cole Brothers Circus reports sales of over \$600,000 in War Bonds during their first five days on the road this season.

The Bond Premiere of the Warner Bros. Air Epic, "Air Force", at Jacksonville, Florida, April 12, brought sales of \$750,000 in War Bonds.

FIELD DIVISION

Motion Pictures and Special Events Section (Continued)

Universal Newsreel carried a shot of the Atlantic City style show which featured the War Bond and Stamp Corsages.

Field Memoranda

Recent memoranda sent to the Field include numbers 594, 595, 596, 597 and 598. (Attachment No. 3)

Retail Section

Again during this past week retailers made heavy War Bond advertising expenditures. Throughout the country special editions of papers containing only Bond advertising were still appearing.

At the preview of the Saturday Evening Post "Four Freedoms" exhibit April 26 at The Hecht Company in Washington, speakers included Associate Justice of the Supreme Court William O. Douglas, Under Secretary of the Treasury Daniel W. Bell, Lowell Thomas, and members of both local and national War Savings Staffs.

Some outstanding War Bond retail advertising is contained in the attached April 20 edition of Women's Wear Daily. (Attachment No. 4)

Attached is booklet from the Meyer Both Company displaying retail War Bond advertising. (Attachment No. 5)

The attached promotional booklet and special posters have been distributed by the Chicago Retail Committee. (Attachment No. 6)

FIELD DIVISION (Continued)Agricultural Section

Speed Riggs of tobacco auctioneering radio fame officiated at a recent auction at Winchester, North Carolina, which netted a total of nearly \$1,500,000 worth of War Bonds in that one evening.

North Dakota, the only state which derives more than 50% of its total income from agriculture, strengthened its already enviable two-year sales record of \$60,000,000 worth of War Bonds by again exceeding its non-banking quota of \$10,750,000 in the April Drive.

The Arkansas War Savings Staff is presenting "War Bond Champion" certificates to 4-H Clubs, Home Demonstration Clubs, PTA chapters, PTA Organizations and other groups in each county which have done an outstanding job in the promotion and sale of War Bonds.

The second issue of "Farm-Bond-Aids", containing War Bond radio news and advertising material with an agricultural slant, has been mailed to all state administrators and agricultural deputy administrators.

Women's Section

In a conference last week on "Payroll Savings for Women" the following resulted: In the future, the Women's Section will work more closely with the Payroll Savings Section, and a program will be initiated with new materials prepared for women

FIELD DIVISION (Continued)

Women's Section

factory workers and wives of factory workers. Miss Elliott will represent the Women's Section on the permanent Payroll Savings Committee.

The REA Agency has offered its services to the War Savings Program.

A letter was sent to all state women chairmen, urging them to cooperate with their state administrators in carrying out the Retail Store Survey, and also the distribution of the new decal stickers.

A Beta Sigma Phi representative is cooperating with the Women's Section full-time on a War Savings Program to be presented to the various chapters of that organization. The organization is paying travelling expenses.

A representative of the Women's Section addressed the annual meeting of the DAR Congress on April 20 and 21 in Cincinnati, Ohio. To date this national organization has purchased over \$32,000,000 in War Bonds.

Additional pictures of celebrities buying Bonds were distributed through the Negro Section of OWI, to labor papers through WLB, and to selected trade publications.

Information on the War Bond activity of old people will be incorporated in an article in the "Townsend National Weekly".

FIELD DIVISION

Women's Section (Continued)

Articles have been prepared and sent to the publications of the American Dental Hygienists' Association and the National Association of Women Artists.

Special Activities Section

On April 22, New York State and the rest of the Second Federal Reserve District passed their quota of \$5,000,000,000 by the purchase of \$475,000,000 in War Bonds. A new \$4,000,000,000 goal was set.

The 12th Federal Reserve District branch at Salt Lake City announced that Utah also has gone over its Second War Loan Drive quota of \$19,829,500 by the amount of \$2,500,000 in War Bond purchases. This represents per capita purchases averaging \$40.00.

In Oklahoma City and County on April 22 a one-day cruiser campaign resulted in Bond sales of \$40,000,000.

After more than a month's trial in the Richmond, Virginia, area, it has been announced that plans are now being made to have the Milk Check Deduction Plan statewide in its application.

With a \$10,000 goal, the Brown County, South Dakota, schools' War Bond Barrage Balloon Campaign resulted in sales of \$40,000 in War Bonds.

PRESS, RADIO AND ADVERTISING DIVISION

Advertising Section

The Advertising Checking Bureau estimates a minimum of 25,000 tear sheets on the Second War Loan is to be expected. Two-thirds of these tear sheets represent advertisements reproduced from Treasury copy, and the remaining third are local adaptations of Treasury copy, advertisements prepared by national advertisers, or local retail advertisements.

In response to a wire sent to all Federal Reserve publicity men, almost every locality in the country is represented with advertisements tying up the "Jap executions" with the campaign.

Attached are proofs of the new advertisements for newspapers beginning May 1st (Attachment No. 7)

Attached is a portfolio for general magazines, to be mailed this week, which meets the problem of paper restrictions directly, and suggests a logical solution. In addition to the full size magazine advertisements, "This man was taught not to drink water", "...and you'll always have tobacco in your old tobacco box!", and "What kind of a house would you put here?", the portfolio provides various sized adaptations of these advertisements, as well as smaller sized copy, and slogans. (Attachment No. 8)

During the week of April 19, we received 92 War Bond mentions and 6 complete ads, giving a total of 98 in the attached list of seven leading weekly magazines. (Attachment No. 9)

PRESS, RADIO AND ADVERTISING DIVISION

Advertising Section (Continued)

Attached is a list of the advertisers and the publications used during the week of April 19. (Attachment No. 10)

Arrangements have been completed for the production and distribution of 70,000 transit card dividers. These are a specialized type of car card which occupy the space between the regular sized car cards, and is entirely new in transit advertising. The transit card dividers will have a duration period of three months, instead of the usual one month limit.

Attached are photographs of the illuminated War Bond bulletin board in the center of downtown Albany, sponsored by the Tobin Packing Company, Inc., and of the indoor and outdoor painted Second War Loan bulletins of the American Bank and Trust Company of New Orleans, La. (Attachment No. 11)

Radio Section

During the last week of the drive, April 26 through May 1, Cary Grant, Shirley Temple, Fred Astaire, Joe E. Brown and Pat O'Brien, stars of stage, screen and radio, made personal appeals in behalf of the Second War Loan on popular network programs.

Secretary Morgenthau was heard over the Mutual Broadcasting System, Wednesday, April 28, 11:30 to 12:00 P.M., EWT, from San Francisco, California, where he addressed the workers on the Second War Loan in the 12th Federal Reserve District. Mayor Rossi of San Francisco introduced Mr. Morgenthau.

PRESS, RADIO AND ADVERTISING DIVISION

Radio Section (Continued)

Horace Heidt and His Orchestra's regular Treasury show, will now be heard Saturdays, 5:00 to 5:45 P.M., EWT, over the Blue Network, instead of Sundays from 1:00 to 1:45 P.M.

Guy Lombardo and His Orchestra have replaced Alvino Rey and His Orchestra on their regular Treasury show over the Mutual Broadcasting System, on Wednesdays 11:30 to 12:00 P.M., EWT.

"The Saturday Night Bondwagon" of May 1 will be extended 15 minutes -- 10:15 to 11:00 P.M., EWT. It will originate as usual from New York, but has been selected officially to open the new WOR Mutual Playhouse -- the Guild Theatre. Special guests will be Rose Bampton of the Metropolitan Opera, Ralph Morgan and his daughter Claudia, Alec Templeton, Bob Ripley and Alfred Wallenstein and His Orchestra. Mr. Harold N. Graves, Assistant to the Secretary of the Treasury, will speak.

"Truth or Consequences", famous radio show, sold \$6,118,129.25 worth of War Bonds in Denver, Colorado. It has already sold \$29,985,498.29 to date. The goal set for their fourteen week tour ending June 14th was \$20,000,000.

The preview of The Saturday Evening Post's "Four Freedoms" show was broadcast over the Blue Network, Monday, April 26, 10:35 to 11:00 P.M., EWT.

PRESS, RADIO AND ADVERTISING DIVISION

Radio Section (Continued)

NBC reports a total of \$10,190,045 in War Bonds purchased by ticket holders to the Easter Sunday Treasury Department concert of Arturo Toscanini and the NBC Symphony Orchestra.

Press Section

The May Issue of POPULAR PHOTOGRAPHY carries a three page spread entitled "Photography Sells War Bonds" by Victor Keppler (who is an Expert Consultant on the War Savings Staff). Tear sheets are attached. (Attachment No. 12)

Attached is the May Press Book for Company Publications containing editorial material, suggestions, pictures, cartoons, and information for Industrial Editors to aid in the sale of War Bonds. (Attachment No. 13)

A statement has been prepared by the Press Section on the May 1st, Second Anniversary of the War Savings Program, for Harold N. Graves, to be used by the Office of War Information Overseas Division for broadcasting purposes.

Ten stories resulted from the five releases prepared by this section and sent to local papers on the preview and opening of the Saturday Evening Post Treasury War Bond Show at Hecht's.

A radio speech was prepared for broadcast by Mr. Harold N. Graves over "The Saturday Night Bondwagon".

PRESS, RADIO AND ADVERTISING DIVISION

Press Section (Continued)

The May issue of AMERICAN MAGAZINE carries a full length story with a War Bond theme, entitled "Behind the Counter at the World's Biggest Bargain Sale". This issue also carries a cartoon contest, a clipping of which is attached. (Attachment No. 14)

The AMERICAN MAGAZINE for March carries a short paragraph dealing with War Bonds in their feature, "Minutemen 76-43", a War Stamp mention in their regular "Why Don't They...." columns, and another cartoon contest. (Attachment No.15)

Attached are tear sheets from current popular publication magazines which carry cover seals, and inside War Bond mentions. (Attachment No. 16)

Releases Nos. 331, 330, and 329 are attached. (Attachment No. 17)

The April issue of CHARM carries an Easter War Stamp corsage mention. (Attachment No. 18)

War Bond promotion appears in a full-length story "Meet Three Army Air Corps Wives", and in the feature "If You Ask Me", by Eleanor Roosevelt, in the April issue of THE LADIES HOME JOURNAL. (Attachment No. 19)

NATIONAL ORGANIZATIONS DIVISION

Labor Section

A \$100 War Bond was the admission price for the labor representatives who attended a Labor War Bond Luncheon at the Bismark Hotel in Chicago, April 28.

NATIONAL ORGANIZATIONS DIVISION

Labor Section (Continued)

The Order of Railroad Telegraphers of the Seaboard has purchased \$6,000 Second War Loan securities, while the Seaboard Air Line Employees Credit Union of Savannah has invested \$10,000 in War Bonds.

Business and Trade Association Section

Attached is a report received from trade associations of additional funds being invested in Second War Loan Securities. (Attachment No. 20)

Attached is a list of additional associations which have joined in promoting the Second War Loan. (Attachment No. 21)

The American Match Manufacturers Association reports that its members have invested over \$2,000,000 in War Bonds; better than 10% of estimated gross production of the industry for the year 1943.

Foreign Origin Section

It has been reported that the French-Canadian Liberty Ship Campaign in New England has now reached \$10,000,000 in Bond sales.

Fraternal Section

The attached list of Knights of Columbus jurisdictions with reports still incomplete had exceeded their state quotas in the War Bond campaign as of April 20. (Attachment No. 22)

The Tampa Rotary Club with a membership of 165, and a War Bond goal of \$500,000, has to date purchased \$475,000 in War Bonds.

NATIONAL ORGANIZATIONS DIVISIONFraternal Section (Continued)

The Grand Rapids Rotary Club of Grand Rapids, Michigan, had earmarked for itself 12 $\frac{1}{2}$ % of the city's \$8,000,000 campaign to purchase a destroyer for the Navy by April 30th.

The Lions Club of Birmingham, Michigan, is conducting a drive to purchase a bombing plane.

Inter-Racial Section

Members of the Uptown Chamber of Commerce (Negro) of New York have purchased to date \$70,000 worth of Second War Loan securities.

OFFICE OF THE EXECUTIVE DIRECTORPromotional Research Section

Attached is a copy of the latest report on Sales of War Savings Stamps by Newspapers using the Carrier Plan, as of April 22, 1943. (Attachment No. 23)

Attached is a summary of War Savings Stamp sales compiled as of April 29, 1943. (Attachment No. 24)

The analysis of sales of Series E War Savings Bonds in March, 1943 is attached. (Attachment No. 25)

Room 278

Under Secretary's Office

Exp. of Loans-War
Finance Committee

May 1, 1943

To Presidents, all Federal Reserve Banks:

My congratulations on the success you and the members of your committee have attained in this drive and my sincere thanks to all for the fine cooperation.

Just as soon as we have had an opportunity to study the results of this campaign we will be prepared to discuss what improvements we should make in our selling organization based on the additional experience gained in this Second War Loan Drive.

H. MORGENTHAU, JR.

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 1/..... +
 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	
Apr. 19	20	21	22	23	24	25	26	27	28			29	30	May 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
I. Summary												II. Taxable securities																	
Marketable issues:												Bills - all issues combined																	
Market purchases.....												Market purchases.....																	
Market sales.....												Market sales.....																	
Direct purchases from Treasury.....												Maturities.....																	
Maturities.....												Total increase (or decrease) (-).....																	
Special one-day certificates: Net change.....												Certificates																	
Total net increase (+) or decrease (-).....												C 1 7/8 C - 5-1 43.....																	
Wednesday report of total portfolio.....												C 2 7/8 B - 8-1 43.....																	
												C 3 7/8 D - 11-1 43.....																	
												C 4 7/8 B - 12-1 43.....																	
												C 5 7/8 A - 2-1 44.....																	
												C 6 7/8 B - 5-1 44.....																	
												C 7 7/8 C - 5-1 44.....																	
												Special one-day certificates																	
												Treasury notes																	
												T 1 3/8 D - 9-15 44.....																	
												T 2 1-1/4 C - 3-15 45.....																	
												T 3 3/4 B - 12-15 45.....																	
												T 4 1 A - 3-15 46.....																	
												T 5 1-1/2 B - 12-15 46.....																	
												Treasury bonds																	
												B 1 2 1/2 - 3-15 48-50.....																	
												B 2 1-3/4 - 6-15 48.....																	
												B 3 2 - 6-15 49-51.....																	
												B 4 2 - 9-15 49-51.....																	
												B 5 2 - 12-15 49-51.....																	
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												B 10 2-1/4 - 6-15 52-55.....																	
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												B 13 2-1/2 - 12-15 53-58.....																	
												B 14 2-1/2 - 6-15 56-59.....																	
												B 15 2-1/2 - 9-15 57-72.....																	
												Guaranteed securities																	
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												All taxable securities																	
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												Market purchases.....																	
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												Maturities.....																	
												Special one-day certificates: Net change.....																	
												Total net increase (+) or decrease (-).....																	

r Original figures revised.

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

* 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.
 Transactions are entered as of the day following that to which they apply, since data are not available until the following morning.
 Note: Data are rounded and may not add to the totals.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 1 1943

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Canadian Fourth Victory Loan Opened April 26.

The Canadian Fourth Victory Loan, by which it is planned to raise a minimum of \$1.1 billions (the equivalent of raising a \$12.5 billions loan in the United States), was opened on Monday, April 26, to continue for three weeks. Two issues are being offered:

	<u>3-1/2 year maturity</u>	<u>14-year maturity</u>
Dated:	May 1, 1943	May 1, 1943
Due:	Nov. 1, 1946	May 1, 1957
Date callable:	Not callable	May 1, 1954
Issue price:	100	100
Interest rate:	1-3/4 percent	3 percent

The new campaign is the sixth offering of public bond issues since September 1939. A total of \$3.1 billions of new money has been raised in previous drives. This represents approximately 70 percent of net borrowing from all sources, which amounted to \$4.4 billions from the outbreak of the war through 1942. Another 5 percent has been raised from War Savings Certificates, while the remaining 25 percent has been raised from the sale of securities to banks (which have also purchased in the market some of the Victory Loan securities originally sold to nonbanking purchasers).

The following table shows the goal and allotment for each of the public bond offerings:

Secretary Morgenthau - 2

	Goal	Amount Allotted	Number of subscribers
	(Millions of dollars)		(Thousands)
First War Loan - Jan. 1940	200	200*	178
Second War Loan - Sept. 1940	300	300*	151
First Victory Loan - June 1941	600	730	968
Second Victory Loan - Feb. - Mar. 1942	600	843	1,681
Third Victory Loan** - Oct. - Nov. 1942	<u>750</u>	<u>992</u>	2,042
Totals	2,450	3,065	

* In this loan only the amount of the goal was allotted. In the remaining loans all subscriptions were allotted in full.

** Preliminary figures.

The goal of \$1.1 billions for the present loan is an increase of nearly 50 percent over that of \$750 millions for the Third Victory Loan and is about \$100 millions more than was actually raised in that loan.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 1 1949

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Subscriptions to Canadian Victory Loans by
Individuals and Nonindividuals.

The quota for individuals in the Fourth Canadian Victory Loan, which opened Monday, April 26, and has a minimum objective of \$1,100 millions, has been placed at \$500 millions -- 25 percent more than was subscribed by individuals in the Third Victory Loan. In setting this quota, it was stated that the \$600 millions subscribed in the last loan by nonbanking financial institutions and industrial organizations represented about the maximum amount that could be expected to be subscribed by this group in any loan campaign.

Individuals' subscriptions to the first three Victory Loans amounted to \$1,082 millions, or 42 percent of the total of \$2,565 millions of new money raised in these loans.

Business firms and corporations, exclusive of insurance companies, subscribed about 37 percent of the funds raised in the Victory Loans, their subscriptions totaling \$955 millions.

Insurance companies were the source of approximately 15 percent of the funds borrowed in the Victory Loans. Their subscriptions aggregated \$389 millions.

Chartered bank subscriptions to the several loans have been negligible, since in each loan the government requested that banks refrain from participation on their own accounts. The Bank of Canada - the central bank - purchased none of the loan offerings during the three drives.

The breakdown of subscriptions to the three Victory Loans, by classes of subscribers, is shown in detail in a table attached to this memorandum.

Attachment

Estimated Sources of New Money Subscriptions
to Canadian Victory Loans

(Millions of dollars)

	First Victory Loan June 1941	Second Victory Loan Feb. - Mar. 1942	Third Victory Loan Oct. - Nov. 1942 (Preliminary)	Total
All new money subscriptions :	730	843	992	2,565
Individuals ^{1/}	316	365	401	1,082
Nonindividuals	414	479	590	1,483
Individuals:				
Special names ^{2/}	37	29	26	92
All others ^{1/}	280	336	375	991
Nonindividuals:				
Business firms and corporations	281	306	368	955
Insurance companies	96	126	168	390
Life insurance companies:	89	115	155	359
All other insurance companies	7	11	12	30
Banks - own account	7	-	1	8
Chartered	7	-	1	8
Bank of Canada	-	-	-	-
Government accounts	32	47	55	134
Federal	10	20	23	53
Provincial, municipal and school	22	28	32	82

^{1/} Includes small commercial and nonprofit bodies, the aggregate subscriptions from which would be relatively unimportant.

^{2/} Investors believed to be capable of buying \$25,000 or more par value of bonds.



BUREAU OF ACCOUNTS
OFFICE OF THE COMMISSIONER

TREASURY DEPARTMENT
FISCAL SERVICE
WASHINGTON

111

May 1, 1943

FOR THE CONFIDENTIAL INFORMATION OF THE SECRETARY:

In my report to you regarding the Office of Dependency Benefits at Newark, I expressed alarm concerning the serious consequences which would arise in case the building at Newark should be bombed in an air raid.

I am very glad to report that the War Department has decided to lease a building in Cincinnati, Ohio, to which will be sent the so-called check-issue cards which are used in Newark for the purpose of preparing allotment and dependency checks. This move will serve two purposes: (1) it will make possible a continuation of payments without interruption in case the Newark office should be bombed or otherwise seriously damaged; and (2) it will provide a means of building up a historical record of all payments to beneficiaries, the need for which may become increasingly important as time goes by.

We are now working on the feasibility of a plan of stocking approximately 20 of the Treasury's regional disbursing offices with blank checks, to which offices the check-issue cards at Cincinnati could be immediately forwarded in case of disaster.

W. B. Bauer



May 1, 1943.

Dear Mr. Durant:

I have your pleasant letter of April 29,
and much appreciate your words of commendation.
Thank you for taking the time and trouble to
write me as you did.

With cordial regards and all good wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Will Durant,
51 Deepdale Drive,
Great Neck, New York.

EP/dbs

File in Diary

9
113

WILL DURANT
51 DEEPDALE DRIVE
GREAT NECK, N.Y.
TELEPHONE GREAT NECK 1991

4-29-43

Dear Mr Morgenthau:

May we of the Durant family tell you that we think you are doing a magnificent job? We have an inkling of the size of your task, the difficulties and complexities that have encompassed you, and the heroic patience you have shown in the face of unjust criticism and persistent misunderstanding. You are on the front like our boys, and are fighting a good fight.

Sincerely,

Will Durant

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
MAY - 1 1943

TO Secretary Morgenthau
FROM Randolph Paul

You will recall that the American Jewish Joint Distribution Committee experienced severe difficulties in its program of shipping food parcels from Portugal to Jewish communities in Poland. This was largely due to the breakdown of arrangements whereby the parcels were to be distributed by welfare organizations in Poland. Apparently the Axis authorities objected to any program which might strengthen the prestige of such welfare organizations in enemy territory, and insisted that such packages be distributed directly to individuals.

On March 20, at the request of the J.D.C., we brought this situation to the attention of the State Department and advised them that we were prepared to make appropriate changes in the Treasury license covering this food package program if State agreed. We proposed to amend the license to provide that packages could be sent from Portugal to individual recipients provided the designation of such individuals was made by appropriate authorities in Portugal from the British Board of Deputies List.

Under date of April 21, Governor Lehman's organization advised us that they had no objection to the revised procedure, and we have amended the license accordingly so that the J.D.C. can proceed with the program.

RP

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

May 1, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS (Summary Covers the Past Week)

1. Silver - Hearings on silver legislation before the Senate Banking and Currency Committee ended Thursday morning and the committee is now faced with the problem of reconciling the various proposals submitted to it. The Green Bill, favored by the Treasury Department, would authorize the Secretary of the Treasury, upon the recommendation of the WPB, to sell or lease silver for the war effort or essential civilian use. The selling price of silver in this bill was set at 50 cents per fine troy ounce at the request, Senator Green said, of the Treasury Department. Senator McCarren, however, who last year filibustered silver legislation to death, objected to the Green measure and submitted a bill which would fix the price of silver at 71.11 cents and would limit the sale of unpledged free silver by the Treasury to 100,000,000 ounces. McCarren estimated this amount as the maximum needed for the war effort and said he would set a limit so that "an excessive amount of silver would not be placed on the market, and force the price of silver down, which occurred after the last war." He and the rest of the silver bloc would also set a higher selling price on silver in order to protect the mining interests of their states. Other Senators, however, felt that silver's importance as a monetary metal is at present being exceeded by its place as an essential war commodity. Senator Green asserted that silver, which can be used for such purposes as, for instance, bar in electrical setups, is now as much a war weapon as the copper or steel it would release. "To keep thousands of tons of silver locked up in the Treasury's vaults at West Point is like locking up ammunition, tanks, and airplanes for the duration of the war," he said. His bill, Green added, would not "affect the status of silver in our national currency system" but only its place in the war effort. Answering charges that his price of 50 cents an ounce would encourage speculation in silver, he retorted

he considered this a small issue in the light of America's urgent need now. He further justified the 50 cent price by citing the WPB claim that "the lower the price at which silver can be sold, the wider will be its use and the more will be the wartime economy of strategic and critical materials." Meanwhile, the Special Senate Silver Committee refused Lend-Lease Administrator Stettinius' proposal to lease 1,000,000 ounces of silver to Great Britain a month, but agreed to lend her 5,000,000 ounces between now and June, to be returned in full after the war.

2. Tax: Pay-As-You-Go - As the time for the second phase of the "battle of taxes" approaches with the reconvening of the House on Monday, Secretary Morgenthau announced yesterday his full support of the Ways and Means Committee's new tax bill on the grounds that it would both make taxpayers current and bring more revenue into the Treasury. This argument is expected to carry weight in House debate next week. Representative Knutson, however, disputed the Treasury statement and claimed, "When they say the...bill will place all taxpayers on a current pay-as-you-go basis 'by the end of 1943,' they are either trying deliberately to mislead the public and the Congress, or else they themselves have been grossly misinformed." Continuing in the same vein, he said, "Personally the Doughton Plan is so confusing that I, in a more charitable frame of mind, might say that Messrs. Morgenthau and Paul have been confused by it." As one point in their strategy, Republican leaders plan to amend the anti-windfall provisions to the Carlson-Ruml Bill with an eye to enticing the 20 Republicans who voted against the Ruml Plan before. This amendment would lower from \$20,000 to \$5,000 the income level beyond which taxpayers would be required to pay either 1942 or 1943 taxes, whichever is the larger. Lining up with the Administration, CIO President Murray told both Republican and Democratic Representatives in a letter that his organization would switch their support from the Forand-Robertson Plan to the Doughton Bill as an "effective compromise." Minority and Majority statements on the Bill will be issued today.
3. Reciprocal Trade Agreements - Another matter slated for early House debate, after the tax issue has been disposed of, is the Reciprocal Trade Agreement Act approved by the Ways and Means Committee last Tuesday, April 27, minus any of the restricting amendments which Republicans sought

to include. The committee did approve one amendment, however, granting the President further powers to suspend agreements with countries who are members of cartels operating to the detriment of the United States. Amendment most urged by Republican members in committee discussion and most likely to be strongly advocated on the House floor would grant Congress some form of veto power over the agreements. This has been objected to, however, as leaving the bill wide open to pressure from various "interest" groups.

4. **Priorities: Rubber vs. Aviation Gasoline** - The Truman Committee started an investigation last Tuesday of the charges of Undersecretary of War Patterson that the priorities directive in obtaining essential materials given Rubber Director Jeffers by the WPB is impeding the production of high-octane gasoline, so necessary to the Allied Air Offensive. First witnesses were WPB Chief Nelson, Petroleum Administrator Ickes, and Undersecretary of the Navy Forrestal, with the two chief contestants, Patterson and Jeffers slated for an early appearance. The committee heard Nelson claim that the North African campaign plus too low estimates from the Army on their Aviation gasoline needs were responsible for the shortage, not the priority he had granted Jeffers. His remark that the affair is chiefly a "clash of personalities" has been reflected in newspaper editorials, claiming the dispute should have been settled quietly within the WPB. Ickes, however, although claiming the Petroleum Administration has done a good job, asserted it could have done a better one if it had received equal treatment with the synthetic rubber program from the WPB. Even the latest scheduling from the WPB, he said, grants rubber 45% of the critical components and Aviation gas 35%. Asked if he agreed with Patterson that such a balance is responsible for the shortage, Ickes replied he was no military expert, he could only rely on what the Army said they need, and he didn't think they'd ask for what they didn't need. He added, however, that it had been almost impossible to get estimates of their high-octane needs from the Army and that when these were finally obtained, the Petroleum Industry on its own initiative set a higher goal.
5. **Government Information** - The Senate Judiciary Committee, which is considering the O'Mahoney resolution for a full-fledged investigation of news dissemination by government agencies, expects to sit in on press conferences held by Secretaries Stimson and Knox, following up their recent committee session

with CWI Davis both at a press conference held at the Capitol and in a closed meeting afterward. Secretary Stimson, however, on receiving the committee's "invitation" suggested they attend his press conference in the Pentagon Building so they could see it under "normal circumstances."

6. FCC Investigation - The House Cox Committee investigating the Federal Communications Commission threatened last Tuesday to use its "ample lawful power" (according to its attorney) to force Federal Communications Commissioner Clifford Durr to furnish them with a record of his banking transactions, any investments made in the past five years, and other phases of his private financial affairs. In his letter of refusal last week, Durr said, "While I have absolutely nothing to conceal...it seems to me that the information requested is of an entirely personal nature unless it is for the purpose of ascertaining whether I have been guilty of accepting bribes or of similar misconduct in the performance of my official duties." If such is the case, he suggested the committee refer the matter to the FBI. Background of the case involves a long-standing dispute between the FCC and Chairman Cox of the committee, who was himself investigated by the Commission for accepting a \$2,500 fee, although a congressman, from a Georgia radio station for representing it in its application for a broadcasting license.
7. Labor - In the face of a Lewis coal mine strike, the Senate agreed Thursday by voice vote to consider next Monday, May 3, the Connally Bill authorizing government seizure of any plant, mine or other industrial activity essential to the war effort and closed by a strike. The measure also would freeze employer-worker relations until the dispute could be settled by a wage board established by act of Congress to supersede the WLB, which was created by Executive Order. Although this bill would give the President new powers in taking over essential industries stopped by strikes, the elimination of the War Labor Board reportedly is just what John L. Lewis wants.

NOT TO BE RE-TRANSMITTED

U.S. OFFICE OF TREASURY
 SECRET
 1943 MAY 3 AM 10 54
 TREASURY DEPARTMENT

BRITISH MOST SECRET

COPY NO. 13OPTEL No. 142

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

1. MILITARY

TUNISIA: During evening 28th U.K. troops made a successful local attack North-West of Ksartyr, (9 miles E.S.E. of Medjez El Bab) destroying ten enemy tanks. Confused fighting continued throughout 29th with heavy casualties on both sides. Two enemy battalions supported by about forty tanks counter-attacked our positions North-West of Crich El Oued (5 miles N.E. of Medjez El Bab) capturing a hill one mile North of Longstop Hill on Medjez El Bab - Tebourba Road. Forces are in contact eight miles North-East of Medjez El Bab. During night 28th/29th, United Kingdom Infantry secured Western slopes of hill three miles North-East of Sebket El Kourzia.

2. AIR OPERATIONS

WESTERN FRONT: 30th/1st. Aircraft were despatched - Essen 305 (12 missing) and Bocholt (North of Duisburg) 12 (1 missing) Preliminary reports indicate heavy cloud at both places but large fires were reflected on the cloud.

EASTERN FRONT: 28th/29th. Russian bombers raided Koenigsberg. Large fires reported.

TUNISIA: Full reports for 29th not yet received. Escorted bombers made four attacks on enemy positions North of Enfidaville.

MEDITERRANEAN: 29th. Escorted light bombers sank a 3,000 ton ship and one E-Boat set fire to another 3,000 ton ship, damaged two E-Boats and a Siebel Ferry. Enemy casualties, 7, 4, 2. One Spitfire missing. South-West of Sicily, Malta-based Spitfires set fire to a large schooner.

BURMA: 27th. Mitchells (B.25) dropped ten tons of bombs at Thazi Junction (80 miles South of Mandalay).
 28th. Mitchells successfully attacked railway installations at Monywa and in Katha area.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OFFSEL No. 145

Following is supplementary resume of operational events covering the period 24th April to 1st May, 1943.

1. NAVAL

In home waters H.M. light forces sank an E-boat, 2 ships totalling 8,000 tons and 3 armed trawlers.

MEDITERRANEAN. One E-boat was sunk, another probably sunk and 4 more damaged by H.M. light forces, who also sank 2 petrol-carrying lighters and a small merchantman. H.M. Submarines reported sinking one destroyer, one liner, one escort ship, 4 merchantmen and a small tanker, 3 other ships were probably sunk. Convoy traffic to TUNISIA decreased by 4,000 tons. Destroyers are again believed to have carried German troops to TUNIS.

SUBMARINE WARFARE. Week ending 28th. 54 attacks on U-boats. Of 7 promising attacks 3 were by surface craft. U-boat activity concentrated mainly south of GREENLAND and between GREENLAND and ICELAND (C). Although over 50 U-boats have operated against 4 convoys in this area, shipping losses have notably declined. 8 ocean convoys in week ending 25th reached their destinations with only 3 ships lost in all.

SHIPPING CASUALTIES. During the week 24th to 30th, 9 ships were reported to have been torpedoed. One United States ship sunk and one British ship (which reached port safely in convoy) east of GREENLAND, 1 U.S. ship in the AZORES, 1 U.S. ship in W. ATLANTIC, 1 British tanker southeast of CAPETOWN, one British ship southeast of DURBAN, and one U.S. and 2 British ships off Eastern AUSTRALIA. In the MEDITERRANEAN, a French ship was sunk by mine and a British ship was mined, but reached port. The British ship damaged by air attack at MILNE BAY has reached CAIRNS, QUEENSLAND. A British tanker is overdue at CAPETOWN.

ITALY. 2 Italian submarines reported being converted at BORDEAUX for cargo carrying to JAPAN. Air reconnaissance SPEZIA recently showed 2 French contre-torpilleurs of "Tigre" class and a third believed to be "Lion" from TOULON.

ENEMY SHIPPING. Recent large increase of enemy shipping from ROUMANIA to Crimean ports and of small craft across KERCH STRAIT.

TRADE. Imports in convoy into UNITED KINGDOM week ending 24th - 1,004,000 tons, of which 309,000 oil.

2. MILITARY

TUNISIA. 2nd United States Corps. In Coastal area, French Colonial troops have reached general line running south from coast 4 miles east of KEF ABED. Difficult move by United States forces from MAKNASSY area carried out with remarkable speed and smoothness. United States forces have made useful advance over most difficult mountainous country creating threat to JEFNA.

First Army. French Sector. Main portion enemy's forces and all his armour concentrated to prevent break through by either First or Eighth Army enabled French to make valuable advance through difficult mountainous country in DJEBEL MANSOUR and DJEBEL CHIRICH areas.

Eighth Army. Enemy massed considerable proportion of his whole force to prevent a break through in direction of HAMMAMET. Strong pressure on enemy maintained and several counter attacks repulsed with considerable losses. Activity mainly confined to artillery exchanges and our patrols pushed forward several miles on left flank making contact with French.

General. No appreciable change German strength. Italian approximately 1 very weak armoured division and 2 infantry divisions. Estimate serviceable tanks 90, of which approximately 20 Italian. Believed practically all enemy forces now committed in fighting. Lack of reserves and supply difficulties caused by Allied attacks on sea and air supply routes may have drastic effect on enemy's ability to maintain present bridgehead. So far, however, no signs of evacuation.

Regraded Unclassified

RUSSIA. Warm and dry April has helped dry the ground and near future may see resumption of large-scale operations, at any rate south of MOSCOW.

SATELLITE AXIS FORCES. Number of satellite divisions in RUSSIA greatly reduced since January, 1943. Present estimates are:

- (a) Italian. Believed all original expeditionary force now withdrawn from active operations. Some 50,000 troops may still remain in RUSSIA.
- (b) Hungarian. Still about 50,000 troops in RUSSIA, but these are engaged on lines of communication duties only.
- (c) Roumanian. Some 20,000 troops probably still engaged in TAMAN Bridgehead. Elsewhere equivalent of 5 divisions being remnants of routed divisions, probably remain in RUSSIA, but are not engaged in active operations.

BURMA. ARAKAN. On 27th, 2 further Japanese attacks in area south of BUTHIDAUNG were repulsed. Japanese have 4 battalions forward on ARAKAN Front. Total enemy strength this area now believed 7 battalions, of which 6 are half-strength.

3. AIR OPERATIONS

WESTERN FRONT. Night. Out of 1308 bomber aircraft which operated by night during week, 64 are missing. Heavy attack on DUISBURG. Results believed very successful and much damage caused in town and neighbourhood. Heavy raid also on ESSEN, results not yet known. Nearly 400 aircraft employed on sea-mining, which is returning increasingly high dividends.

Day. Our attacks directed mostly against enemy shipping - 2 ships of 3,000 and 2,500 tons hit by bombs and one of 4,000 tons torpedoed off NORWAY. Convoy attacked off TEXEL, when 2 large ships set on fire and 2 mine-sweepers and a trawler were damaged.

TUNISIA. Intense air activity in support of our troops. In one day alone, offensive sorties totalled 1371. 3,000 ton ship was set on fire and 3 landing craft destroyed at TUNIS. Enemy lost 18 aircraft certain. We lost 9. Following attacks on shipping. 6,000 ton ship sunk off MARITTIMO. Off CAPE BON one ship destroyed and another damaged, 3 Siebel ferries destroyed and 1 damaged and an escort vessel sunk. In Gulf of TUNIS, 3,000 ton ship and an E-boat destroyed and another ship and 2 E-boats damaged. Large schooner set on fire south-west of SICILY. In all these operations enemy lost 12 aircraft destroyed. We lost 5.

RUSSIA. Russian Air Force fairly active, especially in south. Russians bombed KOTKA on Gulf of FINLAND 3 times, made an effective attack on an unspecified airfield on central front, gave considerable support to their troops attacking TAMAN bridgehead and continued their long range bombing of East Prussian towns. German Air Force operated in force over Taman Peninsula and against Russian troops threatening NOVOROSSISK, but their operations declined during course of week and at no time did the German Air Force succeed in gaining definite local air superiority.

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

STETTIN. Photographs following day show 40 acres of chemical production factory Pommerndorf burnt and important damage to industrial buildings. Central districts of town still hidden by smoke.

STUTTGART. Reported over 100,000 pounds damage in a ball-bearing factory. About 40 industrial and commercial concerns affected. Severe damage to town power station, barracks and over 400 houses destroyed or damaged.

MANNHEIM. Besides damage in I.G. Farbenindustrie, 5 1/2 acres devastated in factory making tank and armoured vehicle components. Severe damage in docks area to warehouses and timber yards.

GENERAL. German propaganda statements insisting that German morale is unaffected by R.A.F. raids is completely belied by letters found on German soldiers captured on the Russian front.

BILLANCOURT. United States daylight attack on Renault achieved considerable success and several direct hits on different shops are confirmed, wrecking many machine tools and damaging and destroying several finished lorries. Estimated at least 3 months necessary to resume normal production.

5. HOME SECURITY. Estimated civilian casualties week ending 28th - killed 41, seriously wounded 60.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, May 2, 1943.

Press Service
No. 36-46

5/1/43

Washington, D. C., May 1. -- In a tremendous financial response to the needs of our armed forces, more than \$16,500,000,000 has been invested by the American people in securities offered by the Treasury during the Second War Loan Drive, which closes at midnight tonight, Secretary Morgenthau announced today. Although the final tabulation will not be completed for some days, it already is evident that the \$13,000,000,000 original goal has been exceeded by more than \$3,500,000,000, making this borrowing operation the greatest in history, he said.

"I am greatly pleased by this entirely voluntary investment by the people in victory," Secretary Morgenthau said. "The unprecedented sum borrowed in this campaign reflects the earnestness and vigor of our national war effort. In this, as in other ways, a crushing superiority of United Nations armaments is assured and the defeat of our enemies made inevitable.

"The campaign now ending marks another milestone in our move toward sound borrowing from ultimate investors, rather than from commercial banks. The banks were limited to purchases of approximately \$5,000,000,000, and other buyers thus subscribed to more than \$11,500,000,000 of the securities. I am especially pleased that the increase in total subscriptions over the initial goal has come entirely from non-banking sources. This is the highroad of non-inflationary borrowing.

"But even this performance must be bettered in the future. Both during the Drives and in the intervals between them, it is important that all who have regular incomes or

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accumulated funds make steady purchases of the several issues of Savings Bonds and Tax Savings Notes which are available at all times.

