

DIARY

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May 11 - 14, 1943

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Mr. Paul sent over to White House 5/11/43. 1

Copy sent to Mr. Morgenthau 5/11/43 via  
Simon.

May 11, 1943

Memorandum for Miss Tully:

For the information of the President we are listing below two questions which may be asked at the President's press conference this afternoon and information which may be useful to him in answering them.

1. What does the President think of the proposal to forgive 75 percent uniformly and collect the remaining 25 percent over two years?

The principle upon which the 75 percent forgiveness is distributed is the same as the 100 percent forgiveness and equally objectionable. The amount of forgiveness being less, the degree of objection is reduced. It would be important, however, that the collection of the remaining 25 percent should in no way interfere with needed tax increases by encouraging the freezing of rates. If it did interfere with getting a proper tax bill it would in this sense be worse than the 100 percent forgiveness.

2. What would the President like to see passed?

The Ways and Means Committee bill was a very good bill, since it distributed the tax cancellation in an equitable manner and would have contributed substantially to wartime tax receipts. The House preferred a different plan, but one that also distributed the amount of cancellation in a reasonably equitable manner.

The income groups receiving cancellation under both these bills can be subjected to higher rates on future incomes, and thereby pay-as-you-go can be accomplished for the great majority of people without greatly decreasing the equity of the income tax. Both bills are better than the Senate Finance Committee bill or a uniform 75 percent forgiveness bill.

(Initialed) R.E.F.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

OFFICE OF THE CHAIRMAN

May 11, 1943.

Dear Henry:

Your letter expressing appreciation of the aid and cooperation which the Board and the Reserve System were able to render in the Second War Loan Drive is most gratifying and I am taking the liberty of circulating it among the members of the Board.

I, of course, concur heartily in what you say about the importance of broadening distribution among individuals who are benefiting from the increase in war activities and the necessity for organizing future campaigns so that the proportion of public subscriptions will be much greater and that from the commercial banks much less. We are wholly in agreement as to the objectives toward which we must strive, recognizing the responsibilities we all share in connection with the financing operations of the Government.

You may be sure that you will continue to have the wholehearted support and cooperation of the Board of Governors and of the entire Federal Reserve System.

Sincerely yours,  
*Mariner*

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

4

*The National City Bank*  
*of New York*  
ESTABLISHED 1812

*New York* May 11, 1943.

OFFICE OF  
THE VICE CHAIRMAN  
OF THE BOARD

Dear Henry:

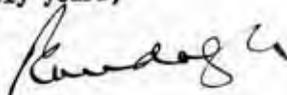
Now that the final figures are out let me congratulate you most heartily on the results of the Second War Loan. As I have seen it from here the response was way ahead of the first one, not simply in dollars but in understanding and sympathy. All of our sales force reported a much more receptive market. This is partly due to the gradual process of education and partly also to the fine background of radio, advertising, etc.

We are quite proud of our part in it, for we sold through this bank not very far short of five per cent of the total issue.

We have some thoughts about the next campaign, but will send them along only after we have had a chance to give them mature consideration. In the meantime you yourself have made the most important point, which is that we need to go still much further in reaching the individuals who are receiving the new income.

With best regards,

Sincerely yours,



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

Life Insurance Coordinating Committee  
51 Madison Avenue  
New York, N. Y.

Chairman  
George L. Harrison  
Claris Adams  
William H. Andrews, Jr.  
Patrick A. Collins  
Franklin D'Olier  
W. T. Grant  
Leroy A. Lincoln  
James Lee Loomis  
A. J. McArdless  
Gerard S. Nollen  
R. B. Richardson  
Grant Toggart  
Seaborn T. Whatley  
John A. Witherspoon

Executive Committee  
Franklin D'Olier  
George L. Harrison  
Leroy A. Lincoln  
Gerard S. Nollen  
John A. Witherspoon

May 11, 1943.

Dear Mr. Secretary:

I was very much pleased yesterday to receive your letter, addressed to me as the Chairman of the Life Insurance Coordinating Committee, concerning the help which the life insurance industry and the life underwriters throughout the country have rendered in the last War Loan Drive. I hear from many sections of the country what a good job the life insurance agents and Home Office men have done. I hope that in future drives as our organization becomes more perfected and the volunteers more experienced, their contribution may be even more effective. At any rate, I want you to know that we all have felt privileged to be members of the great team of volunteer workers in such a notably successful drive.

I hope you will please let me send to you personally my warmest congratulations and assurances of our continued cooperation in the future.

Sincerely yours,

*George L. Harrison*  
Chairman.

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

*the point that  
to management  
about these suggestions*

# YOUNG & RUBICAM, INC.

## Advertising

NEW YORK · CHICAGO · DETROIT · SAN FRANCISCO · HOLLYWOOD · MONTREAL · TORONTO

NEW YORK · 205 Madison Avenue

May 11th, 1943.

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

Dear Mr. Boss:

A report and two suggestions:

The report: They make Crosley Listening Surveys on We the People every two weeks. Your night was one of the nights when a check should have been made, but it was not made due to the fact that it was Easter. Then, because neither the previous program nor the following program fell on the right nights no check was made. Therefore there is no record of who listened to the program before you, who listened to your program, or who listened to the program after you.

In the future, when we will be doing these things more thoroughly, we will warn the OWI ahead of time and they will probably see that a check is made. We will also see that a publicity job is done ahead of time so that the report will be a good one.

Suggestion No. 1: Arch Obler and the Hollywood Mobilization Committee have a Sunday night program called The Free World Theatre. It has nothing to do with the Free World Association, in which I am interested, but simply took its name from Henry Wallace's Free World speech.

This program is a dramatization built around suggestions by world leaders -- Wallace, Roosevelt, Churchill, Thomas Mann, and so forth. It has to do chiefly, though not exclusively, with ideas about the postwar world. I think we should get our heads together and figure out an angle so that you can submit a suggestion to Obler. The thing that runs through my mind is the possibility of putting across your point that whoever pays for the show runs it. The dramatization might start with our four ingredients which we found in Portland, and lead into a postwar situation in which labor and management would have a new understanding, and in

Hon. Henry Morgenthau, Jr.

7  
May 11th, 1943.

- 2 -

which America's "common people" would have a controlling interest in their country. It seems to me entirely possible that you might, yourself, be the narrator on this program.

I presume you will now take this idea and embroider it into a good one. You usually do.

Suggestion No. 2: This is strictly none of my business but I seldom let a thing like that stop me. I wonder if we shouldn't now gear up a simple, low-pressure campaign to increase payroll savings. This means among other things finding a fresh approach and getting the cooperation of the unions, and perhaps sending a new set of directions, and new material, to the newspapers.

Perhaps we can tie to the fact that invasion is obviously just around the corner, and that means more and more materials, so the people have to work harder to produce them and buy more bonds to pay for them. This should not be so concentrated an effort that it looks from outside like another powerful campaign; on the other hand it should be clearly focused on payroll savings, and should be consistent and persistent and persuasive.

Sincerely,



Fred Smith.

fs:m

CES-16

FOR THE PRESS

IMMEDIATE RELEASE

MAY 11, 1943

Director of Economic Stabilization James F. Byrnes today issued a policy directive carrying out the recommendation of the War Labor Board for an adjustment of wages paid by canners and other processors of seasonal and perishable food and feed products.

The directive does not represent a departure from the "hold-the-line" order of April 8. It is issued under Section 5 of that order (#9328).

The directive was issued to prevent loss of perishable food-stuffs which might have occurred if the food processing industries were unable to secure adequate supply of seasonal labor during the coming summer and fall.

The adjustments which the directive permits are limited to the correction of substandard wage conditions, the maintenance of intra-plant differentials adequate to maintain production and efficiency, and the restoration of the customary relationship between wages in the food processing industries and wages paid to labor engaged in agriculture.

The last category of adjustments is necessary because agricultural wages are uncontrolled. Canneries and other food processing plants customarily draw their seasonal labor from the same sources of supply as do the farmers. It was, therefore, necessary to permit processing wages to rise to a point where the ordinary relationship with agricultural wage rates had been restored. Otherwise, it would not be possible to recruit an adequate supply of seasonal labor, and valuable perishable foodstuffs would be lost.

It is also provided that none of the adjustments approved shall exceed the minimum going rates for unskilled labor prevailing in the particular area affected. This insures that wages in the food processing industries will not be allowed to rise to a point where they are out of line with other wages paid for comparable work in the same area.

It is also provided in the directive that wage adjustments which will cause a price increase or be used to resist a justifiable price decrease shall not be permitted to become effective without the approval of the Economic Stabilization Director. This assures that any wage adjustments which are permitted to become effective will harmonize with the "hold-the-line" program and will not be allowed to increase the cost of living.

Text of the directive follows:

POLICY DIRECTIVE REGARDING ADJUSTMENTS  
IN WAGE RATES PAID BY CANNERS AND OTHER  
PROCESSORS OF SEASONAL AND PERISHABLE FOOD  
AND FEED PRODUCTS.

Pursuant to Section 5 of Executive Order No. 9328, it is hereby directed:

1. To correct substandards of living of employees engaged in the packing or processing of seasonal and perishable food and feed products and to aid in the effective prosecution of the war, adjustments in wage rates for hourly paid common labor may be approved provided that such adjusted rates do not exceed the rates paid common labor on farms in the vicinity plus the differential (but not more than 8 cents an hour) which existed during the 1940 or 1941 processing season between farm and food processing common labor rates and provided further that rates so established are not higher than the minimum going rates for common labor in the particular labor market area.

- II. Adjustments in wage rates for employees paid on a piece-rate system or for employees other than common labor may be approved provided that the rates so established shall not be more than the common labor rates established under Paragraph I above plus differentials not exceeding the minimum differentials which existed during the 1940 or 1941 processing season between these different occupational groups, and shall not exceed the minimum of the going rates for these same occupational groups in the particular labor market area.
  
- III. If the employers involved or OPA certify that the proposed adjustments will not furnish a basis to increase prices or to resist otherwise justifiable reductions in price; the adjustments shall become immediately effective as approved by the Board, otherwise the adjustments shall be subject to the approval of the Economic Stabilization Director.

(Signed) JAMES F. BYRNES  
 Director.

- - - - -



## TREASURY DEPARTMENT

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON

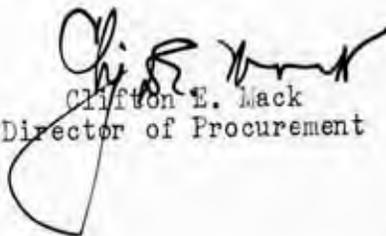
**SECRET**

May 11, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of lend-lease purchases for the week ended May 8, 1943.

Budget hearings before the House Appropriations Committee have been concluded. The hearings extended over a period of several days last week during which time Mr. Stettinius, Mr. Wickard, Mr. Davis, Mr. Batt, Mr. Hendrickson, Admiral Land, and Treasury Procurement presented our respective phases of the budgetary requirements.

  
Clifton E. Mack  
Director of Procurement



(37861)

SECRET

LEND-LEASE  
 TREASURY DEPARTMENT, PROCUREMENT DIVISION  
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND  
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS  
 AS OF MAY 8, 1943  
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous &amp; Undistributed</u>
Allocations	\$3084.9 (3084.9)	\$1595.7 (1595.7)	\$1117.1 (1117.1)	\$103.4 (103.4)	\$6.1 (6.1)	\$262.6 (262.6)
Purchase Authoriza- tions (Requisitions)	\$2551.7 (2537.1)	\$1416.6 (1413.3)	\$987.0 (991.5)	\$ 41.8 (41.6)	-	\$106.3 (90.7)
Requisitions Cleared for Purchase	\$2442.3 (2398.3)	\$1364.6 (1366.4)	\$946.4 (904.0)	\$ 41.5 (41.4)	-	\$ 89.8 (86.5)
Obligations (Purchases)	\$2355.9 (2322.7)	\$1341.8 (1330.2)	\$888.3 (870.9)	\$ 41.2 (41.2)	\$5.6 (5.4)	\$ 79.0 (75.0)
Deliveries to Foreign Governments at U. S. Ports*	\$1036.1 (1026.0)	\$ 757.5 (749.8)	\$249.7 (247.7)	\$ 17.6 (17.6)	-	\$ 11.3 (10.9)

\*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of May 1, 1943.

**SECRET**

## EXPLANATION OF DIFFERENCES

The reduction of Purchase Authorizations received for Russia is caused by the cancellation of one requisition for \$6,000,000.

The reduction of Requisitions Cleared for United Kingdom is caused by the cancellation of \$2,000,000 clearances by the War Production Board.

# THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE EXECUTIVE 2020



Box 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.

May 11th, 1943.

SECRET

Dear Dr. White:

The gold and dollar figures for April 1943  
are as follows:

	<u>Apr. 2</u>	<u>Apr. 9</u>	<u>Apr. 16</u>	<u>Apr. 23</u>	<u>Apr. 30</u>
Total Gold	904	914	926	938	930
Official Dollar Balance	<u>196</u>	<u>229</u>	<u>239</u>	<u>243</u>	<u>244</u>
Total Gold and Dollars	1100	1143	1165	1181	1174
Scattered Gold	141	151	151	152	141
Gold Reserve against immediate liabilities	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
AVAILABLE GOLD AND DOLLARS	<u>949</u>	<u>982</u>	<u>1004</u>	<u>1019</u>	<u>1023</u>

Yours sincerely,

*A.T.K. Grant*

A.T.K. Grant.

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

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: May 11, 1943, 9 a.m.

NO.: 680

This is message TF-116 from Mr. Adler for the Secretary of the Treasury.

Reference is made to telegram no. 556, sent by the Department on April 29, 1943.

I received a confidential report from Mr. Chen that nothing of permanent value emerged from the 1939 visit of Sheahan and his colleagues although they were conscientious and did their best. The following are some of the causes for their failure:

1. Insufficient support and cooperation on the part of the Chinese;
2. Ill-adaptability of the Mission's ideas to prevailing conditions;
3. In too short a time there were too many programs attempted.

VINCENT

BE  
 This telegram must be  
 paraphrased before being  
 communicated to anyone  
 other than a Governmental  
 agency. (BR)

Chungking via N.R.

Dated May 11, 1945

Rec'd 11:10 a.m.

Secretary of State

Washington

681, May 11, 10 a.m. (SECTION ONE)

TF 117. SECRETARY OF THE TREASURY FROM ADLER.

Reference your 560 April 29.

One. As indicated in TF 101 March 20 Board has no objection to Treasury's licensing transactions referred to in your 343, March 13 part one points 1 and 2 .

Two. Board does not approve Treasury's licensing transactions referred to in your 343, March 13 part two point 1 (a)

A. Bank of Communications Chungking informed me in March that the only transaction of which it had any knowledge was one for \$10,000 United States currency, that this transaction had been handled by its Kunming branch in ignorance of general license 75 but that it was perfectly willing to instruct its Kunming branch to consummate the transaction in accordance with general license 75. On the basis of the information it appeared to Board that there was no point in its agreeing to grant special license  
 in case

CORRECTED PAGE 2

#681, May 11, 10 a.m. (SECTION ONE) from Chungking via H.A.

in case where party concerned was willing to complete transaction according to general license.

B. Prior to sending my TF 111 of April 23 I was informed by Father Tannien and Bank of Communications that only transactions of which they had any knowledge, namely, one involving \$10,000 United States currency had been canceled. Thus (?) available in Chungking there appeared to be no point in Board's agreeing to grant special license for transaction both Chungking parties to which insisted had been canceled.

VINCENT

CSB

FMH  
 This telegram must be  
 paraphrased before being  
 communicated to anyone  
 other than a Governmental  
 agency. (BR)

Chungking via H.R.  
 dated May 11, 1943  
 Rec'd 11:02 a.m.

Secretary of State,  
 Washington.

331, May 11, 10 a.m. (SECTION TWO)

(C) Saw Father Tennish and Bank of Communications  
 again a few days ago and both informed me that the  
 only transaction of which they had any knowledge  
 was one for United States dollars 10,000, that this  
 transaction had been canceled as far as they knew  
 and that they had heard of no further development.

(D) I brought up matter again at board meeting  
 yesterday indicating discrepancies between information  
 available to the Treasury in Washington and information  
 made available by Father Tennish and Bank of  
 Communications Chungking. In view of these discrepancies  
 board felt it could not approve Treasury's licensing  
 transactions referred to in your no. 343 of March 15  
 part two point one A.

(E) For your information Cassels mentioned at  
 meeting that Indian exchange control authorities  
 were unhappy about certain transfers of rupees made  
 by Bombay representative of Maryknoll Catholic Fathers'

Foreign

-2- #681, May 11, 10 a.m. (SECTION TWO) from  
Chungking via H.R.

Foreign Mission Society to Bank of Communications  
Calcutta for account of Bank of Communications  
Kunming suspecting that these transfers might be  
tied up with dealings in black market for Chinese  
currency.

Three. My TF 111 of April 25 point one refers  
only to transaction of Bank of Communications totaling  
United States dollars 10,000, this being only  
transaction involving it and Foreign Mission  
Society of which it has any knowledge.

END OF MESSAGE.

VINCENT

BB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: May 11, 1943, 11 a.m.

NO.: 682

This is message TF-118 from Mr. Adler for the Secretary of the Treasury.

1. It has been learned through a reliable source of information that the CN\$311 million in Chinese currency which was held for the Stabilization Board in approved and appointed Shanghai banks were moved by the Japanese to the Yokohama Specie Bank there and used for transactions in Chinese territory occupied by the Japanese.

2. From unofficial reports we hear that Dr. Kung, who is in Chengtu at present, told foreign missionary and philanthropic organization representatives in Chengtu that he would be willing to give them the official rate plus 50 per cent for their remittances in foreign exchange.

VINCENT

DLA  
This telegram must be  
paraphrased before being  
communicated to anyone  
other than a Governmental  
agency. (BR)

Chungking via N.R.

Dated May 11, 1943

Rec'd 11:30 p.m.

Secretary of State,  
Washington.

691, May 11, 8 p.m.

FOR THE SECRETARY OF THE TREASURY FROM ADLER .

TF119. Have been confined to bed for three  
weeks and am still convalescent. Have been able  
to despatch more urgent business thanks only to  
cooperation of colleagues on board and friends  
in Embassy.

VINCENT

JRL

TREASURY DEPARTMENT  
MAY 12 PM 12 47  
OFFICE OF THE SECRETARY OF THE TREASURY

NOT BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET  
U.S. SECRET

OPTEL NO. 155

Information received up to 7 a.m., 11th May, 1943.

1. NAVAL

There is practically no enemy shipping left on the coast between BIZERTA and the West Coast of CAP BON. Destroyers operating off the CAP BON PENINSULA are frustrating enemy attempts to escape in small craft and so far have taken about 250 prisoners. 3 small vessels have been sunk.

2. MILITARY

TUNISIA. To 1800 hours 10th. Northern Sector. 9th. U.S. Force continued mopping up over 12,000 prisoners. The vast majority Germans have so far been checked through the 2nd U.S. Corps Cage. 6 German Generals have been captured so far.

Central Sector. 9th. After a Guards Brigade had captured the high ground South of HAMMAN LIF during the night our armoured forces in the afternoon overcame the enemy tank defences round the town and advanced six miles to the south east. Much equipment has been abandoned in this area but the number of prisoners taken is not repetition not yet known. Further South CRETEVILLE was captured by 1st Armoured Division and a further 3 miles advance made Southeastwards. 10th. Early in the afternoon SOLIMAN was captured and by 1700 hours GROMBALLIA was also in our hands with our tanks continuing their advance South-eastwards against resistance which appeared to be disintegrating. Contact was made with the French Left Flank in the Area of CHAYLUS. Total prisoners during the day exceeded 5,000, including 600 from Hermann Goering Grenadier Regiment, who surrendered to French Nineteenth Corps. 9th. Enemy artillery fire prevented any further advance. Patrols found the enemy in strong positions 2 1/2 miles Northwest of SAOUAF. Infantry who reached the High Ground 4 miles Southwest of ZAGHOUAN were held up by fire from enemy positions South of MOGHRANE. 10th. Pockets of resistance still remained in the ZAGHOUAN Area. Enemy Counter attack South of MAGHRANE was repulsed.

8th Army. 9th. In the evening Fifty Sixth Division attacked with the object of securing the High Ground 5 miles due North of ENFIDAVILLE. The attack progressed satisfactorily, meeting little artillery fire but considerable opposition from Mortars and Machine Guns. There is still no indication of a general enemy withdrawal in this sector.

3. AIR OPERATIONS

TUNISIA. During the 8th and 9th nearly 1900 Sorties were flown CAP BON PENINSULA. On 8th and 9th, 207 Medium and Light Bombers and 336 Fighter Bombers attacked ground objectives. On the 8th/9th, 30 Medium and Heavy Bombers made similar attacks. 9th. 123 Medium and Light Bombers attacked PANTELLERIA.

SICILY. 9th. 44 Liberators bombed the Ferry Terminus at MESSINA, dropping 111 tons. PALERMO was attacked by 123 Fortresses and 87 United States Medium Bombers escorted by 178 Lightnings.

AEGEAN. On 8th/9th, Beaufighters probably sank several Caiques.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE  
May 12, 1943TO Secretary Morgenthau  
FROM Randolph Paul

Grace Tully called me at 11:45 this morning and said that the President had told her to tell me that he had sent word to Senator Connally and that he felt there was nothing more he could do; that we will have to work it out the best we could.



May 12, 1948  
5:15 p.m.

#### FINANCING - ORGANIZATION PLANS

Present: Mr. Bell  
Mr. Gaston  
Mr. Graves  
Mr. Gamble  
Mr. Robbins  
Mr. Peabody  
Mr. Odegard  
Mr. Buffington  
Miss Elliott

H.M.JR: I had plenty of time to think about organization while I was gone - thought about nothing else much but - to try to get this thing settled, and in my own mind the thing is pretty well clear. It is not settled, but at least it is clear in my own mind. It was partly helped by talking to people in the county and seeing how they worked, and so forth and so on.

I think there is no question that there should be one organization. I don't think we can - after what the Federal Reserve has done I don't see how we can ditch it.

This is the way I feel about it. Now, we ought to have a man in charge of each State who will be responsible in that State for the selling of all Treasury securities; and in each county there will be one person who will be responsible for the sale of all securities. There will be an executive manager in the office of the Federal Reserve - this isn't quite clear, but I feel that the executive manager should be responsible both to the president of the Federal Reserve and to me. Either I or people I pick will pick each State chairman - I mean, we are going to take all the time that is necessary to pick the State chairmen. I or my representative will pick the executive

manager. I am sorry to use so many I's, but I want to be entirely satisfied so that this executive manager plus the State chairman will be the kind of person that I want, right or wrong, whatever it is, at least that he will have the kind of spirit which I have tried to blow into this thing through the whole Treasury organization since I came here on the 1st of January, 1934.

I read everybody's report. I took all the reports up. I read yours (Graves and Robbins), and I read Buffington's. I want to make this thing just as simple as possible. I don't want to talk about - I mean, it is interesting. You take a man in my district who is in charge of four counties. He used to be on the War Bond for Dutchess County. He hasn't the slightest idea of what the Federal Reserve does. As a matter of fact, while I have been treading water and trying to come to an understanding, he simply told his people in four counties, "I am going to hold you together, and we are going to continue as is until we get an order not to." He just kept everybody together. He just said, "We haven't any orders."

He was on his way over to Middletown, Orange County. He said, "We are just going to stick together until we get them."

But again for myself, I have thrown aside this thing of a special campaign committee, or special this, or special that. I mean, in Dutchess County there will be a Mr. Jones who is chairman for Dutchess County, or it may be a woman. In Orange or Ulster - I don't know which it was - they had a woman, and she did the best as chairman, and the county did the best of all four counties this fellow had. She tripped her quota. It was either Ulster or Orange. She was chairman for the whole county, and she just went in - I think she was connected over there with this State school for teachers. She tripped her quota, and he said she did the best of any.

But when you speak to the people in the field, to have a special list, a special that, a special something else, I just don't think - I mean, somebody in the county - now

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this fellow has four counties, and he looks to somebody higher up.

MR. BELL: He is a regional chairman, I take it.

H.M.JR: He is, but he used to be just for Dutchess County. Then they made him regional director for four counties, you see. But this fellow - his side-kick for the county - was the president of the First National Bank of Poughkeepsie, and I talked to these fellows. You can only get it when you get down that close.

He said, "Mr. Morgenthau" - I can't remember his name - he said, "The only way you can get us bankers to give you the names of the fellows we have on deposit is make us feel that we are part and parcel of this show. If we are only going to be used occasionally" - he said, "I had trouble enough getting some of the smaller bankers to give up the names, but if we are part and parcel we get carried away with enthusiasm and work against our interests." He was very frank. He said, "It is against our interests to do this thing."

I am going to be very, very tough on who the State chairman is and who the executive manager is, but I think that there should be a kind of a dual flow there, that the executive manager should look both to the chairman and this - this could be worked out - I don't see why it couldn't, why the executive manager or, as we called him in Farm Credit--

MR. BELL: ... the agent.

H.M.JR: I don't know why we can't call him a Treasury agent. I don't see why he couldn't look both to the Treasury and to the chairman of the Federal Reserve Bank - the president. Let's call it Treasury agent. I don't see why he couldn't look to both. But I mean that part - I am a little--

MR. ROBBINS: That is a hard one.

H.M.JR: As I say, I am a little fuzzy.

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MR. BELL: It is hard to give them the authority you might want them to have. You could make them sort of supervising agents to run around over the whole district and see where the soft spots are and be corrected, but to actually do the administering is a little different.

H.M.JR: What I have in mind is that this Treasury agent will be the boss for the four States, and he will be giving the full time, and the president of the Federal Reserve will supervise it. So will you (Bell), and I, and the rest of us.

MR. ODEGARD: The jurisdiction of these agents would be coextensive with the Federal Reserve Districts, wouldn't it?

H.M.JR: No, not necessarily. Up in Oregon and Washington I would make that separate. No, Peter, I would want to talk with people. Certainly Oregon and Washington should not look to San Francisco.

Now, whether the next States - Idaho or Montana - whether it should flow to, let's say, Seattle - of course, I couldn't pick Portland; that would be prejudice. (Laughter) But if it should flow there I don't know - I think we should - I think they have to be--

MR. ODEGARD: So you might have two or three of these people within any given Federal Reserve District.

MR. BELL: You mean these agents?

H.M.JR: Yes, we might end up with fourteen or fifteen. I certainly think that one should carve Detroit off from Chicago.

MR. ROBBINS: You have enough Federal branches so that you can carve very many places and still tie into the Fed. There are thirty-six branches in all.

MR. BELL: There are about twenty-three branches and twelve parent banks, so you have thirty-five spots where

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you could have agents if you wanted to. Some of them are not important.

H.M.JR: But I don't know whether you meant it in your report when you said the policy should be settled in the district. The policy would be settled here. But once the policy is set I would let these people run their own show, largely.

MR. ROBBINS: I didn't intend to convey the fact that the major Government financial policy should be established any place but here, but I did mean to delegate as soon thereafter as possible and push out and down towards the community level.

H.M.JR: Then I looked here at this place, one group servicing these people - just one tight organization here servicing these people.

But I can't see this thing - I mean then if - let's say in September we wanted, for argument's sake, to get out a bank issue. These people would get out a bank issue; and if for October we wanted to get out something for non-banking, the same organization would do it.

Then the thing also that I ran into is that certainly each of the counties should have at least one paid stenographer. The thing that they talk about is that the Victory Fund people can get more money and more clerical help than the War Bond people can, and there shouldn't be two pools. The thing should be centered, and I think they should have a paid secretary in the three-thousand-odd counties in the United States who would be working there all the time. That is the way I feel.

As I say, the thing isn't sewed up, but I would be very, very careful on who the executive managers are. I would be very, very careful on who the State chairmen are. We have had no politics so far, and I don't intend to introduce it at this time; but I do want somebody who would have a sympathetic approach to the whole problem, the whole war, that I have.

I will start with Mr. Bell.

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MR. BELL: Well, I like the approach in a general way. There are some things I think I would have to think through. I am not so sure how this general agent or executive manager - whatever you call him - would operate.

H.M.JR: Just call him - for lack of a better name - Treasury agent.

MR. BELL: Yes. I am not so sure how he would function, and I would like to think that through a little, but I like the general approach to the problem. I think we have to work out the cross State lines where you have a State split between Federal Reserve Districts. It means the presidents of those two districts have to get together and coordinate their plans and programs for that particular State so that the State manager will not be having two policies in that State.

H.M.JR: So it wouldn't be cross-eyed.

MR. BELL: Yes, wouldn't be cross-eyed. That is right.

H.M.JR: We wouldn't. You could just say flat, "O.K.," we give New Jersey to New York, we give Illinois to Chicago."

MR. BELL: That is a little difficult through Federal Reserve Districts. I think it is much better, much easier, I believe, for the State manager or administrator, or whatever you call him, to work with two presidents than it is to split States between districts, because they have got to deal with a lot of people in the regular business in those sections.

H.M.JR: Well, I tell you, Dan, you have worked with me a long time. You know when I get down to those details I am not very much interested. I lose interest.

MR. BELL: The over-all - I like the one organization. I think that is essential. I don't think we can have two organizations working in this field.

H.M.JR: But this Treasury agent would be the paid man who would be there to look after these four States and see

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that they are serviced and see that they are kept up to snuff and on the job, and so forth, and so on.

Let me just talk a minute. I think I have the answer. I only thought of it now. If anybody else wants to get excited, they can. I have the answer for you (Bell) and for Robbins.

If Mr. Allan Sproul, who is president of the Federal Reserve of New York, can look to the Federal Reserve Board in Washington for some kind of orders, he can look to me for other kinds of orders, which he does. Right?

MR. BELL: Yes.

H.M.JR: There is your example. The man under him can do the same thing.

MR. BELL: Sure.

H.M.JR: I just thought of that. I think that is wonderful.

MR. ROBBINS: But he is looking to the Federal Reserve for one kind of orders distinctly different from the orders he expects to receive from you. You are giving him orders on bond selling. The Board gives orders on another job, and that is the operation of the Federal Reserve System.

I think you can have as many bosses as you need provided the segment of the authority is well defined.