"The Treasury was assisted in the Drive by an army of volunteers and to all of these participants the thanks of the Government are due. I should like to add to this my own heartfelt appreciation of the freely given aid of solicitors from the financial, insurance and other fields; of advertisers; of the press, magazines, radio, outdoor and other media; of department stores, retailers, theaters and others who contributed ingenious displays, and of all who joined in the effort in any manner whatsoever."

(NOTE -- Detailed figures, through Friday, April 30, will be announced later in the day.)

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, May 2, 1943

Press Service
No. 36-47

Secretary Morgenthau late this afternoon announced details of subscriptions in the Second War Loan Drive to the close of business April 30 as follows:

(In millions of dollars)

Funds from non-banking sources:

Individuals \$2,504

Insurance companies and
Mutual Savings Banks . . . 3,331

Other corporations. 4,869

10,704

Funds from banking sources . . .

5,000*

Funds from other sources:

Dealers and Brokers 831

Federal Trust Funds 373

1,204

Total . . .

\$16,908

*Includes estimated allotment for 2% Bonds to banks.

NOT TO BE RE-TRANSMITTED

COPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL NO. 143

Information received up to 7 a.m. 2nd May, 1943.

1. NAVAL

HOLEWATERS. 1st/2nd. Dover batteries fired on two heavily escorted ships eastbound from BOULOGNE. One escort probably sunk. Enemy replied by shellfire for about three hours on DOVER-FOLKESTONE-DEAL Area. Damage and casualties slight.

2. MILITARY

TUNISIA. 1st Army. Central Sector. 30th. After bitter fighting with heavy losses on both sides, our troops withdrew about two miles from SIDI ABDULLAH to area of SIDI MEDIEN, 8 miles east-southeast of MEDJEZ EL BAB. Other enemy attacks held. Estimated at least 12 enemy tanks destroyed during night of 29th/30th. 8th Army. 29th/30th. Our troops regained ground which had been lost as a result of enemy infiltration during 29th.

3. AIR OPERATIONS

WESTERN FRONT. 30th/1st. 793 tons of H.E. incendiaries dropped on ESSEN. 1st. 48 United States Fortresses (B.17) out of 78 despatched bombed ST. NAZAIRE through heavy cloud. 7 missing. 18 Torpedo Beaufighters, escorted by 40 Beaufighters, despatched to attack Cruiser NURNBERG, previously sighted off BERGEN. No shipping seen but heavy anti-aircraft from shore and many fighters encountered. 7 Beaufighters missing. 1st/2nd. 30 aircraft despatched to sea mining off French Atlantic ports.

TUNISIA. 29th. Targets in MASSICault Area bombed by 189 Allied aircraft.

SICILY. 30th. United States Liberators (B.24) dropped 24 tons H.E. on MESSINA.

MEDITERRANEAN. 29th/30th. A Beaufighter destroyed 5 JU 52's South of SARDINIA. 30th. 599 medium and fighter bomber Sorties despatched against shipping in SICILIAN Channel. Despite record defensive effort by enemy fighters, 1 destroyer, a large launch and an E-Boat were sunk; a light cruiser, a 1,500 ton ship, a Siebel Ferry and an E-Boat set on fire. Enemy air casualties 7, 2, 2. Ours - 6, 0, 0.

May 3, 1943
11:15 a.m.

FINANCING-ORGANIZATION PLANS

Present: Mr. Bell
Mr. Gaston
Mr. Robbins

H.M.JR: Isn't there one man in the Federal Reserve especially for the Treasury?

MR. BELL: It is the fiscal agency department.

H.M.JR: Isn't there such a title as fiscal agent? There is some one man in the Federal Reserve who is supposed to be there for the Treasury.

MR. BELL: There are a good many of them whose salary we pay.

MR. GASTON: The man who is the head of the fiscal agency in the bank might be a vice president of the bank or he might be some other officer.

H.M.JR: Is he called fiscal agent?

MR. BELL: No, he would be head of the fiscal agency department, and they are not all the same names throughout the service.

H.M.JR: But there is a fiscal agency department?

MR. BELL: That is right. It may not be called as such - that name - but there is such a department.

H.M.JR: There is some one man - he may be a different person in a different bank, but there is such a man, and there is such a department.

MR. BELL: You can pick one, and in some cases two people, that handle our business for us.

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H.M.JR: I will tell you what I am groping for. It may not be any good. Let me just put it this way: There will be a succession of discussions. We will start here and do more when necessary. If I understand the mechanism correctly, we do need the Federal Reserve to do the fiscal agency business for us, that is to handle these securities. That is the setup now, isn't it?

MR. BELL: Yes, the mechanical end.

H.M.JR: Yes, the mechanical end. I mean, there is no question about the mechanical end. But in my mind I don't see why the president of the Federal Reserve Bank should necessarily be the Treasury's representative in a district in charge of sales and promotions and so forth, and so on.

Let me spill this - it is sort of in the air. What I am thinking about is this: After this trip I am more sold than ever on the idea that we should have strong State organizations with a strong State man. Let's put it this way: Idaho, I think, comes under San Francisco. The man in San Francisco has no more business to be supervising Idaho than the man in Chicago has. I mean, they are just as far apart, emotionally, their interests, and everything else. I mean, there is no connection between Idaho and San Francisco.

MR. ROBBINS: In any subdivision of geography you have to have further subdivisions below any logical, large breakdown; and where possible, according to my thought, State lines should be preserved.

H.M.JR: I think they should. For example - I don't have a map of the United States - Seattle, Washington, and Oregon sort of bunch up together. I wonder if there isn't some way of approaching this, that we build the thing on State lines, and whoever is in charge of the State is in charge of everything that goes on in that State which has to do with selling securities.

Then the question is - let's say we take three or four States and have a supervisor over them - does that

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necessarily - does that person necessarily have to be the president of the Federal Reserve Bank? I don't think so.

MR. BELL: I don't suppose it has to, but it seems to me you are going to rely to a large extent on your banking system to put over these drives. It certainly is the Federal Reserve - I agree you should keep your State lines where possible, but in some cases where you have a Federal Reserve setup it would not be possible to keep strictly to State lines.

H.M.JR: I have changed, Dan.

MR. BELL: Have you?

H.M.JR: Yes, and I will tell you why I have changed. This thing is all very fluid, and I am just beginning to think out loud. I am sort of groping for something. I want to answer Bell. I have said right along just what you said, that we need the banks - need the Federal Reserve with the banks. I don't think that that is necessarily true, and I will tell you why. I think future drives, when we want money from banks, should be separate from the drive where we want money from the people, and we should separate the two. I think it gets all mixed up in people's minds, and they think they are buying a seven-eighths certificate and they are being patriotic, or they are buying a tax note and they are being patriotic, and they are not. It doesn't mean anything. It is just an out. I don't see that if and when we want to raise some money - four or five billion dollars in the banks - that we can't do it as a straight banking operation.

MR. BELL: Sure, we can do it.

H.M.JR: I am going to be very, very frank here. The banks have got to take this, no argument about it.

MR. ROBBINS: We don't need promotion to sell them.

H.M.JR: That is the point, and we don't need the Federal Reserve - we need it for the mechanics. There is the

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fiscal department, which we here in the Treasury completely pay for - maintain. I don't know whether you are conscious of that, but there is a Mr. X in each bank who is the Treasury man, and he is the fellow who we pay for. That fellow has to do what we like; and if we don't like him, we say, "Put somebody else in." But again he is the mechanics and he isn't a salesman. Right?

MR. BELL: That is right.

H.M.JR: But he does the thing. Now, the important thing - I have to make a little speech here to get it out of my system. The important thing, as I see it, isn't the four or five billions that we have to get from the banks periodically and which we could get because the banks have to take it, but is this very, very difficult task of selling outside the banks. And what I looked forward to - as I say, in most every community that I have been to where they may not be necessarily friendly to the Treasury or friendly to the Administration, which is the same thing, but in the community there is more or less cohesion in that particular community.

Therefore, it is very important that in that community we have a leader who is friendly to the Treasury. And that may not be the person who is the president of the Federal Reserve Bank.

Now, the thing that I am kind of leaning toward - and as I say, I want plenty of discussion and plenty of time and thought on it - is something like what we had at the Farm Credit where we had twelve agents, each agent in charge of four States, with lots of authority, you see. They were very carefully picked.

MR. GASTON: Those were in the Federal Land Bank Districts, which differed somewhat from the Federal Reserve Districts, although there was the same number of them.

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H.M.JR: Herbert, I can't help it - the fact that the Federal Reserve Districts are thirty years old, or whatever they are, are antiquated - and the best example is that Detroit thirty years ago was an unimportant place. Today I say it certainly is as important as Chicago, if not more so, but still they are subordinate to Chicago. I mean, all kinds of things have happened in the last thirty years.

Who would dream that the hundred twenty thousand ship-workers would move into Portland, Oregon, in a year. I mean, Portland, Oregon, the city of roses, has become a city of ships.

All of these things are happening. I would like to get - this is the kind of thing I am thinking of in a way - if I could get a man, twelve good stout-hearted - what is that song - good stout-hearted men who thought right, who felt right, to supervise each four States. Then have the Federal Reserve in sort of an honorary position - the president of the Federal Reserve - but not much more than that, you see.

Then the State chairmen - have each State chairman in complete charge of all sales of securities within the State, but with some sort of honorary chairman position in relationship of the Federal Reserve over these fellows.

As the thing gets tougher - now, let's take this fellow Gilbert, for instance, in Dallas. If this thing gets tough - I mean, Gilbert is a nice fellow, and he most likely is trained to run his Federal Reserve Bank well; he is interested in shifting of currency from one bank to another; he is interested that the banks are having their loans paid off; but he has no social conscience. I mean - and the thing that I feel, and you can say, "Well, Mr. Morgenthau, that isn't what this is for." That is right, but this is what I want to make it for.

I think this bond-selling thing is one instrument where it can be completely united between the people and

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the Government, and can be used as an instrument of war spirit to help win the war on the home front. Not to use it would be just criminal. God knows the President needs all kinds of help, and when you can go to some of the places that I did and see this magnificent spirit in some places - and others not - but when you can get it at a certain pitch then that is the pitch we ought to aim for all over, and the presidents of the Federal Reserve Banks haven't got what it takes. There is no use criticizing them or getting mad at them, because they weren't put in there for that purpose. Is that right?

MR. ROBBINS: That is true.

H.M.JR: They just weren't put in there for that purpose. I mean, if I talked on any of these things - management-labor - to Mr. Day in San Francisco he would have no idea of what I was talking about. It isn't his interest, and there is no reason why he should be interested.

There is no use wasting one's energy in getting angry at fellows like that, but there are people in that community who are leaders and there are people who are making this thing go. Those are the people I would like to have as leaders for us.

Now, as I say, this isn't something you can put down on a chart, but this is the way I feel, and I don't think it is unworkable.

What do you think, Bill?

MR. ROBBINS: I think that the variation that you are developing here for us from the plan or suggestion that I have submitted is not very great.

My whole thought hinges about the selection of these twelve men, just as yours does.

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Now, geographically I would put them in the twelve Feds, and I would have the Federal System involved in this financing operation in a more important - to a more important degree than you would, but I certainly would be equally as keen about the selection of the proper twelve men.

I think there is where your whole plan will hinge. I feel so sure that our success or failure in this field organization will hinge upon the quality, the character, the philosophy, and the leadership of those men.

Now, I am not so concerned about taking them and saying, "We will take four States to a man and set six or eight men up in offices." That seems unnecessary. They should tie in with the Fed. The Federal Reserve System will handle our securities and will provide a community leadership when it comes to organizing the banking profession, and we will need them. If this man is good and strong - I am not going to worry about the Paddocks and the Gilberts.

As a matter of fact, it is interesting that you picked Gilbert. He has the best record on individual securities of any district in the United States.

MR. BELL: Sure. The two districts that we thought might be the worst were the best, Atlanta and Dallas - a hundred and fifty-nine percent.

MR. ROBBINS: Yes, for Dallas, and almost a hundred and fifty percent for Atlanta.

H.M.JR: That is in dollars?

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MR. ROBBINS: Percentage of dollars sold to individuals.

H.M.JR: Then the question gets down to who the individuals are. I mean, it gets down to how many of the people in Dallas in that airplane plant that they have there - I think it is Consolidated - how many of those people have bought. The reason that I was - you might as well get the whole picture - Bell knows it, but you two men don't know it - this is confidential.

They had a meeting which Jimmy Byrnes called of his committee. They asked me to come and I couldn't come, and they had Paul come. That group there, without knowing a blankety-blank thing about this drive - and that goes for Paul, too, and I blame ourselves - why we don't sell our own Treasury people, I don't know - that group has pretty well made up their minds that they are going to get an amendment for compulsory savings on this present tax bill when it goes over to the Senate.

Well, we had a pretty tough fight here for two hours Saturday morning. I came down just to say hello to everybody. While I couldn't un-sell Paul on compulsory savings I did un-sell him on the idea of trying to put anything on the bill when it got to the Senate, and for heaven's sake let's get this country on a pay-as-you-go basis and not begin to add amendments.

I sold him on the political wisdom of that rather than trying to put on a compulsory savings. But Byrnes and his crowd over there - the Chamber of Commerce man - the fellows that aren't for it are the farmers' union man, who is interested, Davis of the Labor Board, and one other.

MR. BELL: O'Neal?

H.M.JR: Patton was with us. But I mean, you never know - you go along here in the middle of the drive and you think you are going to come home - you haven't even had the fun of tasting seventeen billion dollars when these fellows begin to talk about compulsory savings. So the answer that they give - they say everything is lovely. You just don't know what is happening.

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But here we are right here in the Treasury - Paul thought we were selling four hundred million a month of E Bonds.

So what I am getting at is this fellow down there may have sold a hundred and fifty percent of his quota to individuals, but they come right back and say, "Who are the individuals?" And we have got to be able to answer it. Are they the fellows they are aiming for with around three-thousand-dollar incomes? I don't know. But we have got to be prepared to answer it.

MR. ROBBINS: Yes, we have never had records that will give us that answer.

H.M.JR: If they give us compulsory savings, what they are talking about - twenty billion dollars of compulsory savings - there isn't much use of talking here about what kind of an organization we are going to have. Right?

MR. ROBBINS: That would change the picture awfully fast.

MR. GASTON: Of course, they can't get any twenty billions of compulsory savings. It just cannot be done, and what they can't see is that you cannot get, by the compulsory saving method - you can't answer the problem by the compulsory method. You get a part of it and still have to go along with your volunteer organization.

H.M.JR: Herbert, I am with you a hundred percent, but here I walk in Saturday, really very excited about this thing, and I get this thing between the eyes because Jimmy Byrnes is no mean person to conjure with.

They postponed the next meeting until Wednesday, and the fellow I want to work on is Walter George. I want to see George tomorrow because if we get him sold we are all right. But you just come back and you don't know where you are and what is happening.

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But that all revolves down again, that the kind of fellow that I want in these States, and I don't care - give me my State organizations plus twelve good supervisors, and it isn't terribly important where it heads up other than the psychological effect.

Did anybody hear Drew Pearson last night? He went on the air and he said, "There is a big fight going on in the Treasury and Morgenthau has pretty much sold out to the bankers."

(The Secretary held a telephone conversation with Mr. Doughton.)

^{Ginger}
H.M.JR: He will come by in the morning or for lunch. He is the key man, and John Sullivan says if we show him these figures and show the distribution, that would answer his question. He wants a big distribution so that when this war is over there are a lot of stockholders who are interested.

MR. ROBBINS: That is right. Now, we can't give a lot of detail about the distribution.

MR. BELL: We can give what we get out every day from the chart.

MR. GASTON: I heard Drew Pearson. I also talked to Leon Pearson for sometime on the phone in the afternoon.

H.M.JR: Oh, you are the leak, are you? (Laughter)

MR. GASTON: Drew was apparently all set to say you had sold out to the bankers - and he didn't say that - and that the whole War Savings organization was going to be scrapped.

I told him there were two different types of operation. There was the question of selling to the banks and to the big corporations, and that we had had a special committee for that purpose; that we had endeavored to combine them and coordinate them for this drive. I told him that the sale

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of War Savings Bonds was an essential part of our operation and that it would continue.

You notice he said, "I am privileged to state that the War Savings organization will be continued." That is the way he ended his broadcast.

H.M.JR: What he said was that we sold out to the bankers, but he was going to predict on the thirteen billion dollar drive - he didn't even have the figures right - that the three hundred and fifty thousand volunteers would prevail.

MR. GASTON: No, I am very sorry to say that is not what he said. I am sorry to correct you. He said that the War Savings organization would be continued. He was prepared to say just the opposite.

H.M.JR: I didn't hear it. Did you hear it?

MR. GASTON: Yes.

H.M.JR: And that is what he said? Do you want to bet on it?

MR. GASTON: It was substantially that. I will get his script.

H.M.JR: That is all right.

MR. GASTON: He was prepared to say just that very thing, that we were going to scrap the volunteer sales organization.

H.M.JR: Somebody confused me. That isn't going to influence me.

But Dan, isn't there a way - you can think about this, and I am going to have another talk - I take it you are with me on a strong State chairman. Right?

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MR. ROBBINS: I think that if subdivisions can be made of any large breakdown of geography where State lines can be followed, that is what we should do.

H.M.JR: Then I am thinking in terms of maybe twelve, maybe fifteen - I don't know - for a better term, I called them supervisors, then the question is, where do they head up?

MR. ROBBINS : That is where I go for the bank. That is where I think the Fed is the place.

H.M.JR: Let me argue. They could head in here.

MR. BELL: Sure they could.

MR. ROBBINS: Don't forget the thought, however, that our success will be largely dependent on our ability to decentralize, push out, push down.

H.M.JR: Yes, but you could still do this. I mean, whether they head in here, or head in here through the presidents of the Federal Reserve Banks, doesn't make an awful lot of difference.

MR. ROBBINS: I think we need the Federal Reserve System. They have a very real part.

MR. BELL: I wasn't thinking of the Federal Reserve Banks and their doing the bank financing, but thousands of these people on your various local committees are bankers. That seemed important to me in selling bonds to your individuals through those groups, that it was important that they tie in with the Federal Reserve Banks. They have that contact.

H.M.JR: Dan, the bankers can sell bankers, but the bankers and the security salesmen cannot sell the farmers and the labor people. They just can't do it, and it is bad public relations to have them do it.

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MR. ROBBINS: You need all kinds of people to sell all kinds of other people.

MR. GASTON: You have two different things, steady canvass among working people and all classes of people, and then you have this question of the banks. That is negligible. You can handle that through the routine machinery. The insurance companies could also be handled through the routine machinery. And you have the large corporations and in addition to that, the individual large investors who are on the lists of the banks and of the investment security people.

MR. ROBBINS: I don't think I put as much importance in my thinking upon the absolute necessity for the maintenance of strong State organizations as you do. I think that where it is logical and natural, that that would be the easy, normal way to put your subdivisions together of any larger classification. But I don't think that in terms of relative importance the organization leadership established at the State level is as important as that at the community level. It is communities that do this job, really.

H.M.JR: Well, we won't fight over that, but on the other hand, when you go to a meeting, the governor comes down, and so forth, and so on. It certainly is an advantage or an asset which I don't think can be thrown away.

MR. ROBBINS: I don't think we have to throw it away.

H.M.JR: I don't think we should. That is the way I feel. The first case, the man in charge of the State, it is going to be terribly important to get the right man and then the fellow above him, and I don't think the fellow above our State chairman should be the president of the Federal Reserve Bank.

MR. ROBBINS: I don't, either. I think the fellow above your State chairman should be a man who would give his complete total time, and then I, of course, tied him into the Federal and had the Federal Reserve maintain its general authority over the whole organization.

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H.M.JR: Well, I was thinking in some sort of honorary capacity. How much time do the presidents give to this thing?

MR. BELL: During the drive period they give an awful lot of time.

MR. ROBBINS: Practically a hundred percent.

MR. BELL: After a drive period they wouldn't give a lot of time.

MR. ROBBINS: I should say Allan Sproul spent seventy-five percent of his time.

MR. BELL: I would say Al Williams, too. As a matter of fact, Al Williams just dropped the bank stuff and went to work on this.

MR. GASTON: Where is Williams?

MR. BELL: Philadelphia.

H.M.JR: You see here so many things keep cropping up which are wrong.

I sent you (Robbins) a note. I read this last report of Waldman. I used to get each week how many days behind each issuing agent used to be, and when they were back I used to raise hell and follow it personally and get the thing. He goes up to the Sun Shipyards and these other places, and we just don't get the bonds out. I ought not to have to watch it but somebody is falling down on the job. I sent a memo to you. Haas used to send me once a week - where they were over ten days old, we used to call them up - in some cases I would write the president of the company a letter, personally. "Chrysler can do it in three days; why does it take you thirty?"

There are things like that which show weakness in our own organization.

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MR. BELL: Haas used to follow it through the Federals and the Federals are just about as current as they can get them, now. The issuing agent is another thing. I asked Waldman - I never knew the man existed until you sent me a note about him - I asked him if he would give me a report. He went around and found these cases we could follow. He couldn't give me any specific instances in the Pittsburgh area.

H.M.JR: He is just back on the Sun Shipyards, but again there are complaints of delay. But I am just using it - that is a thing which should be handled on the State level. I mean, if the Sun Shipyards in Philadelphia are - I don't know how many weeks behind - then the State administrator should be the fellow to go after them.

MR. ROBBINS: I don't think that example really is controlling in the question of whether you have State or otherwise. I think--

H.M.JR: No, no, I am just using it to show that there are weaknesses in our present organization.

MR. ROBBINS: Yes, but what we need are these managers; we need twelve very good managers. That is the cardinal thing we need in the field. I think we have some good men.

H.M.JR: Oh, we have; and as far as I am concerned, it is the individual man that I want, irrespective of what his background is. But the fellow has got to have - the fellow on this thing has got to feel the war first. He has got to have a burning desire to win this war. And he has got to have a social sense; he has got to be able to sit down with a fellow in overalls and talk it over; he has got to appreciate the fact that we have got to use women - which I didn't get anywhere on this trip. I mean, they give - the women take an awful back seat in this thing.

MR. ROBBINS: Did you get into some of the offices and see how they are set up and operating? I guess you didn't have a chance to do that.

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H.M.JR: At the banquets they didn't even invite them. I couldn't get them to invite Mrs. McAdoo to come to the banquet.

MR. ROBBINS: They sure have been operating.

H.M.JR: But also the labor people. I mean, both in San Francisco and in Dallas, just straight bankers or investment men. I never saw a labor man there.

MR. GASTON: There was no labor man at our dinner in Portland.

H.M.JR: That fellow from the AF of L - wasn't he there?

MR. GASTON: I don't know. I don't think he was.

H.M.JR: No, there was no labor man and no women there, I guess that is right.

Well, let's let this be the first talk and let's think about it. If I get a little time this afternoon, we will have another talk and I will keep at this thing until we get it settled.

I mean, it would be better to give you no promise than not to keep a promise. But as I get time, we will keep doing it over and over all week, hoping we can settle it this week if possible.

MR. ROBBINS: I have to go to New York to make a talk at the National Association of Savings Banks on Thursday. That is the only out-of-town engagement I have.

H.M.JR: You will go up there Thursday?

MR. ROBBINS: I will go Wednesday. I am going to try to go to a directors' meeting in New York.

H.M.JR: Do you want to stay over the week end?

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MR. ROBBINS: No, it isn't necessary. If this problem can be handled, it is the number-one problem.

H.M.JR: I will keep on it.

MR. ROBBINS: But if we are so fixed that it won't be discussed, then I would stay, because I haven't anything to do, really, until this die is cast. I am not at all busy, and I have inspected the White House lawn, now, continuously. It is in very good shape. (Laughter)

MR. BELL: From your window?

MR. ROBBINS: Yes, I am not at all busy.

H.M.JR: One thing, Herbert, I think this - well, I wish I could say the same (laughter) - I am perfectly willing to have my four-thirty press conference, but I would like to give the boys - tell them that about six o'clock tonight we will give them the figures as of tonight - the ones that come in today.

MR. BELL: At your four o'clock press conference you can give the Saturday's figures including today's reports of Saturday on savings bonds, tax notes.

H.M.JR: Won't you have another series of reports tonight?

MR. BELL: Yes, but that will be about six o'clock, and we intended to get the final figures in tonight on the two-percent bonds and allot tomorrow morning. We can give them the total subscriptions, if you want to, tonight.

H.M.JR: I would like to wait because you will only get one play and I would like to have the figure, whatever we have succeeded in today, letting that go in for the story for tomorrow.

MR. BELL: It will be a little late.

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H.M.JR: That is all right; they can wait.

MR. BELL: Do you want to give out anything on the two-percent bonds?

H.M.JR: Why not?

MR. BELL: We can give out the total subscriptions and say that allotments will be approximately so much, if you want to. I suppose we can make allotments if you want me to give you a ring on the telephone about six.

H.M.JR: Yes, do the whole thing.

You (Robbins) seemed busy enough in Bell's office Saturday morning, but you haven't got enough to do?

MR. ROBBINS: No, I really haven't. The organization now goes back to its former operating status, and aside from - we are putting on a market research job, and a few things of that kind.

H.M.JR: I want to get the advice of other people in the Treasury as we go along. I mean, I want to invite Graves and Gamble in, and a few of those people, and hear what they have to say.

MR. ROBBINS: It might be a thought for me to give Mr. Gaston a copy of that report I gave you.

H.M.JR: I wish you would.

MR. ROBBINS: Dan had seen it.

H.M.JR: I wish you would. If I get some time this afternoon - I will say it now - we will continue this around three.

Before I went away I asked Harold Graves to be studying this thing and to have suggestions. I will ask him if he has anything. I haven't seen him.

(The Secretary held a telephone conversation with Mr. Graves)

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H.M.JR: No private audiences: there is no use.

Have you shown this (indicating Robbins' plan) to any of the people?

MR. ROBBINS: Just to Bell, today.

(Lt. Comdr. Stephens entered the conference.)

H.M.JR: You will all have to loosen up a bit.

Who was on what I call the War Finance group?

LT. COMDR. STEPHENS: Bell, Robbins, Peabody, Graves, Buffington, Gamble, Miss Elliott, and Gaston.

H.M.JR: Let's tell them to be here at three o'clock. We will put all the cards on the table.

MR. ROBBINS: Stuart Peabody has seen that. He helped me a little bit with it.

MR. BELL: And Eccles?

H.M.JR: No, this is entirely - do you want Peabody?

MR. ROBBINS: It doesn't really matter. He has not made any trips. He has been confined to his one activity.

H.M.JR: Read that again.

LT. COMDR. STEPHENS: Bell, Robbins, Peabody, Graves, Buffington, Gamble, Miss Elliott, and Gaston.

H.M.JR: I think so. Do you see any reason why I should see each group alone?

MR. BELL: I don't think so.

H.M.JR: Well, I am not going to. I am going to do it the way it is easiest for me.

MR. BELL: If you see them alone you will get a lot of kicks they have gotten over the telephone from anybody.

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H.M.JR: I will do it this way. Robbins has a plan. I am going to ask him to put his plan on the table and while it is going to be uncomfortable for a couple of days, I didn't want to do it while the drive is on. I will get the benefit of each person, and we can all keep our good humor and get something out of it.

MR. ROBBINS: I will stand on that. That is what I think ought to be done.

LT. CMDR. STEPHENS: Three o'clock.

H.M.JR: Without Peabody.

MR. ROBBINS : He, of course, has a very level head and is intimately associated with the group. It might be nice to have him. He has some ideas about internal organization and part of that has to do with--

H.M.JR: Let's have this meeting without him, and later on bring him in.

MR. GASTON: You might want both Odegard and Peabody at a later meeting.

MR. BELL: Peabody is leaving the 15th.

H.M.JR: I am not going to have Odegard in and I am not going to have Peabody; not at this one.

MR. ROBBINS: It isn't necessary. He is a good sound lad.

H.M.JR: I agree with you.

We will see. I will keep plugging at it.

May 3, 1943
11:37 A. M.

HMJr: Walter George?

Walter
George: Yes, sir.

HMJr: How are you? This is Henry Morgenthau.

G: Yes. Fine, Henry. How are you, sir?

HMJr: I'm fine.

G: Well, you've closed up your bond sales?

HMJr: We closed Saturday night and for your information, but not for the public, it's going to go well over 17 billion.

G: Well, that's fine. That's fine.

HMJr: Now, what I'm calling about was I'd like to have a chance sometime tomorrow at your convenience to show you how this thing is distributed, because I know how interested you are in getting this into the hands of a lot of people. Hello?

G: Yes. You mean the - how are the sales?

HMJr: Yes.

G: Fine. I'd like to have it, Henry.

HMJr: Now, what time tomorrow would be good for you?

G: Well, I just can't say at the moment, because I don't know what schedule we've got over here in the Senate. Uh....

HMJr: Would you - would you want to do it around lunch time?

G: It might be the most convenient time. I could run by there and see you sometime.

HMJr: Well, I mean would you like to have lunch with me? Then I could show it to you after lunch.

G: If it's possible. That will depend on whether or not some strike legislation known as the "Connally Bill" is up before the Senate. In view of the truce that's called between the mine workers and operators for the time being, I don't know what his disposition will be.

HMJr: Well....

G: I think it's not likely that we'll be in session, but I could have my secretary give your secretary a ring this afternoon.

HMJr: Fine. I - I'll keep it open and if you couldn't do it, then would you want - would you care to drop by on your way to the office in the morning?

G: Yes, I could do it one or the other. And I - I would have my secretary call you.

HMJr: Now, let me ask you this. Is - is there anybody else on your Committee besides yourself that you would like to have hear this story?

G: Well, I think that there are other members of the Committee that might be interested in it. Anyone that you might want to have it, why, suppose you just give them a ring after we fix an hour.

HMJr: All right. But I'd like to be advised by you who you would like to have. You might - you know - I - I - I - you've got so many important Senators there. Maybe, in the first instance, I'd better just give it to you. How would that be?

G: All right, Henry.

HMJr: I think, in the first instance, I'll give it to you, and then maybe if you like it, I could give it to your whole Committee.

G: Fine. Fine.

HMJr: Right?

G: All right.

HMJr: And then I'll hold myself open till I hear from you.

G: All right.

HMJr: Thank you.

G: All right.

May 3, 1943
3:00 p.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Gaston
Mr. Robbins
Mr. Buffington
Mr. Graves
Mr. Gamble
Mr. Peabody
Mr. Odegard
Miss Elliott

H.M.JR: Well, Harold, supposing you proceed. You are amongst friends - I hope. (Laughter)

MR. GRAVES: Yes, sir. I have not attempted to make any argument at all, but merely to state a plan. As you suggested to me, I have two alternative plans, one of which Mr. Gamble and I definitely favor. The other I would characterize as a sort of compromise plan.

H.M.JR: Which is the Gamble plan, the compromise?

MR. GRAVES: No. Mr. Gamble and I agree on what I have described here as plan one - as the plan we recommend. (Copy of Plan One attached.)

"Divide Treasury financing operations into two parts, as follows: (a) sales to banking investors, dealers, and brokers, and Federal trust funds; (b) sales to all others (individuals, insurance companies, mutual savings banks, corporations, associations, etc.). Entrust the responsibility for item (a) to the Federal Reserve Banks--

MR. GASTON: That is financial banks and financial corporations, is it not?

MR. GRAVES: That is banks, brokers, and dealers only, not including insurance companies, which fall into the second classification.

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"Entrust the responsibility for item (a) to the Federal Reserve banks and keep the sale of Government securities to banking investors, dealers, and brokers, etc., entirely separate and apart from special 'drives' involving the general public.

"Entrust the responsibility for item (b)" - that is, sales to the public, including, as well as individuals, all corporate investors, mutual savings banks, insurance companies, and so on - "Entrust the responsibility for item (b) to the War Savings Staff, which will hereafter perform two general functions as follows: (a) the continual promotion of savings bond sales Series E, F, and G through pay-roll savings, the farm program, the women's program, the school program, etc.

"(b) the conduct of periodic drives for the sale of such other securities as may be offered to the public, as well as savings bonds. Create in the War Savings Staff at all levels - National, State, and local - a new division, possibly to be called the 'Special Drives Division,' to plan and conduct the periodic drives for the sale of securities to the general public.

"In each State organization of the War Savings Staff appoint a qualified person to serve as head of the 'Special Drives Division.' These persons will serve either with or without compensation, as may be arranged in particular cases, and in part will be recruited from among the executives of the district and regional Victory Fund Committees.

"Generally speaking, the Victory Fund Committees at city, county, and local levels, will help to provide the nucleus for the 'Special Drives Division' of the War Savings Committees" - at those levels.

"At national headquarters" - that is, here in Washington - "the War Savings Staff will be reorganized so as to provide machinery for planning and supervising the periodic drives. A 'Special Drives Division' will be established to handle this function exclusively.

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"In order to provide more effective supervision and coordination of the work of the War Savings Staff in the field, in view of its increased responsibilities under the proposed plan, the country will be divided into a number of regions or districts. An officer will be designated as supervisor or coordinator for such region or district. This officer will have no administrative functions other than to keep constantly in touch with the State organizations of the War Savings Staff in his district with a view to insuring full success of the operations within each State. The regional coordinators will report to the head of the War Savings Staff at Washington.

"The War Savings Staff, as heretofore, will report to the Secretary through an Assistant to the Secretary, as the Secretary may designate."

Now, that concludes--

H.M.JR: You have to do it again; I didn't get it the first time.

(Plan One read again by Mr. Graves.)

H.M.JR: It is open for discussion.

MR. BELL: That is about the same as Eccles suggested the last time. Remember? He said, "Split this off and let the Federal just handle the banking end of it and let the War Savings be responsible for the other."

H.M.JR: Didn't he do that when he was a little peeved?

MR. BELL: He did it at the end when you couldn't get the whole organization into one. He said that that might be the way to do it.

MR. GRAVES: I was here when he made that suggestion. I didn't think he was saying that in a moment of being peeved. Did you, Dan?

H.M.JR: I thought it was for trading purposes.

MR. BELL: I thought he might be doing it to get out from under the responsibility. I didn't know he was exactly peeved.

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H.M.JR: I got a most unusual letter this morning from no less than Mr. Grant, who says he has been watching this thing very closely in Michigan, and he has asked to come in to see me. In this letter he sets forth that he has reverted to his original idea that there should be two separate organizations.

MR. ROBBINS: He will be in town tomorrow.

H.M.JR: He has an appointment with me. He says he goes back to the original idea of two separate organizations.

MR. ROBBINS: He has had that idea off and on, a little cold, a little hot.

H.M.JR: He said, "Right now - I was off it, but after watching it I am back. If you want the benefit of what I have seen in Michigan, I would like to give it to you."

MR. GASTON: What would be his idea of two separate organizations, one organization for the drive and the other for the steady pull, or one organization as Harold suggests for the banks and another for the individuals?

H.M.JR: He doesn't say. It is just a very short letter. He said, "I think you would like to know that I am back where I started. If you are interested" - he said, "I have watched the thing very closely in Michigan; and if you care to have the benefit of my experience, I would like to give it to you."

MR. BELL: He has in mind the December setup, doesn't he?

MR. ROBBINS: Yes, pretty much.

MR. BELL: One for the drive, and the War Savings Staff to go along about as it has.

H.M.JR: George? You usually have some ideas.

MR. BUFFINGTON: One organization.

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H.M.JR: Well, I think we are all agreed on that.

MR. BUFFINGTON: It is just a question of whether you are going to go the State route or through the Federal Reserve Bank setup. I got the impression from Eccles' talk that he wasn't particularly displeased. He just thought that if there was failure to get together on the one organization permanently that it might be better to break off the banking to the Federal and let the War Savings take the rest.

In a conversation I had, Bill, with Mr. Grant when you were on the Coast - or rather Hobbs had it and repeated it to me - he was in favor of the two separate organizations just about as they functioned heretofore.

H.M.JR: We never had the so-called Grant committee during the drive, did we?

MR. ROBBINS: No. I have seen Grant on two occasions and Bathrick also.

MR. BUFFINGTON: The suggestion about the organization - I have yet to find anyone in the field I have come in contact with who isn't in favor of the one organization. Most of them are probably biased and are in favor of it on the Federal Reserve basis rather than State.

H.M.JR: I will say here what I said this morning, and I again say, for heaven's sake I don't want this thing discussed outside of my office until it is settled. I put off this discussion until after the drive was over so that we wouldn't - there is no need for it to go outside of the people in this room. The thing that I am groping for is neither quite what Robbins has suggested - although I think, if he wouldn't mind, I would like for him to outline his in a minute - or what Graves has. I am just groping. It is just the result of the high spots that I hit on the trip. That is, that I don't see why in the future we have to have the drive for funds from the banks simultaneously with drives that we need for the people. You can get your two billion dollars, two percents, or your two billion

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seven-eighths - you can get those. You don't have to have any drive. People buy some tax notes, and they think how patriotic they are - or some seven-eighths.

MR. GASTON: I think it falsifies the picture.

H.M.JR: I think that that thing can be done through any machinery. Just sit down and price the thing and send out word that that is the thing and it is open for three days. Just as long as we are at war I don't think there will be any trouble selling those kinds of securities. I mean, if we want to, for instance, raise four billion dollars in September and then have the big drive for the people in October, I think we could go out with four or five billion dollars in September and do the other in October if we wanted to.

I don't want to forget the fact that we need the banks, but that isn't the same machinery that we need to get the people's money. They are two separate things.

As of today, I think I would want to keep them separate. I think it was five billion dollars we raised through the banks. We could just as well do it next week if we have to or next month. There is no great trick to it. The trick--

MR. GASTON: The same thing practically is true of insurance corporations, isn't it?

H.M.JR: Yes. They know how much they do; they have their directors' meetings. They do it in one day. It doesn't take any salesmanship.

MR. GASTON: So what you have left in the picture that does take salesmanship are the little investors with whom the War Savings Staff has been working and the big investors who are known to investment brokers, bond salesmen, and so on.

H.M.JR: They are known to them.

MR. GASTON: In addition to that you have the commercial and industrial corporations.

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H.M.JR: That is right, and the depositors of the banks, like this man Adams sitting there at Dallas said - he gave some names out of people over five thousand dollars. One man said, "I wouldn't lend this man five hundred dollars." He had eighty thousand dollars in the banks. They also had the names of people doing business in the black market. They made good prospects. (Laughter) A fellow running a butcher shop illegally made thirty thousand dollars in three months. I mean, there is that sort of thing.

Then again, as I say, I want a check made of how many bells we really did ring this time. Somebody said to me today that he wasn't solicited. He lives here in town. We can't go by one person, but we can check what kind of a job we did at bell-ringing. So it gets down to that. The Federal Reserve System is useful in its contacts with the banks.

On the other hand, we have somebody in the Federal Reserve System who fills the position of fiscal agent, whom we pay for and who is our man in the Federal Reserve System who is there to do the mechanics. I mean, there is no question about the mechanics; the issuing of the bonds has to go through the Federal Reserve System.

But the thing after this trip that I question - it is bad enough in the country now. I mean, the feeling is that you don't get the kind of leadership in the community - in the president of the Federal Reserve Bank who can sit down with the people and convince them they should invest - I mean, let's just completely take our hair down. I have kidded a lot about it, but every single director - for instance, the director of the Federal Reserve Bank of New York was a hundred percent for the Rural plan, and on that had to be opposed to the Treasury.

Now, I don't think it was a trap, because I think he is a decent fellow, but Harold Swift at the airport in Chicago said, "Mr. Morgenthau, can't you and the Treasury tell us what the policies of the Treasury are that we should be for and what we shouldn't be for? We don't know which things you are for and which things we should be for. We hear so much coming out of Washington." (Laughter)

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Acting on my instinct I simply said, "When you stop and think it over you really wouldn't want the Treasury to say what you should or shouldn't think in the War Bond organization."