H.M.JR: Bell can explain that better than I can because he has fought that thing for nine years. He cherished that like the apple of his eye, to keep that, and to keep the Treasury and the Comptroller General separate. You can explain how you fought to keep - the fact that we can work directly with the president of the Federal Reserve and don't have to go through the Board--

MR. BELL: There is a distinct line of authority. The Federal Reserve Banks operate under the law as our fiscal

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agents, and that is provided by the law. It doesn't say that we have to get the approval of the Board or anything, just fiscal agents of the United States Treasury, and all communications, directions, and instructions go from the Secretary to the Federal Reserve Banks, and we do not go through the Federal Reserve Board for anything. We keep them advised and send them copies of the major financial policy decisions. Of course, on the operation of the system, the credit policy angle, controlling reserves, and things like that, the Board does that.

H.M.JR: But you have that very peculiar relationship.

MR. GASTON: But the functions are quite distinct, I think. Fiscal agency functions are quite distinct functions and separable from the Reserve functions, so that we are unable to do that without confusion, but here you are dealing with the same functions.

H.M.JR: Now wait a minute, Herbert, take the question of excess reserves. Take the question of buying and selling Treasury securities. Now certainly there could be all kinds of room for overlapping there. How many Government bonds should the executive committee of the Federal Reserve buy, and how many shouldn't they buy - we have been all through that.

MR. BELL: Of course, that is a matter of coordination.

H.M.JR: It is a matter of coordination with my saying that as long as the war was on there could only be one boss and I was going to be the boss, and the Federal Reserve Board here said, "O.K."

MR. BELL: On that front, yes.

H.M.JR: But there has been all this complicated business on the question of securities, on the question of excess reserves, which has nothing to do with fiscal agency stuff.

MR. BELL: That is right; that is separate, but that is worked through a system of coordination that we worked

out. They take no action without first getting the Treasury's O.K.

H.M.JR: And we try to keep the Federal Reserve Board advised when we do something. I think that these men could act - could look--

MR. ROBBINS: Who is going to be responsible, sir?

H.M.JR: Who is going to be responsible? I am.

MR. ROBBINS: Then under you, who?

H.M.JR: I am.

MR. ROBBINS: Well, your appointees, in other words, these Treasury agents, will then be responsible to whom?

H.M.JR: They will be responsible to the Secretary of the Treasury and will work out of the Federal Reserve Bank. They will consult with the president of the Federal Reserve Bank, and will get the benefit of his advice and his prestige.

MR. GASTON: I think you have a problem of coordination there, but I think it can be worked out. I think in the first place it means that the Federal Reserve chairman has got to select someone who is satisfactory to us, to you, or you select someone on whom the chairman of the Federal Reserve Board agrees.

And then you will have to have an understanding with the chairman of the Federal Reserve Board that as to a great many routine operations you will want to work directly with this man. If you give him orders or directions that are in conflict with something that the Federal Reserve Board president wants him to do, give him orders which the Federal Reserve president questions, then the Federal Reserve Board president will want to appeal to you on the subject. You may give him instructions through the president of the Federal Reserve Bank.

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H.M.JR: All instructions should go in duplicate. It is only a little bit of a thing, but take this question, Stuart, of your trying to merchandise my speech. You have to sit down and send a telegram to the president of the Federal Reserve Bank, and what happens to it? One place it gets lost, another place something else. If we had this setup, somebody from the office here could send a telegram to his executive manager, "Morgenthau is going to talk; get busy." Why should the president of the Federal Reserve be bothered with a thing like that?

MR. GASTON: That is a good example of the thing you can separate.

MR. PEABODY: That is right.

MR. ROBBINS: But if our security sales in the fourth, fifth, or any district fall down and we really start to go out and correct the situation in the middle of a campaign, who are we going to go to as a responsible person?

H.M.JR: I tell you, because it has happened before. Bell and I will get hold of Eccles. Eccles is the only fellow who can put the pressure on the Federal Reserve president of Boston. He can tell him to go to hell; I can't. Eccles can remove him. But if it gets to that point I have to go to Eccles. And Eccles has got - you have this complicated arrangement now. He has to call up this fellow and say, "Look here, Morgenthau and I are in agreement. We think you are doing a lousy job. Unless you get busy I am going to fire you."

MR. GASTON: That means that you are holding the Federal Reserve president ultimately responsible for the district. It is the president you are holding responsible finally, rather than the agent.

H.M.JR: Herbert, it has to be joint. I mean, just the way you can say to me, "Do you hold the Federal Reserve Board in Washington responsible?"

The ultimate responsibility is theirs as far as these districts go, but I don't suppose we sent one out of

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ten things to Eccles that we sent to the presidents, but still if something had gone sour I would have looked to him to try to pick me up.

MR. GASTON: You are really dealing with the president there as fiscal agent, but if it comes to a hopeless clash with the president in his function as agent - as fiscal agent to the Treasury - then you go to Eccles and say that this fellow just isn't competent. "He can't serve me adequately as fiscal agent to the Treasury, and I want you to make him behave or remove him because he just isn't the kind of a man who can give me service. He isn't giving me service."

But you are really dealing directly with him in his function as fiscal agent. You think you have plenty of authority to give him orders. The question in my mind is whether he is the man ultimately responsible. I think if we have this setup he has to be, but we have to arrange through him. He appoints the kind of man you can accept, and you can arrange with him - he has to have an understanding that a great deal of routine directions and orders for the conduct of the campaign are going to go direct to this agent and not to him. If he feels seriously disturbed about something that you are doing, he should get on the telephone and call you up and say, "Mr. Morgenthau, I think this is a mistake. I would like to have you reconsider it."

H.M.JR: Something like that. I said on that front it is kind of fuzzy, but I suppose the answer is that the president of the district - we would have to hold him responsible, I suppose.

MR. BELL: I think so. I wonder if this isn't what you may be groping for. The Federal Reserve President has got to have in effect a sparkplug under him that will put enthusiasm into the district campaign.

H.M.JR: A full-time manager.

MR. BELL: That is right.

Now don't we want somebody like a field agent, maybe, in addition to that, to travel around? This fellow can't travel around.

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MR. ROBBINS: A staff of some kind.

MR. BELL: I wonder if we can't have, to satisfy your point, a field agent that will travel around in these districts and light in the Federal Reserve Bank every so often and say, "I found this situation out here, and it ought to be corrected."

H.M.JR: Corresponding to Inspector General.

MR. BELL: That, or corresponding to your general agents in the Farm Credit. They would go to president, however, and see if they couldn't correct the situation first - or the manager - the two of them together.

H.M.JR: The Inspector General's office reports to the Chief of Staff directly, and their representatives can go any place and do anything in the Army anywhere.

MR. ROBBINS: A division manager and a sales organization, make it clear, the difference.

MR. BELL: You have to make this clear, that it is not a snooping agency at all; it is just that they want to know what is going on throughout the country, and the Secretary wants to be advised from time to time whether or not his theories and policies are being carried out down to the grass roots.

MR. ROBBINS: Have a two-way channel of communication there. It works both ways. They carry out and bring back.

MR. GASTON: I don't think that is all of it. I think this man who is to be the manager under the president of the Federal Reserve Bank - manager, or agent, or whatever he is to be - I think that man has got to be a strong man who is sympathetic with and can work with the members of the State organizations, and I think we have to have a veto and approval on the selection of that man.

H.M.JR: I would go further than that. I want to take the initiative. I will give the president of the Federal

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Reserve the veto power, but I want to pick him and let the president of the Federal Reserve have the veto power.

MR. PEABODY: He understands the selling of these securities, the promotion, and the way they are sold. That is his job.

H.M.JR: The difference I want to bring out is that heretofore what they have done is, they have selected the executive manager and I have gone through and O.K.'d him. I want to have it reversed. I want to select the executive manager and then the president of the Federal Reserve can have veto power on me.

I also want to select - as I say, I can't do it personally, but some group I designate will - also the State chairman.

MR. ODEGARD: Would the State chairman then report to the president of the Federal Reserve Banks, report to the special agent, or report directly to Washington?

H.M.JR: He would report to the executive manager.

MR. ODEGARD: Who would be at the Federal Reserve Bank?

H.M.JR: Well, he might make his headquarters there, or he might make his headquarters in a special building. Chances are they don't have room for him.

Wherever it is, everything should be under one roof, just the way I think everything here should be under one roof. I don't think there should be a group here working separate from the War Bond group four or five blocks away. I think that they should all be in one building with these assistant secretaries I have attached to myself there, working with them day and night. Then when I want a meeting with them I can go over there, or they can come over here.

I think in the field wherever the State headquarters should be, it should all be in one building, with the regional or executive manager there in charge. Then we

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would communicate with the president of the Federal Reserve and with him. But I would want it under - I don't know how - for example, we want to get out a poster about the Japanese or something, why should we bother the president of the Federal Reserve? He doesn't know anything about it. We ought to be able to go to this fellow directly.

MR. BELL: Last time you went to the publicity man.

MR. PEABODY: We wrote to the presidents and asked them if we could do that because it was obvious on a lot of these things that we needed quick action, and you couldn't do it the other way. The president didn't know a thing about what we were talking about.

H.M.JR: And he never will.

MR. ROBBINS: He wouldn't be picked with those qualifications in mind ever.

H.M.JR: No, so we get somebody as executive manager who is picked with those qualifications. We get a State manager, and my organization here ought to be able to pick these fellows, call them up, and then the way I see it, it is up to the executive manager to keep the president of the Federal Reserve posted. He can keep him happy, and let the fellow sit there with veto power, and so forth, and so on.

MR. ROBBINS: You are going to put your bet on twelve good men.

H.M.JR: Twelve good executive managers and forty-eight State managers.

MR. ROBBINS: It fans out to the forty-eight and on down to the three thousand odd.

H.M.JR: That is right, but I had something in mind a little bit different than what Bell had. I want an "Inspector General's Department" operating out of this

department that would be on the road all the time.

MR. BELL: That is the field agent.

MR. ROBBINS: Your field director.

H.M.JR: But he would report over everybody's head just the way they do to General Marshall.

MR. BELL: Your men, yes, but there would be no objection to their going in to the Federal Reserve president and his right-hand man and saying, "Something is wrong down in this district." He ought also to report to Washington on that.

H.M.JR: Yes, but just the way in Customs--

MR. GASTON: We have it in Customs and Internal Revenue.

H.M.JR: In Internal Revenue and Customs some of the collectors said, "Before your field man can come in he has to come to my office and tell me what he is doing here." We said, "No." Is that right, Harold?

MR. GRAVES: That is right - Customs.

H.M.JR: We said, "The fellow can go in; after he has found what he was sent for, he will let you know." But the collector of Internal Revenue said, "Before a man can come into my district--"

MR. GRAVES: It was Customs, I think.

MR. ROBBINS: You are not a watch dog, however. The idea of having people who will be like our field directors and deputy field directors - whatever the title is - who will be the two-way channel of communication between the Washington headquarters organization and these various parts of the country. What we would call them in a business is division sales managers, who would take the Washington plans, go out and work with the field organization, learn, and bring back, for that makes Washington do a better job,

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and the field a better job. That is a pretty standard formula that works in all kinds of distribution work.

H.M.JR: It is along that line.

MR. ROBBINS: These men would be supplemental to that, I presume.

MR. BELL: They could be in addition to the twelve so-called executive managers.

MR. ROBBINS: I would think--

H.M.JR: If the man were good enough, we might not need the "Inspector General's Office." We have that now under Coyne.

MR. GAMBLE: We have six regional men.

MR. ROBBINS: That same pattern should pertain.

H.M.JR: They would be responsible to Washington, and not to the president of the Federal Reserve Bank.

MR. ROBBINS: Yes.

MR. ODEGARD: You would have to give these "Inspector Generals" who go out from Washington some limited area of responsibility. That might correspond to the Federal Reserve District so that you would have twelve people from Washington in addition to your executive managers in the districts.

MISS ELLIOTT: May I ask a question? Do you mean that you are going to have twelve regional agents appointed here by you and endorsed by the Federal Reserve Bank in addition to that of this whole field force that Mr. Coyne has, these six people I have - how many does Mr. Coyne have?

MR. ODEGARD: Six.

MISS ELLIOTT: And that these people will all be reporting back here to us or to this central committee, whatever it is, and then, in addition to that, we would have to go back down the line to these agents and back to the States? I don't get the connecting lines in here at all.

H.M.JR: No, you are making it - if you want to get something out for the women - somebody is your boss, and you say to the sales manager - Mr. Robbins, I take it that is the way you would do it - "I have got this thing - a plan worked out for the women." He would look at it and approve it or disapprove it. Then he would say, "Fine, all right, Miss Elliott, send it out to the twelve executive managers," and he would send it from there down to the forty-eight States.

I take it that these field agents would also be given copies to see that the thing is carried out. The field agents would be there to check up and see that the thing is done. Isn't that the way you see it?

MR. BELL: Yes. It would have to work that way if you are going to have line of authority.

MISS ELLIOTT: In other words, I don't think for a functional agency that would have to work back through - I mean, if I have to say in my communications that we have been sending direct to the women in the States - we have sent - we send our instructions for activity direct to the women in the States through the State administrator.

H.M.JR: You would have just one other step.

MISS ELLIOTT: And there is where the delays come. Now you have introduced a third point there; we would have to go to these agents, they in turn back to the State directors, and then back to the women.

H.M.JR: Miss Elliott, it can't be any worse than it is because half the time the posters and stuff you wanted never got to the place on time. The retail week, the posters never got there until the week was over.

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MISS ELLIOTT: My communications and work has gotten direct to the women right straight on down the line.

MR. BELL: Not through the State administrators?

MISS ELLIOTT: We send a copy to the State administrator - send straight through to the women and a copy to the State administrator. They didn't have to wait to get their instructions.

For example, take the handbook. We sent it to the State administrators, but it went at the same time to the women in the States.

H.M.JR: Well, if this thing is properly done, certainly these twelve executive managers should be the key so that when we want to do a job we can get it done and done effectively. Now, maybe you have been more lucky than the other people.

MISS ELLIOTT: Do you mean you want those twelve officers to be distributing officers for materials, for ideas, for plans and programs, back to the States and then back to the people in the States?

H.M.JR: Yes. How else are they going to see that it is carried out?

MR. GASTON: You have got material and ideas and suggestions that you could ship out from here to the State administrator, or ship it out to the women's administrators, or to the country administrators, if at the same time or earlier you supply the executive manager in the district with copies of what it is and let him know that you are distributing it.

MISS ELLIOTT: He could be the person to see this is done. If the policy is - for example, if it is agreed by the executive board or council, or whatever it is here, that I should do a certain thing as far as the women are concerned, this policy here would be the committee - the committee here would decide on the policy, then that would be instructions to me to go ahead. Then it seems

to me these agents could be people - if they are set up to see that that is done, but that we won't have to channel everything back through them. The delay would be indescribable.

H.M.JR: Miss Elliott, the delay all along the line has been indescribable.

MR. GAMBLE: You will need a hundred and fifty people in every one of these twelve districts to operate like that; that is her point.

H.M.JR: All right, I haven't got what I want. I haven't been able to get what I want. Miss Elliott, maybe, has been the exception. She has been able to go down to the women and get the thing. But there is a lack of unity and a lack of control, and I can't function that way. The worst example is when you talk to people about posters. The posters are never out on time. They never get there until the month is over. I don't know how they are distributed. The stuff here - the radio stuff - I asked Bell - Callahan sent it to the people in Washington and when he is asked, why, no one told him to send it out to the field - I mean, just using that as an example. Some stuff that I do in my office, people in the Sloan Building, or whatever you call it, never hear about it. Some stuff goes to the level of the Washington people and some of it may be - in your (Miss Elliott's) case you get it down to your women. But the thing has got to be uniform, Miss Elliott. I can't have it the way it is now. It is too indescribable.