He said, "It would be very helpful if you would get out a bulletin saying you are for this and for that."

"I still say, after thinking it over, that I really don't think that is what you want, and I don't think we had best do it. We do give you public statements I make that are supposed to be circulated both in and out of the Treasury."

I am just using that to show - and I just want to repeat what I said this morning before I heard Graves' plan. Also, I want to give Robbins a chance to talk about his. The thing that bothers me is this: I think the heads of the Federal by and large are decent, honorable citizens, but there is no reason in the world why in their twenty-five or thirty years of experience they should be so constituted that they can sit down with a labor leader or with some women or with any foreign group and rub shoulders with them and inspire them so that they will feel mad enough about this war that they will invest their money. They just haven't been trained that way, and there is no reason why you should expect blood out of a turnip. After all, that isn't their training.

Now the thing that I am groping for is this: It is a strong State organization that can handle these things on a kind of basis - people who have a social consciousness of what the war is about, who realize that we can't win this war unless the working people are with us heart and soul and that all the elements that go into the melting pot that make up America are with us, and at the same time that over this would be, first, as far as the mechanics, yes, the Federal Reserve - to get the benefit of their thing - in kind of an honorary capacity. That is the way I am leaning now, some sort of an honorary chairman - ex officio is the word - capacity, so that they still feel they will have a responsibility That is as far as I have gone.

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As I told Robbins and Bell and Gaston, I expect to sit once or twice a day until I get the thing licked. It isn't clear in my mind. The only things that are clear are the things that I don't want, but that is negative. It isn't clear what I do want.

MR. GASTON: The solicitation of all individuals, big and little, is really one problem, isn't it - all individuals? I should say all corporations would go in with that, too, other than financial corporations.

H.M.JR: No, Herbert, here is the trouble - I am going to be just as frank as I know how, and everybody can be the same. We can all keep good tempered about it. It isn't the same problem, because I can send some of the so-called Victory 'bund boys around who are trained to sell a minimum of ten thousand dollars' worth of securities upwards to a corporation and talk with them about investing a hundred thousand dollars, but that fellow has never been trained, and there is no reason - he can't afford to cross the street to make a thousand-dollar sale in his own business. That is right.

MR. BUFFINGTON: I am afraid there are some of them that cross the street to do it.

H.M.JR: But you know, we are talking generally.

MR. BUFFINGTON: The average sale in the last few years has gone down much below ten thousand.

H.M.JR: But, generally speaking, that fellow isn't trained and hasn't been trained, and they don't hire a fellow to sit down with another fellow and argue with him about eighteen dollars and seventy-five cents.

MR. GASTON: That means your organization has got to be diversified, specialists for the big fellows - specialists for the big or little.

I think there is a danger in letting it be dominated by the banking group and letting the working people feel

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that the power of the Government with respect to asking or demanding their subscriptions to bonds rests in the hands of a limited group of bankers. It is a very real danger.

H.M.JR: Herbert, I will go back to the same thing that I discussed with Mr. Grant when I first talked about it.

I suppose International Harvester is as good a sales organization as there is in the country. International Harvester has one kind of organization for a heavy line of machinery and another one for a light line, both in the same town. They have always had it. Mr. Grant would no more think of sending a Chevrolet salesman to sell a five-thousand-dollar Cadillac, or vice versa. That was my original conception. But there is no reason why the Chevrolet and Cadillac salesmen shouldn't have the same boss in the same town and in the same State. But it takes a different type of person.

The thing that Bill Meyers was talking about is, "For God's sake, don't send a security salesman to sell a farmer."

MR. GASTON: Right.

H.M.JR: On the other hand, I wouldn't send a Federal dealer who would be a good Borden's milk inspector and who could sell a farmer - knows how to deal with a farmer - I wouldn't send him around to go into the bank and try to get the bank to buy a hundred dollars' worth of bonds, because he wouldn't know what he was talking about. But if the banker comes to the farmer and wants to sell him, the dairyman's back is up right away because he most likely owed him money all his life, and he is the big evil gene that he has been afraid of.

I don't see why you can't have a specialist to sell a farmer, a laboring man, and a foreign group, but have them all head up somewhere under the same leadership.

MR. GASTON: But I don't think you have to have the commercial bank subscriptions in that part, nor do I think that you need to have the big insurance corporation

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subscriptions in that part. You can go and get them when you want them now and then. They are not part of the continuing effort at all.

MR. BELL: As a matter of fact, if you split them you might put out a continuous security - a security to be on sale continuously - and they would like that.

MR. GASTON: Have a tap.

H.M.JR: I was thinking it wouldn't be crazy to keep that two and a half open, for instance.

MR. BELL: They would like that.

MR. GASTON: Your continuing organization - that would give something all the time to the man who has important money to invest.

H.M.JR: I mean, stop your F and G's and keep your two and a half open.

MR. ROBBINS: They would like it.

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

MR. ROBBINS: Insurance companies.

MR. GAMBLE: This plan that Mr. Graves read contemplates just such a special division as Herbert was speaking of.

MISS ELLIOTT: Mr. Morgenthau, haven't you had that kind of an activity going on? I was thinking about Kentucky, where Mr. Phillips, a banker, is head of the War Savings Staff and has a group that specializes with certain people. I was thinking of Mr. Norris here the other day, county chairman for the War Savings but a banker there, who takes care of the corporations and insurance companies.

That has happened in a good many States already in the War Savings Staff where they have already had that experience and are working that way.

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MR. GAMBLE: In Indiana the War Savings Organization took the whole responsibility for this drive. It was under the leadership of the State administrator.

MISS ELLIOTT: The kind of thing you are thinking of - you already have a pattern in several States.

MR. GRAVES: That is an important thing to remember when you are talking about corporations. Most of the money invested in our securities from corporate sources is invested by a handful of big corporations - a handful. Yet there are three hundred and fifty thousand corporations in this country that go right down into the grass roots community. And usually these little corporations are made up of the common people that could properly be approached by the same agency which approaches the masses of people, generally.

If you exclude two hundred and fifty corporations of the type of General Motors and Pennsylvania Railroad and New York Central, while that group of two hundred and fifty corporations probably invests ninety percent or ninety-five percent of the total of corporate funds that are invested in Treasury securities, you still have left a great mass of small corporations which ought to be induced to make investment of their funds. And the proper people to approach those small corporations and associations and organizations in the grass roots territory is the same organization that sells bonds to the farmers, the labor people, and so on, because they are that same kind of people.

MR. GASTON: You take in Cedar Rapids, there; you would have your department store and your hotel corporation and this concern that is making the bulldozers, and the corner radio concern - strictly small corporations - small except for the war orders.

H.M.JR: We had both sides. I thought it was good. One of them was complaining that General Foods in their thing reallocated down to ten thousand dollars in each community where they did business. I thought that was good. They took a subscription and then - what do you call that, a quota?

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MR. BELL: Allocation.

H.M.JR: Some liked it and some didn't. I thought it was good.

MR. BELL: It was a lot of work.

MR. ROBBINS: It caused a lot of work, but the corporations like to do that.

H.M.JR: Penney does that and Montgomery Ward doesn't.

MR. GASTON: It takes good local advertising to do it.

MR. BELL: They did. The Pennsylvania railroad put in a big subscription and it wanted to allocate a certain amount to each railroad station - by-way station.

H.M.JR: Of course, I think it is good.

Now, let's give Peabody a chance to explain his plan - give Robbins a chance to explain his plan.

MR. ROBBINS: I don't know quite how to handle it. I don't think we want to go through that verbatim.

H.M.JR: I would describe it. We have from now until four o'clock. (Copy of Mr. Robbins' plan attached.)
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MR. ROBBINS: In approaching the problem I have started off by posing certain questions and then talking pro and con against the various possibilities of organization.

Perhaps the most important question to answer is whether or not our future sales activity will be carried on by one organization or by two organizations. There are many important considerations in such a decision, and while generally there is more to commend a unified organization, it would be very shortsighted not to recognize that there are certain factors in favor of two separate organizations.

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Now, I am going to treat with this thing in terms of what are the pros and what are the cons of the two-organization theory.

In favor of the two-organization theory, the following are important factors: (a) The activities of the War Savings Staff are continuous; those of the Victory Fund are periodic. (b) The markets sold by the two organizations differ and, generally speaking, the types of securities are not the same. These are arguments in favor of maintaining two organizations. (c) The war Savings Staff is a two-purpose organization; money raising, and educational. The Victory Fund is primarily a one-purpose organization interested especially in the financial aspect of the job. The War Savings Staff is built largely around Treasury Department field personnel. They have used Internal Revenue, therefore it may be important as a Treasury policy to maintain it as a separate organization.

The next point, the War Savings Staff activities are organized with the State as the primary field unit. The Victory Fund activities are organized with the Federal Reserve district as the primary field unit. Merging the two organizations would require adjustment in territorial boundaries.

Great importance is attached to the State organizations by the War Savings Staff, and likewise, Federal Reserve boundaries cannot easily be changed. Therefore, if the two organizations are merged under a unified leadership, both in Washington and in the field, we almost certainly would have to face a compromise action in establishing proper field organization geographical boundary lines. These are all quite evident points.

The next point is it would be difficult to find competent supervision and leadership of the two organizations because they work in different fields, have different methods, and have different types and groups of volunteer workers. This argument, while important, should not be controlling. Our interest should be pointed towards the development of the best organization, without regard to the

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assignment of personnel, provided, of course, we do not set up impossible work loads for any of the supervisory or operating staffs.

And finally, if it is decided to maintain our two present organizations separately in the field, only a few adjustments would be required at the Washington level; perhaps simply the appointment of a coordinator to head up joint activities, the tightening of operating lines, and the continuation of unified advertising and promotion.

Those are, broadly speaking, the arguments that occurred to me as being important in favor of the two organizations continuing.

I go on then to citing the argument on the other side. Regardless of the compelling weight of the above arguments in favor of the continuation of two separate selling organizations, there are several important considerations in favor of merging the two groups. The following factors are important.

The first one, at the community level, which is by far the most important center of activity, a single selling organization is preferable to any arrangement, however harmonious, involving two separate groups of volunteer workers.

Even under our present dual organization plan, many communities have more or less merged their activities because the leaders in the community recognize the inconsistency of expecting to operate two bond-selling organizations, each of which would automatically be more effective if their forces were combined.

Elsewhere, in communities which have elected to operate the two separate organizations, there is evidence of friction, competition, and interference, especially immediately before and during drive periods. In short, the Treasury does not present a united front, nor does it join forces under united leadership when we have the two organizations.

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Another point, at the county level we find a repetition of the same problem which has been cited as a community problem. The county problem is still further complicated in many instances due to the fact that in many counties a principal metropolitan city dominates the county in importance. In these circumstances we may find as many as four organizations interested in activities at drive time in overlapping portions, if not all of the same county.

For example, Cleveland has headquarters staff in the Federal Reserve Bank; Cuyahoga County headquarters in another building; Cleveland city headquarters again officed separately; and a fourth office removed from all three serving as headquarters for the War Savings Staff. Obviously, an arrangement of this kind can and should be consolidated.

At the state level, we again find divided responsibility and overlapping and conflicting interests. In the larger states, the War Savings Staff has broken down the area into sub-divisions with Deputy State Administrators operating each sub-division. Likewise, the Victory Fund Committee under the direction of the Federal Reserve Banks, has set up regions and appointed operating heads for each region. The territorial boundaries of these sub-divisions and regions do not coincide - confusion, interference, and, in some regrettable instances, definite friction frequently has developed.

A unified management with one sales organization from Washington headquarters down to the smallest community would improve conditions at all levels. Such a unified management would eliminate friction, increase efficiency, eliminate confusion, and establish firm and uniform channels of communication and control. Further, such unified management would coordinate the activities which frequently conflict, especially during drive periods. The activities of one group could be planned in such a way that would complement the activities of the other group. Under unified management, strong, authoritative control can be exercised. Such control is desirable whether we plan to operate on a highly decentralized basis or under a tight centralized management policy.

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A unified sales organization under strong decentralized management will be better equipped to plan for periodic drives by reason of the fact that the supervisor at each point will have complete control of all activities. Our experience in the current drive proves that coordinated planning where we have obtained it at the community, county, state or regional level is preferable to any system of planning from Washington which must, of necessity, be disseminated through two separate channels of communication. The state administrators should not be required to report to two bosses even during drives.

It is probable that a single sales operation will open up opportunities for economy and possibly, also, improvement in the caliber and ability of Managers at all levels of operation.

A unified promotional organization will eliminate many disturbing conflicts and duplications - multiple and annoying approaches to advertisers for support and to newspapers for publicity; duplicating, and therefore wasteful distribution of posters, leaflets, and other printed material.

Those, broadly speaking, seem to be the arguments that have the strongest appeal on the other side of that question.

Now I go on, then, to present - well, perhaps I had better just read through here for a little while. I don't want to extend it too long, because I want to come to my recommendations.

"The weight of the argument seems to be in favor of a single organization rather than the continuation of the two organizations as at present. If, however, it should be decided to continue operations of both organizations, then only a few changes need be considered and these changes would involve the Washington set-up primarily. If two organizations are to be continued, the following problems should be anticipated:

"At the community, county, and state level, as well as the Federal Reserve District and regional level, many important and valuable volunteer workers and leaders will be

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disappointed. The merging of the two organizations during the present campaign has been hailed by many as the first step towards the development of a single selling organization, which, in the minds of many thoughtful and experienced workers is desirable. If no change is made these people will be entitled to an explanation which should be carefully prepared and ready for release as soon as the campaign closes."

We have to give it to them. That doesn't become a very weighty observation, I don't think.

"The unfortunate friction which has developed between the two organizations in the field, at many points, will probably result in the resignation of some extremely valuable leaders from both groups who will have to be replaced and whose experience will thus be lost. Such resignations will come about because the individuals will ask to be relieved rather than face another drive distracted by conflict and confusion.

"While it is admitted that several of the Federal Reserve Presidents are not well-equipped to operate bond-selling organizations some of the important ones are vitally interested in preserving the Federal Reserve position of leadership in a financial operation of this importance. To the extent that opinions have been expressed by this group, they have favored merging the two organizations and they have strongly favored Federal Reserve responsibility and control in the field.

"Leading citizens both from the banking profession and from civilian life have worked in both the December and April drives. Many of them have expressed dissatisfaction with the Washington management of these campaigns. Most of them expect a reorganization, perhaps consolidation, of our sales activities and will be critical of the Treasury Department unless a straightforward statement of policy on future operating plans is issued at the close of the drive.

"If we decide that our best interests will be served by merging the two organizations into one, we can proceed upon one of two courses, as follows:

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"Expand the War Savings Staff to embrace a Campaign Department set-up to organize drives to sell to banks, insurance companies, non-financial institutions, and important private investors; or--

H.M.JR: What page is that on?

MR. ROBBINS: That is on Page 5 - the bottom of the page.

"Expand the War Savings Staff to embrace a Campaign Department set-up to organize drives to sell to banks, insurance companies, non-financial institutions, and important private investors: or (b) To superimpose the leadership of the Federal Reserve System over the field organization of the War Savings Staff and develop within this organization the special activities of the banking and financial group which are necessary in the conduct of the campaigns and special sales drives."

In other words, you can go one way or the other. Now, commenting on the former of these two alternatives, that is, the expansion of the War Savings Staff to embrace a Campaign Department set-up to organize drives to sell to banks, insurance companies, non-financial institutions, and important private investors--

"If we expand the War Savings Staff we can maintain state entities which are important in organizing and operating large scale volunteer work of the War Savings type."

Now I am closing in on this thing because, as you can see, I am ultimately coming to the recommendations for one organization rather than two.

"The lines of communication between state level and Washington headquarters would continue as at present without 'layering' through the Federal Reserve system.

"The War Savings Staff activities are continuous and the permanent paid organization of this group is larger; therefore, it offers going facilities for relatively easy expansion.

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"As opposed to the above important arguments, the following factors must be dealt with:

"Many of the State Administrators in the War Savings Staff have been chosen from walks of life in which they have developed neither interest nor contacts in the financial and banking field of sufficient prominence to aid them in important financial tasks of bank and corporate selling. While this might be corrected by changing personnel in key positions the size of the task and the loss of momentum on regular War Savings activities would be important, perhaps even critical.

"The Federal Reserve System is, of necessity, vitally concerned and involved with bond-selling activities. The responsibility of the Federal Reserve Banks as fiscal agent for the Treasury Department requires their participation in bond-selling activities especially during drives and campaigns, but also, if less importantly, in clearing Government securities sold between drives. As the war economy advances, position of the Federal Reserve Banks becomes more important and should be strengthened. This fact has already been recognized by the appointment of the Federal Reserve Presidents to act as Chairmen of the District War Finance Committees. Under any plan of organization, therefore, it is doubtful whether we could or should take steps towards eliminating the interest of the Federal Reserve System in our work; likewise, we should not request the Federal Reserve System to take a position of secondary importance or authority in any unified plan."

That doesn't square with what you said a moment ago.

H.M.JR: Secondary?

MR. ROBBINS: Yes, or ex officio, as you put it. I wouldn't feel that we could do that.

"Now, commenting on the second alternative, namely, superimposing Federal Reserve control over the merged activities of both groups important favorable considerations are:

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"The importance of the Federal Reserve System in Government War Finance and the necessity of their participation as well as the desirability of their enthusiastic support. This is as cited in the preceding paragraph.

"The stability and prominence of the Federal Reserve System in the opinion of the public. Their leadership would inspire confidence; attract hightype personnel; avoid any threat of political implications; and would be accepted enthusiastically by the citizens, thus obtaining public support everywhere, both for the government and the Treasury Department.

"Such an arrangement would however, create new problems as follows:

"Reconciliation of conflicting territorial boundaries. In meeting this issue, we should first maintain state boundaries within Federal Reserve Districts wherever possible; and secondly, create coordinated managements where state boundaries are cut by Federal Reserve lines. This latter will be a troublesome problem but its solution and the attendant difficulties are less important than would be the sacrifice involved in the elimination of Federal Reserve field leadership.

"Some Federal Reserve Presidents are not well qualified to operate the merged selling organization. In such cases, a strong Executive Manager will have to be appointed. As a matter of fact, in every case, the Federal Reserve Presidents should be backed up by strong Executive Managers because of their other important duties incident to the operation of the bank."

This is, in my mind, almost the key of the whole thing. In such cases, strong executive assistants, or managers - call them what you will - will have to be appointed. I think the success of this system, if it were to be adopted, would depend almost entirely on the quality of the leadership that we got at the Federal Reserve point, through the selection of the proper people. And they need not, of necessity, be bankers. They could be commercial men; they could be drawn from the most appropriate field.

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"Imposing the Federal Reserve System in the field between Washington and the state administrators will slow up channels of communication. Offset against this however, we will obtain tighter supervision and better control. Furthermore, it is to be hoped that future activities will be less of an 'emergency' nature than has been the case in the last two drives. We would plan to keep channels of communication open between Washington and state offices for all but policy decisions and definite instructions."

In other words, your communications could flow, but your instructions would go through the line channel.

Now I am down to my recommendations and here is the summary:

"That we permanently merge the two sales organizations under single leadership, both in Washington and in the field.

"That announcement of our intention to merge the two organizations be sent to the field immediately at the close of the drive.

"That the leadership of the field organization be established through the Federal Reserve System.

"That capable operating management be attached to each Federal Reserve Bank to relieve the Federal Reserve President of all except policy responsibility."

That is the key to the success of this plan if it works. It would all be tied up to the type of people we can get on those jobs.

The next recommendation:

"That the state boundaries be preserved wherever possible within Federal Reserve District territories.

"That coordinated state control be established after consultation with the field managers where state boundaries are cut by Federal Reserve District boundaries.

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"That Federal Reserve Branch Banks be established as key field headquarters points in the larger Federal Reserve Districts to the extent necessary for efficient operation."

I haven't specific recommendations on where that might be, but there are thirty-six, I think, branches, and we could use any of them.

"That we continue our policy of decentralized operation and encourage Federal Reserve field managements to push down responsibility to state, county, and community levels.

"That the management personnel for the new organization be made up of individuals, chosen as far as possible from both organizations, selecting the best person for each position to be filled.

"That the Federal Reserve district field organization devote its time primarily to planning, coordinating, policy and key personnel matters with a minimum staff -- all paid if necessary."

That goes very close to your thought, Harold.

"That the typical state organizations be set up according to the attached organization chart. (See Exhibit "A" attached)

"That channels of communication between Washington and the state administrator's office be established for exchange of information and advice, always, however, with postings to the Federal Reserve District office and never dealing with policy decisions, or instructions.

"That the Washington organization be revamped and consolidated as set forth in organization chart attached. (See Exhibit "B" attached."

That chart doesn't differ largely from the chart I have had right along, and I think all of you have seen it.

And the final recommendation is: "That the entire Washington organization be officed together in one location -- not necessarily in the main Treasury Building."

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I mean, if we had to move to get that officing together, I think that would be a desirable thing to accomplish.

H.M.JR: You mean out of Washington?

MR. ROBBINS: No, no, I wasn't thinking of out of Washington. I think we are scattered too far and too wide; that we would do better under one roof.

H.M.JR: Well, there is no use starting now. It is five minutes of four. I don't know whether you people could benefit any by rubbing shoulders with each other, or whether you want to wait until tomorrow.

MR. ROBBINS: Really, we have just a couple of basic questions that we will have to come to some conclusion on to help us with our thinking, and one of them, of course, is the one organization versus the two organizations.

MR. GASTON: I think everybody pretty well agreed on one organization at the ordinary community level. The only suggestion is for the elimination of the bank financing out of this picture - bank financing, itself. That is a minor point.

I think everybody is agreed that on the community level - the small community level - you have to have one organization. It is a question of whether you are going to build it around War Savings. That is one question; and the question is whether you are going to tie it in to Federal Reserve - the very vital question as to tying it in to Federal Reserve itself is this. It is very well to say you can get assistants for the presidents, who will be active men, but who is going to select them? Is it going to be possible to make a Federal Reserve president ex officio or honorary chairman without giving him the responsibility of his men? If you give him the responsibility of selecting the men, he will select nothing but the banker or bond-salesman type - investment broker type.

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MR. ROBBINS: I don't think that necessarily would follow.

MR. BUFFINGTON: I don't think so.

MR. BELL: Everyone, right now, is approved by the Secretary.

MR. BUFFINGTON: You are thinking of Walter Head.

H.M.JR: Well, I really have got to stop.

MR. BUFFINGTON: Could we have an exchange of these things?

H.M.JR: Yes, I will start in again at nine-thirty tomorrow morning with you.

MR. BELL: Are copies available?

MR. ROBBINS: I have a couple of copies.

H.M.JR: I will start at nine-thirty.

May 3, 1943.

PLAN ONE

(Recommended by Graves and Gamble)

1.--Divide Treasury financing operations into two parts, as follows:

(a) Sales to banking investors, dealers and brokers, and Federal trust funds.

(b) Sales to all others (individuals, insurance companies, mutual savings banks, corporations, associations, etc.).

2.--Entrust the responsibility for item (a) to the Federal Reserve banks, and keep the sale of Government securities to banking investors, dealers, and brokers, etc., entirely separate and apart from special "drives" involving the general public (item (b)).

3.--Entrust the responsibility for item (b) to the War Savings Staff, which will hereafter perform two general functions, as follows:

(a) The continual promotion of savings bond sales (Series E, F and G) through payroll savings, the farm program, the women's program, the school program, etc.

(b) The conduct of periodic drives for the sale of such other securities as may be offered to the public, as well as savings bonds.

4.--Create in the War Savings Staff at all levels-- National, State, and local--a new division, possibly to be called the "Special Drives Division," to plan and conduct

-2-

the periodic drives for the sale of securities to the general public.

5.--In each State organization of the War Savings Staff, appoint a qualified person to serve as head of the "Special Drives Division." These persons will serve either with or without compensation, as may be arranged in particular cases, and in part will be recruited from among the executives of the district and regional Victory Fund Committees.

6.--Generally speaking, the Victory Fund Committees at city, county, and local levels, will help to provide the nucleus for the "Special Drives Division" of the War Savings Committees.

7.--At National headquarters, the War Savings Staff will be reorganized so as to provide machinery for planning and supervising the periodic drives. A "Special Drives Division" will be established to handle this function exclusively.

8.--In order to provide more effective supervision and coordination of the work of the War Savings Staff in the field, in view of its increased responsibilities under the proposed plan, the country will be divided into a number of regions or districts. An officer will be designated as supervisor or coordinator for each such region or district. This officer

will have no administrative functions other than to keep constantly in touch with the State organizations of the War Savings Staff in his district with a view to insuring full success of the operations within each State. The regional coordinators will report to the head of the War Savings Staff at Washington.

9.--The War Savings Staff, as heretofore, will report to the Secretary through an Assistant to the Secretary, as the Secretary may designate.

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Mr. Robbins' plan discussed on
5/3/43 at 3:00 pm in Secretary's office.

PROPOSED BOND SELLING

5/3/43
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ORGANIZATION PLAN

1. It is of utmost importance that we have an organization plan for the bond selling activities ready for conference with the key people in the field immediately after the April drive terminates. This need is accentuated by the present lack of coordination between the Victory Fund organization and War Savings Staff which is acute to the point of friction both in Washington and at several points in the field.

Regardless of the importance of the April drive, we should develop an organization plan between this date (April 16) and May 1st. No official announcement has yet been made about organization plans after May 1st and questions are being raised at many points which should be answered.

2. Perhaps the most important question to answer is whether our future sales activity will be carried on by one organization or by two organizations. There are many important considerations concerning such a decision and while generally there is more to commend a unified organization it would be shortsighted not to recognize that there are certain factors in favor of the two separate organizations.

3. In favor of the two-organization theory are the following factors:

- (a) The activities of the War Savings Staff are continuous and those of the Victory Fund periodic.
- (b) The market sold by the two organizations is different and, generally speaking, the types of securities are not the same.
- (c) The War Savings Staff is a two-purpose organization: money-raising and educational - the Victory Fund is primarily a one-purpose organization interested in the financial problem.
- (d) War Savings Staff was built largely around Treasury Department field personnel, and Internal Revenue staff - therefore it may be important as Treasury policy to maintain its separate identity.

- 2 -

- (e) War Savings Staff activities are organized with the state as the primary field unit. Victory Fund activities are organized with the Federal Reserve District as the primary field unit. Merging the two organizations would require adjustment in territorial boundaries. Great importance is attached to the state organizations by the War Savings Staff and, likewise, Federal Reserve boundaries can not easily be changed; therefore, if the two organizations are to be merged, under unified leadership both in Washington and in the field, we almost certainly face compromise action in the establishment of proper field organization geographical boundary lines.
- (f) It will be difficult to find competent supervision and leadership of the two organizations because they work in different fields, have different methods, and different types and groups of volunteer workers. This argument, while important, should not be controlling. Our interests should be pointed towards the development of the best organization without regard to the assignment of personnel, provided, of course, we do not set up impossible work-loads for the supervisory and operating personnel.
- (g) Finally, if it is decided to maintain our two present organizations separately in the field, only a few adjustments will be required at the Washington level, perhaps, simply the appointment of a Coordinator to head up the joint activities, the tightening of operating lines and continuation of a unified advertising and promotion department.

4. Regardless of the compelling weight of the above arguments in favor of the continuation of the two separate selling organizations, there are several important considerations in favor of merging the two sales groups into a single sales department, both in Washington and in the field. The following factors are important in this consideration:

- (a) At the community level, which is by far the most important center of activity, a single selling organization is preferable to any arrangement, however harmonious, involving two separate groups of volunteer workers. Even under our present dual organization plan, many communities have more or less merged their activities because the leaders in the community recognize the inconsistency of attempting to operate

two bond-selling organizations, each of which would automatically be more effective if their forces were combined. Elsewhere, in communities which have elected to operate the two separate organizations, there are evidences of friction, competition and interference, especially immediately before and during drive periods. In short, the Treasury Department does not present a united front, nor does it join forces under a united leadership.

- (b) At the county level, we find a repetition of the same problem which has been cited as the community problem. The county problem is still further complicated, in many instances, due to the fact that in many counties a principal metropolitan city dominates the county in importance. In these circumstances we may find as many as four organizations interested in activities at drive time in overlapping portions, if not all, of the same county. For example, Cleveland has headquarters staff in the Federal Reserve Bank; Cuyahoga County headquarters in another building; Cleveland city headquarters again officed separately; and a fourth office removed from all three serving as headquarters for the War Savings Staff. Obviously, an arrangement of this kind can and should be consolidated.
- (c) At the state level, we again find divided responsibility and overlapping and conflicting interests. In the larger states, the War Savings Staff has broken down the area into sub-divisions with Deputy State Administrators operating each sub-division. Likewise, the Victory Fund Committee under the direction of the Federal Reserve Banks, has set up regions and appointed operating heads for each region. The territorial boundaries of these sub-divisions and regions do not coincide - confusion, interference, and, in some regrettable instances, definite friction frequently has developed.
- (d) A unified management with one sales organization from Washington headquarters down to the smallest community would improve conditions at all levels. Such a unified management would eliminate friction, increase efficiency, eliminate confusion, and establish firm and uniform channels of communication and control. Further, such unified management would coordinate the activities which frequently conflict, especially during drive

periods. The activities of one group could be planned in such a way that would complement the activities of the other group. Under unified management, strong, authoritative control can be exercised. Such control is desirable whether we plan to operate on a highly decentralized basis or under a tight centralized management policy.

- (e) A unified sales organization under strong decentralized management will be better equipped to plan for periodic drives by reason of the fact that the supervisor at each point will have complete control of all activities. Our experience in the current drive proves that coordinated planning where we have obtained it at the community, county, state or regional level is preferable to any system of planning from Washington which must, of necessity, be disseminated through two separate channels of communication. The state administrators should not be required to report to two bosses even during drives.
- (f) It is probable that a single sales operation will open up opportunities for economy and possibly, also, improvement in the caliber and ability of Managers at all levels of operation.
- (g) A unified promotional organization will eliminate many disturbing conflicts and duplications - multiple and annoying approaches to advertisers for support and to newspapers for publicity; duplicating, and therefore wasteful distribution of posters, leaflets and other printed material.

5. The observations set forth above lead to no quick and easy conclusion. The weight of the argument seems to be in favor of a single organization rather than the continuation of the two organizations as at present. If, however, it should be decided to continue operations of both organizations, then only a few changes need be considered and these changes would involve the Washington set-up primarily. If two organizations are to be continued, the following problems should be anticipated:

- (a) At the community, county and state level, as well as the Federal Reserve District and regional level, many important and valuable volunteer workers and leaders will be disappointed. The merging of the two

organizations during the present campaign has been hailed by many as the first step towards the development of a single selling organization, which, in the minds of many thoughtful and experienced workers is desirable. If no change is made these people will be entitled to an explanation which should be carefully prepared and ready for release as soon as the campaign closes.

- (b) The unfortunate friction which has developed between the two organizations in the field, at many points, will probably result in the resignation of some extremely valuable leaders from both groups who will have to be replaced and whose experience will thus be lost. Such resignations will come about because the individuals will ask to be relieved rather than face another drive distracted by conflict and confusion.
- (c) While it is admitted that several of the Federal Reserve Presidents are not well-equipped to operate bond-selling organizations some of the important ones are vitally interested in preserving the Federal Reserve position of leadership in a financial operation of this importance. To the extent that opinions have been expressed by this group, they have favored merging the two organizations and they have strongly favored Federal Reserve responsibility and control in the field.
- (d) Leading citizens both from the banking profession and from civilian life have worked in both the December and April drives. Many of them have expressed dissatisfaction with the Washington management of these campaigns. Most of them expect a reorganization, perhaps consolidation, of our sales activities and will be critical of the Treasury Department unless a straightforward statement of policy on future operating plans is issued at the close of the drive.

6. If we decide that our best interests will be served by merging the two organizations into one, we can proceed upon one of two courses, as follows:

- (a) Expand the War Savings Staff to embrace a Campaign Department set-up to organize drives to sell to banks, insurance companies, non-financial institutions, and important private investors; or

- (b) To superimpose the leadership of the Federal Reserve System over the field organization of the War Savings Staff and develop within this organization the special activities of the banking and financial group which are necessary in the conduct of campaigns and special sales drives.

Commenting on the former of these two alternatives, the following points are favorable:

- (1.) If we expand the War Savings Staff we can maintain state entities which are important in organizing and operating large scale volunteer work of the War Savings type.
- (2.) The lines of communication between state level and Washington headquarters would continue as at present without "layering" through the Federal Reserve System.
- (3.) The War Savings Staff activities are continuous and the permanent paid organization of this group is larger; therefore, it offers going facilities for relatively easy expansion.

As opposed to the above important arguments, the following factors must be dealt with:

- (1.) Many of the State Administrators in the War Savings Staff have been chosen from walks of life in which they have developed neither interest nor contacts in the financial and banking field of sufficient prominence to aid them in important financial tasks of bank and corporate selling. While this might be corrected by changing personnel in key positions the size of the task and the loss of momentum on regular War Savings activities would be important, perhaps even critical.
- (2.) The Federal Reserve System is, of necessity, vitally concerned and involved with bond-selling activities. The responsibility of the Federal Reserve

Banks as fiscal agent for the Treasury Department requires their participation in bond-selling activities especially during drives and campaigns, but also, if less importantly, in clearing Government securities sold between drives. As the war economy advances, position of the Federal Reserve Banks becomes more important and should be strengthened. This fact has already been recognized by the appointment of the Federal Reserve Presidents to act as Chairmen of the District War Finance Committees. Under any plan of organization, therefore, it is doubtful whether we could or should take steps towards eliminating the interest of the Federal Reserve System in our work; likewise, we should not request the Federal Reserve System to take a position of secondary importance or authority in any unified plan.

Now commenting on the second alternative, namely, superimposing Federal Reserve control over the merged activities of both groups important favorable considerations are:

- (1.) The importance of the Federal Reserve System in Government War Finance and the necessity of their participation as well as the desirability of their enthusiastic support. This is as cited in the preceding paragraph.
- (2.) The stability and prominence of the Federal Reserve System in the opinion of the public. Their leadership would inspire confidence; attract hightype personnel; avoid any threat of political implications; and would be accepted enthusiastically by the citizens, thus obtaining public support everywhere, both for the government and the Treasury Department.

Such an arrangement would however, create new problems as follows:

- (1.) Reconciliation of conflicting territorial

boundaries. In meeting this issue, we should first maintain state boundaries within Federal Reserve Districts wherever possible; and secondly, create coordinated managements where state boundaries are cut by Federal Reserve lines. This latter will be a trouble-some problem but its solution and the attendant difficulties are less important than would be the sacrifice involved in the elimination of Federal Reserve field leadership.

(2.) Some Federal Reserve Presidents are not well qualified to operate the merged selling organization. In such cases, a strong Executive Manager will have to be appointed. As a matter of fact, in every case, the Federal Reserve Presidents should be backed up by strong Executive Managers because of their other important duties incident to the operation of the bank.

(3.) Imposing the Federal Reserve System in the field between Washington and the state administrators will slow up channels of communication. Offset against this however, we will obtain tighter supervision and better control. Furthermore, it is to be hoped that future activities will be less of an "emergency" nature than has been the case in the last two drives. We would plan to keep channels of communication open between Washington and state offices for all but policy decisions and definite instructions.

7. Recommendations. As a result of the considerations outlined above, the following firm recommendations are made:

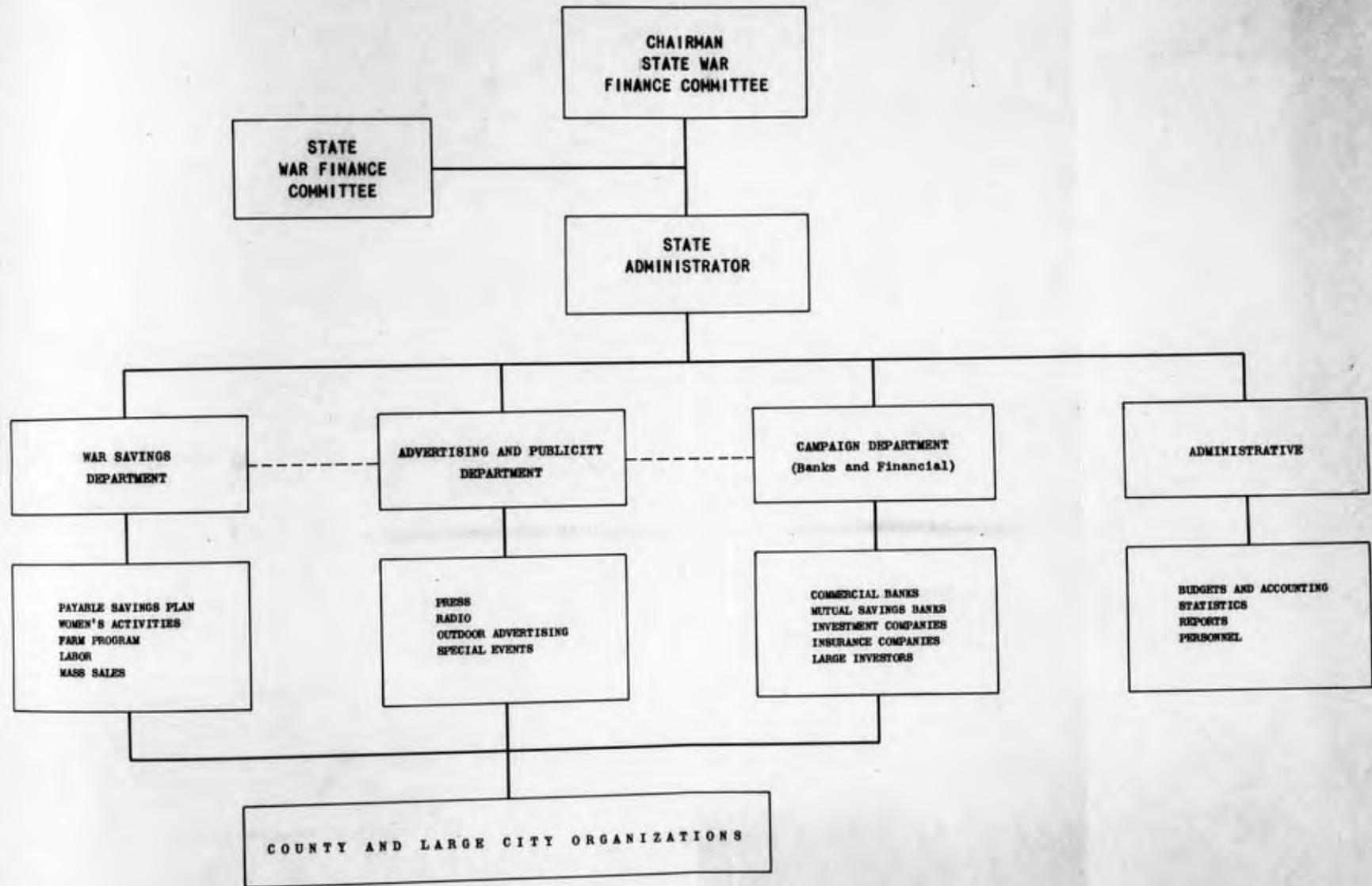
- (a) That we permanently merge the two sales organizations under single leadership, both in Washington and in the field.
- (b) That announcement of our intention to merge the two organizations be sent to the field immediately at the close of the drive.