When they get going it is like everything else; at first it has to be tight so that this man sitting in Seattle, or Portland, or San Francisco, or Detroit, or Chicago feels, "Well, I am held responsible for four States and I have got to know what is going on in my four States."

MR. GAMBLE: There has never been more confusion and worse distribution of material than when you try to do it through the twelve Federal Reserve Districts.

MR. PEABODY: Well, there were a lot of circumstances there, though, Ted.

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MR. GAMBLE: I am only pointing that out, because what we are really saying is that this one type of organization has been a failure and you want to decentralize it and turn it over to the Federal Reserve Banks.

H.M.JR: No, I am not even going to let you get away with that. I mean, I am not going to sit here and pick on each person, but I have gone through it for a year now, asking different times to have different people fired who were so inefficient they should have been fired a long time ago, and I have sat here and I am not going to take it any longer. I am just not going to take it any longer, and I am not turning this thing over to the Federal Reserve Banks. I am picking the people - I am picking the State people myself, and I am not going, Ted, to let you do an injustice to yourself or to me by letting you say it.

MR. GAMBLE: I am not doing an injustice. I would like to say if the program is going to be handled by the twelve Federal Reserve Banks presidents, I wouldn't want to be identified with it, but I would like to give you the benefit of what I think about the kind of organization you are setting up.

H.M.JR: I have gotten to the point where, if anybody doesn't like what I am going to do - it is a free country, but I am not going - I am not turning it over to the Federal Reserve Banks, and I am not even going to let you threaten me, see?

MR. GAMBLE: I wasn't threatening you, Mr. Secretary. I was trying to point out what actually is going to happen.

H.M.JR: You haven't been right before, and there is no reason to say why you should be right now. I haven't talked to anybody for five or six days, and when you go out in the field and see the way the thing is now, it is impossible. And I am not going to turn it over, either, to the Victory Fund Committee, and I am not going to turn it over to the War Savings Committee. I want it

amalgamated; I want a Treasury organization in each State. I don't care what national organization you set up, you cannot contact forty-eight States from here. How many people have you got here now? Three hundred?

MR. GRAVES: Three hundred and fifty.

H.M.JR: Three hundred and fifty people here in Washington, and what you want, and what Miss Elliott wants, is that these people should contact each of the forty-eight States; and I want to break the country down into twelve units.

MR. ODEGARD: You want to decentralize the operation.

H.M.JR: The Army does it and they do a beautiful job. General Marshall doesn't attempt to tell each of his corps areas - what is it? nine corps areas? - he has a commander for Europe, he has a commander for North Africa, he has a commander for the South West - you can't do the thing from here. It hasn't been done.

MR. GAMBLE: Well, I think a great many things have been done here that have been an asset to this program that couldn't have been done any other way.

H.M.JR: They can still be done.

MR. GAMBLE: I don't think so, the way you are setting it up.

H.M.JR: Well, all right.

MR. ROBBINS: I think a lot of the trouble that seems to bother Miss Elliott, in the face of practical operation - much of that will turn out to be handled in a way which won't interfere with what you are thinking.

MISS ELLIOTT: Let me say a thing here that isn't quite clear here in this discussion. The difficulty on distribution and that kind of thing has not been the question

of sending the materials out from here. I think it has been the question of having too many different officers handling like details, and that is what worries me about this; that we are setting up here another between where the work has to actually be done, where the distribution has to be done, where the material has to be handled - we are setting up another office that will be compelled to set up a re-distribution system from those central offices back to the States, and then from the States back into the local communities. That is what is worrying me about this.

H.M.JR: No. Look, Miss Elliott, I did Farm Credit from the ground up, and they still keep the organization and it still works. I have seen how the Army works. I don't care - anybody sitting here in the Treasury cannot service forty-eight States. You can't do it, Miss Elliott. You have got to have distribution points, and what I am trying to do - I thought that this was what you were for - once the thing gets on the State and county level I want to say, "God bless you - you have so much to raise in the county; now raise it. You can use your own judgment; go ahead and do it."

Now, if you could get the plans in three thousand counties, I will bet you there are more plans and more different kinds of arrangements than you ever saw.

MR. ODEGARD: Mr. Secretary, could I just ask a question as an illustration? I don't want to go into detail about the way we distribute posters now, although we get better distribution than any other Government agency--

H.M.JR: Well, that isn't saying much.

MR. ODEGARD: The way in which we distribute posters now is by direct mail from Washington. How would you get - suppose you had a poster that you wanted to get out - how, under the new organization, would it be distributed?

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H.M.JR: Look, I happen to know how people like the Saturday Evening Post and those people distribute their magazines. They don't distribute them all from Pittsburgh, or from Philadelphia. They send a freight-car load to Albany, New York, and from Albany, which is a good district - and the question of post offices - the thing is distributed, and I take it they have a man there in the distribution department that looks after it. They send another group to Chicago. I know some of the magazines do it - they make the plates and send them to different parts of the United States and have the magazine printed in more than one place. I think Collier's does, and they have the thing distributed and they meet the situation.

Now if, on the other hand, we get something out of the Bureau of Printing it would be stupid to send it to the fellow in New York and tell him to send it up to Connecticut or whatever his State is. It would go direct to the State. You would do it the most efficient way, Peter.

MR. ODEGARD: You do it substantially the way we are doing it.

H.M.JR: Whatever is the most efficient way. If, on the other hand, it happened to be some job that could be done in New York you say, "Here is something; do it in New York."

I can't think this thing down to the last detail, but I have got enough people that can. Whatever would be the most efficient way - if, after it gets going - Miss Elliott is one of four or five service organizations and after she gets going - I mean, all of these things - you first have to have the thing tight and then you loosen it up just the way you did in the last campaign. You got exception after exception from the Federal Reserve president to deal directly. You did it on advertising.

But I have arrived at the point that I have decided in my own mind that I cannot, after the way they have acted, and the enthusiasm and the loyalty that they have shown in most cases, I cannot simply say to the Federal

Reserve System, "I am going to kick you overboard and I am going to set up my own organization independently." But I can say to them that the State chairmen and the regional managers will be selected by a committee of the Treasury, and if they don't like the fellow and have a good reason, they can say so, but I am not going to do it personally, but those people are going to be picked.

MR. ODEGARD: What would be the status of the present State chairmen and the State administrators, Mr. Secretary?

H.M.JR: Well, I think what they would do - we would have to go through the very unpleasant thing of asking everybody to resign and then pick the best man.

MR. BUFFINGTON: That is right.

H.M.JR: I think you would have to go through that unpleasant thing, and then whoever the best man is we will pick him.

MR. ODEGARD: What would happen to your voluntary committees, and so on, in the meantime, while you were picking these people?

H.M.JR: You would have to work just as fast as you can.

MR. ODEGARD: You might find them going to pieces very quickly.

H.M.JR: Well, you would have to take - after all, what I am figuring on is a long war - several years - and I have got to get this thing straightened out now. We have got, I hope, from September to October between these drives and if this process, instead of getting seven hundred and fifty million dollars in E Bonds this month, I get five hundred, well, I will lose two hundred and fifty million of E Bonds, and if I lose another two hundred and fifty next month - all right, I lose two hundred and fifty each month, and I take it that the other thing will have to go on its momentum, but we would work just as fast as we can.

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MR. ODEGARD: Of course it might have, unless you did work very fast, a rather bad effect on the Treasury public relations because there are hundreds of thousands of these people. There are not just a few.

H.M.JR: That is the thing that scares me about this, Peter. When I go into a little town of five hundred people the way I did, and talk to the postmistress and see what this means, I realize - and that is what has taken me so long, and that is why I wouldn't do it during the campaign. I realize what it means to the community. I want to do the thing in the right way. And I didn't even hear what Ted Gamble said. I mean, after all, if we, here, haven't got the intelligence to pick the right kind of people, then I ought not to be sitting here. But we can't, Peter, go on indefinitely having these two organizations in each county which are only working together - my own guess is there would be very little change in the counties. I mean, whoever has come to the top most likely will stay there and you can't do much about it.

MR. ODEGARD: You can't if you are going on a volunteer basis because you have the leader in the community now.

H.M.JR: You can't do it and most likely wouldn't do very much about it, and in most communities they are together anyway, now, Peter, for good or bad.

MR. GASTON: What you are saying is what I was about to say. Those are the people you are going to work with. In most cases they are in the War Savings organization and then later certain ones came also into the Victory Fund organization when there were some additions. But the good workers in the community are in the organization now, most of them.

H.M.JR: That is right.

MR. ROBBINS: There are only so many of them in any community.

MR. GASTON: Most of them were in War Savings. Some additional ones were brought in by Victory Fund. Victory Fund had some of the same people as War Savings.

H.M.JR: The Victory Fund - when you get out of the city the Victory Fund has few people.

MR. GASTON: In the State of Washington this man Joel Ferris, the banker in Spokane whom they picked as this representative in the State of Washington, he was already the co-chairman on War Savings. He is one of the bankers in Spokane. That is the situation you have everywhere - bankers in the War Savings.

MR. BELL: Wouldn't you have to send out a very nice communication to all these people, Peter, when this is all worked out, and tell what has happened?

MR. ODEGARD: I am afraid it might take more than a nice communication. That is, if you asked for the resignation of fifty or more State administrators.

MR. BELL: I am thinking now of the workers. They are working for the Treasury. The Secretary has explained this and asked them to continue on under the new chairman.

MR. ROBBINS: I am satisfied that if we are agreed on the objective, an intelligent method of handling can be developed.

MR. PEABODY: You don't need to ask for the resignations; simultaneously dissolve both the existing organizations and immediately set up another one and make your appointments. I think if the man can be assigned from here it could be as simultaneously as that.

H.M.JR: Just that all of you - I haven't talked this to a single person in the room since I left here. I haven't discussed it with a single person, so the thing isn't settled, but I haven't discussed it with a single person.

MR. ROBBINS: Well, I would be short of expressing the complete truth if I didn't express a considerable amount of enthusiasm for the program that you are talking about. I think this is a very forward step. Aside from a few of the details, most of what I have heard I like.

MR. BUFFINGTON: If it would be of any value to you, I am sure that the twelve present executive managers would be delighted to hand you their resignations and then stand by for you to do whatever you might want in the future. There would be no dampening of enthusiasm. In fact, a number of them have already offered to do it with the idea that if you want to use them later you take them back. If you care to choose somebody else, it would be perfectly agreeable.

H.M.JR: I think they should.

MR. ROBBINS: What we will want to work towards is an integrated program to get from where we are to where you determine you want to be. I think it can be handled intelligently and without undue trouble, especially when you punctuate that by further saying that you are not building for a short time, you are building for a long time.

H.M.JR: Well, why doesn't everybody think it over? Consider that nothing is settled. We can have a fresh go at it tomorrow, or do you want to do it again tonight? I can do it tonight.

MR. BELL: Tomorrow morning. I think it is better.

H.M.JR: You would rather do it tomorrow?

MR. BELL: Yes.

H.M.JR: Harold hasn't said a word.

MR. GRAVES: Would you like me to?

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H.M.JR: That is why you are invited here.

MR. GRAVES: Well, I think that the program that you have outlined would be an exceedingly difficult, if not impossible, one to organize in time that it could do you any good.

Now, you speak of practically dismissing our present State leaders, chairmen, or administrators, or both, and beginning fresh. Now, that job of recruiting people who are willing to serve in the War Savings organization, people that you and I were willing to accept into the War Savings organization took us - it took us ten months to do that.

Some of the States were just around to the point of beginning an organization when war broke out, although this program was begun the February previous.

I can recall, for instance, that in Illinois we spent three months trying to find people that were qualified and willing to come into this organization; and there are many other States that I could mention where we had most difficult problems in the selection of personnel.

I thoroughly agree with the implication of what Miss Elliott said about the interposition of another stratum of authority here. I don't believe that the real idea that you have proposed cures the difficulties that you describe.

You said, for instance, that we were bad in our distribution, that we retained people who were inefficient in the organization; now, it seems to me that such things as that - and I concede the truth of those things - could much better be remedied by more obvious and direct steps than to create this very complicated field organization.

It seems to me that that would have no bearing on the criticisms or the defects that you had in your mind when you made those criticisms.

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I think there are other remedies that could be taken to dispose of those things. I think that this would be a very dangerous step for us to take.

H.M.JR: Well, naturally I value what you have to say, but you are not - I mean, the alternative is the plan which you have submitted.

MR. GRAVES: No, I think, if you will excuse me, if you have in mind the things that you just inventoried, there are other alternatives.

H.M.JR: Such as?

MR. GRAVES: Well, I would say that a change in the management of this organization to replace the people who are responsible for those errors of management is the obvious answer to that.

H.M.JR: No, that isn't going to give me in Dutchess County or the State of New York, one organization which is going to sell my bonds.

MR. GRAVES: I was speaking of your comment about bad distribution of material, and failure of posters to arrive.

H.M.JR: What I want is a State organization - I want one State organization, I want one county organization that can sell securities if and when and how we need them.

MR. ODEGARD: Could I ask a question? Why do you retain the State as a unit in this new operation since the presidents of the Federal Reserve Banks are to be - the Federal Reserve districts are to be the administrators?

H.M.JR: It is a good question - because the State is the political unit of the country, now. You get your Governor and you get everything else, and--

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MR. ODEGARD: I agree entirely with that, Mr. Secretary. As a matter of fact, I prepared a memorandum on the advantage of keeping the State as a unit. But when you have the States and then you add another unit in between, do you need a buffer between Washington and the States?

H.M.JR: If I can put it a little bit differently, you don't need a buffer, but forty-eight States, I think, are too many for any office to handle. I don't know anything, whether it is in business or Government, that is handled well where every order is handled directly from Washington to the forty-eight States. It is the complaint of the country. If my neighbor wants to get a tractor, he has to come down to Washington in order to get a priority. He ought to be able to go to Albany or New York and get that priority. If he wants to build a barn, he has to come to Washington. A man has got to do all kinds of things.

MR. ROBBINS: They have gone regional on a good bit of that stuff.

H.M.JR: Then it is very recent.

MR. ROBBINS: They actually did pick twelve regions.

H.M.JR: Then it is very recent. When a neighbor of mine wanted a tractor last fall he got me and I had to send somebody over to Nelson's office to get it.

The purpose of the thing, Peter, in my opinion - I have been wrong before and I may be wrong now - is not to put in an extra thing, but is to have somebody who is close to four States who will take care of the needs of those four States, because I don't believe we can do it here.

MR. ODEGARD: The only thing that puzzles me is you could build a regional organization on the basis of groups of States, many regional organizations like these in the Federal Government, but I know of no regional organization which relies upon volunteers for its personnel.

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I went through - as a matter of fact, I have on my desk the maps of every regional area used by every agency of the Federal Government, and not one of them relies exclusively on volunteers, or largely, but uses an arbitrary region such as the Federal Reserve District for its administrative area.

If you simply took the bull by the horns and instead of trying to make this correspond with the Federal Reserve districts, drew some regional areas for administrative purposes upon the basis of blocks of States--

H.M.JR: That is what I have in mind.

MR. ODEGARD: ...and practice decentralization and plan a decentralization of your operation in terms of those areas, then I would be less puzzled than I am when you keep the Federal Reserve district which has really no rime or reason.