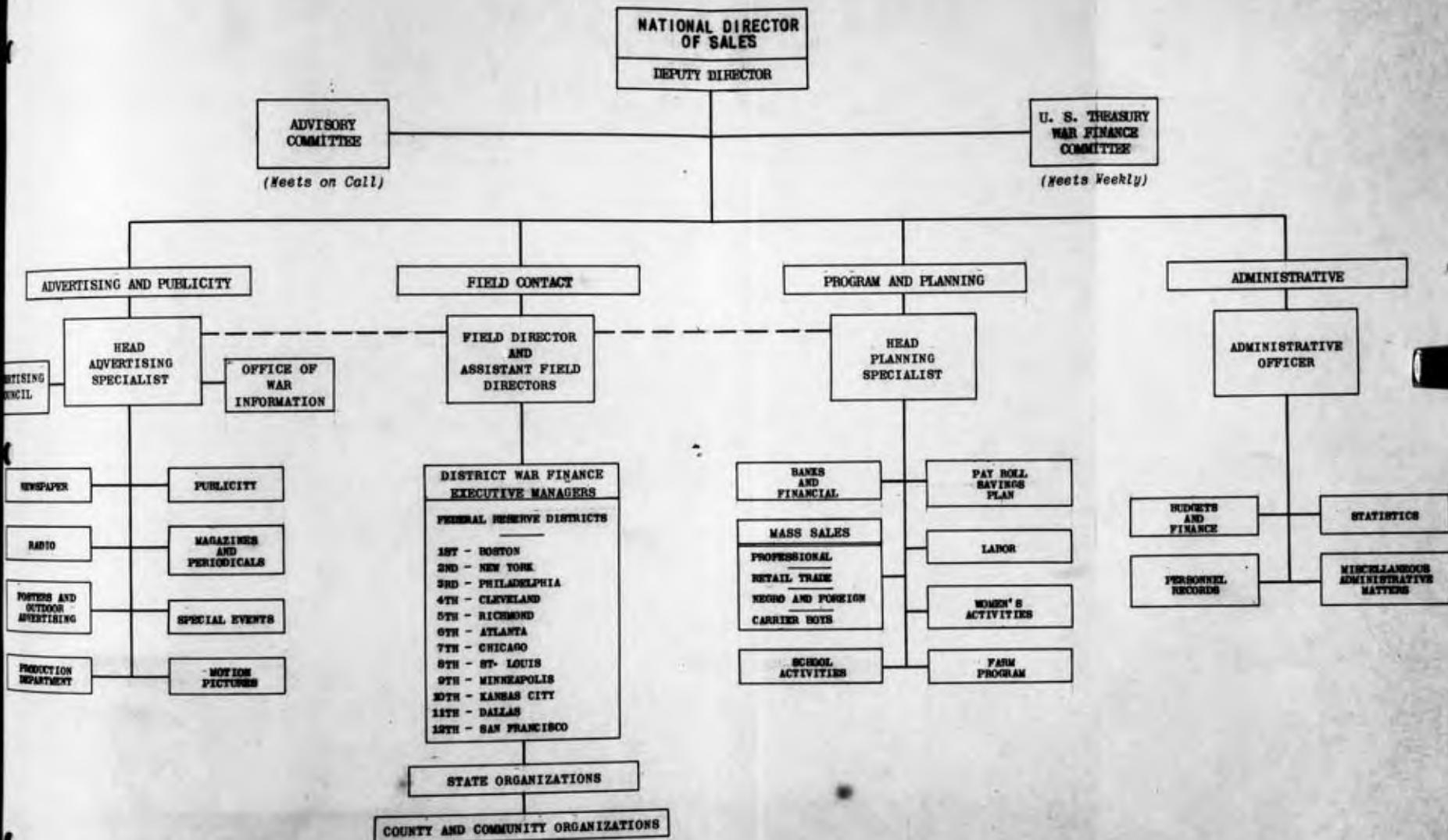
- 9 -

- (c) That the leadership of the field organization be established through the Federal Reserve System.
- X (d) That capable operating management be attached to each Federal Reserve Bank to relieve the Federal Reserve President of all except policy responsibility.
- (e) That state boundaries be preserved wherever possible within Federal Reserve District territories.
- (f) That coordinated state control be established after consultation with the field managers where state boundaries are cut by Federal Reserve District boundaries..
- (g) That Federal Reserve Branch Banks be established as key field headquarters points in the larger Federal Reserve Districts to the extent necessary for efficient operation.
- (h) That we continue our policy of decentralized operation and encourage Federal Reserve field managements to push down responsibility to state, county, and community levels.
- (i) That the management personnel for the new organization be made up of individuals, chosen as far as possible from both organizations, selecting the best person for each position to be filled.
- (j) That the Federal Reserve district field organization devote its time primarily to planning, coordinating, policy and key personnel matters with a minimum staff -- all paid if necessary.
- (k) That the typical state organizations be set up according to the attached organization chart. (See Exhibit "A" attached).
- 7 (l) That channels of communication between Washington and the state administrator's office be established for exchange of information and advice, always, however, with postings to the Federal Reserve District office and never dealing with policy decisions, or instructions.

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- (m) That the Washington organization be revamped and consolidated as set forth in organization chart attached. (See Exhibit "B" attached).
- (n) That the entire Washington organization be officed together in one location -- not necessarily in the main Treasury Building.





**UNITED STATES TREASURY
WAR FINANCE COMMITTEE**

Second Federal Reserve District

WAR SAVINGS STAFF

FEDERAL RESERVE BANK OF NEW YORK

33 Liberty Street, New York, N. Y.

VICTORY FUND COMMITTEE

May 3, 1943.

Personal

Dear Mr. Secretary:

While my impressions of the Second War Loan drive are still fresh, I am writing to give you my views about two or three questions which I believe are important. Other questions, perhaps of equal importance, will be covered in our later official report, but this is a personal note concerning some of the things which impress me at the moment. I am not going to tell you what I think you might like to hear - in a position such as yours there are always plenty of people ready to perform that service. My purpose is to give you frank opinions which may contribute to an even better performance in future War Loan drives than in the one just completed.

First, some general impressions. I do not think we should be misled by words and phrases. This is a people's war, but that means all the people. Bankers and investment bankers are people. They are not discriminated against when they and their sons are called into the armed services. They should also be used on the home front, along with all other Americans, in the places where they are best qualified to serve. They are best qualified to serve in the Treasury's financing program. It seems to me ridiculous that you should have to be bothered with stories and complaints that you are "selling out" your sales organization to the bankers. There can be no "sellout" when loyal Americans are asked to give their services to their country in time of need in the places which they are best fitted to fill.

Nor can I agree that "this is a job (selling bonds) that ought to be done by unions, clubs, civic groups **** by neighbors calling on neighbors." The aid of all such groups should be used, of course, but the job of organizing a selling force and a selling campaign and of seeing that the bonds are sold is a job for a group of citizens who will make it their main war job, if not their only war job. Unions, clubs, civic groups have other interests, other things to do, and the Treasury's financing program is just one of the many things with which they are concerned. It is appropriate for the Treasury to call on the bankers and investment bankers, employers and employees alike, to make its business their business for the duration, just as it is appropriate for other branches of the government to call on people with other specific skills and experiences to devote them to the war effort.

With that preamble, I return to the recommendation I have made before that there should be one volunteer organization charged with responsibility for the sale of government securities. You have taken two steps toward that objective; by appointment of a National Director of Sales, and by setting up the temporary War Finance Committee organization for the April drive. These steps are not enough. To fulfill the promise of his appointment, the National Director of Sales should be the head of the organization in fact as well as in name, in full control of everyone

Secretary Morgenthau

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5/3/43

in the organization and of all branches of its work. I have the impression, as a result of the April drive, that at the top people went under, around and over the National Director of Sales to you, and that in the field loyalties were still to previously existing organization chiefs. Unless the National Director of Sales has your full confidence, and unless full authority is reposed in him, and unless he can make that authority felt down through the whole organizations, he cannot do his job. I realize that Mr. Robbins came to work only shortly before the April drive - his experience was too brief for full use of his abilities - but I am thinking in terms of the pattern which is now being set for future drives.

My second observation is that a marriage of convenience, such as we have had this past month between the War Savings Staffs and the Victory Fund Committees, will not give us a wholly effective organization and will not achieve the full results we should be able to achieve. At the same time, it may well waste men's energies and tempers in rivalries which do not carry us forward. I think we got along fairly well in this district, but I never was in such full control of the whole organization as to make me feel that it was knit together as a compact fighting unit should be. This wartime financing organization must be put together as ruthlessly, for effectiveness, as ^{an} Army or Navy command. Past services, personal considerations, political connections must be swept aside for present accomplishment. There must be no doubt in anyone's mind that there is but one organization and that the lines of authority run clearly and directly from the top to the bottom. That is not the present situation and I am afraid cannot be so long as two separate organizations are maintained, no matter how many coordinating committees we may have. This observation may not seem to be in keeping with the success of the Second War Loan, but we have to do better next time, and the time after that; we have to reach more of the people who are responsible for rising currency circulation and bank deposits and we have to conserve our manpower and use it to the best advantage while reaching them.

My own view is, of course, that a district organization is preferable to a State organization, and that the heads of the Federal Reserve Banks in the several districts are the logical leaders of these field units. The districts are economic areas; not political areas, and the Presidents of the Federal Reserve Banks are public servants of standing in their districts, without political affiliations. They are in touch with all aspects of the financing program and the mechanical operations incident to it, and they can command the services of all groups of the community. And I do not leave out labor, or women or negroes, or anyone else.

If you prefer a State organization, however, then I say you should have it alone - get rid of your district organizations and run the whole job with the War Savings Staff or its equivalent. Frankly, I do not think it ^{is} the set-up for the job, and it has an air of politics about it, in some places, which is disturbing. But I want you to know that when I talk about one organization, I am not making a special plea for the organization based on bankers and investment bankers. I do not care what organization you use, nor whether I have anything to do with it so long as it is the most effective organization for the job. We have got to sell more bonds to non-bank investors, or raise taxes, or both, if price controls are to be given a chance to work. And if price controls break down, wages will have to go up, and we shall be on our way.

Finally, I would not be wholly frank if I did not say that, in my opinion, with the best volunteer organization which can be devised, we shall still fall

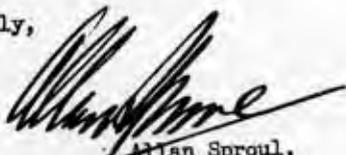
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5/3/43

short of meeting our full responsibility on the anti-inflation front. We have had two tremendous successes in terms of dollars in the First and Second War Loans, and between December and April we have greatly improved our performance in terms of numbers of subscribers. We should hope to do even better in the future, but I do not think we shall get a full and equitable sharing of the load without some form of refundable tax - such as was mentioned in the President's budget message. That, I believe, should be the base on which a voluntary program is built. Much of our payroll allotment effort is getting, by pressure and unequally as between man and man, what should be gotten straightforwardly and equitably with a refundable tax. It is only after the first 10%, say, that we should ask individuals who have the money and the spirit to contribute more voluntarily. There would still be plenty of room for such voluntary subscriptions.

Nor can we overlook two facts which may make trouble for us. First, with heavier taxation, and greater sales pressure, we may experience heavier redemptions of redeemable bonds and find ourselves doing a lot of paper work for relatively few dollars. Second, a further piling up of bonds redeemable on demand may complicate our post-war anti-inflationary program, whereas a refundable tax could be repaid over a period with some control remaining in the hands of the Treasury as to when repayment would take place.

I am writing you these views because I think it is only fair that you should know what those who are working for you in the field are thinking. There are many things I have not touched upon, which a fuller, less personal, report would discuss. This letter could not wait for that. I would not want, however, to have its aggressive character conceal my own satisfaction with the results of the Second War Loan, nor the congratulations which are your due. I only want to see a better job done in each succeeding drive, until this war is over.

Yours sincerely,



Allan Sproul,
Chairman.

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

This letter mailed to:

Frank Tripp,
Chairman, Allied Newspaper Council

May 3, 1943

To the Newspapers of America:

The Second War Loan drive has ended. The final tabulations have not been made, but it is evident that the goal has been exceeded by a substantial amount -- more than 4 billion dollars.

Our thanks are due to many people -- workers, advertisers, advertising media, retailers, theaters -- all who devoted themselves so wholeheartedly to this vital cause. I wish to express to the Allied Newspaper Council and to newspapers generally our sincere gratitude for the part they played. The support they gave us in the handling of news, in compelling and imaginative features, and in the promotion of sponsored advertising was as invaluable as it was unparalleled in promotional history.

(Signed) Henry Morgenthau, Jr.

Henry Morgenthau, Jr.

Copy in Diary
Sent "air mail"

UNITED STATES TREASURY WAR FINANCE COMMITTEE

WASHINGTON, D. C.

BULLETIN
May 3, 1943.

Presidents, Federal Reserve Banks:

We have reports from seven districts on plans for issuing citations to workers. Digests of these follow, and the rest will be passed on to you as they are received.

Second District - New York.

No definite conclusion reached. Considering rosettes in red, white and blue similar to those used by the Sons of Revolution and the French Legion of Honor but if impossible to obtain considering small colorful buttonhole design in the style of a french knot.

Sixth District - Atlanta.

Undecided. Had considered certificates similar to one used by Cleveland in last campaign (sample attached) but with large numbers of workers involved, fear some would be overlooked and others given awards who did not deserve them. Present plan is for Mr. McLarin to sign personal letters to all members of War Finance Committee, State Chairmen, County Chairmen, and Co-Chairmen, asking them to express to their volunteer workers the appreciation of Mr. McLarin and Treasury for their efforts.

Seventh District - Chicago.

Because large number of workers (250,000) Mr. Young feels thank you letters would be too common to be prized. Present plan is to issue no citations now, but after the war to issue a limited number signed by the Secretary to those who have done outstanding jobs for the duration.

Eighth District - St. Louis.

Mr. Head plans to issue Cleveland type citation (sample attached) to individuals on recommendation of Regional Chairmen. In St. Louis and St. Louis counties all who participated will receive citations and this practice will probably be followed in other metropolitan cities. Consideration is being given to issuing special citations in the names of counties which have over-subscribed their quotas. These will be inscribed with the names of the county and state instead of the names of individuals.

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Ninth District - Minneapolis.

Mr. Peyton states that some 3500 special citations will go to War Finance District Representatives, county, city, and town chairmen (sample attached) and all bankers in the district, as the banks in every instance have made major contributions. Each citation will be framed in such a way that the certificate will be easily removable from the frame. Diagonally across the lower left-hand corner goes a red ribbon with the words "Second War Loan, April 1943". In a letter to each recipient we will advise him that if he should serve in additional campaigns, added ribbons will be sent to him which will be placed directly alongside the red ribbon, with a notation on the added ribbon of such service as he may perform in the future. In addition to these certificates, which cover the major workers in the campaign, it is our plan to prepare a less elaborate certificate of service. Each chairman will forward these minor certificates to his field workers over his own signature. These certificates will be signed by the Chairman for the Ninth Federal Reserve District and attested by the chairmen for the individual localities.

Tenth District - Kansas City.

Mr. Leedy plans to give certificate to each of the volunteer workers suitable for framing but text not yet determined.

Eleventh District - Dallas.

Mr. Gilbert reports that a Cleveland type citation will be used but it has not been fully decided whether or not it will be distributed to all workers or only to key people.

Stuart Feabody,
Head Advertising Specialist.

Copies to Publicity Directors, War Finance Committees.
Executive Managers.

ADV - 26

Attachments (2)

(WAR SERVICE CERTIFICATE
FOR COUNTY AND CITY CHAIRMEN)

THE UNITED STATES TREASURY
WAR FINANCE COMMITTEE
Ninth Federal Reserve District

hereby acknowledges the constructive and patriotic service
rendered to our Government by

in the successful financing of World War II, and in
recognition of such service, does hereby award this

WAR SERVICE CERTIFICATE

In testimony whereof, and on behalf of the committee, the
Chairman has hereunto affixed his signature.

Chairman

ATTEST: _____
Director of Sales

ATTEST: _____
Assistant Director of Sales

(RIBBON COPY)
SECOND WAR LOAN, APRIL, 1943

THE UNITED STATES TREASURY VICTORY FUND COMMITTEE
for the
FOURTH FEDERAL RESERVE DISTRICT

The Victory Fund Committee for the Fourth Federal Reserve District issues this certificate to

a volunteer member of the Victory Fund Committee Organization, who answered a call to service in a time of national crisis, and without regard to self or personal convenience, devoted his time and effort to help assure the success of

THE FIRST VICTORY LOAN DRIVE

This certificate is presented in recognition of his unselfish and patriotic contribution to the nation's war effort

VICTORY FUND COMMITTEE
FOURTH FEDERAL RESERVE DISTRICT

John S. Fleek
Executive Manager

M. J. Fleming
Chairman

UNITED STATES TREASURY WAR FINANCE COMMITTEE

BULLETIN
May 3, 1943.

Publicity Directors, War Finance Committees:

For your information we engaged an advertising checking service before the drive started to check and tabulate sponsored advertising. We will have and will send you information by districts as to total number of ads, broken down between those prepared here at Washington and those prepared locally.

It will, therefore, not be necessary for you to send to Washington a complete record or tear sheets of the sponsored ads which appeared in your district.

Stuart Peabody,
Head Advertising Specialist

Copies to Presidents, Federal Reserve Banks
Executive Managers

ADV - 27

May 3, 1943

Dear Dave:

I was very much pleased to receive your letter of April 30th.

I also have received many compliments about the broadcast and I am sending you a photostat of a letter from the President of the Gulf Oil Corporation and one from Elmer Davis.

The fact that the program was evidently so successful was due, in my opinion, to your superb direction. While you worked me hard, I enjoyed every minute of it. I feel that the show made a definite contribution to the war effort.

Again thanking you for your able assistance, I remain

Yours very sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. David Levy,
Young & Rubicam, Inc.,
285 Madison Avenue,
New York, New York.

File in Diary

YOUNG & RUBICAM, ^{INC.}
Advertising

NEW YORK · CHICAGO · DETROIT · SAN FRANCISCO · HOLLYWOOD · MONTREAL · TORONTO

NEW YORK · 265 Madison Avenue

April 30, 1943.

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

My dear Mr. Morgenthau:

Now that I am back in New York, I want you to know what a pleasure it was to meet you and to work with you. I speak also for the members of the staff of "We the People" who participated in the Cedar Rapids broadcast.

On every side, we've heard favorable comments about the program and particularly the manner in which you handled a difficult assignment. All of us were deeply impressed with your cooperative spirit, your kindness and above all with your sincerity. And I do hope I will have the pleasure of working with you again.

With kind personal regards,

Sincerely yours,

David Levy
YOUNG & RUBICAM, INC.
Director "We the People"

David Levy
egs

May 3, 1943.

Dear Mr. Ely:

It was very good of you to speak so pleasantly of the recent radio program broadcast from Cedar Rapids. I much enjoyed my brief visit and the opportunity to meet both those who participated and those who assisted with the broadcast.

Thank you for the reprint which you sent me as a memento of my stay in your city. I am very glad to have this for, as I say, it will be an interesting souvenir of this experience.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Henry S. Ely,
1261 Fifth Avenue East,
Cedar Rapids, Iowa.

GEF/dbs

File in Diary

202

1261 FIFTH AVENUE EAST
CEDAR RAPIDS, IOWA

4-25-1945

Dear Mr. Morgenthau,

I am writing to say that we the people of Cedar Rapids were profoundly moved by your Thrilling program, and deeply grateful for your public recognition of what we are trying to do.

Will you kindly accept the accompanying reprint as a little souvenir of your visit?

Cordially yours,
Henry J. Ely

MAY 3 1943

Dear Bob:

Please accept my thanks for sending to Mr. Bartelt copies of the letters of complaint involving nonreceipt of dependency benefit payments.

In this connection, I thought you might be interested in a recent case which has come to the Department's attention. It appears that Lieutenant John Porteous II (Serial C-660195) made a class "M" allotment of \$140 a month to the Canal National Bank of Portland, Maine, with instructions to the bank to use the money principally for the purchase of War Savings Bonds. A copy of the letter is enclosed for your convenient reference.

Upon inquiry, the Treasury learned that the allotment was not of record in the Newark Dependency Benefits Office, but there is a record in the Office of Chief of Finance, War Department, Washington, D. C., of deductions having been made from Lieutenant Porteous' pay for the months of August, September, October, and November, in the amount of \$140 for each month.

In view of the fact that this is probably only one of many similar cases, I am wondering whether the War Department has given consideration to the feasibility of checking the pay roll deductions against allotments received in the Office of Dependency Benefits. The effect of the situation referred to is that the officer will lose the benefit of interest on the money which he would have received if the allotment had been paid to the bank and invested in Government bonds in accordance with his request.

Sincerely,

(Signed) Henry

Honorable Robert F. Patterson,
Under Secretary of War,
War Department,
Washington, D. C.

Copy of reply to Mrs.
Morgenthau
Copy of file in Diary
Orig. file to Bartelt

P. S. Of course, I feel that the way the War Department handles these cases is inexcusable.

By Sturgis 4:45 5/3/43

KFB:cal 4/30/43

April 29, 1943

Colonel H. N. Gilbert,
Director,
Office of Dependency Benefits,
213 Washington Street,
Newark, New Jersey.

Dear Colonel Gilbert:

I am enclosing herewith copy of a letter recently received by Mrs. Henry Morgenthau, Jr., from Mrs. Florence Cushman Porteous, regarding an allotment to the Canal National Bank of Portland, Maine, in the sum of \$140 a month by her son, Lieutenant John Porteous, who is now with the United States forces in New Guinea.

In response to a long distance telephone inquiry of your office yesterday, I learned that this allotment is not of record in the Office of Dependency Benefits at Newark. Following the receipt of this information, I asked the Office of the Chief of Finance, War Department, in Washington, if a search could be made of the pay rolls to determine whether they contained a record of such allotment. I was advised over the telephone this morning that the pay rolls show that deductions have been made from the pay of Lieutenant Porteous for the months of August, September, October, and November, in the amount of \$140 each month.

I understand that this matter might be worked out if you would send a cablegram to Lieutenant Porteous with a view to obtaining his allotment authorization and the necessary information as to whom the allotment payment should be made. I would appreciate it if you would take such action as you may consider appropriate.

With kind regards, I am

Sincerely yours,

(Sgd) E. F. Bartelt

E. F. Bartelt,
Commissioner of Accounts

Enclosure - 1
EFB:hbw

April 29, 1943.

War Savings Staff

Dear Mrs. Porteous:

I am very glad you wrote me as you did, on behalf of your own son, and with regard to possible similar problems of others in the service. I can assure you that the Treasury Department is doing everything possible to speed up the difficult and complicated task of issuing War Bonds to those who subscribe by regular monthly allotments. In the case of those who are serving under the Army, checks in payment of such allotments are issued by the War Department, rather than by the Treasury, and I am sure you can understand the difficulties caused by the great volume of such payments, and the constant shifting of the men in the different branches of the service. However, we all want to see that these matters are handled efficiently and promptly, and we are very glad to follow through on any given case, in order to see if the cause of the delay may be found.

I am sorry that I cannot give you any definite information at this time but have been glad to do what I could to look up the matter of Lieutenant Porteous' Bond purchases. Mr. E. F. Bartelt, Commissioner of Accounts in the Treasury, has already called the War Department Allotment Office at Newark, New Jersey, in order to start a tracer, and the office has promised to call him back as soon as they have any information to give him.

Your letter would indicate that your son made the allotment through the Canal National Bank, Portland, Maine, instructing the bank to purchase the Bonds. Checks, as I say, are issued by the War Department and we therefore shall have to obtain more detailed information from that Department before we can take any further steps. You may be sure that the matter will be carried through to a final conclusion just as rapidly as possible.

I can well understand how proud you are of your son's record during the comparatively brief time he has been out of the country. Let me congratulate you upon his well-earned decorations and also upon his generous allotment to the War Bond campaign. Will you also express to your husband my congratulations upon the record made by his store, and by other members of your family?

Thank you again for writing me as you did.

Very sincerely yours,

(Mrs. Henry Morgenthau, Jr.)

Mrs. Florence Cushman Porteous,
28 Chadwick Street,
Portland, Maine.

GEF/dba

28 Chadwick St.
Portland, Maine

206

My dear Mrs. Morgenthau

I am taking the liberty of writing to you rather than to Mr. Morgenthau because I find that in many cases a wife can bring matters to a husband far more clearly than anyone else. This applies in a lesser degree in our own affairs.

Our son - Lt. John Porteous II - O-660195, is an aviator in New Guinea. He has been out of the country since last August, and was recently decorated by Gen. Kenney for achievements in over twenty-five engagements. He has written us that he has sent allotments of \$140.00 per month to his bank the Canal Nat'l Bank here in Portland, Maine since last August. He requested his father (Louis Robert Porteous) to ascertain if these had all come o.k. and requested that same be principally invested in Defense Bonds.

On investigating the matter Mr. Porteous found out that no money has come at all.

Now Mrs. Morgenthau this son does not need the money as he has considerable income other than he receives from his government salary, nevertheless it is his by his own meritorious achievements and as such should be his to utilize as he sees fit. I am sure John's ability as a flier of a P-40 against the Japs over Pt. Moresby, and his desire to serve his country by putting the money into Defense Bonds would be a little impaired, shall we say, if he knew he had never been paid. We hesitate to tell him you may be sure, for his nerves are tense and his temper high and it might cause such unfavorable reactions as to impair his life & even those in his particular contingent.

Also, if this has occurred in John's case it must be so with many others.

I am sure that Mr. Morgenthau is not personally cognizant of this situation, and he will I know do all he can to alleviate it.

Mr. Porteous has found out to whom he should write and has I believe written concerning John's personal case, but my letter is a plea to you for all Service men and for the good of our country.

When you realize that the amount invested would bring interest which John has now lost, it does make one think.

My husband has a large department store here in Portland. They are over subscribed to the new War Bond Issue. His own portion being \$5,000.00 (mine \$500.00). He has also bought bonds

28 Chadwick St.
Portland, Maine

206

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My husband has a large department store here in Portland. They are over subscribed to the new War Bond Issue. His own portion being \$5,000.00 (mine \$500.00). He has also bought bonds

- 2 -

for our other two boys with their personal incomes. We are ardent in our efforts towards this faze of our strive for victory as we are in our support of our President and his able associates and our respect for you and Mr. Morgenthau knows no bounds.

Sincerely,

(signed) Florence Cushman Porteous

(Mrs. Louis R. Porteous)

April 24th.

AAA

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TREASURY DEPARTMENT
FISCAL SERVICE
WASHINGTON

BUREAU OF ACCOUNTS
OFFICE OF THE COMMISSIONER

May 3, 1943

TO THE SECRETARY:

I received 109 letters of complaint from the War Department in response to your letter to Under Secretary of War Patterson, but I have not as yet had an opportunity to read all of them. I will try to do this immediately.

W. B. Egan



APRIL FINANCING

(In millions of dollars)

Cumulative

	Estimate of funds to be raised in April	Up to April 24	April 26	April 27	April 28	April 29	April 30	Final May 1
Funds from banking sources:								
Treasury bills	800	600	600	600	800	800	800	800
7/8% Certificates	2,100	2,138	2,138	2,138	2,138	2,138	2,138	2,138
2% Treasury bond	2,100	--	-	-	-	-	-	2,062 <i>est</i>
Total banking	5,000	2,738	2,738	2,738	2,938	2,938	2,938	5,000
Funds from non-banking sources:								
7/8% Certificates	1,750	2,564	2,609	2,658	2,741	2,804	2,896	2,969
2% Treasury bond	1,750	2,021	2,073	2,132	2,197	2,292	2,377	2,545
2-1/2% Treasury bond	4,500	3,230	3,236	3,264	3,317	3,392	3,569	3,650
Savings bonds Series E <i>1,007</i> Series F <i>- 116</i> Series G <i>- 353</i>	1,500	700	854	955	1,033	1,153	1,298	1,470
Tax notes	1,500	985	1,078	1,144	1,260	1,358	1,455	1,661
Total non-banking	11,000	9,590	9,850	10,153	10,548	10,999	11,595	12,295
Grand total	16,000	12,328	12,588	12,891	13,486	13,937	14,533	17,295

Subscriptions by banks to 2% bond \$1,428M \$3,765M \$6,725M \$9,368M

The Secretary

5/3/45

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APRIL FINANCING

(In millions)

	Cumulative	
	To May 1	To May 3
Funds from banking sources:		
Treasury bills	\$ 800	\$ 800
7/8% Certificates	2,138	2,138
2% Bonds	<u>2,039</u>	<u>2,039</u>
Total banking	<u>4,977</u>	<u>4,977</u>
Funds from non-banking sources:		
7/8% Certificates	2,969	3,077
2% Bonds	2,545	2,757
2-1/2% Bonds	3,650	3,738
Savings bonds Series E ... 1,079)		
Series F ... 119)	1,470	1,573
Series G ... 375)		
Tax notes	<u>1,661</u>	<u>1,697</u>
Total non-banking	<u>12,295</u>	<u>12,842</u>
Grand total	<u>\$17,272</u>	<u>\$17,819</u>

WMB

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 3, 1943

TO: Secretary Morgenthau
FROM: Mr. Waldman *E.W.*

In line with your request for information on whether the shipyards I investigated were doing Maritime Commission or Navy work, I secured the following facts, through Mr. Houghteling:

The Sun Shipyard is working solely for the Maritime Commission; the New York (Camden, New Jersey) and Cramp (Philadelphia) Shipyards may be doing repair work for the Maritime Commission but they are not doing any original building for the Maritime Commission.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

MAY - 3 1943

TO Secretary Morgenthau
FROM Mr. Paul

In accordance with the existing instructions,
there is submitted herewith a summary report of
activities and accomplishments carried on by the
Legal Staff for the month of March 1943.



Attachment.

IN THE OFFICE OF THE GENERAL COUNSEL
MARCH 1943.

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Tax Evasions by Former Public Officers, Detroit, Michigan (See June 1942 report, item 2). Duncan C. McCrea, former prosecutor for Wayne County, Michigan, was indicted by a local Special Grand Jury for having received protection money from operators of illegal enterprises, and on September 30, 1940, he was ousted from office by order of the Governor. McCrea was sentenced to serve 4 1/2 to 5 years in prison but is presently at liberty on bond pending appeal. The total amount of taxes found to be due from McCrea for the years 1935 to 1939, inclusive, is \$23,617.90. Thomas C. Wilcox was employed by the Federal Bureau of Investigation from 1917 to 1930 and was the Special Agent in Charge of the Detroit office of that Bureau. For several months in 1930 he served as Police Commissioner of Detroit; in 1931 and until June of 1932, Wilcox operated a private detective service. Wilcox was

- 2 -

elected sheriff of Wayne County and served a two-year period, 1933 and 1934. After a recount in the 1934 election Wilcox was reelected but surrendered his office as a result of a decision holding the recount fraudulent. In 1936, he was again elected sheriff and was reelected again in 1938. He was ousted by order of the Governor in June 1940; and on March 5, 1940, he was indicted on charges of conspiracy to obstruct justice, and after having been found guilty was sentenced to serve 4 1/2 to 5 years in prison. Wilcox has been at liberty on bond pending an appeal. The total amount of Federal income taxes found to be due from Wilcox for the years 1937 to 1939, inclusive, is \$2,522.26. On March 1, 1943, indictments were returned against McCrea and Wilcox for wilfully attempting to defeat and evade their individual Federal income taxes for the years 1936 to 1939, and 1937 to 1939, respectively.

Carl J. Staebler was indicted March 9, 1943, for wilfully attempting to defeat and evade his Federal income taxes for 1937, 1938, and 1939. He practiced law in Detroit prior to 1934, at which time he was appointed to

- 3 -

a position in the Sheriff's office under Thomas C. Wilcox. He worked for WPA from April 1935 to January 1, 1937, on which date he returned to the Sheriff's office as Chief of the Civil Division, where he continued until June 26, 1940. On March 5, 1940, Staebler, together with Wilcox and others, was indicted on a charge of conspiracy to obstruct justice and collusion between law enforcement officers and operators in illegal enterprises. He was convicted May 14, 1941 and sentenced to serve from three to five years in prison. He has, however, been at liberty on bond pending appeal. Additional Federal income taxes and penalties found to be due for 1937 to 1939, inclusive, aggregate \$27,434.03.

2. Tax Evasions by Lottery Operators. Joseph Hotze, a well known lottery operator (numbers racket) of Boston, Massachusetts, was indicted March 3, 1943, for alleged income tax evasion for 1936 to 1939, inclusive. Taxes and penalties of \$403,045.23 for 1934 to 1939, inclusive, have been recommended, approximately \$350,000 of which falls within the years covered by the indictment. This is the

- 4 -

second time Hotze has been indicted. In the previous instance, he entered a plea of guilty on March 14, 1935, to tax evasion charges for the years 1930 to 1933, inclusive, which was pursuant to a compromise settlement whereby he also paid \$6,250 in full settlement of his civil liability. He was sentenced and served three months in jail.

Harry S. Miller who was engaged in the numbers business at Donora, Pennsylvania, has been indicted for wilfully attempting to defeat and evade income taxes for 1936, 1937 and 1938. Additional taxes amount to approximately \$10,000.

3. Tax Evasions by Coin Machine Operators. Edward A. Rademacher, proprietor of a restaurant in Shakopee, Minnesota, has been indicted for wilfully attempting to defeat and evade income taxes. Charge of evasion is based upon his failure to report substantial amounts received from the operation of slot machines maintained in his restaurant. Deficiencies totaled \$5,712.46 for 1936 to 1940, inclusive.

- 5 -

Benjamin Sterling, Jr. entered a plea of guilty on February 26, 1943, to a charge of wilfully attempting to evade and defeat part of his income tax for 1936. Sentence was suspended by the District Court at Scranton, Pennsylvania, and he was placed on probation for one year conditioned on the payment of tax, penalty and interest of approximately \$19,878.46. He was engaged in the sale of coin-operated music machines and failed to report commissions of \$13,297.50 received from the Rudolph Wurlitzer Company. He also failed to report \$74,718.45 received from the operation of coin-operated music machines.

Marvin R. Bates was indicted March 16, 1943, by the Federal grand jury at Meridian, Mississippi, for evading his individual income taxes for 1936, 1937 and 1938. The investigation revealed that Bates who had a net income of more than \$20,000 during each of the years 1936 to 1938, inclusive, reported only about \$1,400 for each year. His income was principally derived from gambling and the operation of coin machines. Bates' defense is that he was of

- 6 -

the opinion that he had to pay income taxes only on the cash on hand at the end of the year. Prior to the submission of the special agent's report, the case was informally discussed with the United States Attorney at Jackson, Mississippi, who expressed the opinion that criminal proceedings would be warranted. The investigation arose from information furnished by a private detective who was employed by a group of citizens in Meridian to investigate the alleged illegal activities of Bates in order to determine whether these operations were protected by the City administration and whether the mayor of Meridian was receiving a part of the profits therefrom. Although circumstantial evidence indicated such an alliance, no proof thereof could be established, and the investigation was discontinued shortly after the mayor's reelection in 1940.

4. Tax Evasion by Dr. J. W. Tipton. On March 16, an indictment was returned against Dr. Tipton in six counts, charging him with wilfully attempting to evade his individual income taxes for 1936 to 1941, inclusive. Dr. Tipton is a prominent eye, ear, nose and throat specialist

- 7 -

in Danville, Virginia. The total taxes and penalties of Dr. Tipton for the years involved is \$31,693.99.

5. Tax Evasion by Sam Glick and Alex Harris. Sam Glick and Alex Harris were indicted March 2, 1943, charged with wilfully attempting to evade and defeat their respective individual income taxes for 1936 to 1938, inclusive. Each defendant was also charged with aiding and abetting the other. Harris and Glick, who operate a successful meat market as a partnership in Pittsburgh, Pennsylvania, substantially reduced income by padding the meat purchases of the business with fictitious purchase invoices and ultimately diverted to themselves partnership funds in payment thereof. These payments were, nevertheless, included in determining the cost of goods sold by the partnership for income tax purposes, but the partners failed to report in their individual income tax returns the additional income they realized in this manner. Harris and Glick used invoices of a firm of wholesalers, The Homestead Provision and Packing Company, a partnership. S. E. and H. S.

- 8 -

Jacobson, the partners, were convicted in 1942 of evading their own income taxes.

The defendants pleaded guilty March 8, 1943, and were given suspended sentences of a year and a day on each of the charges, the sentences to run concurrently. They were placed on probation for three years and a fine of \$2,000 and one-half of court costs was imposed on each individual.

6. Tax Evasions Where no Return was Filed (See February 1943 report, item 34). The indictment of Chin Lim Mow is the first indictment which has been returned since the United States Supreme Court decision in the case of Murray R. Spies (See January 1943 report, item 6) charging a wilful attempt to evade and defeat income tax where no return was filed. It is affirmatively charged in the indictment that, as means of attempted evasion of his tax liabilities, Chin Lim Mow maintained and caused to be maintained incomplete, false and incorrect books and records reflecting his gross income and the sources thereof and that he concealed and caused to be concealed from any and all proper officers of the United States his total gross

- 9 -

and net incomes in each of the years covered by the indictment.

J. C. Exum was indicted March 1, 1943, for wilful failure to file individual income tax returns for 1939 and 1940. Exum is the former president of the First National Bank of Snow Hill, North Carolina, and former member of the Board of Greene County Commissioners. He successfully operated J. Exum and Company, a mercantile business in Snow Hill, which was a part of the estate of his father, Josiah Exum, deceased, of which he was administrator. He had a net income of over \$8,000 for each of the years involved derived principally from the estate. The investigation covered the years 1926 to 1940 for which additional taxes totaling \$3,379.98 have been recommended. Not only did Exum fail to file returns for 1939 and 1940, but he failed to file returns for any of the years involved either for himself or for the estate.

On March 13, 1943, an information was filed in the United States District Court for the Southern District of

- 10 -

New York charging Abbey Dreyfuss with wilfully failing to file income tax returns for 1939 and 1940. He failed to file income tax returns for calendar years 1927 to 1940, inclusive. During this period he spent most of his time traveling on steamships between the United States and various ports of Europe and was what is commonly known as an international professional card shark.

7. Preparation of False and Fraudulent Tax Returns. Robert T. Jacob has been indicted for wilfully aiding and assisting in, counselling, procuring and advising the preparation and presentation of a false and fraudulent income tax return for the Central Holding Company for the fiscal year ended June 30, 1937. Jacob has been involved in several cases which have been under consideration in this office. At one time he is said to have been the leading tax practitioner in Portland, Oregon.

8. Oath Requirement for Returns. The Director of the Budget has requested that he be advised whether the oath requirement for returns, other than individual income tax returns, could be eliminated without detriment to

- 11 -

the service. In this connection, it has been noted that there are more than 50 provisions in the Internal Revenue Code which expressly require returns to be verified by oath and there are approximately 30 other provisions in the Code which require returns but do not expressly specify verification by oath. Except in certain cases where the tax covered by the return is not in excess of \$10 (section 3330 IRC), the Bureau of Internal Revenue has required all returns to be under oath. However, following section 136 of the Revenue Act of 1942, the regulations now provide that individual income tax returns shall be merely verified by a written declaration that they are made under the penalties of perjury. The matter under consideration also involves the question of whether the taxpayer should be required by the regulations to verify under oath claims for refund and claims for other relief.