H.M.JR: But I am not keeping the Federal Reserve district. I want to take it on the best basis I can and try to fit in the Federal Reserve somewhere because I want to get this tremendous enthusiasm which they have, which is a self-serving enthusiasm, because every bond they can sell to the public means one less for the banks. If it was the other way around, I wouldn't be so interested but it is a self-serving, selfish interest. And I think, by and large, I can't see but what they have served us well. I don't know.

I mean, there are little personal irritants which go out of the window - which are terribly unimportant - but taking it by and large, I can't see, in these two drives, but what the Federal Reserve, starting with Eccles and what they have done to help us, has been on the plus side. I don't know whether you agree with me or not. I can't see any selfish motives. Now I don't want to throw that out of the window. I have been very frank with everybody.

On the other hand, I do want to group this thing into regions which geographically fit each other, using Oregon

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and Washington as against - and San Francisco and Idaho - they may have to - they may run up against an impossibility when I put it up against them. But if you are with me on the decentralization, and then instead of doing what is worrying Miss Elliott, I want to give her State women chairmen just as much authority as possible to carry on, and bother us just as little as possible.

If, on the other hand, she works out some good plan, the plan should be directed to her people and as much as possible on the county level. But all of my thinking here is to give just as much autonomy to the locality as possible.

MR. ODEGARD: I think you know that the War Savings organization is probably as highly decentralized an organization as you will find. That is, the bulk of our activity - the bulk of our promotion in War Savings originates in the State or the local community and is carried on there. It is only when we have some national campaign of some kind that--

H.M.JR: Well, the only thing I would have in mind would be to make it more so. Now, nobody gets excited about your six regional people that go out.

MR. GAMBLE: They don't boss these people, Mr. Secretary. They are not made to answer to them, you see. Under your plan all of these States and the organizations within the States answer to the Federal Reserve Bank as supervisors.

H.M.JR: Well, where, evidently, Peter and I are together, evidently you and I are not together; instead of trying to boss it from here, I am trying to create twelve district bosses.

MR. GAMBLE: That is right. I am for the decentralization and keeping the Federal Reserve Banks in the picture, but I don't think you have to turn the program over to them in order to keep them in the picture.

MR. GASTON: I think everybody agrees to that.

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H.M.JR: The only reason I was short with you was because I knew you and I see eye to eye on this thing.

MR. GAMBLE: I don't think we are saying the same thing, Mr. Secretary.

H.M.JR: Yes we are.

MR. GAMBLE: The only way Miss Elliott can contact the women in twelve States or four States is to go through the Federal reserve Banks in order to contact them; then she is being shortcircuited.

H.M.JR: Look, Ted, don't let's worry about Miss Elliott. She will find a way to get around this, anyway. (Laughter) She has and she will do it again. I have never tried to bull a thing through with my people. I have never taken - on the rarest occasion, as Dan, Gaston, and Graves know - I mean, I never say, "This is the way to do it." How often have I said, "This is the thing"?

MR. BELL: Not very often.

H.M.JR: But never on a thing like this, have I?

MR. BELL: No, you have always been willing to discuss it.

MR. GAMBLE: Well, there are two schools of thought in the room. One school of thought thinks the Federal Reserve Banks ought to run this program and have so recommended they should be set up as the bosses in their district and decentralize the program. I think this is the answer to their particular plan - what you have said.

H.M.JR: I can answer that. I don't belong to that school.

MR. GAMBLE: But I think you have developed a plan that goes in that direction.

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MR. PEABODY: You said the banks are going to run the program. That was not in anything the Secretary said.

H.M.JR: To show you the difference, Ted, they pick an executive manager for me in New York. They say, "Here it is; will you please sign?" O.K., and I have done it. What I am saying is, I or my designated people will pick this fellow, and he is going to pick the State chairman, and the Federal Reserve Bank president can say whether he likes it. I am reversing the position.

MR. ODEGARD: But the executive manager will report to the president of the Federal Reserve.

H.M.JR: But also to us.

MR. ODEGARD: The State chairman will report to the executive manager, so really the Feds are the responsible people.

H.M.JR: No, wait a minute, Peter, you people have lost the whole thing here, at least some of you have. I am regaining control of the thing. I didn't have control of this Victory Fund thing. They picked the twelve people - I didn't pick them. But I am going to take it back into my hands. I don't see why you people don't see it.

MR. ROBBINS: The probabilities are that at that time you won't find a lot of - I don't know how many you will find that will be capable of doing the job they were only doing for Victory Fund and expanding their interests to do the War Bonds and all the rest. You have to have a new breed of cats.

MR. GASTON: I haven't understood you to say you are presenting a cut-and-dried plan here. You are really presenting certain things that you want to do. One is to integrate the whole thing on the community and State level, that is, the sale of War Savings Bonds and the sale of other securities that we will put on the market occasionally. You want to integrate it all under one force.

Then you want to find some way to relate the Federal Reserve Banks - the Federal reserve presidents - to this program so they will feel they will have some responsibility for it and at the same time retain as large a measure of control as you can, direct from Washington.

H.M.JR: That is what I have been trying to say.

MR. GASTON: Now, the thing is still fluid. I think we have to work on it some more.

MR. GAMBLE: Then why wouldn't it be a good idea to simply take the State organizations as they now exist and replace them as fast as you can, but in the meantime you don't have to wait until you have thirty-seven people you might want to replace before you make this decision. Take the now existing War Savings Staff people and put them under the twelve Federal Reserve Bank presidents and let them go ahead and run as they have always run and let the presidents and yourself change those people as they should be changed, instead of asking for the resignations or tossing them out.

MR. ROBBINS: That may be a very logical way to do it.

MR. GAMBLE: You can't take the publishers of newspapers and owners of radio stations and educational organizations and labor people who have been in this program in important positions and throw them out and expect a month later to bring them back in.

H.M.JR: If you remember what Herbert said - he said what I have been trying to say for an hour and a half.

MR. GASTON: I think we have a tremendous asset in this War Savings organization. I think the first thing we have to consider is not to sacrifice that asset.

MR. ODEGARD: I think, if I may say so, Stuart's statement here a minute ago struck me as highly unrealistic even in business at this stage of the game. Even where you are having a paid staff, you would not find any businessman today in his right mind who would dismiss an organization

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or dissolve an organization, a Mr. Buffington suggests, and then start recruiting, with the labor market and everything being what it is.

Now, that becomes ten times more important, Stuart, when you have a voluntary organization based on all these other things - it is free. When it is suggested you dismiss these people and ask for resignations--

MR. PEABODY: I said "dissolve." That is a bad word.

MR. ROBBINS: Ted is coming very close to it. You would evolve it by turning over the existing organization and setting up standards of job descriptions and personnel and the size, and then go to work and you would get the best people, but not do it every place all at once - do it slowly, but with a definite goal in view.

MR. GAMBLE: I think the Treasury Department certainly has an obligation to people who have given their services free for several years in this work, and the Secretary would then have the privilege of saying which of those people are going to be let go.

MR. ROBBINS: That would be vital and we would have that pretty well thought through.

MR. ODEGARD: What Stuart is saying and what George put in writing are fantastic.

MR. PEABODY: I expressed it very badly.

MR. ODEGARD: It is one thing to ask for the resignations or have the resignations offered of twelve executive managers - it doesn't amount to a hill of beans, really, in this kind of an operation.

H.M.JR: I repeat that this thing is fluid. Why don't you people let the thing stay and let's go at it again tomorrow morning at about nine-thirty?

Prepared by Mr. Stubble  
and Mr. Coyne 5/12/43-

PLAN FOR THE ESTABLISHMENT OF A SINGLE SALES ORGANIZATION

The War Savings Staff has been operating for over two years with a field organization based on the states as units. It has become well integrated, relations between Washington and the Field have been defined, points of friction eliminated or minimized and the morale of the staff, both paid and volunteer workers is unusually high. It took well over a year to organize the War Savings Staff and any major reorganization such as eliminating the state committees would certainly cause unnecessary confusion and serious loss to the Treasury of forces indispensable to any sales effort, no matter what plan it is to operate. Under the most favorable conditions a major reorganization involving the establishment of new relationships, the recruitment of new personnel, the redefinition of function and jurisdiction, would in all probability require more time than can be afforded at this date. Though it may be desirable to change the name of the War Savings Organization, there is certainly no good reason why we should toss aside political, economic, civic and social advantages encompassed within the state organization. It would seem to be more sensible to go ahead with what we have, strengthening it and supplementing it where necessary to obtain all the strength needed in a single sales organization. The best personnel from the Victory Fund Committees at the state and community level can be

5/13/43  
7:30 hrs meeting

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drawn upon for such strengthening.

The President of the Federal Reserve Bank shall serve as chairman of the Treasury War Finance Committee.

The jurisdiction of this committee shall be co-extensive with the Federal Reserve District.

In those cases where Federal Reserve Districts cut across state lines, jurisdictional questions will be settled by adjustment and agreement.

The Secretary of the Treasury shall appoint with the approval of the President of the Federal Reserve Bank a district sales manager.

The sales manager shall report to and be responsible to the President of the Federal Reserve Bank as chairman of the War Finance Committee.

The sales managers shall:

- (a) Supervise all Treasury sales promotion in their respective districts.
- (b) Report to the President of the Federal Reserve Bank as chairman of the War Bond Committee concerning the operation of the State War Bond Organization falling within their jurisdiction. State chairmen and/or administrators shall be appointed by the Secretary of the Treasury with the approval of the President of the Federal Reserve Bank in whose district the state falls.

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These state organizations shall be responsible directly to the National Director of sales in Washington, and will receive plans, instructions and materials for aid in promoting sales from Washington.

They shall report on their activities and sales to the Presidents of the Federal Reserve Banks through the District sales manager and to the National Director of sales at Washington.

**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

Personal

May 12, 1943.

Dear Mr. Secretary:

In my letter of May 3rd, I sent you my personal views on some of the general aspects of the organization which you are developing for the sale of government securities during the war. Now, you have asked for more specific suggestions and I have jotted down my tentative ideas. Before doing so, however, I thought it helpful to take a quick look at the figures already available showing the results of the Second War Loan.

The most striking figure is the total sale of \$12½ billion to non-bank investors. That is \$2½ billion above the "perfect score" estimated in the memorandum on the "Sources of Funds for Federal Borrowing in 1943." A rough comparison of estimates and results is as follows:

	<u>Estimates</u>	<u>Results</u>
Individuals, partnerships and personal trust accounts	\$ 3.2 billion	\$ 3.3 billion
Insurance Companies	1.4	2.4
Savings Banks	.6	1.2
Corporations and Associations, Other	4.5	5.
Other	.3	.6
All non-bank investors	<u>\$10.0 billion</u>	<u>\$12.5 billion</u>

Particularly important in the makeup of these results has been the late spurt in sales of Series E bonds to a total of about \$1½ billion. All of these figures have to be looked at very carefully, however, and checked as later data becomes available, so that we shall not be misled by appearances. The Series E figures have some element of padding in them, in that sales for the first week of May, as well as for the full month of April are included; and we must also watch the June-July redemptions to see whether there is an abnormal return flow of sales made under high pressure. The figures of total sales to individuals, partnerships, etc., include a certain amount of speculative buying - riding the pattern of rates it might be called - which eventually will swell bank holdings. The purchases of insurance companies and savings banks were over \$1½ billion above the estimates, largely because these institutions sold substantial amounts of older issues of government securities (and not all short-term by any means) to commercial banks prior to and during the April drive, thus increasing the amount of funds available to pay for subscriptions to the new issues. In addition, as the success of the drive became apparent and talk of postponement of the next loan until September or October was heard, some anticipatory purchases by insurance companies were arranged. Nor should we treat gross sales of Tax Notes, Series C, as net investment in government securities - that and a certain amount of speculative buying of other issues will deflate

somewhat the figures of sales to "other corporations and associations." All in all, as good as the results are, I think we shall find that too many securities are still going directly or indirectly to the commercial banks. Commercial bank holdings of government securities during the first four months of 1943 (including the \$2 billion of 2% bonds paid for on May 10th) probably increased as much as \$10 billion, and they are only "supposed" to increase \$12 billion during the whole year if we are to turn in a 100% performance according to the estimates.

This leads me to repeat what I have said before - that we cannot assume we have licked this job. We need to tighten up our organization and improve our performance. I start with the recommendation that the two sales organizations which were loosely welded together for the April drive be made into one organization - the War Finance Committee - and that the War Savings Staff and the Victory Fund Committees now be eliminated and their names dropped. The April drive served to introduce the name War Finance Committee, while retaining in subordinate position the two older names War Savings Staff and Victory Fund Committee. The transition to one organization and one name should now be completed.

At the head of this single organization, of course, should be the National Director of Sales, responsible to you and to the Under Secretary and, with your full backing, in charge of all personnel and the direction of all work at national headquarters. There should be no question of his complete authority, and no autonomous individual or groups running particular parts of the show, under his merely nominal command.

The single field organization I would set up by Federal Reserve Districts with the Presidents of the Federal Reserve Banks as Chairmen of the War Finance Committees of their respective districts and with the best man obtainable as Director of Sales for the district. (The Chairman should not be restricted in his choice of district Director of Sales.) Some representation of previously existing War Savings Staff and Victory Fund Committees could be brought into the district War Finance Committees as a tactical maneuver, but no attempt should be made to preserve the individuality of the two working organizations. The Chairman of the War Finance Committee and his Sales Director should have complete authority to set up and develop their sales organization without being required to use this man or that method because of pre-existing situations or connections.

Communication between national headquarters at Washington and the district headquarters should be entirely through the district Chairman and his district Sales Director - there should be no separate groups at national headquarters dealing directly with separate groups in the field; that way lies disorganization.

The district organization I envisage would have two main divisions, one to promote payroll savings and one to work on periodic drives. There would necessarily be some coordination of the work of these two divisions and they would be serviced by the same administrative and publicity staffs, speakers bureaus, etc., but their work would largely be separated. Payroll savings is the backbone of a continuing thrift and investment campaign and it is the only important thing (stamps are a minor item) which should be carried on continuously. Special events of all kinds should be reserved for the periodic drives. Neither the sales organization, nor the public can be whipped up to drive pitch continuously and their enthusiasm and receptiveness should not be dulled by constant minor drives.

In order to aid the selling organization in achieving its main objective of the largest possible amount of investment (not speculative) sales to non-bank investors

5/12/43

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and to focus public attention on this aspect of the program, I think I would:

1. Direct the periodic drives solely at non-bank investors and aim at having them 5 or 6 months apart. Intervening financing could then be done with the banks. The amount of bank buying fundamentally will be controlled by their reserve position, and we have now demonstrated that their reserve position may be brought under control without interfering with the success of Treasury financing.
2. Reduce the line of goods we sell during drives probably to the Series E bond, the Series C Tax Note, a long note or an intermediate bond, and the long  $2\frac{1}{2}\%$  bond (which should be made available in a \$100 denomination). The Series E bond and the Series C Tax Note would be available continuously, of course, but presumably the sales would be stepped up during drives.
3. Provide a partial payment plan for market issues so that small investors can anticipate future income over a reasonable period of time and so that institutional investors can adjust their purchases to the regular accumulation of their funds between drives.

Finally, I believe that in the future we should set high goals instead of low goals for our campaigns. Over-shooting the mark by \$5 billion is exhilarating, but it could dangerously mislead the public and might end up by confusing us. After all, we knew we must have at least \$15 or \$16 billion during the April drive if its sales were to carry us at least until August. It would be better to announce such a goal, and, if we fail to make it, the country and the selling organization will know they have to do a better job. Such a failure would not interfere with the war effort and should stimulate Treasury financing of the anti-inflation kind. If "honest" national goals are set, however, it will be more than ever necessary to remember that district quotas are statistical guesses and that sales in relation to quotas are only a very approximate measure of the effectiveness of the several district sales organizations.

I have not discussed this letter, nor my earlier letter of May 3rd, with anyone. They are therefore purely personal expressions of views.

Yours sincerely,



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

# FEDERAL RESERVE BANK OF CHICAGO

May 12, 1943

OFFICE OF THE PRESIDENT

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

Dear Secretary Morgenthau:

Based on my experience as Chairman of the War Finance Committee of the Seventh District for the April drive, I am firmly of the opinion that you should establish immediately one unified war finance organization. State lines should be disregarded and an organization should be set up along Federal Reserve district lines.

I think it is important that this be done immediately so that we can start developing further our sales organization to the highest point of effectiveness between now and the time of the opening of the next drive. We must be absolutely sure that we are so organized that every prospect everywhere will be thoroughly canvassed. Intensive educational and publicity programs must be continued so that our people in all walks of life will come to have a full realization of the necessity and desirability of subscribing to the limits.

Having worked closely with both the War Savings Staffs and the Victory Fund Committee since their beginnings, I have had the opportunity to observe closely the splendid accomplishments of both organizations. From this experience I have reached the definite conclusion that the two groups should be merged, thereby eliminating wasteful duplication of effort and confusion. There is attached a suggested organization chart, which refers specifically to Illinois but which could be used in every state of our district.

I want to emphasize again the importance of operating on Federal Reserve district lines instead of state lines. Your particular attention is directed to the emphasis in the chart on the community war finance committees. These committees would be composed of leading citizens operating on "home rule" principle in each subdivision of the larger cities, as well as in each county, city and village. These committees would be responsible for all nonbank Treasury activities and would be under the supervision of one central

- 2 -

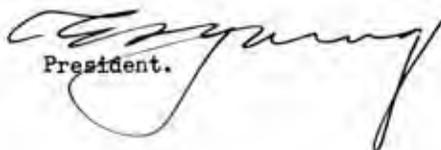
Honorable Henry Morgenthau, Jr.

May 11, 1943

Treasury War Finance Committee under the leadership of the President of each Federal Reserve Bank. We have emphasized the importance also of the payroll savings division, the labor division, and various national group divisions.

I think that we should be permitted to take the best material from each group and eliminate from the new organization those whose work has been unsatisfactory.

Very truly yours,

  
President.

May 12, 1943

The enclosed chart and memorandum was prepared by Renslow P. Sherer, Assistant State Administrator of the Illinois War Savings Staff.

On May 3rd these documents were discussed at a luncheon meeting which was attended by Norman B. Collins, State Administrator of the Illinois War Savings Staff; Harold H. Swift, State Chairman of the Illinois War Savings Staff; Oscar G. Weyer, Chairman, Chicago and Cook County War Savings Staff; Renslow P. Sherer, Assistant State Administrator, Illinois War Savings Staff; Guy Reed, Vice Chairman, Chicago and Cook County War Savings Staff; Jay N. Whipple, Chairman, Metropolitan Chicago Victory Fund Committee and Chairman, Metropolitan Chicago War Finance Committee; Francis F. Patton, Executive Manager, Seventh Federal Reserve District Victory Fund Committee; N. D. McClure, Assistant Executive Manager, Seventh Federal Reserve District Victory Fund Committee and myself. It was the unanimous opinion of those present at this meeting that the plan suggested by Mr. Sherer is workable and feasible.

The Vice Chairmen of the Metropolitan Chicago War Finance Committee and Grover C. Helm, Chairman of the Illinois Regional Victory Fund and War Finance Committee and War Savings Staff Chairman for McLean County, Illinois, were also consulted and are in agreement on the enclosed plan of operation.

Eugene C. Pulliam, State Chairman of the Indiana War Savings Staff and Executive State Chairman of the Indiana War Finance Committee

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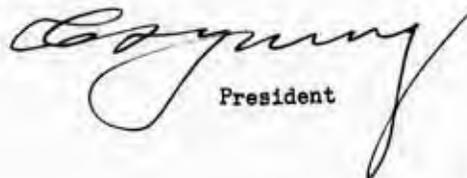
feels strongly that there should be one organization working under the direction of the Federal Reserve Bank presidents.

A report from Vern L. Clark, State Administrator of the Iowa War Savings Staff shows that he has polled Iowa's twelve Regional Administrators of the Iowa War Savings Staff and the eighteen District Chairmen of the Victory Fund Committee. All those polled but one stated they felt there should be one organization. One Regional Administrator of the War Savings Staff feels the War Savings Staff methods are better and the Victory Fund Committee should be used only for special campaigns.

Frank J. Kuhl, State Administrator of the Wisconsin War Savings Staff, although he has not formally reported, is, I understand agreeable to the formation of one organization.

I have had no report from Frank J. Isbey, State Chairman of the Michigan War Savings Staff. The Victory Fund Committee Regional Chairman, Managers and Assistant Managers in all regions are unanimous in their feeling that there should be one organization.

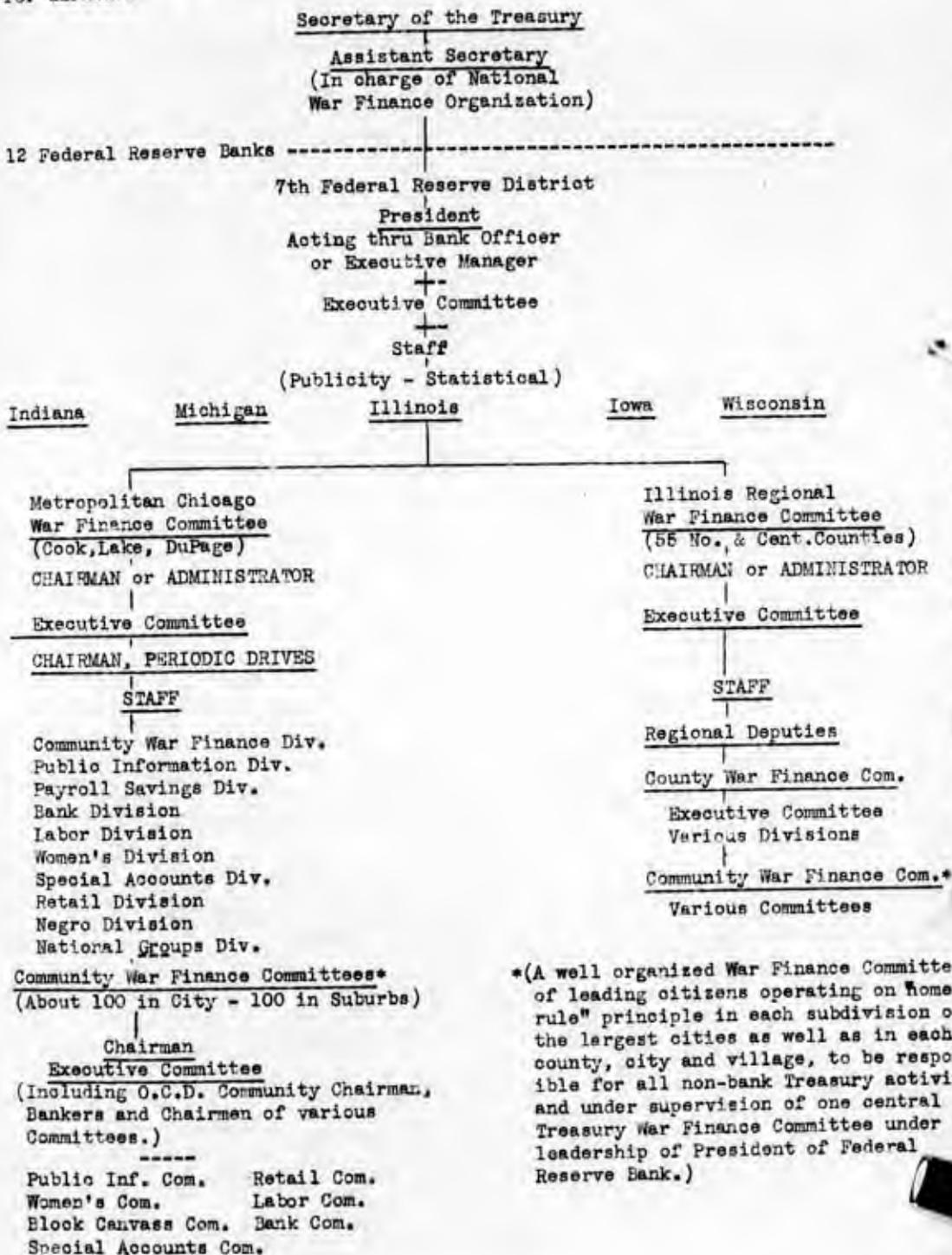
It should be borne in mind that Illinois is the only state in the Seventh Federal Reserve District which has two Victory Fund Committees and had two War Finance Committees which is shown in the chart and comments submitted by Mr. Sherer.

  
President

Suggested  
WAR FINANCE ORGANIZATION  
for duration

May 1, 1943

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WAR FINANCE ORGANIZATION

May 1, 1943

SUMMARY OF COMMENT ON FUTURE PROGRAM --

1. One organization, under one head, acting through the twelve Federal Reserve Banks with President of each Federal Reserve Bank as head of District War Finance Committee.
2. Chairman or Administrator of each State (or large metropolitan area) selected by, and reporting to, Federal Reserve Bank President.
3. Volunteer Citizens Committees under respective state or area administrators, to be set up as County, City\*, and Town War Finance Committees. To be composed of representative citizens ("Minute Men") operating on "home rule" basis under general supervision of area administrator. War Finance Committees to include promotional and sales talent to assure (1) continuous emphasis on systematic saving and (2) special emphasis during Drives on extra purchases of Government securities by individuals, institutions and corporations.  
\* In a city like Chicago, Community War Finance Committees would be set up in each subdivision which lent itself to a "community" organization.
4. Drives to be spaced as far apart as possible - preferably six months - as it is believed as large or larger sums can be raised by this timing with less expenditure of money or of energies needed for other phases of war work and assurance of better leadership.
5. Continuous promotional and sales work to be carried on as at present through sale of Series E Bonds. (Elimination of Series F and G is considered desirable if a series is substituted with semi-annual interest and limit of holdings similar to Series E.)
6. Periodic promotional and sales efforts during "Drives" to be confined to fewest possible types of securities: e. g.  
  - Series E (and similar)
  - Medium Term 2's
  - Longer Term 2 1/2's
with installment purchasing encouraged and denominations reduced to \$100 minimum.
7. Primary emphasis on largest possible number of subscribers.\* Quotas to be developed principally along these lines and confined to non-bank purchasers. Each District, County, City, Township and Village to have a carefully calculated quota of potential individual purchasers. The formula to be set by War Finance Organization heads - the quota of potential subscribers to be set by the Citizens Committees for their respective communities.
8. Not less than three months' notice should be given before the approximate date for each Drive. The Drive Chairman should be selected by or before that time.

R. P. S.

- \* The number of subscribers to the various Liberty Loans were approximately:

First Liberty Loan	4,000,000
Second " "	9,000,000
Third " "	18,300,000
Fourth " "	22,800,000
Victory Loan	11,800,000

(National Bureau Economic Research)

A not unreasonable objective for the Third War Loan would be

"30,000,000 INDIVIDUAL SUBSCRIBERS OF EXTRA WAR BONDS"!

N. B.

The OCD Chicago subscriptions have averaged around \$100.00. The Winnetka subscriptions averaged about \$500.00 each. Average monthly purchases of E Bonds per capita in Illinois range from \$3 to \$10 in various sections of the State. It would be a fair guess that 30,000,000 subscriptions would average from \$25 to \$50 apiece and therefore could amount to a total of from seven and one-half to fifteen billion dollars. These, with institutional and corporate subscriptions, would make total non-bank sales of \$20 billion a possibility next October. (Especially as farm income is highest then.)

MAY 12 1943

Mr. Niles Trammell  
National Broadcasting Co., Inc.  
R C A Building, Radio City  
New York, N. Y.

Dear Mr. Trammell:

I was delighted to get your letter of May 6th and to learn that Maestro Toscanini wishes to do even more than he has done for the War Bond Program. Previous War Bond concerts conducted by this great artist have been thrilling experiences to me and I am sure to all those who have heard them. I am very happy to hear of his offer in cooperation with the National Broadcasting Company to devote four concerts during the summer months to the sale of War Bonds.

I accept this offer with alacrity. Please convey to Maestro Toscanini my deep appreciation for the magnificent contribution he is making not only to the Treasury but to America. I appreciate no less the splendid service being rendered by the National Broadcasting Company.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

File in Diary

MAY 10 1943

**NATIONAL BROADCASTING COMPANY, INC.**



A RADIO CORPORATION OF AMERICA SERVICE

RCA BUILDING · RADIO CITY

NEW YORK, N. Y.



**NILES TRAMMELL**  
PRESIDENT

May 6 1943

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

My dear Mr Secretary:

Maestro Arturo Toscanini was so thrilled with the results of his recent War Bond concert at Carnegie Hall that, with real patriotic fervor, he wishes to do more. It has been his suggestion that, in cooperation with the National Broadcasting Company, he would be glad to undertake to devote four broadcast concerts over the NBC network during the summer months, on four Sundays, from 5:00 to 6:00 PM, to this wonderful cause. The dates for these concerts can be arranged later. They would be similar in nature to the series broadcast by Maestro Toscanini and the NBC Symphony during 1941 and 1942.

If the Treasury Department wishes to accept these concerts to further stimulate the sale of War Bonds, I will be glad to arrange further details with your staff, from whom we have had hearty cooperation always.

Very truly yours,

*Niles Trammell*

Niles Trammell

May 12, 1943.

Dear George:

I thank you sincerely for your telegram following my speech of last Thursday night.

We missed you sadly that day, but you are not to blame.

I hope the situation will be different the next time I put out a call for help.

Cordially,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. George Albee,  
Route 1,  
Accord, New York.

REG:ds

File in Diary

(Copy of incoming  
and initialed cc of  
reply to Gaston)

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HENRY MORGENTHAU JR

THE WRITER MAY HAVE FAILED YOU BUT THE SPEAKER MORE THAN MADE UP FOR IT. TIMING AND EMPHASIS INFINITELY IMPROVED. TOTAL EFFECT ONE OF QUIET ASSURANCE CONGRATULATIONS AND GOD BLESS YOU.

GEORGE ALBEE.

807A MAY 7.

May 12, 1943

Dear Stuart:

Thanks for your kind message about last Thursday night's broadcast. I am greatly pleased that you liked it.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Stuart Peabody,  
Treasury Department.

File in Diary

(Cc of incoming and cc of  
reply to Gaston)

*By Hand 5/12/43*

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HON HENRY MORGENTHAU JR

UNITED STATES TREAS DEPT TREASURY BLDG

HON HENRY NIGHTS BROADCAST REACHED NEW HIGH. USE OF OTHER  
VOICES UNPRECEDENTED IN SPEECH OF HIGH PUBLIC OFFICIAL  
YOUR DELIVERY SPLENDID. MUST EVEN GRUDGINGLY COMPLIMENT  
YOUR WRITERS

STUART PEABODY.