9. Tax Evasion by Simensky & Levy Corporation, Rubin Simensky, and Leo Levy. On March 11, 1948, indictments were returned charging Levy and Simensky with wilfully attempting to evade and defeat their respective

- 12 -

income taxes and those of the corporation for 1936 and 1937. The defendants are engaged in a fruit and produce business in New York City. The allegation of fraud in all of the cases is based on the practice of the individuals to issue fictitious checks, charging them to purchases and receiving the proceeds thereof. Proof is available to show that many of the checks were deposited in the corporation's bank account and a corresponding credit made on the loans payable account of the individuals on the corporation's books. The deficiency in tax for the years 1934 to 1938 in Levy's case is \$12,074.34; in Simensky's case for the years 1934 to 1938, \$17,402.57; and in the case of the corporation for the years 1934 to 1937, \$22,756.66.

10. Tax Evasion by Sperry Candy Company, et al.

Indictments in the income tax case of the Sperry Candy Company, Milwaukee, Wisconsin, were returned on March 11, 1943, by a Federal grand jury against Arthur L. Birch, C. P. A., and Ray J. Fihringer and Fred F. Foster, secretary-treasurer and president, respectively, of the company. In the company's case, the indictment contains

- 13 -

five counts, two of which charged Birch, Pihringer and Foster with aiding and assisting in the preparation and presentation of false and fraudulent returns for the company for 1936 and 1937, two of which charged attempts to evade taxes for the same years, and the fifth of which counts charged conspiracy to evade corporate taxes for the years 1934 to 1937, inclusive, and individual income taxes of Pihringer for the years 1936 to 1938, inclusive. As shown in the indictment, the total taxes evaded are \$7,167.26. Warrants for the arrest of the individuals involved will be issued after March 31st.

11. Tax Evasion by Harry A Brown. Brown pleaded nolo contendere on March 8 to charges of having wilfully attempted to evade and defeat a large part of the income and excess profits taxes of John E. Graybill & Company, Inc. for 1936, and a large part of his individual income taxes for 1936, 1937 and 1938. A sentence of two years and a fine of \$2,000 was imposed. The sentence was suspended and Brown placed on probation for a period of two years conditioned upon his payment of the fine and all

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civil liability for the years covered by the two indictments. John E. Graybill & Company, Inc., is a large concern of York, Pennsylvania, doing electrical contracting work. Brown is its president and principal stockholder. The deficiency in tax in the case of the corporation amounts to \$18,558.61, and in the individual case to \$4,444.53.

12. Tax Evasion by William S. Krasnow, Eli Yoffe, Krasnow Wool Stock Co., Yoffe-Krasnow, Inc. This group of cases was sent to the Department of Justice by the Commissioner of Internal Revenue, letter of January 7, 1943, with a recommendation that Krasnow be prosecuted for tax evasion for 1936 and 1937; that Yoffe be prosecuted on like charges for 1936; that Krasnow be prosecuted for evading the taxes of the Krasnow Wool Stock Company for 1937; and that Krasnow and Yoffe be prosecuted for evading the taxes of Yoffe-Krasnow, Inc., for 1936. On March 9, 1943, indictments covering these charges were returned by a Boston grand jury; and Yoffe and Krasnow were also indicted on the same date on a conspiracy charge of evading the taxes

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of Yoffe-Krasnow, Inc., for 1934 to 1936, inclusive. On the same date Yoffe and Krasnow were arrested, released on bail of \$7,500 each, and their cases set for arraignment March 16. They made large profits in a woolen rag business in Boston and vicinity. The total additional taxes and penalties of Krasnow for 1934 to 1937, inclusive, are \$313,320.27; of Yoffe for the same years \$156,472.59; of Krasnow Wool Stock Company for 1936 and 1937, \$55,701.74; and of Yoffe-Krasnow, Inc., for 1934 to 1936, inclusive, \$155,985.77. In the main, the fraud in question consisted of suppressing sales and diverting the proceeds of the same to these individuals.

13. Proposed Tax Refund to American Can Company. A proposed refund of \$178,240.75 income, excess profits and defense taxes for the year 1940, has been approved by the Chief Counsel's office and recommended for report to the Joint Committee. More than one-half of this amount (\$91,772.91) is the direct consequence of certain adjustments made by the Revenue Agent to the years 1936, 1937, 1938, and 1939, whereby the net income for those years

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was increased in the aggregate amount of \$772,824.56. These adjustments, of course, increased the tax liability of the company for the four years involved, but also increased the average base period net income for excess profits tax purposes in the amount of \$193,206.13 and thereby reduced the excess profits tax liability for the year 1940 in the amount of \$91,772.91. The total amount of income, excess profits and defense taxes paid by this company for the year 1940 was in excess of six million dollars.

14. Post Review of Taxes of Indemnity Insurance Company of North America. In a post review of the income tax case of this company for the years 1938, 1939 and 1940, the Income Tax Unit discovered that the Revenue Agent in Charge had failed to follow the rule laid down in the case of Pacific Employers Insurance Company (CCA 9, 1937; 89 Fed.(2d) 186; 1937-2 C.B. 312), as a result of which the "losses incurred" for 1938 were overstated by more than \$4,000,000 and were slightly understated for 1939 and 1940. As the result of a reaudit, the taxpayer has agreed to a deficiency of \$644,194.75 for 1938, and to overassessments

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of \$33,240.31 for 1939 and \$75,889.93 for 1940. The overassessments are being reported to the Joint Committee.

15. Excess Profits Tax Case Involving a Contract for Sale of Supplies to a Foreign Government. The Excess Profits Tax of 1940, section 719 IRC, provides (in cases involving certain contracts for sale of supplies to foreign governments) that "if such contract provides for advance payment and for repayment by the vendor of any part of such advance payment upon cancelation of the contract by such foreign government" the "borrowed capital" of the vendor (taxpayer) for any day shall include "the amount which would be required to be so repaid if cancelation occurred at the beginning of such day." During the year 1941, there was an existing contract between Marmon-Herrington Co., Inc., Indianapolis, Indiana, as vendor, and the Netherlands East Indies Government, as purchaser, on which contract the purchaser had during the year 1940 paid \$4,177,000 (one-half of the purchase price) in advance. But the purchaser reserved no right to cancel the contract except for failure

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on the part of the seller to deliver the goods purchased on or before December 31, 1941, or in the event the taxpayer became bankrupt. The taxpayer claims that the entire amount of \$4,177,000 should be treated as "borrowed capital" in determining invested capital for the entire year 1941, and that claim has been allowed in the current audit. A question has been raised as to why the Chief Counsel's office should adopt the fiction that the entire amount of the advance (\$4,177,000) would, under the terms of the contract, have to be repaid to the foreign government during 1941, if the foreign government should cancel the contract during that year, when, in fact, the contract makes no provision for cancelation by the foreign government at any time during the year 1941, and of course does not provide for repayment of the advance in the event the foreign government should arbitrarily cancel or repudiate the contract during 1941. The case is being considered.

16. Tennessee Gasoline and Cigarette Taxes; California Gasoline Tax. In a memorandum dated March 24, 1943, addressed to Deputy Commissioner Mooney, it was held that

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the gasoline tax imposed by the State of Tennessee upon distributors or dealers, whichever person first handles the product in the State, is not a retail sales tax deductible by the consumer under section 23(c)(3) of the Internal Revenue Code. However, in view of the well established position of the Bureau, the Chief Counsel's office approved the conclusion that the gasoline tax imposed by the State of Tennessee is deductible under section 23(c)(1) of the Code as a tax imposed on the consumer. The Tennessee tobacco tax was held not deductible by the consumer under section 23(c)(3) of the Code substantially for the same reasons that the gasoline tax is not deductible under that section. The tobacco tax is imposed upon the first person who receives the tobacco products in the State whether that person be a distributor or a dealer. In those instances in which a retailer does not receive his tobacco products through the customary marketing channels he will occasionally pay the tobacco tax. But inasmuch as the tax does not normally fall upon retailers it is not a retail sales tax, and therefore the amount of the tax is not deductible by the purchaser under section 23(c)(3) of the Code.

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Similarly, in a memorandum dated March 24, 1943, the question considered was whether section 23(c)(3) of the Code, which allows consumers to deduct from their net income retail sales taxes paid under certain conditions, was applicable to the tax imposed by the State of California upon distributors of motor vehicle fuel. It was held that such tax was not deductible by consumers. The tax is not imposed upon retailers, but is imposed upon refiners, manufacturers, producers, etc., or importers (or persons standing in the shoes of importers). It is not imposed as a retail sales tax and is not within the meaning of section 23(c)(3) of the Code. (GCM 23552 (unpublished) In re: California Gasoline Tax, dated January 15, 1943, which held that this tax was deductible by the purchaser, if the amount of such tax is separately stated at the time of the purchase, was revoked.)

17. Processing, Unjust Enrichment, and Floor Stocks Tax Cases. On March 15, 1943, the Circuit Court of Appeals of the 5th District entered its decision in the case of Commissioner of Internal Revenue v. Bain Peanut

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Company of Texas, reversing the United States Processing Tax Board of Review and remanding the case to The Tax Court of the United States for further proceedings. (The Processing Tax Board decided that the Bain Peanut Company of Texas bore the burden of processing taxes to the extent of and was entitled to the refund of \$38,847.25 out of total taxes paid in the sum of \$96,113.75.) The Circuit Court of Appeals, in its decision, decided two important points in favor of the Government. These two issues are involved in practically all processing tax cases undisposed of at the present time. The court held (1) that there is no election permitted taxpayers as to the manner of determining the cost of commodity processed for purposes of the margin comparison provided for in section 907 of Title VII of the Revenue Act of 1936 - that actual cost must be used if available - and (2) that where the Government offers evidence establishing that the burden of the tax was actually shifted, such evidence overcomes and rebuts an unfavorable margin showing, and that the effect of such evidence is to recast the burden of proof upon the taxpayer where "it existed in the beginning."

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At the request of The National Biscuit Company, arrangements were made to hold a conference in New York, New York, on March 31st for the purpose of endeavoring to execute a settlement of the company's claims for refund of processing tax and floor stocks tax, similar claims of two former subsidiaries, the National Milling Company and the National Bread Company, and the unjust enrichment tax liabilities of the company and its former subsidiaries. The claims are the largest and most important claims with respect to wheat remaining for disposition by the Bureau of Internal Revenue, aggregating approximately \$4,083,127.49, and the National Biscuit Company is the largest bakery upon which the assessment of an unjust enrichment tax has been proposed. The Bureau will be represented at the conference by Fred S. Martin, Acting Head, Unjust Enrichment Division of the Income Tax Unit, Raymond F. Brown, Head, Claims Division of the Chief Counsel's Office, Irene F. Scott, Special Attorney, and A. J. S. Weaver, an economist, both of the Chief Counsel's Office.

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The Sellmayer Packing Company case, which involves the right to a refund of \$57,023.96 paid as tax on the processing of hogs, was one of the first cases to come before the Tax Court of the United States since the Revenue Act of 1942 conferred on it jurisdiction of all cases involving refund of amounts paid as processing taxes. It developed at the trial that the petitioner claimed that the original sales invoices were lost. These invoices were the only records from which gross sales value could be determined in computing the shift of the burden of the amount paid as tax. The second group of Bureau examiners had found evidence that these invoices had been altered before being submitted to them and that the majority of those altered invoices disappeared without explanation during the course of their examination. The principal controversy at the trial involved the question of whether the petitioner had laid a sufficient foundation for the submission of secondary evidence of the contents of these invoices. Ruling on this point was reserved. However, when the same

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point was raised in the companion unjust enrichment tax case, the trial of which followed the processing tax case, Judge Oppen ruled out the secondary evidence on the ground that he was not satisfied that the original records were missing or if they were missing, it was not as a result of affirmative action on behalf of the petitioner. The unjust enrichment tax case involved the calendar years 1935 and 1936 and deficiencies totaling \$19,013.42. The trial of these two cases covered a period of five weeks.

18. Tax on Transfer of Realty by Consolidated Edison Company of New York, Inc., et al. In a memorandum dated March 19, 1943, addressed to Deputy Commissioner Bliss, the question considered was whether section 3482 of the Internal Revenue Code, taxing certain conveyances of realty, applies to a proposed merger of certain subsidiary companies into Consolidated Edison Company of New York, Inc., pursuant to applicable statutes of the State of New York. GCM 22955 held that the transfer of real estate from one or more constituent corporations to a continuing or new corporation, pursuant to a statutory merger or consolidation, constitutes

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a transfer of "realty sold" within the meaning of section 3482 of the Code. The consideration for such transfer was the issuance of stock by a continuing or new corporation to the merged corporation and the assumption of the liabilities of the constituent corporation by the continuing or new corporation. The instant case varies from the factors considered in GCM 22955, supra, in that there is no issuance of stock by the continuing corporation to the merged corporation as a part of the consideration for the transfer of the realty. However, there is an assumption of liabilities of the merged corporation by the continuing corporation which would constitute sufficient consideration for the transfer of assets to the continuing corporation and the conclusion of GCM 22855, supra, would be applicable. Therefore, the transfer of realty in the contemplated merger would be subject to the tax.

19. Documentary Stamp Tax Case of Charles K. Cole Estate, (Chelsea-on-the-Hudson, New York). In a memorandum dated March 15, 1943, addressed to Deputy Commissioner Bliss, the questions considered were (1) whether a proposed

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transfer of securities in the State of New York from testamentary trustees to trustees of a power in trust for certain minors will constitute a taxable transfer for documentary stamp tax purposes; and (2) whether a subsequent transfer from the trustees of the power in trust to the minors upon attaining majority will constitute a taxable transfer for documentary stamp tax purposes. Under the laws of the State of New York an attempt to appoint a guardian of property given to an infant by one not its parent is inoperative as an appointment but is given effect under the term "Trustee of a power in Trust" and is treated the same as a guardian. A trustee of a power in trust does not acquire legal title, hence legal title to the securities in question is in the minors and one transfer tax will be payable in connection with the transaction, i.e., a tax upon the transfer of legal title from the testamentary trustees to the minors as provided in sections 1802(b) and 3481(a) IRC. A subsequent transfer from the trustees of the power in trust to the minors upon attaining majority will not be taxable as there is no transfer of legal title.

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20. Compromise Offer of the New York, Ontario and Western Railway Company. This company filed a petition for reorganization under section 77 of the Bankruptcy Act on May 20, 1937, and a Trustee has been operating the company since that date. The Trustee is indebted to the Government in the amount of \$232,703.95 for taxes due under the Carriers Taxing Act of 1937 and interest thereon to August 31, 1942, of \$38,202.83. The Department of Justice on the recommendation of the Chief Counsel's office accepted an offer in compromise of the entire liability by the payment of the principal amount of the tax. This railway is heavily in debt and has shown operating losses for the past five years. The money to pay the Government was obtained through the sale of capital assets. The Debtor is making some progress towards a solution of its financial difficulties and at the same time is rendering valuable public service during this critical period.

21. Unemployment Tax Case of Integrity Trust Company. The question whether the Integrity Trust Company, Philadelphia, Pennsylvania, is entitled to the credit extension

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provided by section 1601(a)(3) of the Federal Unemployment Tax Act was answered affirmatively by the Chief Counsel's Office. The time for crediting against Federal unemployment taxes the amount of contributions paid into a State unemployment fund is extended by section 1601(a)(3), supra, provided the taxpayer's assets are in the custody of a receiver appointed by, or under the control of, a court of competent jurisdiction. The Pennsylvania Department of Banking, an executive department of the State Government, is authorized under certain circumstances to liquidate institutions subject to its supervision with the Secretary of Banking designated by statute to act as receiver. Although the authority of the Secretary of Banking to act as receiver is not derived from any court, it appears that by statute, State decisions and strong dicta in Federal decisions the Secretary of Banking is responsible to a particular State court, and that in matters pertaining to the collection, sale and distribution of assets, settlement of disputes, confirmation of accounts and final discharge of the secretary as receiver, the court takes an active part in the liquidation proceeding.

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22. Tax Refund Claim of Estate of Thomas C. Jenkins.

The Safe Deposit and Trust Company of Baltimore, executors, brought suit in the United States District Court for the District of Maryland to recover \$886,211.90, alleged overpayment of estate tax. There were two principal issues (1) transfers allegedly made in contemplation of death, and (2) whether property passing under certain powers of appointment exercised by the decedent was properly included in determining the estate tax. The executor offered to accept a refund of \$443,105.95, plus interest, (which it will be noted is exactly one-half of the amount sued for). After extended consideration and voluminous written expressions within the Bureau of Internal Revenue and the Department of Justice, the Attorney General accepted the offer subject to the approval of the Joint Committee. The Assistant Chief of Staff of the Joint Committee criticized the proposed settlement in a 15 page memorandum which concludes with the following language: "In view of the foregoing discussion, I am of the opinion that the proposed refund is more than

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the plaintiff could reasonably anticipate in event of trial. While the nature of the issues involved are such as to make it desirable from an administrative standpoint to stipulate the case, nevertheless to grant an excessive refund merely to avoid the hazard of trial would not seem justified."

23. Alleged Gift Tax Liability of John Borg.

Sometime ago, a revenue agent was assigned to investigate an alleged gift tax liability of John Borg, a prominent citizen of Hackensack, New Jersey, publisher of the Bergen Evening Record, and a Commissioner of the Port of New York Authorities. After discovering some evidence of fraud, the revenue agent became suspicious that his superiors were attempting to protect Borg and prevent a complete investigation and Borg's criminal prosecution on tax evasion charges. The revenue agent addressed letters to the Federal Bureau of Investigation, the Commissioner of Internal Revenue, the Chief of the Intelligence Unit and the General Counsel, and despite personal efforts by officials of the Bureau to reassure the revenue agent by explaining to him the procedure

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in such cases, he thereafter wrote letters about the case to the Secretary and to the Governor of New Jersey, and recently, just before he became a member of the armed forces, took the case up with a Federal Judge and a United States Attorney. Because of the revenue agent's charges, Mr. Wenchel, at the direction of the Commissioner, attended a conference in New York at which were present all of the investigating agents on the case, including the revenue agent. After hearing all the various arguments, it was concluded that, at that time, there was insufficient evidence to warrant a recommendation for criminal prosecution of Borg. Thereafter, the Intelligence Unit made a complete investigation and did not recommend the institution of criminal proceedings but forwarded its report to the Chief Counsel's Office "for consideration and advice" as to the disposition of the case. The evidence was carefully considered and that Office concurred in the indicated opinion of the Intelligence Unit that a recommendation for institution of criminal proceedings should not be made to the

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Department of Justice. In the meantime a conference had been afforded Borg in the Bureau at Washington and afterwards he filed an offer in the amount of approximately \$87,000 in compromise of proposed gift taxes aggregating approximately \$157,000 for 1932 to 1938, inclusive, together with fraud and delinquency penalties thereon, and in compromise of proposed additional income taxes aggregating approximately \$23,000 for 1929 to 1935, inclusive, together with the fraud penalty thereon. This offer was carefully considered and it was decided that although the case was one for settlement, the amount of the offer was insufficient. At a recent conference with Borg's representative, the Commissioner indicated his willingness to settle the civil liabilities for a flat sum of \$125,000, and it is understood that the offer in compromise will be increased to that amount. The Secretary and Assistant Secretary Sullivan are acquainted with this case and with its history.

24. Approved Overassessments. Overassessments were approved by the Staff of the Joint Committee during

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February in the following cases:

Hughes Tool Company - income tax \$117,583.01
and interest

Estate of Clara Jay Keech - 91,550.66
estate tax

Estate of R. Bleecker Rathbone - 86,794.94
estate tax (including abatement of
tax and interest of \$52,621.71)

25. Regulations. For the period October 21, 1942 (date of the Revenue Act of 1942) to March 13, 1943, inclusive, there were signed by the Commissioner and approved by the Secretary 73 Treasury decisions and 1 regulations not referred to as a Treasury decision (Regulations 113, Tax on Transportation of Property, sec. 620, Revenue Act of 1942, issued February 1, 1943). 62 of these Treasury decisions were directly made necessary by the Revenue Act of 1942 (including 6 handled by the Alcohol Tax Unit). 22 more Treasury decisions directly made necessary by the Revenue Act of 1942 are to be issued. Only 2 of these pending Treasury decisions have not yet been drafted, and they cover sec. 507, Time for performing certain acts postponed by reason of war, and sec. 230(a), Invested capital in connection

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with certain exchanges and liquidations. The other 20 Treasury Decisions to be issued have been prepared and are now under review.

In addition to the regulations directly made necessary by the Revenue Act of 1942, there are a number of other regulations pending which include:

Regulations 111. This regulations will be a revision of Regulations 103 - "Income Tax" (892 page volume). It will be applicable to years beginning after December 31, 1941, and will incorporate the applicable amendments made under Regulations 103 by approximately 100 Treasury decisions. Since Regulations 103 was issued on January 29, 1940, the income tax provisions of the Internal Revenue Code have been amended by a number of Acts, including the Revenue Acts of 1940, 1941, and 1942.

Regulations 112. This regulations will be a revision of Regulations 109 - "Excess Profits Tax" and will be applicable to years beginning after December 31, 1941. Since Regulations 109 was issued on May 3, 1941, it has been radically amended by reason of the "Excess Profits Tax Amendments of 1941" and "The Revenue Act of 1942."

Consolidated Returns Regulations. It is proposed to consolidate Regulations 104 - "Consolidated Returns of Affiliated Railroad Corporations and Pan-American Trade Corporations" and Regulations 110 - "Consolidated Excess Profits Tax Regulations" and clarify the statements outlining the rules governing the computation upon a consolidated basis of the income subject to income tax and the income subject to the excess profits tax. Both Regulations 104, issued December 28, 1939, and Regulations 110, issued March 14, 1941, have been amended a number of times to reflect changes made in the Internal Revenue Code by subsequent revenue acts.

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Regulations 106. This regulations will be a revision of Regulations 79 - "Gift Tax." Regulations 79 was issued on February 26, 1936, under the Revenue Act of 1932 and such regulations were later made applicable to the Internal Revenue Code by Treasury decision 4885, approved February 11, 1939. The revision will be applicable to years beginning after December 31, 1941, and will incorporate the applicable provisions set forth in gift tax Treasury decisions issued since 1936.

The following work was done under the supervision of Assistant General Counsel O'Connell:

26. New Contract Form. Legal work has been completed on a new contract form requested by Director Mack. Heretofore Procurement contracts have been full of conditions both general and special. At Mr. Hill's suggestion the general conditions have been classified and will be incorporated in the short form contract by reference, the special conditions to be used whenever the facts justified. As a result of this a large amount of paper work, as well as paper, is being saved.

27. Potomac Electric Power Company Rate Case. After a bitter fight in which each step was opposed, the Public

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Utility Commission of the District of Columbia has ordered a reduction of \$310,000 under the sliding scale to the consumers. However, an appeal will be taken from this order, and in this appeal the Treasury Department will be joined by the Office of Price Administration, the Office of Economic Stabilization, and the Department of Justice. It is Mr. Hill's considered opinion that the Department shall ultimately secure a reduction in excess of \$1,000,000 for the consumers. Since the Government buys [in revenue] 25% of the "juice" sold by Potomac Electric Power Company, the savings in such an event will be substantial to the Government.

28. Disposition of Surplus Property. One of the most important problems facing the Procurement Division is the matter of disposing of surplus property. Soon it will have for distribution approximately \$75,000,000 worth of property. After the war surplus property may reach into the billions. It has been determined that Government Agencies will not request over 50% of the surplus property and, in order to dispose of the balance quickly, procedure is being promulgated to sell the surplus under proper safeguards to the public.

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29. Lend-Lease Purchases. Lend-Lease buying is continuing at a rapid pace. Contracts are now being let for the purchase of power equipment, and it is understood that the power program will call for an expenditure of approximately \$60,000,000. Contracts are being let for architect-engineering services in relation to this program, and some difficulty is being experienced in keeping the fees within the Defense Plant Corporation's schedule. However, it is believed that ultimately this can and will be done, bringing about large savings in this direction.

30. Renegotiation of Contracts (See January 1943 report, item 54). Although Procurement Division to date has played a minor roll in renegotiating contracts, in the future it will negotiate a large number of Lend-Lease contracts in which the Treasury Procurement has the predominant dollar value. Since joint regulations have been agreed upon and procedure under the same adopted for Procurement, work will proceed on the 38 cases now in process for renegotiation and more will follow. Mr. James Hawthorne has done a great deal of work on this matter.

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31. Public Debt Act of 1943 (See January 1943 report, item 41). At the request of Assistant Secretary Sullivan, Mr. Speck attended the sessions of the House on March 11 and 12, and reported from time to time to Mr. Sullivan re action taken on H. R. 1780, the public debt limitation bill. On March 17 Mr. Speck discussed with Mr. Williamson of Internal Revenue, the various amendments proposed to the bill with reference to the salary limitation order, and submitted a memorandum concerning possible administrative difficulties of the Internal Revenue Bureau in handling salary stabilization under the various amendments. It was concluded that the Wolcott amendment would be the most satisfactory in this respect. In response to a request from the Bureau of the Budget for an expression of the views of this Department with respect to enrolled enactment of H. R. 1780, Mr. Speck prepared a letter, in which it is stated that the Secretary of the Treasury had, on March 24, at the suggestion of Justice Byrnes, communicated to the President his views on those provisions of the bill which relate to activities of the Treasury Department.

32. Bill to Regulate Prices and Stabilization of the Value of the Dollar. A report to the Senate Committee on Banking and Currency on S. 678, providing for the regulation and stabilization of agricultural and commodity prices and of our domestic economy through the regulation and stabilization of the value of the dollar, which was prepared in the Division of Monetary Research, was revised by Mr. Casey. The report pointed out that the bill would vest in the Board of Governors of the Federal Reserve System certain fiscal controls and powers which do not appropriately come within the scope of the Federal Reserve System.

33. National Gallery of Art Bill (Permanent Loan). (See February 1943 report, item 52). Mr. Speck contacted members of the House Committee on the Library and urged a favorable report on our proposed legislation (S. 319), to authorize the Secretary of the Treasury to receive a permanent loan to the United States from the Board of Trustees of the National Gallery of Art and to pay 4 percent interest thereon, and to permanently appropriate such interest for payment to the Board of Trustees.

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34. A Bill to Amend the Budget and Accounting Act, 1921 (See January 1943 report, item 44). Mr. Speck cooperated with Mr. Davis of Procurement in the preparation of a letter to Chairman O'Leary of the House Committee on Expenditures in the Executive Departments, on H. R. 1610, to amend the Budget and Accounting Act, 1921. This legislation, sponsored by the Bureau of the Budget, would authorize the transfer of surplus equipment and supplies among the various departments and agencies of the Government and authorize the sale or lease of Government buildings, supplies, or equipment to non-governmental agencies engaged in the activities essential to the prosecution of the war. Mr. Speck attended hearings held by the House Committee on March 2, 3, and 5 on this bill.

35. War Loan Accounts. Mr. Speck attended a hearing held on March 25, 1943, of the House Banking and Currency Committee on H. R. 1699, a bill to eliminate assessment and reserve requirements in connection with War Loan Accounts. A memorandum to Under Secretary Bell, giving an account of the comments made by Mr. Crowley, Chairman of the Board of

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Directors of the Federal Deposit Insurance Corporation, and members of the Committee, was prepared by Mr. Speck.

36. Attachment, Garnishment, etc., of Wages and Salaries of Federal Employees. Mr. Casey prepared a report to the Chairman of the House Judiciary Committee on H. R. 694, to provide for the attachment, garnishment, execution, or trustee process of wages and salaries of civil officers and employees of the United States, advising that the enactment of the bill would retard the administrative operations of the Treasury Department. On March 25, Mr. Casey attended, with Mr. Birgfeld and Mr. G. F. Allen, hearings before that Committee on the bill, and on March 30 Mr. Speck attended further hearings, with Mr. Allen, who testified briefly as to the adverse effect which the bill would have upon the Government's mass production disbursement method, explaining the scope of the Disbursing Officer's office. The Celler subcommittee concluded its open hearings and proposed to go into Executive Session to consider the bill and certain amendments which will be proposed thereto.

Mr. Casey also prepared a report to the Bureau of the

Budget on S. 213, relating to the garnishment of salaries or other compensation of civil officers and employees of the United States, its territories or possessions, or the District of Columbia, which report incorporated a copy of the report prepared on H. R. 694 and raised certain objections to the form of S. 213.

37. Ted Vaughan Relief Bill. At the request of the Senate Committee on Claims, Mr. Ranta prepared a letter giving the views of this Department on S. 711. The letter pointed out that if the bill were enacted in its present form, the persons intended to be benefited would probably not be entitled to the money appropriated by the bill due to the provisions of the descent and distribution statutes.

38. Washington, Brandywine and Point Lookout Proposed Bill. At the request of Senator Tydings, a draft of a bill to authorize settlement of the indebtedness of the Washington, Brandywine and Point Lookout Railroad Company to the United States by payment of the principal of \$50,000, was prepared by Mr. Keith and Mr. Filachek.

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39. Centralization of Legal Advice in the Department of Justice. A preliminary report on the views of this Department on S. 214, "To consolidate the function of furnishing legal advice to Government agencies in the Department of Justice" was prepared by Mr. Casey. The report advised the Bureau of the Budget that the Department would recommend against enactment of the bill.

40. Proposed Legislation to Eliminate Conflicting Interests in Proceedings. Memoranda, which were prepared by Mr. Speck, were sent to Messrs. Gilmore, Burrus, Heffelfinger, Davis, Chambers, Tietjens and Aarons, requesting their comment on a draft of a bill to prohibit participation of Government personnel in proceedings in which there may be private interests conflicting with those of the Government. This proposed legislation was submitted by the Department of Justice.

41. Transfer of Ration Book Investigative Functions to Secret Service. Mr. Speck attended a meeting on March 18 in Chief Wilson's office, attended by Mr. Emerson and other representatives of the Office of Price Administration

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on the proposed transfer to Secret Service of O. P. A. and F. B. I. investigative functions in connection with counterfeiting and bulk thefts of ration books. The Office of Price Administration is desirous of having the Treasury Department investigate such activities and will sponsor the promulgation of the executive order. Mr. Ranta prepared a revised draft of the order. On March 30, 1943, Mr. Speck attended, with Mr. Ireby, a meeting in Assistant Secretary Gaston's office on this proposed transfer.

42. Manufacture of Distinctive Paper. At the request of the Secret Service Division, Mr. Ranta prepared a memorandum which discussed the law relating to the possession of paper similar to that used to make obligations and securities of the United States.

43. Withholding of War Savings Bonds. At the request of the Secret Service Division, a memorandum was prepared by Mr. Ranta which concluded that no action could be taken by the Government to acquire the possession of War Savings bonds which had been wrongfully taken by a landlord from a tenant who had purchased the bonds.

44. Reproduction of War Savings Stamps. Mr. Ranta prepared a memorandum to Chief Wilson which concluded that the revised regulations on illustrations of War Savings bonds and stamps were broad enough to permit illustrations of War Savings Stamp corsages provided the use of such illustrations was deemed administratively desirable.

45. Stamping of 50-cent Coins. At the request of the Secret Service Division, Mr. Ranta prepared a memorandum which concluded that the stamping of a certain inscription on 50-cent coins by a numismatic club was probably a violation of section 171 of the Criminal Code (U.S.C., title 18, sec. 285).

46. Claim of Raymond S. Hoover. A memorandum was prepared by Mr. Ranta addressed to the Secretary recommending that he certify to Congress for payment pursuant to the Act of December 28, 1922, 42 Stat. 1066 (U.S.C., title 31, secs. 215-217) the claim of Raymond S. Hoover in the sum of \$19.50 for damages to his automobile resulting from a collision with a Treasury Department truck. The collision was due to faulty brakes on the Treasury vehicle.

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47. Litigation Case. Mr. Casey prepared a report to the Department of Justice of the views of this Department in the case of William H. Dunn v. William A. Parker and the Secretary of the Treasury, and*also suggesting material for use of the Department of Justice in preparing the answer of the Secretary of the Treasury.

48. Dismissal of Indictments. Mr. Ranta prepared letters advising Assistant Attorney General Berge that this Department had no objection to the dismissal of indictments as to Mike Shiojuk, Peter Charles Viotti, and Creed J. Short and Mrs. Creed J. Short, for the violation of the laws relating to counterfeiting; and James Williamson for the manufacture of counterfeit coins, in the event witnesses were not available due to the lapse of time.

49. Compromise Cases. Mr. Casey prepared letters to the Secretary for my signature recommending acceptance of the following offers in compromise: (1) offer of Frank Crawford to pay \$486.54 in compromise of the claim of the United States against his wife, formerly Mrs. George W. Holmes, in the sum of \$809.52, (2) offer of B. L. Embry

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to pay \$100 in compromise of the claim of the United States against George W. Snodgrass in the sum of \$592.58, (3) offer of United States Fidelity and Guaranty Co. to pay \$2,300 in compromise of the claim of the United States against it as surety for Allene P. Thompson in the sum of \$2,764, (4) offer of United States Fidelity and Guaranty Co. to pay \$2,017.38 in compromise of the claim of the United States against it as surety for Sidney C. Anglin, in the sum of \$2,570.86, (5) offer of North Bend Timber Company to pay \$2,500 in compromise of the claim of the United States against it in the sum of \$7,419, forest fires suppression costs, (6) offer of Clarence O. Steen to pay \$868.96 in compromise of the claim of the United States against him in the sum of \$1,846.70, representing a coal trespass, (7) offer of Maryland Casualty Co. to pay \$6,359.65 in compromise of the claim of the United States against it as surety for Legionnaire Uniform Co. in the sum of \$6,989.94, (8) offer of United States Fidelity and Guaranty Co. to pay \$1,000 in compromise of the claim of the

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United States against it as surety for Reynolds W. Seeley in the sum of \$1,698.59, and (9) offer of Western Maryland Railroad Co. to pay \$400 in compromise of the United States against it in the sum of \$620.10 representing forest fire suppression costs.

Mr. Ranta prepared letters recommending the acceptance of offers of compromise in the following cases: (1) offer of Oscar Marty, Big Sandy, Montana, to pay \$325 for indebtedness of a like principal amount plus interest of \$321.48, (2) offer of James Lowe, Huff, Kentucky, to pay \$203 for indebtedness of a like principal amount plus interest of \$122.26, (3) offer of Thomas B. Row, Brady, Montana, to pay \$210 for indebtedness of a like principal amount plus interest of \$208.60, (4) offer of Charles J. Wolfe, Shelby, Montana, to pay \$50 for indebtedness of a like principal amount plus interest of \$42.34, (5) offer of S. O. Southall, Jetersville, Virginia, to pay \$365 for indebtedness of a like principal amount plus interest of \$191.15, and (6) offer of D. A. Johnson, Flaxville, Montana, to pay \$480.03 for indebtedness of a like principal amount plus interest of \$264.74.

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Miss McDuff prepared letters recommending acceptance of the following offers in compromise:

(1) The offer of the Minnesota Power and Light Company to convey to the United States certain property valued at \$3,824.66 in compromise of the Government's claim against it amounting to \$1,576.59, arising out of an occupancy trespass; (2) offer of Lloyd McDonald to pay the United States \$400 in settlement of all indebtedness arising from loans made to his father on which there is due \$770.06 principal and \$517.90 interest accrued to January, 1943; (3) offer of John E. Moffatt to pay \$120 in compromise of the claim of the United States against his father the principal amount of \$125 plus interest of \$65.64 accrued to December, 1942; offer of the Maryland Casualty Company to pay \$6,359.65 in settlement of its liability under the claim of the United States against the Legionnaire Uniform Company in the amount of \$6,989.94.

The above-named offers were duly accepted by the Acting Secretary of the Treasury and Miss McDuff prepared letters advising the agencies submitting the offers of their acceptance and a memorandum to the Commissioner of Accounts requesting that the amount of the offers be covered into the Treasury of the United States to the credit of specified accounts.

Letters were also prepared rejecting the offers made

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by the following proponents and returning the files to the agencies submitting them:

- (1) John S. Taylor Company (for Reason A. and Ruby E. Whittle);
- (2) Smith-Wood Products, Inc.;
- and (3) Candido Pisoni.

Miss McDuff also prepared a letter to the Commissioner of Public Buildings, Federal Works Agency, declaring 40 acres of land acquired in compromise settlement of a claim of the United States against John Preuss, to be in excess of the needs of the Office of the General Counsel and reporting said property to the Commissioner of Public Buildings for disposition under the provisions of the Act of August 27, 1935, 49 Stat. 885.

50. Congressional Action on Treasury-sponsored Legislation. (a) Medal for the President. On March 1, 1943, S. Con. Res. 7, requesting that an appropriate medal be designed for presentation to the President in connection with his recent trip to Africa, was referred to the House Committee on Coinage, Weights, and Measures.

(b) National Gallery of Art. Our bill, S. 319, to authorize the acceptance of a permanent loan to the United States

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by the Board of Trustees of the National Gallery of Art, and for other purposes, was reported without amendment in the House on March 23, 1943 (H. Rept. No. 281).

(c) Huntsville, Texas, First National Bank. On March 30, 1943, the House Committee on Claims reported favorably H. R. 1321, a bill for the relief of the First National Bank of Huntsville, Texas. (H. Rept. No. 323).

(d) Public Debt Bill of 1943. On March 12 the House considered and passed, without amendment, H. R. 1780, which includes our bill to increase the debt limit of the United States, and for other purposes. It was referred to the Senate Finance Committee on March 16, 1943, and on March 19, it was reported with an amendment (S. Rept. No. 123). The Senate passed H. R. 1780, with amendments on March 23. On March 24, the House agreed to a conference, and on the same day agreed to the conference report. On March 25, the Senate agreed to the Conference report. The bill was presented to the President on March 30, 1943.

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The following work was done under the supervision of Assistant General Counsel Tietjens:

51. Collection of Victory Tax and of any similar taxes to be withheld by employers (See February 1943 report, item 49(a)). Mr. Reeves conferred with Mr. Davis of the Office of the Tax Legislative Counsel and Messrs. Batchelder and Heffelfinger concerning the procedure to be followed in connection with the collection of the Victory Tax and any similar taxes which may be levied in the future. Mr. Davis was primarily interested in the question of whether funds derived from such taxes and withheld by the employers are of such a character as to fall within the scope of the various statutes relating to the receipt and deposit of public moneys. Messrs. Batchelder and Heffelfinger were primarily concerned in establishing a procedure whereby the funds in question would be covered into the Treasury and made available for expenditure with a minimum of delay. Among the proposals suggested were (1) that the funds be remitted to the Collectors of Internal Revenue at monthly rather than quarterly intervals as is now the case; (2) that the employers be required to purchase promptly tax certificates or war

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savings stamps with the funds and to transmit such certificates or stamps with their returns to the Collectors; and (3) that the employers be required to deposit the funds with Government depositaries directly to the account of the Treasurer of the United States and to transmit the certificates of deposit with their returns to the Collectors.

52. Veterans' payments in Switzerland (See April 1942 report, item 46 and January 1943 report, item 29;). Mr. Reeves was present at a conference in Mr. Bartelt's office which was attended by representatives of the State Department, the Bureau of Accounts, the Division of Foreign Funds Control and Mr. Dietrich and Mr. Batchelder of Under Secretary Bell's office. The subject of the conference was a proposed procedure whereby payments of benefits to veterans residing in Switzerland would be made through the facilities of the State Department. Such payments are now being withheld due to the impossibility of transmitting checks to Switzerland, and the State Department is very anxious that these payments be resumed. Under the proposed procedure a credit would be established with the National Bank of

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Switzerland by a deposit for the credit of that bank in a special blocked account with a New York bank. From funds so made available the payments in question would be made by an officer of the State Department acting as agent of the Chief Disbursing Officer, Treasury Department. The representatives of the Division of Foreign Funds Control stated that there was no objection from the standpoint of that Division to the adoption of the proposed procedure since the payments would be made either in Swiss francs or by checks payable in Swiss francs. If the proposed procedure is adopted with respect to veterans' payments in Switzerland, it is probable that it will be extended to cover payments by other governmental agencies and that similar procedures will be established in Sweden, Spain and Portugal.

53. Request by Chartered Bank of India, Australia and China for release of certain gold bullion (See November 1942 report, item 17). Mr. Reeves, along with Messrs. Heffelfinger and Batchelder, conferred with Mr. Trickett, a representative of the Chartered Bank of India, Australia and China, concerning a request by that Bank for the release

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of certain gold bullion produced by the Itogon Mining Company, P. I., and deposited with former High Commissioner Sayre by the Director of Philippine Posts at the time of the Japanese invasion. This gold bullion was subsequently removed to the United States where it is now held in custody by the San Francisco Mint. While it appears that it had been the practice of the Itogon Mining Company to pledge gold bullion to secure advances from the Bank, there is no documentary evidence whatsoever to support a determination that this particular shipment of gold bullion was pledged in this manner. Mr. Trickett stated that in view of the circumstances his Bank would be perfectly willing to await the cessation of hostilities or such time as definite evidence might be secured before requesting further action by the Department in the matter.

54. Custody of certain Government checks deposited with former High Commissioner Sayre (See May 1942 report, item 35). At the request of the Bureau of Accounts, the question of the disposition to be made of certain Government checks which were deposited for safekeeping with former

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High Commissioner Sayre of the Philippine Islands at the time of the Japanese invasion and which are now held in custody by the Bureau of Accounts, was considered. It appears that the General Accounting Office had suggested that these checks should be transmitted to that office for disposition and that such of the checks as are endorsed in blank would be deposited into the Treasury to the credit of a trust fund account. The Bureau of Accounts was advised that (1) there is no statutory provision which would require the checks to be transferred to the custody of the General Accounting Office, and (2) since it appears to have been the intention of the parties concerned that the checks themselves rather than their proceeds should be held by the Government, it would not seem that such proceeds may properly be covered into the Treasury and credited to a trust fund account.

55. Allowance of credit to the Chase National Bank for checks lost in transit from the Panama Canal Zone to the United States. Mr. Tietjens and Mr. Reeves conferred with Mr. Church of the Treasurer's Office and Messrs. Batchelder

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and Heffelfinger concerning the allowance of credit to the Chase National Bank for certain Government checks which, after having been paid by the Cristobol branch, a Government depository, and charged to the Treasurer's account, were lost in transit to the United States. It was determined that credit would be allowed for the amount of such checks on the basis of information contained in copies of the transcript which accompanied the checks at the time of their destruction, and that the Department would advise the Comptroller General of the action taken.

56. Commodity Credit Corporation Obligations (See November 1942 report, item 13(e)). Public Debt raised the question of the authority of the Secretary to issue Treasury obligations in exchange for outstanding guaranteed obligations of the Commodity Credit Corporation. Mr. Tietjens advised that the Secretary had plenty of authority to make such an exchange.

57. Fiscal operations of Alley Dwelling Authority. In connection with the floating of an issue of bonds by the District of Columbia Alley Dwelling Authority, Mr. Tietjens and Mr. Reeves discussed with Mr. Simpson, of the legal staff

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of the Alley Dwelling Authority, and various members of the Fiscal Service of the Treasury Department, matters relating to (1) the disbursing of funds of the Alley Dwelling Authority by the Division of Disbursement, Treasury Department, and (2) the manner in which funds derived by the Alley Dwelling Authority from the present issue of bonds and from other sources would be handled by the Treasury Department.

58. Deposit and Custody of Funds of Alien Property Custodian. At the request of Mr. Maxwell, Assistant Commissioner of Accounts, consideration was given to the legal aspects of a request by Leo Crowley, Alien Property Custodian, that there be established an account with the Treasurer of the United States in the name of the Alien Property Custodian, in which funds coming into possession of his agency would be deposited and held subject to his order.

59. Revision of Department Circular No. 92 relating to special depositaries. In collaborating with Messrs. Batchelder and Frese of Under Secretary Bell's office, the

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above Department Circular which provides for the designation of special depositaries pursuant to the provisions of the Second Liberty Bond Act, as amended, is being revised. Such depositaries are permitted to make payment by credit to a "War Loan Deposit Account" of amounts payable on subscriptions made by or through them for bonds, notes, certificates of indebtedness and Treasury bills of the United States issued under authority of the Second Liberty Bond Act, as amended. In connection with this revision, Mr. Reeves and Mr. Wald, together with Mr. Batchelder and Mr. Frese, conferred with Mr. Smead, Chief of the Division of Bank Operations, and Mr. Cherry of the Office of the General Counsel of the Board of Governors of the Federal Reserve System.

60. Donations. (a) Abbott Laboratories to War Savings Staff. Mr. Julian Street, Jr., of the War Savings Staff, talked with Mr. Tietjens about working out a plan whereby Abbott Laboratories would donate to the War Savings Staff a collection of canvases which it has for use in the Treasury's bond campaign. A telegram was drafted which the

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Company would send to the Secretary offering the canvases and setting forth the terms under which they could be used. Among the conditions on which the paintings are to be donated are that they be exhibited as part of a nationally circulated art show and that they be donated to museums in communities which make an extraordinary show in bond sales. This part of the bond campaign is to be sponsored by the Special Activities Division of the War Savings Staff of which Mrs. Morgenthau is Director.

(b) Kellogg Foundation to Public Health Service. A letter was prepared for signature by the Secretary in reply to a communication from the Comptroller General requesting the views of the Treasury Department with respect to a proposal by the Federal Security Administrator that a donation of \$40,000 offered by the W. K. Kellogg Foundation to the Public Health Service for use in training community health educators be accepted on behalf of the United States by the Secretary of the Treasury pursuant to Title XI of the Second War Powers Act, 1942, and credited to the appropriation "75-30333, Emergency Health and Sanitation, Public Health Service (National Defense) 1943." The

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Comptroller General was advised that the Secretary of the Treasury would be pleased to accept the donation if it is determined by the General Accounting Office that the foregoing appropriation, or any other appropriation of the Public Health Service, is available to be expended for the purpose of training community health educators so that the intent of the donor would be effected if the amount thereof were transferred to such appropriation.

61. Legislation. (a) H. R. 1872 - "For the relief of J. E. McCoy and Son". A report, prepared by the Treasurer's Office, to the House Committee on Claims, on H. R. 1872, "For the relief of J. E. McCoy and Son" was revised. This bill would direct the Secretary of the Treasury to pay to J. E. McCoy and Son \$131.03, the amount of seven checks which, after being endorsed in blank by the payees, were cashed and specially endorsed by J. E. McCoy and Son. These checks were subsequently stolen from the mails by a thief who erased the special endorsements and negotiated the items. The report states (1) that although the question is not entirely free from doubt, it would appear that a check endorsed in blank by the payee,

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though subsequently specially endorsed, remains payable to bearer, and (2) quotes a statement from a letter of the Comptroller General to the effect that it had been reasonable for the Treasurer to assume that the endorsements had been stricken by a holder having the right to do so, and that the fact that erasures appeared on the checks was not legally sufficient to put the Treasurer on notice of a defect in the title of the banks which presented them for payment. The report concludes that in view of all the circumstances, it would seem that the granting of relief in this case would be tantamount to a gratuity by the Government.

(b) National Gallery of Art (Permanent Loan) (See October 1942 report, item 25). A proposed letter to the Secretary of the Treasury from the National Gallery of Art was sent to Mr. Tietjens by Mr. Cairns. This letter was prepared in anticipation of the passage of a bill permitting the deposit of \$5,000,000 by the Gallery as a permanent loan to the United States. The letter was returned to Mr. Cairns with a suggested change in language.

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(c) Authorization of foreign exchange transactions in connection with military activities (See November 1942 report, item 15). Mr. Reeves conferred with Col. Gilchrist of the Office of Chief of Finance, War Department, and Mr. Batchelder concerning the preparation of proposed legislation which would authorize disbursing officers of the United States to make exchange transactions of certain types. Such legislation would authorize the exchange of United States currency and coin and foreign currency and coin for checks of disbursing officers drawn in their official capacities, United States postal money orders, or for such foreign currency, coin, checks, drafts, bills of exchange or similar instruments as the Secretary of the Treasury may from time to time approve. This matter was discussed some time ago with representatives of the War and Navy Departments, and at that time it was agreed that the proposed legislation would be sponsored by the War Department. It now appears that the Treasury Department has informally, at least, advised the War and Navy Departments that it will sponsor this legislation.

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62. Administration of Appropriation: "Bureau of the Public Debt, Distinctive Paper for United States Securities".

At the request of Mr. Charles Schoeneman, Technical Assistant to the Secretary, there was considered a proposal to transfer administrative control of the above appropriation from the Bureau of the Public Debt to the Bureau of Engraving and Printing. Mr. Schoeneman was advised that there would appear to be no objection to the contemplated transfer, since the appropriation would be expended for the purpose intended by the Congress and would, in the final analysis, be subject to the control of the Secretary of the Treasury whether it were administered by the Bureau of the Public Debt or the Bureau of Engraving and Printing.

63. Assumption of office by new superintendent of Denver Mint. Mr. Tietjens and Mr. Reeves conferred with Dr. Howard, Assistant Director of the Bureau of the Mint, and Mr. Brenner of the Chief Counsel's Office of Foreign Funds concerning the type of receipt which should be required from a new superintendent of the Denver Mint for bullion and money to be turned over to him by his predecessor in office. It has been customary for superintendents of mints upon taking office to receipt

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for any money and bullion which has been previously inventoried by a mint committee and placed under seal, without requiring that a new inventory be taken of such money and bullion. However, Mr. Smith, who was recently appointed Superintendent of the Denver Mint, stated that he wished a complete count made of all values held in the Denver Mint including those under seal. In view of the expense which such an inventory would entail, Under Secretary Bell inquired whether Mr. Smith could execute a receipt stating that he was taking custody of certain sealed vaults said to contain stated quantities of money and bullion. Dr. Howard was advised that while there is no statutory provision which would preclude the acceptance of such a receipt, it would probably be very difficult to collect from Mr. Smith or his surety the amount of any shortage which might subsequently be revealed with respect to the values now held under seal, since it would be necessary to establish that the loss actually occurred while the values were in his custody.

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64. Dies Committee hearing. Mr. Houghteling of the War Savings Staff and Mr. Tietjens, as observers, attended a hearing before a subcommittee of the Dies Committee on April 2. William Pickens, also of the War Savings Staff, testified as to his supposed Communistic participation in various organizations from 1927 to 1940. A report of the hearing was made for the file in memorandum form, copies being sent to Messrs. Graves, Gaston, Houghteling and Harney.

65. Comptroller of the Currency - Litigation. (See December 1942 report, item 23). On March 19 the United States Circuit Court of Appeals for the Second Circuit handed down its opinion in Michelson v. Fenney, involving the Receivership of the City National Bank in Miami, Florida. The opinion reduces to approximately \$1,100,000 the judgment of \$2,444,301.99 given our Receiver by Judge Knox.

66. Public Debt - Litigation, United States Savings Bonds (See September 1942 report, item 24(a); January 1943 report, item 38(c) and (d). (a) The Gaverich case, which is the first case brought directly in a Federal court raising

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the question of savings bonds inscribed "A, payable on death to B", was tried before the United States District Court March 26, at Harrisburg. The Judge very clearly indicated his opinion but required briefs from the other parties and requested findings of fact and rulings of law. The case was continued until April 12 for final argument.

A pending case in Chicago involving about \$50,000 Series G bonds in which the same question is raised was discussed with Justice. At their suggestion Mr. Fuller was asked to confer with an attorney who had talked with him previously about the case with a view to securing submission of the bonds with a request for payment from the deceased owner's estate, with the understanding that payment would be refused and the Government would institute proceedings in the Federal courts. Whether or not this will be done has not been determined. Justice feels that unless the bonds are in our possession we should not ourselves institute proceedings.

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(b) The Ohlin case, in which the Probate Court for Cook County, Illinois, recently held that bonds registered in the name of A or B belonged to B upon the death of A rather than to A's estate, has been appealed to the Circuit Court where a trial de novo will be had.

(c) The Killick case has not reached the court. Some discussions are going on with a view to getting it into a Federal court, but nothing definite has occurred.

(d) The Shields case (New Mexico) presents a community property situation. It is claimed the wife used community funds to purchase savings bonds in the beneficiary form without the knowledge or consent of her husband and in fact against his wishes. The wife is dead and the husband is claiming an interest in the bonds on the ground that the money used to buy them was community property. This case has been discussed with Mr. Norr of Justice.

(e) The Maryland case, in which action has been brought in the District Municipal Court, was presented by a Washington attorney in a conversation with Mr. Cunningham. There are several collateral features in the case which may be of interest and may affect the position the Department takes.

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67. Public Debt, Financing. Mr. Tietjens and Mr. Cunningham passed on the legal sufficiency of the following issues:

- 2% Treasury Bonds of 1950-52, dated April 15, 1943, maturing Sept. 15, 1952, amount unlimited except \$2,000,000,000 to commercial banks.
- 2-1/2% Treasury Bonds of 1964-69, dated April 15, 1943, due June 15, 1969, amount unlimited. Commercial banks not permitted to own bonds until April 15, 1953.
- 7/8% Certificates of Indebtedness, Series B-1944, dated April 15, 1943, due April 1, 1944, amount unlimited, sales to commercial banks limited to \$2,000,000,000, or thereabouts.

68. Railroad Reorganization. (a) Seaboard Airline Railway (See February 1943 report, item 51). On March 30th, at a conference, attended by Mr. D. W. Bell, Mr. Heffelfinger, Col. Anderson, Co-Receiver of the Railway, and Mr. Tietjens, a price of \$1,750,000 was finally agreed upon for the sale by the Treasury to the Receivers of certain securities held by the Treasury as collateral for loans made pursuant to §210 of the Transportation Act, 1920. This offer is subject to the approval of the District Court of the United States for the Eastern

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District of Virginia. A letter was prepared for Mr. Bell's signature offering these securities at the price agreed upon at the meeting.

(b) Wilmington, Brunswick and Southern Railroad.

On March 22 a conference was held in Mr. Heffelfinger's office to consider the possible purchase for scrap of the above railroad. Messrs. Heffelfinger, Proctor and Tietjens represented the Treasury and a Mr. Irwin Geiger, a Washington attorney, represented a client, the Machine Tool and Equipment Company, who was interested in purchasing the obligation of the railroad held by the Treasury Department as he knew of the ordered sale of the properties, subject to the approval of the Interstate Commerce Commission. A letter was received from Mr. Geiger offering the Treasury Department \$15,000 cash for the note of the above railroad and the collateral securing same, evidencing a loan made pursuant to §210 of the Transportation Act, 1920. The railroad has petitioned the Interstate Commerce Commission for permission to abandon its line and sell its properties. A letter was sent to the Interstate Commerce Commission

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setting forth the offer and requesting the advice of the Commission. A letter was also sent to the Navy Department asking if it had any further interest in the continuation of the operation of the road.

The following work was done under the supervision of Assistant General Counsel Roth:

69. A compilation of the legislative history of section 403 of the Act of April 28, 1942 (Public Law 528, 77th Congress), as amended by section 801 of the Revenue Act of 1942 (Public Law 753, 77th Congress), relating to the renegotiation of war contracts. This compilation, which was prepared by Mr. Bernard S. Meyer and Mr. Sylvan Tobolowsky, sets forth the legislative history of each subsection of the Act of April 28, 1942, as amended, separately. In addition, that part of the legislative history which does not relate to any particular section of the Act of April 28, 1942, but to the law generally, is included and indexed with respect to subject matter.

70. Customs Regulations. The 1943 edition of the customs regulations, which will supersede the 1937 edition,

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has been completed. The preparation of this edition has involved an enormous amount of work, a very considerable part of which has been done by the Chief Counsel's Office, Bureau of Customs. The contents will be divided into two volumes, viz., the "Customs Regulations" consisting of regulations which are of general applicability and legal effect and concern the public, and the "Customs Manual" consisting of regulations which are effective only against persons in their capacity as officers, agents, or employees of the Customs Service and which do not prescribe procedure which the public should know in dealing with the Customs Service. The regulations will be made public, but the manual will be issued only to employees. A memorandum has been prepared transmitting the new edition to the Secretary and pointing out the substantial changes that have been made.

71. Overtime Compensation (See February 1943 report, item 40(c); March 1942 report, item 6). In Myers v. United States, relating to overtime compensation of

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Customs employees for regular tours of duty outside of the hours of 8 a.m. and 5 p.m., in which the Court of Claims rendered a decision against the Government on February 1, 1943, an application for rehearing in the Court of Claims has been made. Also a new proposed bill to eliminate excessive future liability is being prepared and there is pending an inquiry from the Comptroller General as to steps for reimbursement from interested parties under certain statutory provisions.

72. Duties on equipment purchased abroad for American Vessels. An analysis was made in a letter to the Bureau of the Budget of a bill proposed by the War Shipping Administration to suspend during the war section 466 of the Tariff Act of 1930 in certain cases. This section provides for duties on equipment purchased or repairs made abroad for American vessels.

73. War Production Board Directive No. 10 (See October 1942 report, item 18). A proposed order covering priorities to conform with war necessities to be issued by the

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Commissioner of Narcotics under authority from the Director of the War Production Board is being revised.

74. Narcotic Compromise Cases. A study is being made on simplification of the procedure for review of narcotic compromise cases to reduce the amount of work.

75. Practice Before Treasury Department. There is pending a proceeding to bar from practice before the Treasury Department members of the firm of Travis, Brownback and Paxson, New York attorneys for Howard C. Hopson and the Associated Gas system, before its receivership, because of participation in tax manipulations. This is an unusual case in scope and interest.

The following work was done under the supervision of Assistant General Counsel Luxford:

76. French North and West African Program (See February 1943 report, item 71). Lt. Col. Bernstein left on March 30th on his return trip to Africa. Prior to his departure, a substantial amount of material was prepared for him which might be of future assistance in his work in North Africa. Messrs. Rains and Murphy have arrived in Africa and have

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taken up their assignments there. Mr. Du Bois of this office has recently returned from North Africa.

(a) North African ad hoc and sequestration decree.

Treasury representatives in North Africa were successful in persuading the French, after extended discussions, to adopt a flexible and effective decree with respect to blocking of assets and imposition of other economic warfare controls within the Algerian area. The adoption of this decree represented a complete reversal of the earlier stand taken by the French in favor of a decree which would have been useless from the economic warfare standpoint and which would have led only to abuses because of its failure to provide for flexibility and an effective centralized administration.

In this connection, a question still exists with respect to the use of the Department's Proclaimed List in North Africa. A cable has been sent to Treasury representatives in North Africa designed to elicit sufficient information upon which to base a decision whether the United States

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Proclaimed List should be extended to North Africa. Messrs. Aarons and Minskoff are handling this matter.

(b) Banknote Procurement for French Africa. As a result of replies received to the cable sent to Algiers, banknotes for West Africa and Morocco are now in the process of manufacture or are ready for manufacture. The first delivery of West African banknotes is expected to be made on April 14th. Banknote paper and coloring matter ordered by the Banque de l'Algerie has been procured by the Bureau of Engraving and Printing and will be shipped during April. Mr. Aarons handled this problem.

(c) Inter-Departmental meetings. Mr. Aarons and other representatives from the Office of the Chief Counsel of Foreign Funds Control participated in the regular meetings of the Combined Committee for French North and West African Affairs, assisted in the drafting of numerous cables and served on a number of subcommittees dealing with French African problems.

(d) Supply problems. A meeting at the Office of Lend-Lease Administration concerning French payments for a part of the supplies furnished by Lend-Lease to North Africa was

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attended. The representatives of Lend-Lease and of the Department of State indicated that it is the present policy of this Government to maintain retail prices in North Africa at the November 8th level and to charge the French for supplies furnished accordingly. However, it was stated that it is considered desirable to obtain the full landed cost of goods wherever this proves possible without sacrificing political or economic advantages, and it was indicated that steps in this direction may be taken with respect to particular commodities from time to time. The Lend-Lease Administration requested the Treasury Department to investigate the mechanics whereby payment in francs might be obtained from the French and the francs converted into dollars. A memorandum was prepared by Mr. Johnston upon this procedure after discussion with Mr. Heffelfinger and members of the Bureau of Accounts.

77. Problems Respecting Allied Occupation of Axis Territory. Ten members of the Legal Division are now engaged almost full time in confidential studies and preparation of legal material necessary to a full understanding of the fiscal, economic, and banking background in eight Axis

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and Axis-occupied countries. A series of intra-departmental meetings were held to outline the types of problems which are likely to confront the Allied forces upon any invasion of Axis-held territory and to which careful study should be given. Among the subjects being studied are:

1. Physical aspects of the area.
2. Population.
3. Government and administration.
4. Laws relating to civil economy and civil rights.
5. Laws relating to economic warfare.
6. Economy of the area.
7. Transportation and communications.
8. Currency.
9. Exchange rates and cost of living.
10. Banking.
11. Fiscal.
12. Labor.
13. Personnel.
14. Miscellaneous.

Messrs. Aarons, Minskoff, Golding, Daum, Parker, Locker, Scott, Ackermann, Johnston, and Miss Mayer, in conjunction with members of the administrative staffs of Foreign Funds Control and Monetary Research are working on these matters.

A number of banking measures used by the Axis nations in territories occupied by them were collected in order to furnish background for measures contemplating the control of banking in invaded territory. These decrees included:

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1. Bank moratorium decrees. One decree declared a 30-day moratorium on banking, and the other extended the period of the moratorium and modified its terms.

2. Decree describing the functions of the Commissioner of the Bank of France. This is the device employed for utilizing the existing central bank and supervising its operation.

3. Decree establishing a bank of issue. This method is useful where either there is no available central bank or other conditions make it expedient to disregard what may be left of the old institution.

4. Decree setting up a Bank Control Office.

5. Regulations and standards of conduct for banks in occupied territories issued by the German Commissioner-Administrator.

78. Latin America Problems (See February 1943 report, item 76). (a) Argentina. The study of the Argentine situation continued. No additional names were designated as Special Blocked Nationals, notwithstanding the statement of Mr. Bohan, Commercial Counsel of the Embassy in Argentina, that the Embassy would recommend a considerable number of names as part of the program to place pressure upon undesirable persons. Action with respect to the Proclaimed List, however, is being vigorously pursued.

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Thus far there appears to be no reaction to the plan of export controls which the Embassy is presumably putting into effect in order to induce more effective cooperation from Argentina.

After a study had been made of all TFR-300 reports filed in the name of persons recommended for inclusion on the Proclaimed List, accounts of several such persons were investigated by Messrs. Lawler and Moskovitz in conjunction with the administrative staff. Information received from various sources is collated from time to time and is submitted to the administrative staff for further investigation or for nomination of the persons involved for the Proclaimed List or for designation as Special Blocked Nationals.

(b) Licensing Problems. Proposed Public Circular No. 18A was revised as a result of further study of the problems of establishing a standard of conduct for United States concerns in Latin America with respect to transactions involving blocked nationals. There was also prepared an amendment to General License No. 53 to authorize any transactions by any bank in the Generally Licensed Trade Area

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for the account of a blocked national in that area as if such transactions were solely for the account of such bank, and provided that no payment or withdrawal is made from any blocked account. In response to inquiry from the Federal Reserve Bank of New York concerning this amendment to General License No. 53, the view was expressed that this amendment authorizes remittances from free accounts in the United States to blocked nationals in the Generally Licensed Trade Area, provided that the remittance is effected through a bank in that area for the account of the blocked national.

A revised Circular Instruction to the Missions, dealing with Public Circular No. 18A, the amendment to General License No. 53, and related problems, was prepared by Messrs. Aarons, Lawler, and Moskovitz in conjunction with a representative of the State Department, and these documents and instructions are presently receiving the consideration of that Department.

(c) Special Blocked Nationals. During March eight persons were designated as Special Blocked Nationals. In conjunction with the administrative staff, a Confidential

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Circular which set forth the procedure for dealing with the definition of and distribution of lists of Special Blocked Nationals was revised. It is planned to distribute lists of Special Blocked Nationals only to financial institutions having substantial business connections with Latin America. The question of publicity to be given to Special Blocked Nationals and of the extent of distribution was sharply raised by the attempted distribution of the list by an export firm to its agencies in Latin America and by an inquiry from a foreign traders' association concerning Special Blocked Nationals. The administrative staff, in conjunction with Messrs. Lawler, Moskovitz, and Miss Klein, is engaged in working out these problems with the Board of Economic Warfare and the State Department.

(d) Trademark Problems. Members of the Legal Division cooperated with representatives of the State Department in preparing instructions to all Missions concerning the approach to be taken by the various governments of the other American Republics to the problems presented by trademarks owned by Axis enterprises. This also involved consideration

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of the necessity of amending the Sterling Drug Inc. representations in order to place Sterling Drug on an even footing with other American enterprises in the acquisition of trademarks in the other American Republics presently registered in the name of Axis enterprises. In this connection, Mr. Lawler discussed with the State Department and with representatives of Sterling Drug Inc. the proposals of the Minister of Hacienda of Colombia and of the Minister of Hacienda of Costa Rica envisaging the creation of local government owned enterprises managed by Sterling Drug to exploit local trademarks and patents in the pharmaceutical field and to aid in building up a domestic drug business. Final decision was not made on either matter, and our Missions in both countries were instructed to obtain further information.

(e) Sterling Drug Inc. - Latin American Investigation.

The report of the investigation of Sterling Drug Inc. in the other American Republics, which was made by Mr. Moore and Mr. Frohlich, has been completed, and the executives of the company, together with their counsel, were called to the Treasury Department and questioned concerning: (1) the

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Costa Rican trademark situation; (2) the Colombian trademark situation; (3) the absence of certain records in Mexico; and (4) certain correspondence in Chile indicating continued relations with Quimica Bayer. The ensuing action with reference to (1) and (2) above was discussed in connection with trademark problems generally; and with reference to (3) and (4) above, the officials of Sterling Drug Inc. agreed to submit, in writing, complete information concerning these items and concerning all contacts of any sort between the employees of Sterling in South America and the employees of I. G. Farben in South America since January 1, 1942.

The investigation in South America further showed that A Chimica Bayer, of Brazil, furnished \$900,000 in excess of its normal requirements to the German Embassy through surreptitious means within a period of 15 months, during which William E. Weiss, Jr., formerly of Sterling Drug, was a partner in A Chimica Bayer. A request for further information and explanations was made of both the Sterling officials and Mr. Weiss. Sterling officials explained that Mr. Weiss' partnership was purely nominal

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and that he had no active part in the business. The explanation from Mr. Weiss has not yet been received. Mr. Lawler and members of the administrative staff worked on this matter.

(f) Insurance Problems. A request was sent to the Mission in Peru for information concerning insurance activities of the Atlas Insurance Company with Proclaimed List nationals. Atlas has been insuring a number of Proclaimed List risks without retaining any part of the risks insured. In several cases, it has ceded the complete risk to the Swiss Reinsurance Company. Unless a satisfactory explanation is obtained, inclusion of the Atlas Insurance Company on the Proclaimed List will be recommended. An investigation has also been opened as part of the Holborn Panamerican Corporation investigation to determine if two Mexican insurance companies should be included on the Proclaimed List. Mr. Kehl and members of the administrative staff are working on these problems.

79. Hawaii (See February 1943 report, item 75). The following developments took place with respect to the freezing control program in Hawaii:

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(a) Revocation of currency hoarding prohibitions.

A letter was received from Mr. Tree in Honolulu, stating that the revocation or relaxation of General Orders No. 51, issued by the Military Governor, prohibiting the hoarding of currency in Hawaii, was under discussion. Subsequently, public announcement was made of the return to the civil authorities in Hawaii of many of the functions hitherto undertaken by the Military Governor, including the control of banking and currency. Another letter from Tree stated that General Orders No. 51 would be revoked, and asked whether the Treasury Department wished to recommend to the Civil Governor an amendment to the Regulations Relating to Currency which would embody the substance of General Orders No. 51. Tree was advised that the Treasury Department did not desire to make such a recommendation.

(b) General License for Japanese in Hawaii. The Department received a reply from the Secretary of War to its letter of February 27, concerning the proposal that treatment similar to that embodied in General License No. 68A be accorded to Japanese subjects in Hawaii. The Secretary of War stated that he desired to ascertain the

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views of General Emmons on this question, and requested that the Treasury representative in Hawaii discuss the matter directly with General Emmons. A letter, which was prepared by Mr. Johnston, was sent to Mr. Tree on March 16, asking him to discuss this matter in full with General Emmons or General Green.

(c) Vesting of Japanese Banks. The Department was advised by the office of the Alien Property Custodian that it intended either to vest or undertake the supervision of the three Japanese banks in Hawaii at an early date. The question of the exact procedure to be followed when this should occur was discussed with Mr. Anderson of the office of the Comptroller of the Currency. A tentative procedure was then outlined, and drafts of all documents which would be necessary were prepared by Messrs. Aarons, Alk and Johnston. A meeting was then held between representatives of the Treasury Department and of the office of the Alien Property Custodian. The agreement of the office of the Alien Property Custodian to the Treasury proposals was obtained. Action in this matter has been delayed, however, pending a decision by the office of the Alien Property

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Custodian as to whether it will retain Mr. Brooks to complete the liquidations.

(d) Internee Problems. Foreign Funds Control has requested the Honolulu Office to handle withdrawals from Hawaiian accounts of civilian internees interned in the continental United States on a specific licensing basis, rather than under General License H-17, issued in Hawaii on January 18, 1943. This action was taken so as to bring such accounts within the procedure established by Confidential Circular No. 166.

(e) Securities Regulations. A letter was received from Mr. Tree stating that an attempt is being made by certain financial interests to secure the repeal or modification of the Regulations Relating to Securities. Mr. Tree was asked to keep the Department advised of any further developments in this connection. Meanwhile, consideration is being given to the desirability of recommending a change in the Regulations which would eliminate the requirement that securities in Hawaii be deposited in a securities custody account. The first draft of a general license

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which would accomplish this result has been prepared by Mr. Johnston and a meeting is to be held soon to discuss this action.

80. Diplomatic Pouch Reports (See November 1942 report, item 66). The British have complained informally to the State Department concerning the "plethora of forms" which the King's Messengers (British couriers) are required to execute on their departure from and arrival in the United States. Collectors of Customs have prepared such forms to obtain information which our instructions of December 16, 1942 required to be submitted concerning all foreign diplomatic pouches. Continuance of the reports is considered desirable as a symbol of control over diplomatic pouches and as a means of checking on errors made by Collectors of Customs in granting diplomatic immunity in some cases. However, in order to avoid undue delay of couriers, a standard form will be adopted for use in all ports. It is contemplated that couriers carrying foreign diplomatic pouches will be able to fill out part of the form before arrival at the port. A draft of the form and of a circular

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letter to Collectors of Customs explaining its use has been prepared by Mr. Aarons and members of the administrative staff and is under consideration.

81. Litigation Problems (See February 1943 report, item 72). (a) Draeger Shipping Co., Inc. v. Alien Property Custodian. In connection with the proposed appeal from the decision of the District Court, detailed studies of the following matters are being made: (1) The legislative history of the Trading with the enemy Act, and particularly section 9 thereof; (2) The legislative history of Title III of the First War Powers Act, 1941, including the minutes of committee meetings; (3) The minimum administrative procedure required under the 5th Amendment; (4) The right of judicial review of administrative decisions in the absence of statutory provision therefor; (5) The necessity of exhaustion of administrative remedies prior to resorting to the courts.

The purpose of these studies, which are being made by Messrs. Alk, Golding, and Smith, is to establish that the remedy afforded by section 9 of the Trading with the enemy

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Act is not applicable to action taken pursuant to section 5(b) of the Act, and that before resort to the courts is had, it is necessary that the administrative remedies afforded should first be exhausted.

(b) Watkins v. Morgenthau, et al (See January 1943 report, item 60(a)). A stipulation has been signed providing for the dismissal of the action as to Secretary Morgenthau and Mr. Pehle. The Department wrote to the attorneys for the plaintiff that if such a stipulation were executed and filed, we would not require the filing of any TFR-300 reports until after the termination of the litigation. This action was taken because if the plaintiffs are found to be American citizens, the Department will not treat them as nationals of Japan and no reports will be required. Mr. Alk handled this case..

(c) Schnyder v. Frederick Draeger, et al (See February 1943 report, item 72(c)). On appeal to the Appellate Division from an order of Judge Carew holding that a good equitable cause of action was stated, the order was reversed on the grounds that the action was at law and not in equity and plaintiff was given ten days in which to amend his complaint. The Department is following the case

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closely but is not inclined to intervene as none of the parties are questioning the validity of the directive license issued by Treasury. The Department still has under consideration the question whether criminal prosecution should be instituted against the company to which the directive license was issued. Messrs. Lawler, Lesser, and Alk are working on this case.

(d) Bank of Belgium v. Bank of France; Bank of Poland v. Bank of France. Both the Bank of Belgium and the Bank of Poland have commenced action against the Bank of France based upon the alleged conversion of certain gold deposited with the Bank of France for safekeeping. In both cases it is claimed that the Bank of France failed to follow the instructions of the depositing bank for the re-delivery of the gold. The actions were instituted by attachment of the funds of the Bank of France on deposit with the Federal Reserve Bank of New York (a sum in excess of \$200,000,000); the Bank of France filing an answer setting up, among other defenses, force majeure. An order has been entered directing the Bank of France to furnish an extensive bill of particulars of the defenses

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interposed by it. An appeal from such order is now pending in the Appellate Division.

One Jean Martial since February 1940 has been representing the Bank of France in this country, and prior to November 8, 1942 the Department had approved applications to transfer from certain accounts of the Bank of France sufficient funds to pay his personal and business expenses. However, since November 8, 1942, the Department has refused to take any action which might be construed as recognition of Martial as the representative in this country of the Bank of France. Mr. Martial has now asked the Department to reconsider its action and has urged that in the interests of the Bank of France his position as the bank's representative should be recognized, particularly in connection with the pending litigation. The French Military Mission has expressed a similar point of view. Because of the political implications involved, the views of the State Department on this subject have been requested. Mr. Alk and members of the administrative staff are handling the case.

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(e) United States v. Helmut Weiner. . An indictment was returned in New York charging the defendant with violating section 3(a) of the Trading with the enemy Act by taking large bills from one of the German saboteurs and exchanging them for bills of a smaller denomination. The defendant moved to quash the indictment on the ground that under General Ruling No. 11 such acts were no longer rendered unlawful. Judge Leibell held that the acts complained of were a violation of section 3(a) and were specifically not authorized by General Ruling No. 11. He construed paragraph 4 of the General Ruling, licensing certain acts rendered unlawful by section 3(a), as not including transactions which fell within the definition of "trade and communication with an enemy national", in the General Ruling. He adopted the interpretation argued in the brief of the United States Attorney which was filed after preliminary conferences with this office. The decision is being studied by Messrs. Alk and Golding in connection with the proposed revision of General Ruling No. 11.

(f) Brown v. Morgan (See November 1942 report, item 57;

September, item 48(d); April, item 58(b)). After examination of the briefs presented to the Appellate Division of the New York Supreme Court, it was concluded that it would be unnecessary at this time for the Treasury Department to intervene in the litigation or to present an elaborate statement concerning the problems arising as a consequence of Mr. Justice Eder's decision, inasmuch as the effect of defendant's failure to apply for a Treasury license was apparently not at issue in the appeal. Accordingly, the only action taken was to issue Public Interpretation No. 11 on March 8, which points out merely that it is Treasury Department policy to permit any party to a transaction to apply for a license to engage in such transaction. Thereafter the Appellate Division reversed the lower court decision, the opinion dealing solely with matters in which the Treasury Department has no interest. It is expected that the Appellate Division opinion will be appealed to the New York Court of Appeals. Messrs. Aarons, Reeves, Alk, Golding worked on this case.

(g) Luzon Stevedoring Company, Inc. v. Japanese s/s Yuzan Maru et al. In connection with this lawsuit in New

York, the Department received a copy of an answer filed by the National City Bank of New York asserting a lien against so much of a fund on deposit with that bank as should be determined by the court to be the property of Luzon Stevedoring Company, Inc. A letter, which was prepared by Mr. Johnston, was sent to Shearman and Sterling, attorneys for the National City Bank, stating that the filing of such an answer requires a license under General Ruling No. 10A, and advising that no further action should be taken to assert the lien claimed or to secure its adjudication until an appropriate license has been obtained. A reply was received from Shearman and Sterling stating that it was not intended to take any such further action or to secure the adjudication of the lien claimed without first obtaining a Treasury license.

82. Enforcement and Investigations (See February 1943 report, item 74). (a) Criminal Cases. Antonio Zavala Valdes was indicted in the Eastern District of New York in connection with his undeclared importation into the United States from continental Europe of \$19,500 in United States currency on April 16, 1942. Zavala was charged with

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violating section 35A of the Criminal Code (U.S.C., title 18, sec. 80) and section 593(b) of the Tariff Act of 1930 (U.S.C., title 19, sec. 1593(b)). Messrs. Lesser and Quint worked on this case.

Plutarco Paz was convicted, after trial, in the United States District Court for the District of the Canal Zone of violating Section 5(b) of the Trading with the enemy Act, as amended, in connection with his undeclared importation into the Canal Zone from South America of \$4,800 in United States currency. The indictment was based on General Ruling No. 5. Paz was fined \$2,500, which was promptly paid. The \$4,800 are being held by the Canal Zone authorities, and forfeiture proceedings in connection therewith have been instituted.

A group of persons was arrested in the Northern District of Illinois on a charge of conspiracy to violate the Trading with the enemy Act, as amended, in connection with an alleged scheme to export gold bullion in violation of Section 1C of Executive Order No. 8389, as amended. It is alleged that the prisoners planned to deliver the gold to a German submarine off the coast of Massachusetts. The

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investigatory work was done by the Federal Bureau of Investigation and the Secret Service. Foreign Funds Control was consulted, however, by the Criminal Division of the Department of Justice before the arrests were made. Mr. Lesser is working on this.

(b) Investigations. At the request of the House Subcommittee on steel shortages, an investigation was instituted by Messrs. Lesser and Schwartz concerning the Nirosta Corporation, a patent holding company in which Krupp and certain American steel companies were stockholders and which is now vested by the Alien Property Custodian.

A field investigation concerning Lazard Freres & Co., and Capital Maurice Boyer, United States representative of the Banque de Paris et des Pays Bas, has been concluded by Mr. Lesser and formal interrogation will be conducted.

A final report of the Topken investigation is being prepared by Messrs. Lesser and Schwartz.

A final report of the Wegener investigation has been completed by Messrs. Lesser and Carolan.

The investigation of Associated Minerals & Metals was closed, and discussions were conducted with counsel for the

company and with the representatives of Senator Guffey. In consequence of the findings of the investigation, the application of the company to be unblocked was denied. Messrs. Lawler and Kutash in conjunction with the administrative staff handled this.

The investigation of the Ore & Chemical Company was concluded and various conferences were held with representatives of the company, the shareholders and the Alien Property Custodian. The Alien Property Custodian's office stated that the enterprises would be vested provided that a Treasury license (permitting the sale from the "Swiss" holding company to the three American shareholders) were removed from the case. Documents were prepared by Messrs. Lawler and Warner to annul this license, which was granted on September 19, 1941, on the basis of misrepresentation and failure to disclose material facts.