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May 12, 1943

My dear Mr. Head:

I appreciate greatly your telegram of May 7 referring to my broadcast of last Thursday night. I want to thank you personally for your fine work on the drive and regret only that I can't convey a similar message directly to all who served so nobly.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Walter W. Head,  
Chairman, War Finance Committee,  
Federal Reserve Bank of St. Louis,  
St. Louis, Mo.

REG:ds

File in Diary  
(Copy of incoming and  
initialed copy of reply  
to Gaston)

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HON HENRY J MORGENTHAU

SECRETARY OF THE TREASURY

IN YOUR RADIO ADDRESS LAST NIGHT YOUR ELOQUENT EXPRESSION  
 OF APPRECIATION TO THE AMERICAN PEOPLE FOR THEIR  
 MAGNIFICENT RESPONSE TO THE SECOND WAR LOAN DRIVE AND  
 YOUR IMPRESSIVE STATEMENT OF OUR CONTINUING RESPONSIBILITIES  
 AS CITIZENS OF THE UNITED STATES OF AMERICA ~~W~~ CONSTITUTE,  
 I AM SURE, A SOURCE OF GRATIFICATION AND INSPIRATION FOR ALL  
 OF US WHO WERE PRIVILEGED TO SERVE WITH YOU IN THIS GREAT  
 UNDERTAKING. PLEASE ACCEPT MY SINCERE FELICITATIONS AND  
 CONGRATULATIONS

WALTER W HEAD.

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## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE May 12, 1943

TO Secretary Morgenthau  
FROM Mr. Schwarz *(CS)*

The Washington Post editorial of yesterday morning was discussed at a meeting in Mr. Bell's office yesterday afternoon and it was decided that, should questions raised in the editorial be brought up at press conference tomorrow morning, the following points be recommended to you for your consideration:

1. There is nothing inconsistent in the statements that have been made by Treasury officials with respect to the Second War Loan Drive. Your radio talk of last Thursday night thanking the people and the workers in the campaign also carried this paragraph, "My purpose in speaking to you tonight was twofold. First, to tell you of our success, the success of the American people in accomplishing this one task, and in speaking of that success to thank the thousands of workers who labored so devotedly. But the other half of my message is of far greater importance. It was to tell you that we must not deceive ourselves by thinking that now we can rest on our oars. The real battle is still ahead of us." In his talk in New York Bill Robbins also called the drive an "outstanding success." It is apparent that the Post editorial writer took certain statements from each address out of their context in order to serve the purposes of the editorial, which obviously was an attempt to make a case for compulsory lending. There was no valid reason to criticize the President for not including a warning in his statement of praise for the people and the Treasury, inasmuch as that part of the job already had been ably handled by the Secretary of the Treasury and the chairman of the War Finance Committee.

- 2 -

2. In your memorandum to editors prior to the opening of the drive it was made clear that the Treasury's tentative program for the calendar year, based on three financing periods, called for efforts to obtain from the reservoirs of personal savings available for Federal securities amounts increasing successively from 55 to 65 and finally to 75%. On that basis, the estimates called for sales to individuals of \$5.3 billion, representing 55% of the \$9.6 billion available during the first four months of the year. This figure was almost reached in the sales of \$5.212 in War Savings Bonds alone.

3. The editorial attempts to subtract the results of the Payroll Savings Plan from the achievement of the recent drive. The Treasury has constantly made it clear that its program calls for integration of all the methods available for the sale of securities and there is no justification for trying to separate these methods. There would be a need for a voluntary sales program even if some lending to the Government were required by legislation because no compulsory system would gather up all of the funds which should be absorbed to prevent inflation.

AWB W.S.

# The Washington Post

## MAY 11 1943

### Treasury Ballyhoo

There seems to be a difference of opinion on the results of the spectacular second war loan campaign which has just been concluded. Last Thursday Mr. William Robbins, chairman of the Treasury Department's War Finance Committee, warned against "undue satisfaction" with the drive. Mr. Winthrop Aldrich, chairman of the board of the Chase National Bank, came to the same sober conclusion. But the admonition of these authorities was disregarded by both Secretary Morgenthau, in a radio talk on Thursday night, and the President the day after. The Secretary of the Treasury spoke enthusiastically about the campaign "as a great victory for the American people." The President the next day echoed his Secretary of the Treasury.

Looked at solely from the standpoint of money raised, the drive, of course, was eminently successful. The goal had been set at 13 billion dollars. But from April 12 to April 30 the Treasury reported a total subscription just short of 17 billion dollars. Money was still coming in, however, and Mr. Roosevelt at his press conference last Friday gave a figure of 18,300 million dollars. Certainly there was no failure in a campaign which overshot the mark by about five billion dollars.

Why, then, were Messrs. Robbins and Aldrich so loathe to cheer the upshot of the bond campaign? The reason is that the success or otherwise of this drive cannot be evaluated in terms of global achievement. In these days money is perfectly easy to raise. All that the Treasury has to do is to apply to the banks, which simply set up a credit to the Government's account to the amount of the bonds bought. In this way bank deposits are increased. Wartime financing is successful, however, only as it contributes to the reduction of bank deposits. It must be an agent, in other words, in the fight against inflation. For it is the swollen condition of bank deposits which constitute the explosive material which is feeding the present inflation. Raising money simply by creating new deposits in the bank is merely making inflation more inflated.

Thus the anti-inflationary method of raising war loans is to tap the people's savings. These are kept in money hoards and bank deposits. How much of the war loan was raised from these sources? Those who heard Secretary Morgenthau would be forgiven if they understood him to say that the people had contributed the entire amount. His "complete satisfaction" with the result, at any rate, was due to the fact that the bonds had been "bought by the American public." The President himself said that nonbank sources had purchased the entire sum of 13 billion dollars originally set as the Treasury goal. But the facts are not so rosy. Mr. Robbins' warning against "undue satisfaction" with the Victory drive was reinforced by his statement that only 7 per cent of the total subscriptions were in "E" bonds, known as the people's bonds. Mr. Aldrich's comment was also posited on the unsatisfactory contribution by the public, though he himself gave no estimate.

The fly in the ointment cannot be blamed upon the public. The Treasury, when it embarked upon the second loan drive, did not ask enough from the public. Out of the total offering of over 13 billion in different issues, only 2½ billion was set as the quota for individuals, partnerships and trust accounts. On this budget the public subscription went over the top. Up till the end of April, when the drive officially ended, individuals had contributed their quota, and a few millions over. But this is not the complete story. Break down this figure to show how much was contributed as a result of the drive and how much included payroll allotments and normal purchases in the 12 days of the month before the beginning of the drive and you get a public subscription to about 1.7 billions in new securities.

Thus we see the dimensions of Mr. Robbins' 7 per cent as the extent of the people's contribution to the Victory loan. According to the above figures, it is more than 7 per cent, but not much more than 10 per cent. It may be argued that individual savings were tapped in the figure of 3.3 billion dollars for insurance companies and savings banks. But there is no telling to what extent the insurance companies and savings banks sold old bonds in order to buy the securities offered in the Victory campaign.

In that case the banks would buy the old bonds. And the result would be just as if the banks had bought the new bonds subscribed by the insurance companies and savings banks.

Evidently the Administration's extravagant outbursts over the results of the Victory campaign are due to a desire to make out a case against compulsory savings. But no such case has been established. This is plain from the fact that there has been no change except for the worse in the financial statistics. Money in circulation has not been reduced. Bank deposits are still soaring.

The inflationary gap, in other words, continues to widen. Thus, far from being a demonstration of the efficacy of the voluntary subscription method of selling Government bonds, the drive just ended is a demonstration of its inadequacy. It is high time the Treasury realized that some method of compulsory subscription is necessitated by the present inflation. Why cannot the Treasury face this problem realistically as the British and Canadians have done? Ballyhoo will not fight inflation. Only a genuine mopping up of the surplus money which has been distributed by war work can do that.

## UNITED STATES TREASURY WAR FINANCE COMMITTEE

Bulletin  
May 12, 1943

Presidents, Federal Reserve Banks:  
Executive Managers, Victory Fund Committee:  
Publicity Directors, War Finance Committee:

This is the last of a lengthy list of bulletins you have received from this office on the Second War Loan.

Its purpose is to thank you most sincerely for the splendid cooperation you gave those of us who were concerned with the advertising and promotion of the drive.

Due to circumstances beyond anyone's control, our start was to say the least, a rough one, and without your tolerant understanding, the situation might have been much worse. For this we are most grateful.

In spite of the delays and difficulties surrounding its distribution, you have been generous in your praise of the material which came out of Washington. Credit for this excellent job belongs entirely to the permanent advertising and publicity people of the War Savings Staff and Victory Fund Committee here.

Thank you again - it has been a privilege and a pleasure to work with you.

Stuart Peabody,  
Head Advertising Specialist.

P.S. I would appreciate your advising your staff that all communications which have hitherto been directed to this office, should in the future be sent to the office of Mr. William M. Robbins.



TREASURY DEPARTMENT

WASHINGTON

May 12, 1943.

DEFENSE SAVINGS STAFF

84

MEMORANDUM:

To: Secretary of the Treasury

From: James L. Houghteling

SUBJECT: REPORT BY STATES ON LABOR RELATIONS OF WAR FINANCE COMMITTEES

The attached report is based mainly on information received direct from labor leaders who have in the past taken an active part in the War Savings Program. In some cases this information has been supplemented by comments of State Administrators of the War Savings Staff. Reports to Mr. Robbins by the twelve chairmen of the War Finance Committees have also been used.

In the New York, Philadelphia and St. Louis Federal Reserve Districts, labor relations in general have been well handled from the start. I honestly believe that this was due to the good judgment of the Chairmen in entrusting labor relations to War Savings officials even before the drive began.

Elsewhere it can be generally said that the representatives of Labor were given no places on committees made up of bankers, investment bankers, merchants, etc. Great damage was done to good Labor relations by the announcements of some of the War Finance Committee Chairmen that the War Savings Staff was actually abolished, that from now on the bankers were to be in charge of the whole war finance program, and that Labor's participation was a waste of time because it really could have no place in raising the large sums of money required. The labor leaders expressed a feeling that such declarations by representatives of the Treasury were inconsistent with past Treasury announcements regarding the importance of Labor's contribution to the war finance effort; and repeatedly stated that apparently after they had worked hard for many months to help the Treasury Department build up the Pay Roll Savings Plan to tremendous proportions (for the benefit of both the country and their own members), the Department had changed its policy, was letting them down, was abolishing the organization with which they had worked so cordially, and was letting the investment bankers drive them out of this part of their war job.

*Following Fed Presidents seemed to ignore labor, Boston - Atlanta - Kansas City*

FOR DEFENSE



BUY  
UNITED  
STATES  
SAVINGS  
BONDS  
AND STAMPS

- 1-A -

The assurances which State Administrators of the War Savings Staff were able to give them, based on the Field Director's memorandum on labor relations, did much to repair the damage thus done to the Treasury's labor relations.

I was somewhat handicapped in getting reports from the far west by the fact that my Labor Deputy in that region has recently been drafted and inducted into the military service.

*James L. Houghteling*

MAINE

The president of the State Federation of Labor advises that neither he nor any representative of his organization was given any part in the Second War Loan Drive.

NEW HAMPSHIRE

The president of the State Federation of Labor advises that neither he nor any representative of his organization was given any part in the Second War Loan Drive.

VERMONT

The president of the State Federation of Labor advises that neither he nor any representative of his organization was given any part in the Second War Loan Drive.

MASSACHUSETTS

Neither the chairman nor any member of the War Finance Committee appears to have made any effort to give any representation to the strong labor element in industrial Massachusetts. Labor was simply ignored, according to labor leaders contacted. In Springfield, Mass., labor leaders received a telephone call about cooperation, but nothing more.

CONNECTICUT

The president of the State Federation of Labor was not asked to take any part in the Drive. In general, however, chairmen of local War Finance Committees established satisfactory relations with local labor leaders and excellent relations existed.

RHODE ISLAND

Labor leaders had no evidence that their cooperation was desired, except that in Providence a labor speaker was requested for a single War Loan meeting.

NEW YORK

Before the Drive began Chairman Sproul appears to have entrusted State Chairman Patterson of the War Savings Staff with responsibility for labor relations. Hundreds of large labor organizations having headquarters in New York were contacted, and purchased blocks of government securities from \$500,000 down. Joint appeals were made to labor union members to increase Pay Roll Savings participations and to buy extra bonds. Excellent relations existed.

NEW JERSEY

The presidents of the State Federation of Labor, A.F. of L, and the State Industrial Union Council, C.I.O., report that neither they nor any of their associates were given any part whatsoever in the War Loan Drive. The president of the State Federation was called to Trenton (in the 3rd Federal Reserve District) by the War Finance Committee there and was asked for suggestions as to how Treasury Bonds could be sold to the labor unions in New Jersey. He was not asked to take any part in the program.

PENNSYLVANIA *OK.*

Labor leaders representing the A.F. of L., the C.I.O. and the railroad brotherhoods were invited to serve on the State War Finance Committee, and excellent labor relations prevailed throughout.

DELAWARE *OK.*

The State War Finance Committee established excellent relations with labor leaders, who were consulted throughout.

MARYLAND *OK.*

State Chairman Legg of the War Finance Committee called upon State Administrator Walter Ruth for suggestions at the beginning of the War Loan Drive, and as a result, a labor committee under the chairmanship of Deputy State Administrator Eierman was the first committee formed in Baltimore. Excellent relations resulted.

VIRGINIA *Fair*

Labor relations were bad at the beginning. The labor leaders understood that the bankers had taken over the Treasury finance program and were neither interested in labor cooperation nor in the program already established by the War Savings Staff. In Richmond - a city predominantly A.F. of L. - the local War Finance Chairman appointed a C.I.O. man to advise him on labor relations. Labor leaders of both the A.F. of L. and the C.I.O. were thoroughly disgruntled. War Finance Chairman Leach, acting on the suggestion of Mr. Robbins, then turned over the whole matter of labor relations to State Administrator Nelson and the local labor leaders, and an independent campaign was successfully organized.

WEST VIRGINIA *OK*

The local chairman of the War Finance Committee established excellent labor relations in this State. The Regional Director of the C.I.O. reports splendid cooperation.

NORTH CAROLINA *OK*

Through the State Administrator of the War Savings Staff the War Finance Committee established excellent labor relations. The president of the State Federation of Labor canvassed all city central bodies and local unions of the State to increase the purchase of War Bonds.

SOUTH CAROLINA *OK*

The State Administrator of the War Savings Staff handled labor relations satisfactorily. Intensive efforts were put on Pay Roll Savings. One local union, however, sold enough additional bonds in April to pay for a jeep.

GEORGIA *Bad*

This State was a sore point because the chairman of the War Finance Committee was advocating the abolition of War Savings Bonds and forcing Labor to take negotiable bonds instead. The labor leaders, who have made an outstanding record in the War Savings Program, were given to understand that from now on bankers were in control and were not interested in Labor. Finally, under the concentrated protests of State Administrator Allen of the War Savings Staff and George Googe, Regional Director of the A.F.of L., Chairman McLarin made the concession that the War Savings Staff might handle labor relations but he himself didn't want any part in them. It was not until April 28 that the War Finance Committee gave any public recognition to the fine part which the labor organizations in Georgia were taking in the Drive.

FLORIDA

*O.K.*

Labor's participation in the War Finance Program was enthusiastic in spite of the fact that the State Attorney General is suing many unions to set aside labor contracts.