Mr. Lawler had a lengthy conference with Mr. Otto Bemberg concerning ownership and relations between the Bemberg enterprises in South America and the Bemberg enterprises in France.

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A study of the Ciba, Sandoz and Geigy matter was continued by Mr. Lawler and various conferences were held with the representatives of the company and the Swiss Legation concerning remittances to Sandoz, Basle, for certain strategic materials sold for its account in the United States.

Messrs. Lawler and Kutash continued the studies of the Lanova Corporation; Charles Englehard and the twelve corporations controlled by him (Englehard, whose connections and conduct have brought him under grave suspicion, controls the production in the United States of the highly strategic material, platinum, and is generally described as the "Platinum King" of America. The results of this study were forwarded to the Alien Property Custodian, who has vested a portion of the enterprises and is examining the rest, and were also transmitted to the Board of Economic Warfare and the Federal Bureau of Investigation); and Garcia & Diaz, exporters and ships' agents, who are under suspicion of subversive activity.

83. License Problems (See February 1943 report, item 77). (a) Policy with Respect to the Withdrawal, Release or other Disposition of Blocked Assets of Enemy and Enemy-

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Occupied Countries and their Inhabitants. Many questions have arisen with respect to the policy to be followed as to the release of blocked assets of persons within enemy and enemy-occupied countries. Many applications were presented, based upon judgments entered in the United States or upon documents executed in enemy territory.

The Treasury has consistently denied applications for the release of such funds except under unusual circumstances such as when a trust clearly was established in favor of the applicant. However, the reasons motivating the Department in taking such action were ordinarily not disclosed. The Department has now decided that the general public should be advised of the policy of the Foreign Funds Control in this respect and the underlying reasons. Conferences have been held with members of the administrative staff which have resulted in clearing up many confusing points pertaining to such policies. A press release describing in detail the policy which is being adhered to and the reasons therefor is being prepared by Messrs. Lawler, Lesser, Reeves, Alk, Kehl, Moskovitz and members of the administrative staff.

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Many letters have been received inquiring why applications to release or withdraw blocked funds or to pay judgments have been denied. An effort is being made to answer such letters by assigning the reasons actuating the Department in making such decisions. These letters are initially prepared in the legal division by Messrs. Alk, Kehl and others, and are routed through the administrative staff. In addition, an effort is being made to have members of the legal and administrative staffs present at all important conferences with applicants or their attorneys, so that persons coming to Washington for conferences may know that their applications are receiving prompt and careful attention. This policy both with respect to letters and conferences appears to be working successfully.

(b) Rohner-Gehrig Company (Hungarian Leather) (See January 1943 report, item 65(d)). Rohner-Gehrig Company has been acting as agent for certain Hungarian leather interests and from time to time filed applications for the payment of certain fees and expenses, the last application

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being for certain attorneys' fees. The Swedish Legation (Department of Hungarian Interests) complained to the Department that the payments made by Rohner-Gehrig Company were unauthorized. After conferences with the State Department, it was decided to approve the application, after the Swedish Legation had a reasonable opportunity to call to the attention of the National City Bank (the depository of the funds) that Rohner-Gehrig Company had no authority to draw upon the account. In view of the fact that litigation may ensue, a letter was written to all the parties calling attention to the fact that the Treasury Department in issuing licenses did not pass upon questions of private rights and liabilities, that the licenses were merely permissive and removed only the prohibitions imposed by the Trading with the enemy Act. Messrs. Alk, Kehl worked on this.

(c) Licenses in connection with certifications under section 25(b) of the Federal Reserve Act. The State Department consented to the inclusion in certifications under section 25(b) of the Federal Reserve Act, as amended, and in Treasury licenses issued with respect to the accounts of

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foreign governments and foreign central banks, of language clearly indicating that the proceeds of investments and reinvestments of these accounts are also certified and licensed. This will reduce the number of certifications and the number of licenses which will have to be issued. Messrs. Aarons and Brenner handled this matter.

(d) Transfer of Earmarked Gold. The Bank for International Settlements asked the Federal Reserve Bank of New York what its reaction would be if it were notified of an agreement that the Bank for International Settlements would transfer to the Swiss National Bank certain gold held on earmark for it by the Federal Reserve Bank whenever appropriate licenses were issued under the freezing control and the gold laws. It was felt that this was an effort to discharge a Swiss franc obligation with dollar assets and that it clearly came within the scope of General Ruling No. 12. The Federal Reserve Bank was advised that it should inform the Bank for International Settlements that if it received notice of such an arrangement, it would reply that the contract was void under General Ruling No. 12 and the

applicable provisions of the gold laws. Messrs. Aarons and Brenner worked on this matter.

(e) Licenses involving ad hoc blocked nationals. The applications of E. K. Halbach and F. W. von Meister for unblocking were denied and all interested parties were notified of the decision reached. Mr. Lawler in conjunction with Mr. O'Connell and members of the administrative staff worked on this matter.

Mr. Lawler held discussions with representatives of the Chilean Embassy and the National City Bank of New York concerning the application for unblocking the accounts of Arturo Lopez Perez and the sale of the Sudam properties. On the basis of information supplied by our Mission in Buenos Aires, it was decided to deny both applications.

(f) Reinhart Cotton Company. A reply to a question raised by the Swiss Legation was drafted by Messrs. Lawler and Kutash, dealing with the problem of excluding holders of business enterprises operating licenses from the benefit of the general license applicable to the country of which the licensee is a national.

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(g) General License re Living Expenses. As a result of study of reports under General License No. 11 and of consideration of the problem by the Enforcement Committee, draft of a revision of this general license is under consideration by Messrs. Moskovitz, Cassoday and Miss Klein so as to limit the amount which any one blocked national and his family may withdraw from a blocked account to \$500 per month and to limit the withdrawals from any one blocked account to the same figure.

(h) Miscellaneous. Conferences were held and an approval wire was prepared on an application involving the payment of fees and the transfer of funds from one bank to another in connection with the sale of the ship Arena by a blocked Panamanian corporation to the Irish Free State Government. Miss Klein and members of the administrative staff worked on this.

A final report is being prepared by Messrs. Lesser and Minnick on the application of H. Peter Roessiger to be restored to the privileges of General License No. 42. Roessiger was formerly the United States representative of the French dyestuffs combine.

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Mr. Lesser held conferences with counsel on the applications of Jule and Suzanne Levee and David M. Van Buren to be restored to the privileges of General License No. 42.

84. Hearings (See January 1948 report, item 74). Hearings were conducted on several applications, two of which were under General Ruling No. 13 and two for generally licensed status. Messrs. Cassoday and Kutash participated in these hearings.

(a) Ferro Metal & Chemical Corporation. A hearing was conducted on the application for unblocking filed by the Ferro Metal & Mineral Corporation, dealing in manganese and other ores. The matter involves the problem of ownership of a blocked domestic corporation by a Swedish corporation, which in turn is alleged to be owned by a generally licensed national within the United States.

(b) Dr. George J. Farber. A General Ruling No. 13 hearing was conducted on the application for unblocking filed by Dr. Farber, radiologist at John Hopkins and at one time President of the Baltimore Chapter of the Deutsche-Americanische Berufsgenossenschaft. Denaturalization proceedings against Dr. Farber have been authorized by the Department of Justice.

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(c) Dr. Julius Weltzien. A hearing was conducted on the application for unblocking filed by Dr. Weltzien, former president of the Schering Corporation of Bloomfield, New Jersey, and before that, president of Schering A. G., Berlin, Germany.

(d) Herman Kollmar. A hearing was held on Herman Kollmar's application to have his accounts unblocked. Kollmar was formerly the Berlin representative of the Chemical Bank & Trust Co. of New York.

(e) Jacob Cohen. A hearing was held on Jacob S. Cohen's application to be restored to the privileges of General License No. 42 by Messrs. Lesser and Cook.

85. Securities (See February 1942 report, item 78).

A proposed public circular has been drafted by Messrs. Lesser and Ackermann which would prohibit sales of securities out of omnibus accounts or the depositing of securities into omnibus accounts unless the depositing bank either has disclosed the identity of the beneficial owner, or has certified that such beneficial owner is of the same nationality as such bank and has agreed to disclose the identity of the beneficial owner, on request, to the

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United States mission. Exceptions are proposed for transactions effected under the neutral general licenses or pursuant to powers of attorney issued to the bank of deposit prior to March 18, 1942.

86. Currency Control. Discussions were held with representatives of the British Embassy and the State Department concerning securities and currency control with respect to passengers between the Western Hemisphere and Europe. British regulations for passengers west bound from Europe to the Western Hemisphere prohibit the taking of any securities and of all except small amounts of currency. A declaration to the effect that no prohibited securities or currency are carried is presently required to be executed before a British consular officer. It has been proposed that passengers destined for the United States execute such declarations before a United States officer and also that the securities regulations be relaxed so as to permit persons to mail the securities to addressees in the United Kingdom or the United States, where they would be subject to local controls. Discussions were also held concerning contemplated control of securities and currency carried

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by passengers going from the Western Hemisphere to Europe and passing through British or American ports. Mrs. Rogan is working on this matter.

A study was made by Mr. Moskovitz of the decrees of the Latin American republics relating to currency control and a file was prepared containing the provisions of the decrees of several countries having the better types of control. A form of decree was prepared which was a synthesis of the best features of these decrees.

Mr. Moskovitz considered a proposed airgram to the Missions, in conjunction with the Administrative Staff, requesting information concerning the desirability of setting a date after which no currency would be accepted by the Treasury Department on a collection basis.

87. Patents Problems (See February 1943 report, item 85). Upon request, the Lend-Lease Administration was presented with drafts of a special patent regulation designed to assist the transfer, under Lend-Lease agreements with Great Britain, of British patent rights owned by persons in the United States. The regulation, issued under Section 5(b), would

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prohibit the transfer to any person outside of the United States of rights with respect to British patents but provides that such rights may be acquired by the United States for Lend-Lease transmission to Great Britain. Mr. Kehl worked on this matter.

68. Trade and Communication with Enemy Nationals (See February 1943 report, item 79). The study of specific problems and violations arising in connection with transactions by American concerns in the European neutral countries with enemy nationals has been continued by Messrs. Lawler and Moskovitz. Letters involving these problems were sent to General Motors Corporation, Acheson Grafite Company and Eastman Kodak. After conferences were held with representatives of General Motors Corporation, that concern agreed to instruct its subsidiaries in Sweden and Switzerland and its agency in Finland not to engage in any transaction with an enemy national, to comply with General Ruling No. 11 in all respects as a standard of conduct, and to consult with and obtain the advice of our Missions.

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An explanation was requested of the Standard Oil Company of New Jersey concerning insurance on oil sent to Spain, effected with Hispano Americana de Seguros, a Spanish insurance company which is presently being investigated as a possible Axis cloak. Mr. Kehl is working on this.

Messrs. Lawler and Moskovitz are considering the proposal by the State Department to revise the licensing practice with respect to transactions by American firms in the European neutral countries with firms in enemy territory so as to repose greater authority in the London Mission. Also a study is being made, particularly with respect to Switzerland and Sweden, of the necessity and advisability of retaining licensing authority in Washington to be handled through the parent offices of the American firms involved so as to avoid political and local repercussions. The study also involves consideration of the pertinent local law.

The Circular Instruction to the Missions dealing with the handling and processing of applications involving enemy nationals who are not also proclaimed list nationals has been revised by Messrs. Lawler, Aarons and Moskovitz after conference with a representative of the State Department.

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It delegates authority to the Missions to act in certain types of cases and outlines those in which action may be taken only in Washington.

89. Control of Traffic in Financial Instruments. Further developments took place in the program contemplating control of traffic in checks, drafts, bills of exchange, and promissory notes which have been within various blocked countries. Discussions were held with the representatives of the State Department, Office of Censorship, and the British Embassy concerning the General Ruling and the joint Censorship Directive to be issued by the United States and British Offices of Censorship. Mr. Aarons and Mrs. Rogan cooperated with the members of the administrative staff in studying and revising instructions to be sent by the State Department to the United States Missions abroad, and in a memorandum to the State Department explaining the purposes of the General Ruling. Further drafting work is being done in connection with the press release and customs instructions which will accompany the General Ruling.

90. Property Census Reports (See February 1943 report, item 87). Continued drafting work was done on

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regulations, forms and instructions with respect to TFR-500, and meetings held with representatives of various industry groups, including bankers, brokers, importers, exporters, insurance representatives, and railroads by Messrs. Arnold and Reeves with representatives of Monetary Research Division.

91. Alien Property Custodian Relations (See February 1943 report, item 86). Members of the administrative staff and Messrs. Lawler and Warner worked on a project looking toward the solution of pending inter-custodian problems, with particular reference to the problem of securities physically located in one country and issued by a corporation domiciled in another country.

Conferences were held with representatives of the Office of the Alien Property Custodian relative to the procedure to be followed by the Treasury Department in releasing control (1) of special accounts arising under Alien Property Custodian General Order No. 11, in connection with patents of blocked nationals and (2) of interests vested by the Custodian in estates in which there are both enemy and non-enemy blocked interests. A proposed

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amendment to Confidential Circular No. 180 relative to the latter problem was prepared by Mr. Cassoday and Miss Klein.

Mr. Lawler held conferences with representatives of the Alien Property Custodian and the Office of Special Service who have under consideration the reopening of the Silesian-American Corporation case, involving a loan of \$2,700,000 from IKAP to the Silesian-American Corporation.

92. Practice of Attorneys Before Foreign Funds Control (See January 1943 report, item 65). A circular was prepared by Messrs. Aarons and Brenner for distribution in the Federal Reserve Banks and in Washington with respect to the practice of attorneys and other representatives before Foreign Funds Control. It instructs all officials and employees not to recognize any attorney who has been disbarred from practice before the Treasury Department.

93. Dutch Decrees (See January 1943 report, item 69). Mr. Minskoff conferred with Mr. Hackworth of State Department concerning the course to be adopted in connection with the two recent Dutch Decrees. Various problems were discussed incidental to the type of recognition that should be extended to such Decrees and whether the means for

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extending the recognition should also be a vehicle for clarifying the State Department's position on the original Decree of May 24, 1940. Also considered were the problems involved in dealing with requisitioned property of Dutch nationals. A memorandum was written setting forth at length the nature and subject matter of these discussions.

94. Miscellaneous Studies, Memoranda and Legal Problems (See February 1943 report, item 80). (a) Post-war (See February 1943 report, item 84). Continued consideration is being given to international financial and economic post-war problems.

(b) General Ruling No. 11 revision. Further drafting work has been done and memoranda prepared by Messrs. Alk, Moskovitz and Daum with respect to revision of General Ruling No. 11.

(c) Standards of conduct. A public interpretation and an amendment to General Ruling No. 4 were drafted by Messrs. Cassoday, Locker, and Miss Klein, setting forth the standard of conduct to be followed by persons dealing with nationals of blocked countries resident in the United States.

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In connection with this program, a study has been made by Messrs. Lesser and Cook of administrative precedents and legal sources as to the detail properly to be employed in advising the public what steps need be taken or omitted in order to avoid violating an ultimate prohibition.

(d) Preferences. In connection with the reconsideration of the Department's "preference policy," a study has been made by Messrs. Lesser and Cook concerning the rights of domestic creditors with respect to property of absent debtors.

(e) Foreign Exchange. The study of applications for licenses to make remittances to or receive remittances from Switzerland in connection with current foreign exchange problems is being continued by Messrs. Lesser and Carolan.

(f) Powers of Investigation and Enforcement under Section 5(b) of the Trading with the enemy Act. Mr. Johnston prepared a memorandum discussing in detail the subpoena power and the power to conduct searches and seizures in connection with the enforcement of section 5(b), as well as various other legal and administrative avenues which are available for this purpose.

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(g) Form TFR-300 - Disclosure of Information. A memorandum, dealing with the considerations involved in disclosing to the Dutch Government information contained on Form TFR-300 regarding their nationals was prepared by Mr. Minskoff. Among the problems discussed were such items as the legal liability likely to be incurred as a result of such disclosure, the moral obligation owing to the persons who risked much in order to comply with our Order, the good will features of the problem, the Department's past history in dealing with other similar requests, the attitude of the British in handling the analogous situation with respect to information secured by them, the practical difficulties which beset the furnishing of such information, particularly at the present time, and the grounds for distinguishing the Dutch request from that of the United Kingdom. On the basis of the analysis of the various factors, the conclusion is reached that it would not be advisable to comply with the request of the Dutch Government that such information be made available to it.

(h) Dubonnet Interests. Plans for working out a legal basis for the operations of the Dubonnet interests in

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this country, both with respect to the Executive Order and various state statutes with which they must comply, were discussed by the representatives of the Dubonnet interests and Mr. Lawler and Miss Klein.

(i) Rulings. Legal rulings on a variety of questions were made, including the following:

A license is not necessary in order for a blocked corporation to submit a plan of reorganization under Chapter 10 of the National Bankruptcy Act;

Government agencies making payments to firms in the United States who are doing business on behalf of blocked nationals need not inquire whether such firms have a license to receive payment on behalf of such blocked nationals;

The transmission of a power of attorney to Sweden on behalf of an American heir of a Swedish estate may not be effected pursuant to certification under General License No. 49;

The proceeds of the redemption of United States Savings Bonds registered in the name of a husband and wife, only

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one of whom is a blocked national, should be deposited in an appropriate blocked account, regardless of whether the request for redemption is made by the spouse who is not blocked;

The payment into a blocked account of the proceeds of the redemption of bonds purchased in Hawaii but not bearing the restrictive phrase "Subject to Executive Order No. 8389, as amended" is not required by the mere fact that the registered owners are Japanese nationals residing in a war relocation center and are the owners of other bonds bearing the restrictive phrase;

In view of General License No. 37, banking institutions in the United States may continue to make all payments, transfers and withdrawals from accounts of service men who are reported missing or captured; and

No application for unblocking or request for a hearing under General Ruling No. 13 will be entertained until necessary TFR-300 reports have been filed.

95. Silver (See February 1943 report, item 89).

The War Production Board requested the views of the Treasury Department with respect to the use of Treasury silver by the Defense Plant Corporation in overhead high-voltage power lines. After determining that such power lines were a part of the plants of power companies, the Department informed the War Production Board and the Defense Plant Corporation that this use was within the scope of the contract of May 6, 1942.

A contract was entered into between the Secretary of the Treasury and the Metals Reserve Company which provides for purchases by the Treasury for the account of the Metals Reserve Company of silver contained in gold deposits. As a result, the depositors will obtain the market price for their silver but the Treasury will continue to quote a price well below the market in order to discourage the sale of silver to it. In addition, the stock pile for critical war uses will be augmented by approximately 1,000,000 ounces per year.

In its efforts to obtain an appropriation of \$4,000,000, to cover the accounting loss which will be sustained when

uncurrent silver dollars are melted, the Bureau of the Mint met with resistance from the Senate Appropriations Committee. In accordance with the Committee's suggestion, an amendment was drafted which, instead of appropriating funds, provided that the loss should be charged against the seigniorage obtained when this material is coined into subsidiary silver coin. Messrs. Aarons and Brenner worked on these matters.

96. Chinese Stabilization Agreement. The Stabilization Board of China found that it had acquired larger dollar balances under the Stabilization Agreement than it needed. Consequently it wished to convert a portion of these dollars into yuan but only if by doing so it would not reduce the total amount of dollars which would be available in the future. The Board was informed that the Treasury felt that such a conversion would not reduce the amount available in the future. It was also suggested that the Board follow this procedure in the future since it must pay interest to the Treasury on yuan balances which the Treasury acquires in return for the dollars, and this interest exceeds the earning which the Board can obtain on its surplus dollar balances. Messrs. Aarons and Brenner handled this matter.

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The following work was done under the supervision of Mr. Klaus, Special Assistant to the General Counsel:

97. Investigation of Subversive Tax-Exempt Organizations. (See February 1943 report, item 9(a), page 120). The preliminary work in Palo Alto on the America First Committee has been completed and reports have been submitted, both on the financial and other aspects of the America First organization. Further instructions have been requested and the proposal made that the field investigation, for which the Palo Alto investigation was a necessary preliminary step, should be undertaken in Chicago, New York, Philadelphia and Washington, on which a considerable number of leads have been found.

A study is being made of the reports and various documents, mostly in German, sent in for translation and analysis from Chicago, New York, Philadelphia, Baltimore and Cleveland, where more is being learned about the pattern of German organizations and their relations to the Auslands Institute in Stuttgart and the Volksbund fuer das Deutschtum in Ausland in Berlin. Additional suspect American organizations

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are under study, such as -- the National Gentile League (Donald Shea), which has a tax exemption; Technocracy (for which an application for exemption is pending); and the Anglo-Saxon Federation. Mr. Klaus conducted oral examinations of Fritz O. Evers in Baltimore (connected with the German cultural work) and Konrad Engelhardt in New York (head of the International Geneva Association, consisting largely of German waiters and hotel and restaurant employees).

98. Internal Security Liaison. Material derived from studies has been distributed to other agencies; in particular, the names of members of the Technologists Association who are employed in the Federal Government were turned over to the Attorney General. A study was completed of the employment files of the Board of Trade for German-American Commerce, an organization actually controlled by the German Government and the I. G. Farben, and incriminating letters have been photostated and turned over to the FBI. Mr. Klaus has acted as an intermediary in turning over to the FBI, OSS, BEW and other agencies various materials under study in this Department which may be of importance in the

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preparation of criminal cases or for studies in aid of proposed military campaigns. Conferences were had with representatives of the Department of Justice concerning the making of criminal cases based on the activities in this country of the Volksbund fuer das Deutschtum in Ausland and the Auslands Institute.

99. Miscellaneous. A study was made for Mr. Harry White of "Clarinated," an anti-American, pro-Axis sheet published in Argentina. Close liaison was continued in the interchange of intelligence information with agencies such as OSS, FBI, MID, ONI, State and the War Policies Unit of the Department of Justice. Thirteen persons from Foreign Funds Control were agreed upon to have direct access to confidential materials for use in Foreign Funds investigations; this continues a practice which has been in existence since the beginning of the exercise of freezing controls against Axis nationals. In addition, Mr. Klaus has continued to send to Foreign Funds suggestions regarding the advisability of blocking individuals and enterprises as Axis nationals.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 3, 1943

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending May 1, 1943.

Summary

Wage control: Refusal of the United Mine Workers to submit to the jurisdiction of the WLB in demands for higher wages is the most conspicuous but by no means the only evidence of labor unrest over the workings of the hold-the-line program. As an adjunct of wage control, the CIO, the AFL and the railroad brotherhoods have demanded that living costs be rolled back to the levels prevailing on May 15, 1942.

Price control: Although OPA's newly announced 4-point program for price control is largely a reiteration of previously-stated objectives, the roll back of prices of meats, vegetables and coffee would represent a substantial achievement if it can be effectively accomplished.

Commodity prices: Basic commodity prices continued to move in a narrow range last week, although prices for hogs and steers dropped for the fourth consecutive week. During the month ended April 15, prices received by farmers rose more rapidly than prices paid, and as a result farm prices averaged 114 percent of parity as compared with 113 percent on March 15.

Coal situation: Bituminous coal production thus far in 1943 has run about 7 percent above last year's levels, and nation-wide stocks are estimated at about one month's supply. However, due to uneven distribution of stocks, cessation of coal output would force many plants out of production much sooner, and some curtailments would be necessary very quickly. Thus it is reported that production at the Pittsburgh and Youngstown plants of the Carnegie-Illinois Steel Company would show as much as a 10 percent drop within 3 or 4 days after cessation of coal mining operations.

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Wage stabilization crisis nears

Increasing discontent of labor groups over the working of the hold-the-line program rapidly moved toward a climax last week, as refusal of the United Mine Workers to submit to the jurisdiction of the WLB precipitated a temporary shut-down of most of the nation's coal mines. In communicating its attitude to the President, the UMW claimed that "the National War Labor Board is circumscribed and prevented from making a decision upon the basis of equity and justice by the policy of restricting every decision to the basis of the Little Steel formula." On this basis the UMW contends that all their requests in the wage controversy would be denied.

While the coal strike overshadowed other developments, discontent with wage and price stabilization policies was by no means confined to the United Mine Workers segment of organized labor. The CIO, the AFL and the railroad brotherhoods jointly demanded last week that the Government immediately put into effect a vigorous price policy so that living costs can be rolled back to the levels prevailing on May 15, 1942. Earlier, the United Automobile Workers, in a public advertisement, contended that the OPA is failing to do its job, and advocated the rolling back of prices to September 15, 1942. In addition to other steps, the UAW also wants a restoration of WLB's power to correct wage inequalities, and an equalization of wage rates to avoid the need for job freezing.

OPA promises tough price policy

In an obvious effort to placate the demands of labor groups and to rebut contentions of the striking coal miners, Price Administrator Brown near the end of the week launched a 4-point program to control, and in many instances roll back, the cost of living. Briefly, the program's objectives are as follows:

1. To extend price control to every important commodity.
2. To roll back prices which have got out of hand. Among others, the prices of meats, fresh and canned vegetables and coffee will be rolled back.
3. To establish dollars-and-cents prices for foods.
4. To prosecute chiselers, racketeers and black market operators.

While these objectives are largely a reiteration of previously stated aims, the specifically-mentioned intention to roll back prices of meats, vegetables and coffee represents an advance which, if accomplished, should go far toward quieting discontent over soaring living costs.

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In answer to claims of the striking coal miners, the Price Administrator pointed out that in January of this year average hourly earnings of bituminous coal miners were 22 percent above August 1939 levels, while weekly earnings, in reflection of longer hours worked, were 53 percent higher. In contrast, the cost of living as measured by BLS data rose only 22 percent during the same period. While it was admitted that the BLS index understates the rise in living costs, the Price Administrator contended that the miner's weekly pay envelope in January would still buy 25 percent more goods than in the summer of 1939.

No mention was made of the course of living costs and coal miners' wage rates during the January 1941 - May 1942 period covered by the "Little Steel" wage formula. However, it will be remembered that, following a strike in April 1941, the basic daily wage for bituminous coal miners in the northern Appalachian area was increased \$1 per day to bring the basic rate up to \$7 per day, and miners in the southern area received an even larger increase. These increases more than made up for the 15 percent rise in living costs during the period.

Coal strike would seriously endanger war production

Aside from the implications of the coal-wage controversy in the struggle against inflation, if the coal strike should be resumed after the 15-day truce it would gravely threaten the war production program. Fortunately, coal production in recent months has been running at a very high level, with bituminous coal output since the beginning of the year totalling about 7 percent higher than in the corresponding period a year ago. (See Chart 1.) Nation-wide coal stocks above ground at the present time are estimated to represent about 30 days supply, although numerous plants, particularly smaller ones, will exhaust their coal supplies in a much shorter time.

One of the first and most important effects of a stoppage of coal mining would be to cause a drop in steel operations. While the U. S. Steel Corporation is reported to have enough coal for 2 or 3 weeks, it is said that the Pittsburgh and Youngstown plants of its Carnegie-Illinois subsidiary would show as much as a 10 percent drop in production within 3 or 4 days after suspension of coal mining operations. At present unusually high levels of operation, the steel industry requires large supplies of beehive coke. These coke ovens are fed directly from the mines, so that suspension of mining operations would be almost immediately reflected in beehive output.

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The threat to steel operations comes at a time when steel output is running at an unprecedented rate. Steel operations last week were scheduled to rise to 100 percent of capacity for the first time this year. On a tonnage basis this is the highest production rate ever attained in the industry. Reference to Chart 2 will show that the coal strike in April 1941 caused the steel operating rate to drop 5 points in the course of the month.

Commodity prices ease

Commodity prices in the wholesale markets have recently shown some evidence of stability. The BLS price index of 28 basic commodities has shown no important change since early March, with the more recent tendency slightly downward. (See Chart 3.) The BLS all-commodity index has held practically unchanged in the last 4 weeks reported. Prices in the commodity markets moved in a narrow range last week and trading was quiet, with the index of 28 basic commodities showing a loss of 0.1 percent. A decline of 1.6 percent in the price of steers and 1.3 percent in hog prices were the only noticeable changes.

Hog and steer prices have now declined for the fourth consecutive week, or since Food Administrator Davis first warned that ceilings on live hogs would be imposed if hog prices did not reach a level in line with the ceiling price on pork. At the end of last week the BLS reported hog prices at \$14.70 per hundredweight, representing a drop of \$1.25 from the high reached at the beginning of April, but still 20 to 45 cents too high in relation to the pork ceiling.

Farm prices higher in April

Sharp price increases in the fruit group continued to lead the rise in farm prices for all groups of farm products in the month ending April 15, the Department of Agriculture reported last week. (See Chart 4.) Largely as a result of a seasonal advance in the price of apples, the index of fruit prices rose almost 10 percent during the month, and at 189 was 60 percent higher than a year earlier. Grain prices rose moderately, dominated by the upward revision in the ceiling price for corn. Although egg production in March was at record levels, egg prices declined only fractionally from mid-March to mid-April, and a seasonal increase in the price of chickens raised the index of chickens and eggs over 1 percent.

The only group index to decline during the month was truck crops, but this index still remained about 84 percent

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above that of April 1942. In the miscellaneous group, substantial gains were registered in the prices of potatoes, sweet potatoes, flaxseed, wool, beans, and peanuts.

The combined index of prices received by farmers rose nearly 2 percent during the month ending April 15, and is now more than 23 percent higher than last year. Since the gradual advance in prices paid by farmers (including interest and taxes) lifted the index less than 1 percent last month, farm product prices averaged 114 percent of parity as compared with 113 percent in the preceding month and 99 percent in April 1942. (See Chart 5.)

Cold weather damages crops in East

Abnormally low temperatures over the eastern half of the country during the past few weeks have damaged early fruit and truck crops in that area, delayed growth, and hindered farm work, according to the latest reports of the Weather Bureau. Frosts have caused serious damage to truck crops in most sections from the Lake region to the Gulf States, particularly affecting beans, tomatoes, potatoes, and other hardy truck crops in the area from the Carolinas northward to the lower Ohio Valley. The recent freeze during the blooming season has largely destroyed the early fruit crop in the Central Appalachian region, and early apples were damaged considerably. Moreover, the cold weather in the eastern portion of the country has delayed corn planting and has retarded the growth of winter wheat and the greening of pastures in that area.

On the other hand, conditions in the Great Plains region during the past few weeks have been generally favorable for growth, with recent temperatures above normal. West of the Rockies the weather recently has been almost ideal for all agricultural operations, especially in the Pacific area where the season is well advanced and general prospects are unusually bright. Winter wheat had made good progress in the area west of the Mississippi, and corn planting has made good progress in that area. Pasture conditions are largely favorable in the west, except in the southwest where rain is urgently needed.

Britain expands agricultural production

The success of British agriculture in supplying war-time food demands is indicated by large increases in the production of staple foods, and by shifts in production to

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those foods which will save the largest amounts of essential shipping space. Despite a decline of nearly 8,000,000 tons in annual imports of feedstuffs, milk production has increased over pre-war levels. The production of potatoes and sugar beets is estimated to have increased about 80 percent, and turnips and mangolds about 15 percent. Almost the entire supply of green vegetables is now produced domestically, and it is estimated that domestic consumption has increased 30 percent.

The wheat acreage was expanded almost 50 percent between 1939 and 1942, and practically all the crop is now devoted to making flour, unlike in the pre-war period when about two-thirds was used for animal feeds. The increase in production of wheat and its allocation to human consumption has resulted in the saving of some 1,000,000 tons of shipping space in the past year. The diversion of wheat to human consumption, as well as the curtailment of importation of feedstuffs in order to save shipping space, has necessitated a great reduction in the numbers of livestock and poultry.

Combination of methods utilized

The various steps taken by the British Government to stimulate agricultural production, according to a recent issue of Foreign Agriculture, may be classified as follows: (1) expanding acreage, (2) increasing efficiency, (3) ensuring an adequate labor force, (4) improving marketing processes, and (5) use of price inducements.

An energetic campaign was inaugurated to increase the crop acreage by plowing up grasslands, swamplands, and marginal land covered with thickets, the Government paying a subsidy for every acre plowed and paying the entire cost of drainage and clearing. Scientific methods were tested on different types of land and brought to the notice of leading farmers through special demonstrations. Farm machinery, acquired by the Ministry of Agriculture and under the control of the County Agricultural Committee, was used to supplement equipment owned by farmers and plowing contractors. It was the duty of the Committee to see that all equipment, both private and Government-owned, was fully utilized. The use of fertilizers was encouraged by loans and subsidies.

The farm labor shortage has been met by various expedients. In order to stop the migration of labor from farms, wages were increased and a national minimum wage for farm labor was fixed. This was followed by an order forbidding

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industrial employers to engage farm workers, and making former agricultural laborers who had accepted industrial employment ineligible for reemployment in industrial occupations. However, the most important source of auxiliary farm labor supply has been the Women's Land Army, composed of women who have enlisted for the duration, which numbered about 50,000 in 1942.

Prices paid to British farmers have been designed to encourage production. Prices have been revised upward as costs of production have increased, or as the necessity arose to stimulate production of certain crops. Since the Ministry of Food controls the purchase of most basic commodities, the Government is able to increase the farm price while selling the products at prices low enough to maintain retail ceilings.

Department store stocks rise less than seasonally

Although department store stocks increased 4 percent in March, the gain was less than seasonal and the FRB adjusted index of stocks continued the almost uninterrupted decline that has been in progress since last July. (See Chart 6.)

As a result of a further decline of 2 points in March, the adjusted index at the end of the month was 35 percent below the record high of last July. Moreover, at the month end, stocks were 17 percent below last year's level, although they were still 25 percent higher than at the end of March 1941.

A sharper drop in seasonally-adjusted stocks in March was averted by the large contra-seasonal decline in department store sales during the month, following the heavy wave of scare buying in February. (Refer to Chart 6.) Stimulated by pre-Easter buying, department store sales turned upward last month, and during the week before Easter they came within 1 percent of the peak of the February sales boom. Moreover, sales were 4 percent higher than in Easter week of last year.

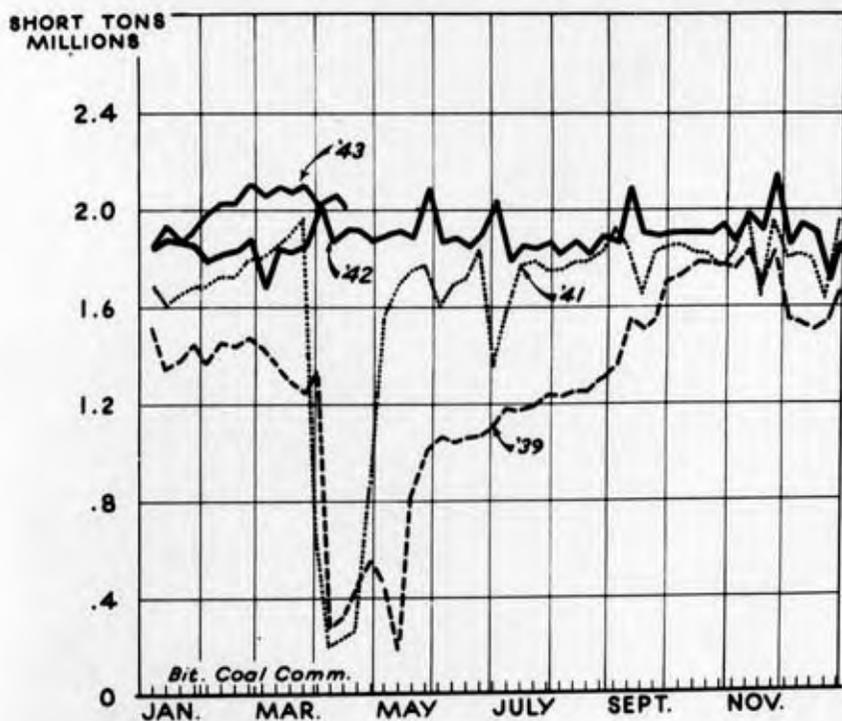
Commerce estimates of consumer expenditures for 1943

Recent estimates by the Department of Commerce indicate that the physical volume of goods and services to be purchased by consumers in 1943 will be "at least 10 percent" under the 1942 level, a figure about in line with earlier expectations. The decline would be greater were it not for (1) the continued high volume of civilian goods output, particularly of nondurable goods such as apparel and foods, and (2) the high level of consumer goods inventories.

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The Commerce estimates of consumer expenditures in dollar values, on the other hand, have been revised upward to make more complete allowance for expected price increases, hidden price rises (from black markets, etc.) not reflected in reported prices, and the tendency of consumers to buy articles of higher price and better quality as incomes rise. The estimates indicate an expenditure of \$84 billions in 1943, an increase of 2.6 percent over the previous peak of \$82 billions in 1942. Reported prices are estimated to increase 5 percent over 1942. (The Commerce figures have been furnished us on a restricted basis, and may be changed somewhat before being finally released.)

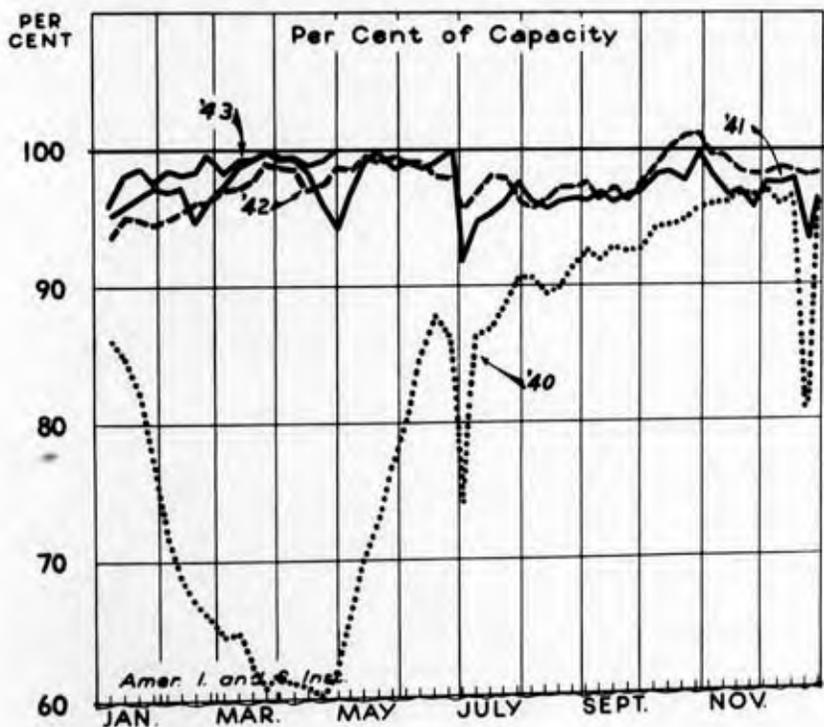
BITUMINOUS COAL PRODUCTION



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

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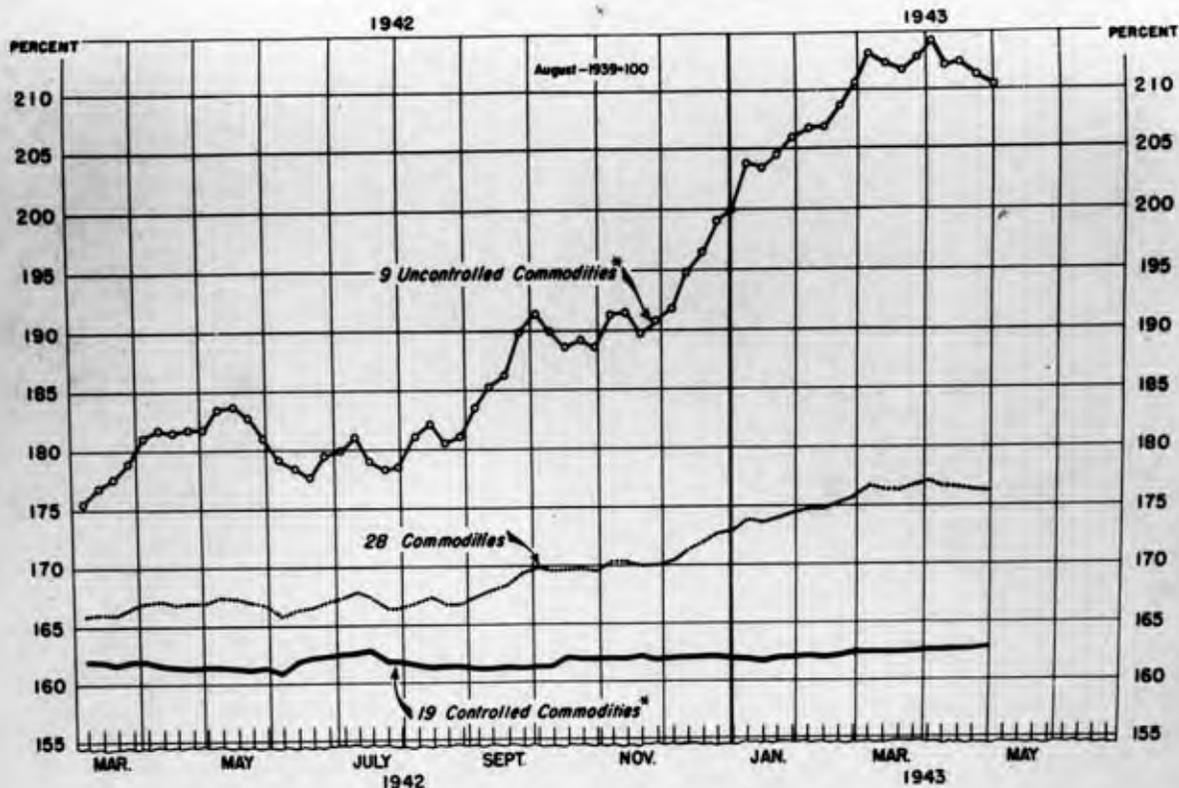
STEEL INGOT PRODUCTION



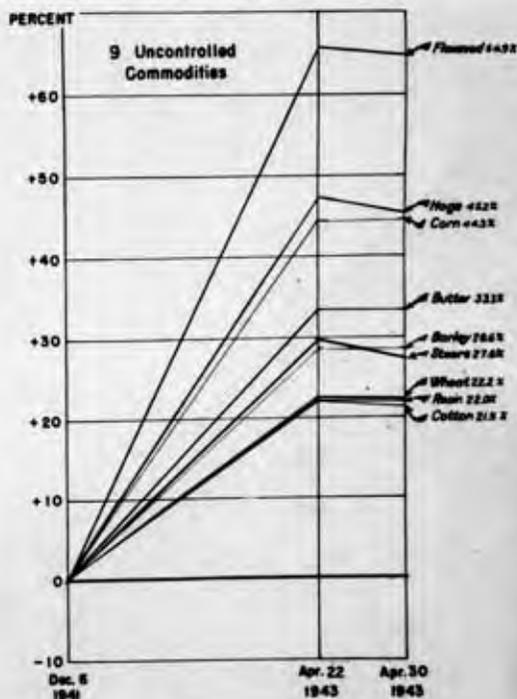
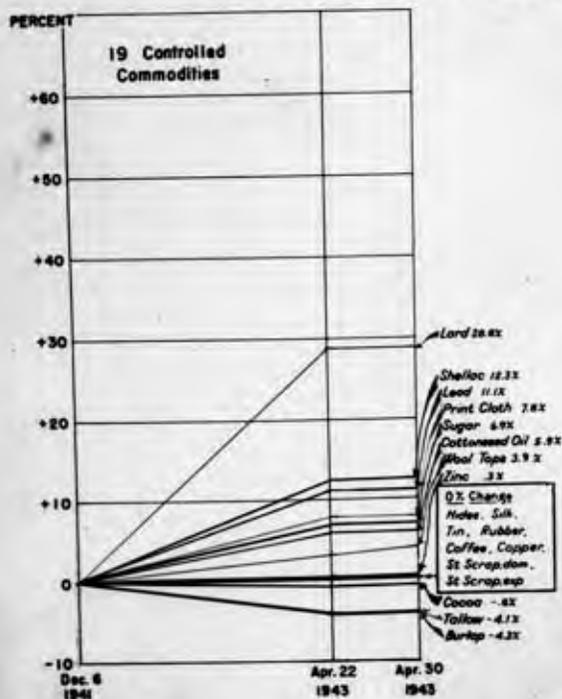
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 Division of Research and Statistics

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MOVEMENT OF BASIC COMMODITY PRICES



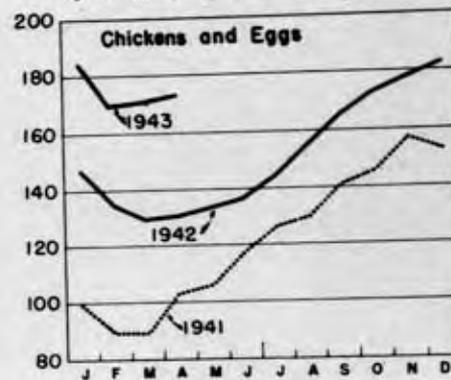
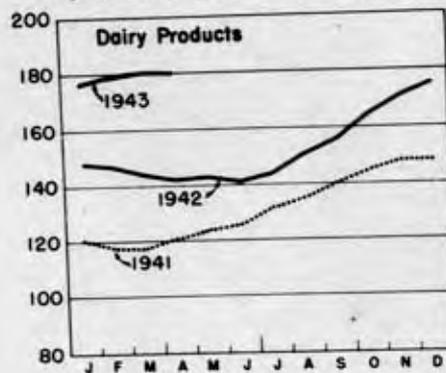
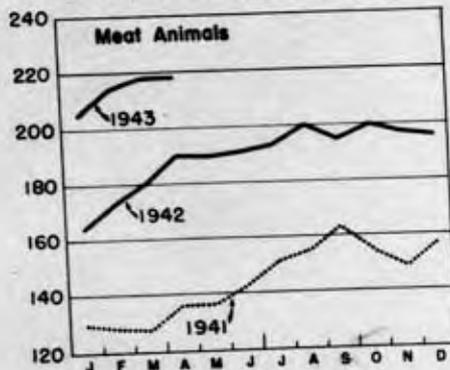
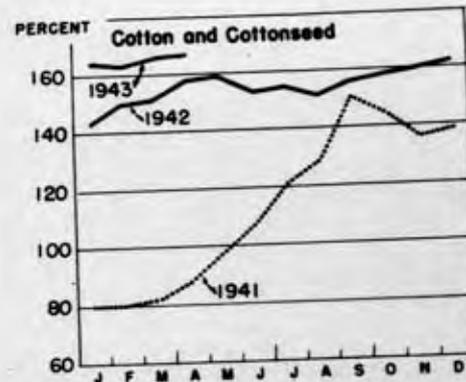
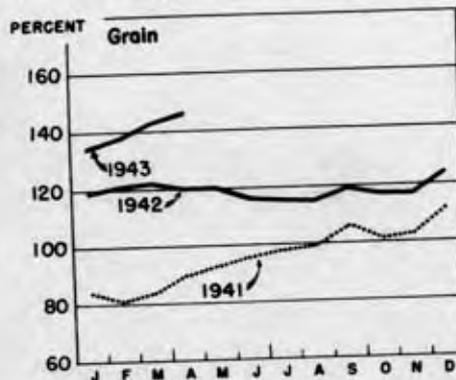
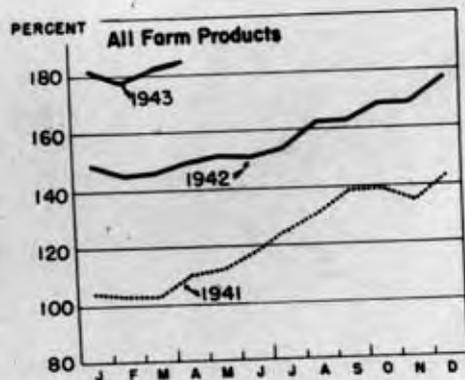
PERCENTAGE CHANGE DEC. 6, 1941 TO APR. 22 AND APR. 30, 1943



*20 Controlled and 8 Uncontrolled previous to June 26

AVERAGE PRICES RECEIVED BY FARMERS

Indexes. August 1909 - July 1914=100



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

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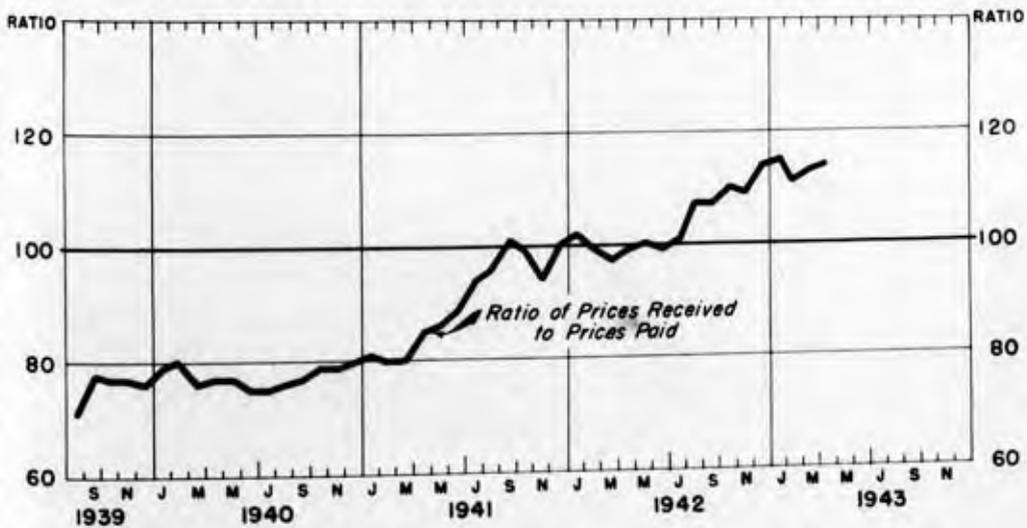
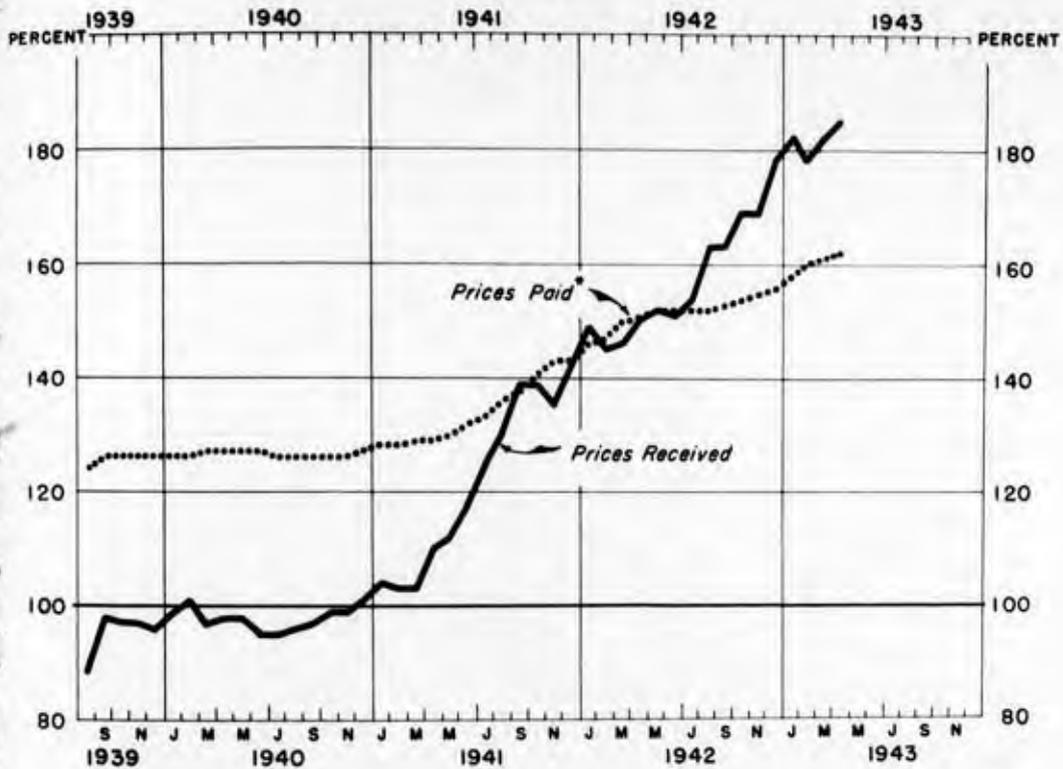
Chart 4

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PRICES RECEIVED AND PAID BY FARMERS*

1909-'14 = 100

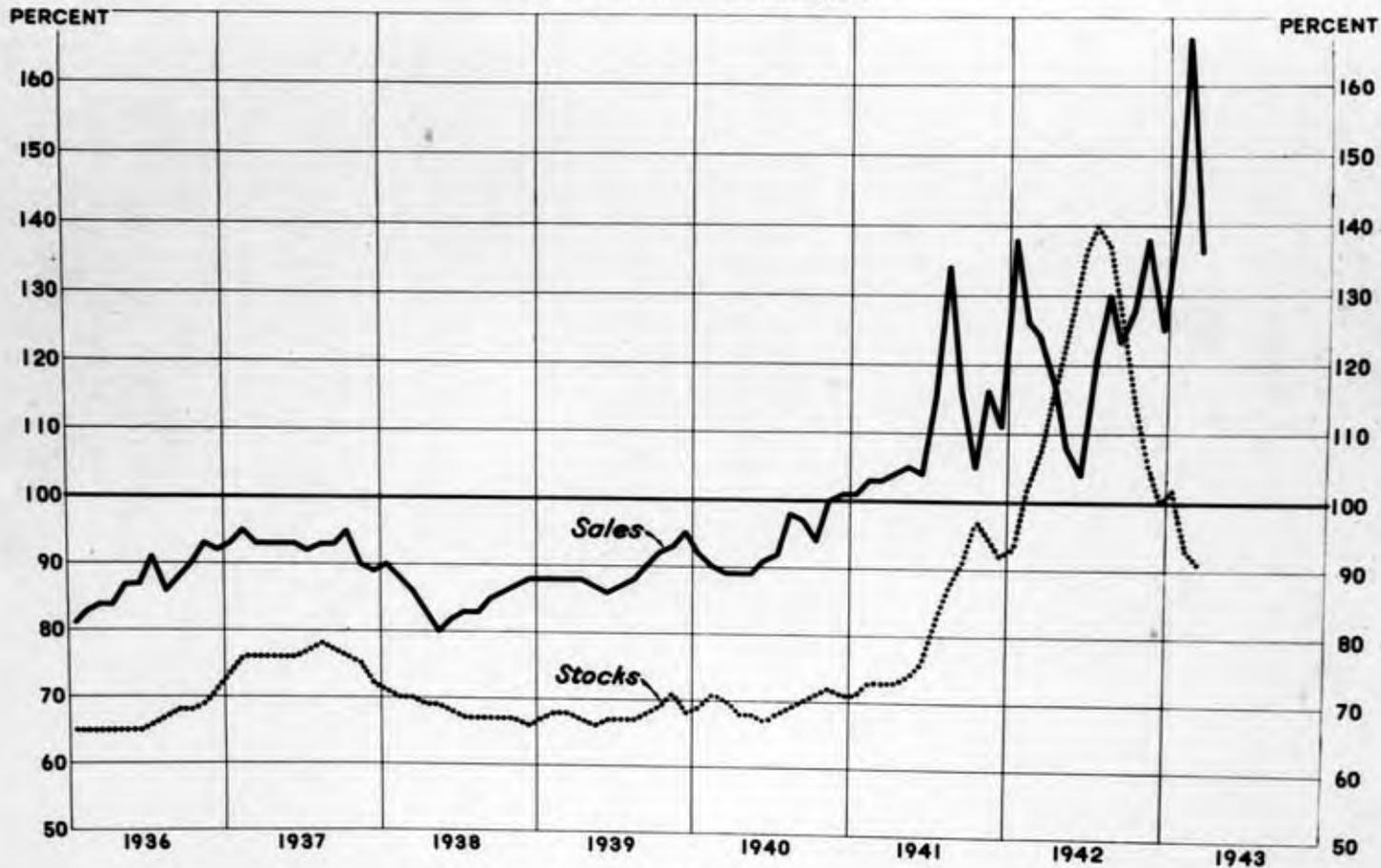
350



* Prices Paid, Including Interest and Taxes

DEPARTMENT STORE SALES AND STOCKS

Dollar Values, 1923-25 = 100, Adjusted



Source: Federal Reserve Board

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

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Chart 6



TREASURY DEPARTMENT

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON

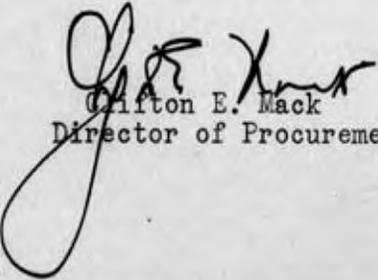
SECRET

May 3, 1943

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of April 26, 1943, the purchases against the African Program from April 26, 1943, to May 2, 1943, totaled \$4,048,823.30 or a total of purchases for the program thus far of \$28,281,812.16.

Attached is report giving status of shipping against these purchases.


Clifton E. Mack
Director of Procurement



(37861)

<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>
Aluminum sulphate				14.5
Asbestos sheet packing	2			17
Boiler tubes				24.98
Bone glue			33	
Books & booklets	2			
Brass rods & sheets	23	38.05	12.8	88.7
Babbitt metal	53.5			
Brick	129		40	
Calcium carbide		247	1715	1904.2
Cement				20
Cement, rubber			19.5	
Chemicals	163.5	258.2	497.3	342.28
Coal cutters	12			
Copper tubing			21.6	27.5
Corrugated boards		59		52.4
Clothing	2217.71	51.55	169.4	26.8
Copper sulphate	5697.75		47.5	
Cotton thread	69.25	21.5		
Cordage & twine	225	5	40	
Drugs	6.5			
Electrodes				12.9
Envelopes		9	1	9.18
Files, steel	15	15		
Fullers earth	72			
Gelatin	1			1
Glass, window				121.5
Glass lamp chimneys			17	
Glycerine	12.75			
Horse shoes & nails	125.9	20.8	71.05	10.75
Hosiery	26	3.5	8.5	1.5

SECRET

354

<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>
Light bulbs			8.5	
Lithopone				10.2
Lumnite	30			
Mach. finished book paper	2			
Matches	389.75		4.6	70.15
Newsprint	892	21	190	72
Nipples, bottles, eye cups			9	
Paper	5	83.8	263.6	485.97
Paper bags		115.9	78.1	
Phonograph records			1000 Each	
Piece goods, textiles	7735.5	603.7	3605.6	332.45
Pig tin	64			
Powdered milk	119			
Printers ink	.1			
Raw sugar	1545			
Refined sugar	4196.5			
Sheet copper & rods		21.5	49	
Shoe tacks	4	9.5		
Spare parts for autos, tractors & harvesters	232.25	45	153	17.35
Spark plugs	2	2.5		
Storage batteries	47	4.8	6.95	13.5
Steel, pipe, bars, angles	27.5	62.5	1046	1536.6
Shoes, boots & soling	247.25	46.75	27.3	18.08
Sulphur commercial flour		27.91		323.2
Tin plate	845			
Tires, tubes & tape	175.75			314.24
Tools		7.5	19	348.4
Tooth brushes			.75	
Tea	171.5			

<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>
Typewriter ribbons				.5
Wire nails	100		22	
Wire rope	71.25	17.75		
X-Ray films	1			
Paint pigments	15.5		40.7	7.1
Pig iron				350
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	25,772.71	1,798.71	8,217.75	6,574.93



HDW said he spoke to Secy. orally
about this.

D

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 3, 1943

TO Secretary Morgenthau

FROM Mr. White

Subject: Lend-Leasing of Silver to the British Treasury

The Lend-Lease Administration is now prepared to lend-lease 3 million ounces of Treasury free silver to the British Treasury for return to the U. S. Treasury on an ounce-for-ounce basis after the war. The lend-leasing of this silver has been approved by the Appropriation Committee and by the Senate Special Silver Committee.

The Treasury will be paid 71.11 cents an ounce for the silver turned over for lend-leasing. When the silver is returned after the war it will be received by the Treasury for the account of the Lend-Lease Administration. The Treasury will then reimburse the Lend-Lease Administration for the returned silver at 71.11 cents an ounce, unless the laws of the United States at the time of receipt prevent such reimbursement.

The General Counsel's Office has cooperated in the preparation of letters from Phillips to Stettinius and from Stettinius to you, covering the entire agreement. The letters have been cleared with the Treasurer's Office, the Bureau of Accounts, the Bureau of the Mint and the General Counsel's Office, all of whom have approved.

TREASURY DEPARTMENT

358

INTER OFFICE COMMUNICATION

DATE May 3, 1943.

TO Secretary Morgenthau

FROM H. D. White

Subject: Response to Your Letter to Finance Ministers

The response to date to your letter to finance ministers asking them to study the Treasury's preliminary draft proposal for an International Stabilization Fund and to send technical experts to Washington for exploratory discussions has been as follows;

1. The technical representatives of two countries have already appeared and conversations have been held with them: Canada, Netherlands.

2. Discussions with Australia, Paraguay and the Philippines are going forward this week.

3. Word has been received that technical representatives of the following countries are coming soon:

Belgium	Czechoslovakia
Brazil	Greece
Chile	Luxembourg
China	Peru
Costa Rica	Poland
Cuba	Uruguay

4. We have also had expressions of interest and announced intention to participate in discussions from the following countries:

Colombia	Nicaragua
Ecuador	Norway
Honduras	South Africa
New Zealand	Venezuela

5. We have not yet heard from ten countries. They are as follows:

Russia	Haiti
Dominican Republic	India
El Salvador	Panama
Guatemala	Union of South Africa
Mexico	Yugoslavia

- 2 -

Division of Monetary
Research

We did not send a letter to Russia nor have we contacted them since Mr. Berle handed them a copy of the proposal several months ago.

6. At the suggestion of the State Department, last week we sent a copy of the proposal and a letter of invitation to the following countries:

Egypt	Iran
Ethiopia	Iraq
Iceland	Liberia

We expect to hear from most of the remaining countries shortly, as some of them have had inadequate opportunity to receive and study your letter.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 3, 1943

TO Secretary Morgenthau
FROM Mr. White
Subject: Chinese reaction to International Stabilization Fund proposal.

1. In reply to your invitation to Dr. Kung to send Chinese technical experts to Washington, Dr. Kung has replied, warmly accepting your invitation. Dr. Kung says that he will inform you later of the names and date of departure of the experts which he intends to send to Washington.
2. In cable dated April 29, Adler reports that, at special meeting of leading banking and financial experts called by Dr. Kung to discuss the British and American international monetary plans, practically all present agreed that China should join in a plan for international monetary cooperation. Dr. Kung also expressed the opinion that China must work closely with the United States. Those present at the meeting were requested by Dr. Kung to submit proposals to him to be integrated into a plan for submission to the Generalissimo.
3. In cable dated April 30, Adler reports on Chinese press comment on American and British schemes for international monetary stabilization. For the most part, the reaction has been favorable to the idea of China's participation in a plan for international cooperation, while one of the leading Chinese newspapers (Ta Kung Pao) praises the United States for "attempting to bring forth the united efforts of Allied nations towards world economic stabilization". As might well be expected, however, the Chinese press is emphasizing the desirability of China's not overlooking its own national interests.

JMB
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (BR)

Chungking via N.R.
Dated April 29, 1943
Rec'd 11:09 a.m.

Secretary of State,
Washington.

620, April 29, 4 p.m.

FOR THE SECRETARY OF THE TREASURY FROM ADLER.

TF 113. Re part one of your 434.

Dr. Kung has asked me to transmit the following
message to you.

"April 28.

TO MR. MORGENTHAU FROM DR. KUNG.

Your telegram transmitted through Mr. Adler
was received with thanks. Our experts are engaged
in studying your plan carefully. I will soon send
experts to Washington to discuss the plan with your
experts as you have kindly suggested and will inform
you as to their names and date of departure later.
Allow me to take this opportunity again to express
my gratification over our cordial relations in the
future!

VINCENT

NPL

PARAPHRASE OF TELEGRAM SENT

FROM: American Embassy, Chungking, China

DATE: April 29, 1943, 10:09 a.m.

NO.: 621

This is message TF-114 from Mr. Adler for the Secretary of the Treasury.

A special meeting of leading banking and financial experts was called on April 28 by Dr. Kung to discuss British and American international monetary plans, I was told by a reliable source. A realistic and intelligent discussion took place. Practically all present agreed that China should join in plan for international monetary cooperation even if by so doing she has to surrender her power to change value of her currency unilaterally. The crucial importance of the quota to be fixed was repeatedly emphasized along with the necessity of transitional internal rehabilitation and readjustment measures being taken before China could effectively participate. One participant thought the British plan superior to the American plan, while several believed it to be more flexible in certain respects. The Minister of Food, Hsukan, reflected the consensus of opinion in saying that China must realistically weigh what she would gain against what she would lose as long as idealists were not conducting international affairs even though China should expect infringements on her sovereignty after the unequal treaties are done away with.

Because of the beneficial effects to be derived from monetary stabilization, Hsukan strongly favored Chinese participation. Britain, but not the United States, would inevitably be bound to be a competitor of China as Chinese trade develops, and for that reason he believed China would gain more if she supports the United States.

In summing up the Minister of Finance said that China must take part and must work closely with America. He asked that proposals that China could make on the lines of the discussion be submitted to him by those present. The Ministry of Finance will make these proposals into an integrated plan to be submitted to the Generalissimo for his OK. He warned those present that these proposals should not be too high.

VINCENT

KEM

PLAIN

Chungking via NR

Dated April 30, 1943

Rec'd 1:12 p.m.

Secretary of State,
Washington.

625, Thirtieth.

TO SECRETARY OF TREASURY FROM ADLER.

TF 115. Press comment on schemes for international monetary stabilization.

Article in the CHINA TIMES of April 12 points out that while China should strive for international cooperation, it should not overlook its national interests or the peculiarities of its economic position. "Our main postwar currency problem will be the selection of a fixed or a flexible foreign exchange rate". After discussing pros and cons of a fixed, versus a flexible, rate of exchange article concludes "a free rate of exchange without any restriction is contrary to the spirit of international cooperation. Such we shall not intend to carry out. We shall be willing to maintain a fairly stable rate and if necessary shall welcome international agreements for the maintenance of such a rate. But when the balance of international payments becomes unfavorable the rate must be revised and should

-2- #625, April 30, from Chungking via NR.

and should under no conditions be bound by agreements. The currency plans proposed by Britain and the United States do not close the door to changes in the rate but require negotiations before such change can be affected. We should not accept postwar plans of whatever nation if they try to link our currency directly or indirectly to gold **** economic changes in China after the war will be more complicated and heavier than those in already industrialized countries. Our need for currency adjustment will also be more frequent than theirs. The enforcement of any postwar currency plan must take into consideration the different conditions existing in the different countries".

(A) An editorial in HSIN SHU PAO April 13 on "Morgenthau's postwar currency stabilization plan" is largely confined to a discussion of the differences between the plan and the tripartite accord of 1936. Article emphasizes enormous power of Board of Directors and Chairman of Board of proposed international organization indicating that after the war an American would be the natural candidate for the position. It also mentions advantages of a flexible rate for economically backward countries.

(B) Editorial

-3- #625, April 30, from Chungking via NR.

(B) Editorial in the TA KUNG PAO of April 17

"***** with the hope of preventing the possible recurrence of depreciation and depressions (as after the last war) the United States is attempting to bring forth the united efforts of Allied nations towards world economic stabilization. This is certainly a worthy contribution. America is the richest country in the world. Any step taken by the US will influence the development of world economics. If the US takes the lead in adoption these new policy of mutual help instead of the old practice of individualistic competition it will give tremendous assistance to the promotion of world economics. Countries with unfirm economic foundation will also be assured of international cooperation of a most free nature ***** world prosperity and general welfare of all peoples must be kept in mind so that when the plan is carried out all countries will be benefacted instead of only a few rich ones. Furthermore we suggest that even the repentant peoples of Germany, Italy and Japan should not be excluded from consideration". The article then discusses the problem of internal currency adjustment in China in the postwar period and concludes with the belief "that if we can effect our internal readjustment first and then call for outside

-4- #625, April 30, from Chungking via NR.

for outside assistance we will succeed in all problems of international economic cooperation".

(D) Editorial in the Catholic Social Welfare of April 18. "Superficially these two (British and American) plans seem to have the same object and purpose of working towards international economic cooperation but if we carefully study the contents we can discover the motive of selfinterest and the hope of capturing the center of world financial markets. The main differences consist of (one) the British plan aims at the development of trade by a clearing of receipts and payments, but the US plan tries to prevent competition depreciation of currency by maintenance of the value of gold and (two) Britian hopes by means of the international clearing system to keep intact the position of the Bank of England in the international financial market. By linking the international currency with the US dollar and with the support of here large gold reserves US hopes to control the world financial market. "The article continues that China's attitude should be determined by Sun Yat Sen's third principle of the peoples livelihood and that particular attention should be given to China's interests and to the possibility of utilizing

-5- #625, April 30, from Chungking via NR.

of utilizing foreign capital as suggested by Dr. Sun Yat Sen. Finally China should try to limit the use of gold in such a way that effects of variation in the quantity of gold can be eliminated and should be reluctant to resign all restrictions on control of foreign exchange which may be necessary in difficult postwar conditions.

VINCENT

DD

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NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 144

OFFICE OF THE SECRETARY OF THE TREASURY
1943 MAY 4 AM 11 42
TREASURY DEPARTMENT

Information received up to 7 a.m., 3rd May, 1943.

1. NAVAL

Early on 1st, 7 motor Torpedo Boats and Motor Gun Boats sank 1 Auxiliary Vessel and left 2 others heavily on fire in action North of TERSCHELLING. 3 of our craft were damaged and casualties were: 3 killed and 9 wounded. One of H.M. Submarines is overdue in MEDITERRANEAN and must be considered lost. A Dutch submarine sank a 7,500 ton ship in the MALACCA Strait on 22nd.

2. MILITARY

TUNISIA. 1st. 8th Army. A small local counter attack by the enemy in the Coastal Sector was repulsed. 1st Army. In the South, French troops recaptured a hill Southeast of PONT DU FAHS, previously taken by the enemy in a small attack and successfully resisted a subsequent enemy attempt to retake it. In the Central Sector our troops have improved their positions near DJEBEL BOU AOUKAZ and SIDI-MEDIEN.

U.S. SECTOR. In the North, U.S. forces made slight gains and enemy resistance in this area is stiffening. During the day 641 Prisoners passed through a Divisional cage, majority captured by the French--only 66 of them German.

3. AIR OPERATIONS

WESTERN FRONT. 2nd. 24 escorted Bostons and Venturas attacked steel works at IJMUUDEN. 6 Mosquitos bombed Railway workshops at THIONVILLE. Spitfires destroyed 6 F.W. 190's over FLUSHING. 4 Spitfires missing.

TUNISIA. 130 Kittyhawks carrying bombs finding no shipping attacked SIDI BAOUD, Southwest of CAP BON and a beached destroyer.

AEGEAN. Beaufighters bombed and set on fire a small South-bound ship North of MILO.

BURMA. On 29th, 18 Mitchells bombed Railway installations and the Bridge at MYITINGH. On 1st, enemy aircraft bombed BUTHIDAUNG and MKUNGDAW. 1st/2nd. 11 Wellingtons bombed TAUNGUP.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 3,
1943

TO Secretary Morgenthau
FROM Peter H. Odegard

Attached are some excerpts from reports of the Federal Broadcast Intelligence Service containing comments by the Axis powers on your San Francisco speech and other related material in which I thought you would be interested.

You will note that considerable attention was given by the Axis radio to your father's speech on his 87th birthday.

The Treasury proposal for monetary stabilization continues to evoke considerable attention from the Axis powers.

COMMENTS ON SAN FRANCISCO SPEECH, HENRY MORGENTHAU, JR.

On April 29 and 30, the Axis radio made several denials of the charge made by Secretary Morgenthau on April 28 that they had massacred Chinese civilians in reprisal for the American air raid over Tokyo. Examples follow:

Tokyo, Broadcasting in English to the world (4/29):

"Evidently as a means to encourage the buying of War Bonds among the numerous Chinese residents of San Francisco, Henry Morgenthau, U. S. Secretary of the Treasury, made a preposterous statement on April 28, charging that the Japanese massacred all civilians, including women and children, at certain Chinese towns where U.S. (pilots) landed following the unsuccessful raid on Japan, declared observers here.

"They asserted that Morgenthau's statement, which quoted a Chungking report, is too ridiculous to be taken seriously. That Morgenthau took the trouble to reveal such information from OWI, which hitherto issued all war reports, can be regarded as one of his efforts to increase the sale of U. S. War Bonds, and also as evidence of typical American propaganda."

Berlin, Broadcasting in English to North America (4/30)

"Tokyo: 'I expressly deny assertions that Japanese soldiers deliberately kill Chinese civilians,' the Government spokesman Hori declared at Friday's (April 30) conference of

COMMENTS ON SAN FRANCISCO SPEECH, HENRY MORGENTHAU, Jr., (Cont'd)

the foreign press representatives. He made this statement in reply to a question on the subject of the note allegedly remitted to the U. S. Government by Chiang Kai-Shek's ambassador in Washington, which is said to refer to the alleged killing of Chinese civilians by the Japanese in the districts where the American airmen made a forced landing after their raid on Tokyo last year. Hori added that he knew nothing about the note in question."

COMMENTS ON HENRY MORGENTHAU, SR.

The Italian radio, on April 26, made frequent references to Henry Morgenthau, Sr.'s 87th-birthday speech, as an indication of the seriousness of the Russian-Polish diplomatic split. Occasionally, whether by accident or design, the commentator neglected to add "senior" after the name, referring simply to "Morgenthau". Here are a few examples of the way in which this incident was handled:

Rome, Broadcasting in Italian to the Empire (4/26)

"Lisbon: Henry Morgenthau, Sr., on the occasion of his 87th birthday has stated that the U. S. should increase to the extreme limits its armed forces in order to win the war, and in order to safeguard the nation from future wars. He stated that the development of the war will depend on the associates, and that hence the Russians must be consulted.

He added that this will be a complicated conflict whose developments cannot be foreseen, and that hence the U. S. must provide all to prevent,^ *.

These statements and forecasts did not fail to alarm the North Americans, since the old Morgenthau who has been Ambassador to Turkey, enjoys among his fellow citizens a reputation as a prophet, since for years he has backed the idea of military preparedness, and since he predicted right after the other war another war."

COMMENTS ON MORGENTHAU, SR. (continued)

Rome, Broadcasting in English to England (4/26)

"On his 87th birthday, Mr. Henry Morgenthau, Sr. has tried his hand at reading the future. He has something of a reputation in America, in this particular line, because immediately after the last war was over, he predicted that another and still greater world war was coming along. Mr. Morgenthau has now stated that the present war will be a complicated affair and that it is impossible to say what may still happen. The only definite prediction he made, was that the result of the war would depend on the Allies and the United States. The Americans must realize, Mr. Morgenthau, Sr. states, that they must hold themselves ready for still another war."

Rome, Broadcasting in French to Europe (4/26)

(Speaking of the great impression made on America by the Russian-Polish split, the commentator points out that the incident gives Americans cause to think that London and Washington might get the same treatment from Russia that Poland did if they were to demand an explanation of some incident they did not like. He goes on to say:)

"Mr. Morgenthau's warning invests this incident with unmistakable importance. We recall that the latter invited

COMMENTS ON HENRY MORGENTHAU, SR. (Continued)

the North Americans to make spiritual preparations for war -- clearly, Mr. Morgenthau is not unaware of the grave of Katin (Polish forest where Russians are supposed to have murdered 12,000 Polish officers), nor of its diplomatic consequences."

Rome, Broadcasting in Spanish, to Latin-America (4/26)

"Lisbon: ". . . In respect to the great question which has arisen among the Allies (as to the dependability of Russia after the Polish split), the statement made by the old Henry Morgenthau is quite a serious one for North Americans. Morgenthau incited the American people to prepare themselves spiritually for another war. Evidently, Morgenthau has taken advantage of the lesson that he learned from the Katin incident and what this might mean for their diplomatic consequences....."

COMMENTS ON WORLD STABILIZATION

Berlin, Broadcasting in German, to North and South America (4/23):

"Berlin: The U.S. finance minister has worked out a plan for the stabilization of an international currency which is to be realized as the Morgenthau plan. This plan represents the logical continuation of the lend-lease policy carried out by the United States toward her allies. The core of the plan is the creation of a so-called stabilization fund of at least five million dollars, which demands the contribution of gold by the participating states. The wealth of the United States in gold supplies is thereby to be put back into circulation. The states joining in the plan would be forced to acquire the amounts of gold demanded to be paid into the fund through borrowing from the United States. Since they absolutely need this gold to pay in, they would also be forced to accept every condition which the United States would demand. Significant of the goals of the Morgenthau plan is its limitation exclusively to the field of payments. The question of future American tariff and commerce policy is not mentioned. Thereby the United States apparently does not intend at all to contribute her part through an extensive opening of the American export markets, to put the machinery of world trade back into

operation. What she wants and what she is striving after is rather the dependence of the other countries on American credit. The amounts of gold gathered in the United States are to be made into instruments for the enslavement of other countries. Here is revealed the goal toward which Jewry, through its instrument, Roosevelt has caused the new world war, a war which was begun for the bare money interests of the plutocracies, above all of the Jews.

Berlin, Broadcasting in English, to North America (4/22):

"Berlin: A most gigantic financial coup is being prepared by Wall Street under the title of the 'Morgenthau Plan,' declared the DEUTSCHE ALLGEMEINE ZEITUNG. It is aimed at causing inflation in all the anti-Axis states for the purpose of plundering them. Under the pretext of international stabilization of all currencies, the U. S. is trying to make them dependent on Wall Street.

The plan will certainly be successful, since the U. S. was the only state able to raise the necessary gold reserves. The effect of North American currency dictatorship is sufficiently known. When Germany, after the first World War, glided into inflation, the U. S. unscrupulously exploited the crisis in Germany. French North Africa was likewise ruthlessly plundered by the U. S. by fixing the quotations of the franc.

Although Great Britain is opposed to the so-called

Morgenthau plan, (she) will be too weak to assert herself against Wall Street. The U. S. plan would come to nought if only, one day, the people of the U. S. who are concerned were to rise against it.

A German domestic broadcast describes Secretary Morgenthau's plan for currency stabilization on a gold basis as a vast scheme to enrich the Jews. It is stressed that the stabilization fund would be supported by fixed contributions from enemies of the Axis. Since American Jews have a monopoly on gold, it is concluded, the plan aims at giving them a dictatorship over world economy.