KENTUCKY

*Fair*

I can find no record that Labor was given representation on the War Finance Committee. However, through special programs initiated by the national labor bodies and the War Savings Staff, Kentucky labor organizations took an active and creditable part in the Drive.

TENNESSEE

*Fair*

I can find no record that Labor was given representation on the War Finance Committee. However, through special programs initiated by the national labor bodies and the War Savings Staff, Tennessee labor organizations took an active and creditable part in the Drive. Labor organizations prepared and paid for full-page advertisements in daily newspapers in the State, urging labor members and other readers to go the limit in buying War Bonds.

ALABAMA

*Fair.*

I cannot learn whether the names of any labor leaders were included in the War Finance Committee for Alabama, but I am advised that labor leaders were not called into consultation or given any consideration in the development of a program, except in as far as they worked through the Deputy State Administrator of the War Savings Staff to increase participation in the Pay Roll Savings Plan in the shipyards of Mobile and the manufacturing plants of Birmingham and other cities. The president and secretary of the State Federation of Labor devoted much of their time to a War Bond Campaign.

MISSISSIPPI *OK.*

Labor took an active part in the War Loan Drive and appears to have been satisfied with its relationship with Treasury organizations.

OHIO *Fair*

Good labor relations in the great industrial State of Ohio were finally established at the end of a long controversy between the War Finance Committee and the War Savings Staff. After the War Finance Committee decided that it could not handle this large section of the population except through the War Savings Staff it turned labor relations over to Roy Moore and Ted Wagner of the War Savings Staff, and good relations were finally established.

MICHIGAN *OK.*

In Michigan excellent labor relations were maintained, mainly through State Chairman Isbey of the War Savings Staff, but partly because the chairman of the War Finance Committee was a close friend of the secretary of the State Federation of Labor. Because of this combination an outstanding record of labor participation was made in this State.

INDIANA *Fair*

Local labor leaders report that the War Finance Committee showed no interest in giving any place in the program to Labor until State Chairman Pulliam of the War Savings Staff absolutely insisted upon it. Mr. Pulliam and his Labor Deputy, Warren McAfee, were able to secure considerable orders for Treasury bonds from international unions and other bodies having headquarters in Indiana. Then a committee of representatives of the A.F. of L., C.I.O., United Mine Workers and railroad brotherhoods was organized under War Savings Staff leadership, and did an excellent job. Labor leaders complain, however, because the Treasury had brought in a new and strange element, the War Finance Committee.

ILLINOIS*Fair*

The War Finance Committee, made up solidly of investment bankers, appointed Earl MacMahon as chairman of a labor committee, and through him sent a circular letter to 300,000 members of union labor in the Chicago district. However, the labor committee was given to understand that the bankers were in full charge. Mr. MacMahon was not given other duties. At a War Finance dinner on April 12 Norman Collins (the by-passed State Administrator of the War Savings Staff) and Mr. MacMahon secured the attendance of 25 or 30 labor leaders and asked for representation at the speakers' table and for separate tables for labor representatives. Both these suggestions were refused. After the receipt of Mr. Robbins' telegram the chairman of the War Finance Committee began to pay much more attention to Mr. Collins and Mr. MacMahon. The attitude of the labor leaders was, however, that the bankers in charge were not interested in them and that Labor would do its job independently. As one labor leader put it "We will do our work and the bankers can do theirs. We have nothing in common."

WISCONSIN*O.K.*

Labor leaders report excellent relations with the War Finance Committee.

MINNESOTA*Fair*

The chairman of the War Finance Committee announced the permanent abolition of the War Savings Staff and indicated that his Committee was only interested in big money. His opposition was so extreme that it separated the work of his Committee from all contact with Labor, and this was so complete that labor leaders were not affronted; the War Savings Staff has built up excellent labor relations and these were maintained. The county chairmen of the War Finance Committees in Ramsey and Hennepin Counties, both leading business men, without the knowledge of Chairman Peyton, included in their county committees the names of labor leaders recommended by State Administrator Reynolds. While labor leaders deeply resented the position taken by Chairman Peyton they were proud of the good job they were able to do in spite of this obstacle.

- 9 -

IOWA OK

Labor leaders report cordial relations with the War Finance Committee through the War Savings Staff.

MISSOURI OK

Chairman Head of the War Finance Committee from the start appointed Earl Shackelford of the War Savings Staff as his labor liaison officer. Excellent cooperation resulted.

Kansas City District Fair

Chairman Leedy of the Kansas City War Finance Committee declared the War Savings Staff abolished, and refused to have any labor representatives on any committees in his district. Labor organizations continued to work cordially with the War Savings Staff, however.

ARKANSAS

No effort was made by the War Finance Committee to encourage the participation of Labor in this State. Labor leaders are absorbed in fighting anti-labor legislation in the State Legislature. However, participation in Pay Roll Savings was well maintained.

LOUISIANA OK

Excellent labor relations have been established in Louisiana. The labor organizations did a fine job of bond selling and the Publicity Division of the War Finance Committee saw that they got full credit in newspaper releases.

NORTH DAKOTA *Fair*

*Bad* The extreme anti-labor attitude of Chairman Peyton of the War Finance Committee created a situation where the State Administrator of the War Savings Staff continued to operate independently in the labor field. In this way, good labor relations were maintained; but labor leaders express serious indignation at the wrecking of the War Bond Program which they have helped the War Savings Staff to build up.

SOUTH DAKOTA *Ok*

Labor leaders were called in by the War Savings Staff and excellent cooperation was established.

NEBRASKA

*Bad* In spite of the fact that District Chairman Leedy of the War Finance Committee refused to recognize either the War Savings Staff or any program for labor participation, the local War Finance chairman in Omaha and North Platte asked help of the A.F. of L., the C.I.O. and the Railroad Trainmen. However, the president of the Nebraska Federation of Labor reports that labor in Nebraska was generally treated with indifference, and resented it.

KANSAS

In spite of excellent relations established by State Administrator Griffith with Organized Labor, the secretary of the Kansas Federation of Labor advises that Labor was completely ignored in the War Loan Drive.

OKLAHOMA

The War Finance Committee, organized to include bankers, merchants, civic leaders, etc., had no labor members. No approach was made to the workers of the State except unauthorized contacts of the War Savings Staff. Good relations of the War Savings Staff with labor groups prevented hard feelings.

TEXAS

The War Finance Committee appears to have resented the suggestion of labor participation, and labor leaders report that there was nothing of interest to them in an organization composed entirely of bankers. Labor leaders suggested that Victory Committees and bankers' committees should confine their activities to handling bond business with banks and investment houses and should not interfere with the good relations built up through the Pay Roll Savings Plan with the Treasury Department, as represented by the War Savings Staff.

MONTANA

No report received

WYOMING *OK.*

The State War Finance Committee included all the members of the War Savings Staff, and the latter handled the labor program. Excellent relations were maintained.

COLORADO

The War Finance Committee completely ignored labor, according to the secretary of the Colorado Federation of Labor. Considerable resentment resulted, but the State Administrator of the War Savings Staff, who has excellent labor relations, was able to smooth matters over. Labor pays him a high tribute for doing so.

NEW MEXICO *OK.*

The local War Finance chairman handled labor relations through the State Administrator of the War Savings Staff. Everything went well.

IDAHO

No report received

UTAH

The War Finance Committee gave no representation to Labor on any committee representing bankers, merchants, civic leaders or other sections of the population. During the second week of the Drive, after inquiries based on Mr. Robbins' telegram, the presidents of the state A.F. of L. and C.I.O. bodies were consulted and plans for the promotion of a labor program were developed. The labor leaders are reported to feel that the Second War Loan Program played up the part of bankers and financiers and played down the part of the working population. This attitude of the War Finance Committee was deeply resented.

ARIZONA *OK.*

The chairman of the War Finance Committee reports that he has delegated labor relations to the Deputy State Administrator of the War Savings Staff and everything has gone excellently.

NEVADA

No report received

WASHINGTON *OK.*

The War Savings Staff handled labor relations in this State in a satisfactory manner. The fact that a great majority of the county chairmen of War Finance Committees were War Savings Staff men contributed to this result.

OREGON *OK.*

The War Finance Committee and the War Savings Staff worked independently of each other in this State. The excellent labor relations of the War Savings Staff were maintained throughout.

SOUTHERN CALIFORNIA *OK.*

State Administrator Mills was co-chairman of the War Finance Committee at Los Angeles. His excellent relations with Organized Labor were maintained.

NORTHERN CALIFORNIA

The War Finance Committee was entirely in the hands of bankers and investment bankers and no attention was paid to the labor section of the population until the second week of the Drive. The Publicity Division of the War Finance Committee set a \$100,000 low limit on publicity of bond purchases, which prevented publicity for the very considerable purchases of Treasury bonds made by labor unions. As the State Administrator of the War Savings Staff enjoys very fine labor relations he conducted an effective campaign in the ranks of Labor independently of the War Finance Committee. There is reported to be some resentment that Labor was not given a real place in the Treasury program.

James F. Byrnes, Director of Economic Stabilization, today issued a policy directive clarifying and defining the basis for the War Labor Board in making wage adjustments under the President's "Hold the Line Order" (9328) of April 8.

Summarizing the directive, Justice Byrnes said that it --

- (a) reaffirms the Little Steel formula;
- (b) makes clear the authority of the Board to make wage adjustments under the authority contained in the Order provided such adjustments are within the existing price structure and within existing levels of production costs;
- (c) makes clear that any wage adjustments which may furnish the basis either to increase price ceilings or increase production costs cannot become effective until approved by the Director.

The directive was formulated and issued after a series of conferences between members of the War Labor Board and Director Byrnes as to the interpretation of the President's Order and the policies to be pursued in applying it.

Immediately after the President's Order was issued, Director Byrnes invited the Board to lay before him, as soon as they had sufficient experience under the new Order, any situations which might necessitate clarification through policy directives.

The Members of the Board discussed with the Director the going wage data which the Board for some time had been engaged in gathering which in the opinion of the Board would furnish a definite and objective guide in keeping wage rate adjustments from exceeding the going rates now prevailing for recognized categories of employment in the various labor markets.

In issuing the general policy directive, Director Byrnes states:

The directive which I have issued today is intended to clear up certain questions which have arisen with respect to the interpretation of Executive Order No. 9328 and the authority of the National War Labor Board thereunder.

1. The directive makes clear that alleged maladjustments between the cost of living and existing wage schedules will be considered by the Board only to the extent necessary to eliminate substandard conditions of living or to determine wage adjustments within the 15 percent limit of the Little Steel formula.
2. The directive makes clear the ancillary authority of the Board to make wage adjustments to keep the minimum differentials between immediately interrelated job classifications necessary to maintain productive efficiency.

This authority is needed to enable the Board to avoid intra-plant inequities which would otherwise be created by wage adjustments ordered by the Board to eliminate substandard conditions of living or to satisfy the Little Steel formula.

- 2 -

Similar adjustments for immediately interrelated salary job classification may be necessitated, and are authorized, when a longer work week is adopted which creates a maladjustment between the pay of workers on an hourly basis and those on a salary basis.

Adjustments of this character, however, are to be so staggered as to avoid the need for adjustment in higher wage or salary brackets.

3. The directive also makes clear the authority of the Board to make wage adjustments within the existing price structure and within existing levels of production for the purpose of stabilizing wage schedules for recognized categories of employments in various labor markets. It does not permit adjustments to correct "inequalities" which were permitted by the Executive Order of October 3, 1942. It does, however, permit the Board to make adjustments in accordance with the language of the Act of Congress of October 2, 1942 "to aid in the prosecution of the war or correct gross inequities", provided such adjustments do not increase prices or increase production costs.

Such adjustments, except where necessary to eliminate substandard conditions of living or to give effect to the Little Steel formula, are not to bring the wages of the worker affected above the minimum of the going rates for comparable work in comparable plants or establishments in the same labor market.

In rare and unusual cases where critical war production cannot otherwise be obtained, the minimum of the preexisting going rates may be stepped up to the next lowest of the going rates for other most nearly comparable work in the same labor market. A good example of such a case is the situation found in the canning and first processing of perishable foods and feeds industries in a number of localities where the necessary seasonal labor to process this year's crops cannot be recruited on the basis of last year's obsolete wage schedules. On May 10th a special directive was issued to deal with this situation.

Apart from the rare and exceptional case, adjustments to the minimum of the applicable going rates are to be made, not to increase existing wage schedules, but only to bring obvious and sporadic stragglers into line.

4. The directive again makes clear that any wage adjustments which may furnish the basis either to increase price ceilings or to resist otherwise justifiable reductions in price ceilings, or if no price ceilings are involved which may increase the production costs above the level prevailing in comparable plants or establishments, cannot become effective until approved by the Economic Stabilization Director.

The text of the directive follows:

Executive Order No. 9328, dated April 8, 1946, is hereby supplemented under Section 5 as follows:

1. In order to provide clear-cut guides and definite limits as a basis for correcting substandards of living, and as a basis for permitting the Board to make within the existing price structure and within existing levels of production costs, minimum and non-inflationary adjustments which are deemed necessary to "aid in the effective prosecution of the war or to correct gross inequities" within the meaning of Section 1 of the Act of October 2, 1942, the Board is authorized to establish as rapidly as possible, by occupational groups and labor market areas, the wage-rate brackets embracing all those various rates found to be sound and tested going rates. All the rates within these brackets are to be regarded as stabilized rates, not subject to change save as permitted by the Little Steel formula. Except in rare and unusual cases

- 3 -

in which the critical needs of war production require the setting of a wage at some point above the minimum of the going wage bracket, the minimum of the going rates within the brackets will be the point beyond which the adjustments mentioned above may not be made. The careful application of these wage-rate brackets to concrete cases within the informed judgment of the War Labor Board will strengthen and reinforce the stabilization line to be held. Maladjustments between wages and the cost of living will be considered by the Board only for the purpose of correcting substandard conditions of living, or determining adjustments within the 15 percent limit of the Little Steel formula. In connection with the approval of wage adjustments necessary to eliminate substandards of living or to give effect to the Little Steel formula or in connection with the adoption of a longer work week, the Board may approve wage or salary adjustments for workers in immediately interrelated job classifications to the extent required to keep the minimum differentials between immediately interrelated job classifications necessary for the maintenance of productive efficiency.

2. All wage adjustments made by the Board which may furnish the basis either to increase price ceilings or to resist otherwise justifiable reductions in price ceilings, or if no price ceilings are involved which may increase the production costs above the level prevailing in comparable plants or establishments, shall become effective only if also approved by the Economic Stabilization Director. The Board shall cooperate with the Office of Price Administration or such other agency as the Economic Stabilization Director may designate with a view to supplying the Economic Stabilization Director with the data necessary to judge the effect of any proposed wage adjustment on price ceilings and the levels of production costs.

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MAY 12 1943

My dear Mr. President:

There is attached a report of Lend-Lease purchases made by the Treasury Procurement Division for the Soviet Government indicating the availability of cargo for May.

Tonnage at the end of May will be 696,163, an increase of 30,507 tons over April. This increase is chiefly attributable to the accumulation of equipment under the special industry programs.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President  
The White House

cc: Maj. Gen. J.H. Burns,  
U.S. Army,  
Room 149 C.C.S. Building,  
1901 Constitution Avenue,  
Washington, D.C.

ABLandgraf/rw  
(5-8-43)

3 copies to Landgraf  
Copies in Diary

By Messenger *Manus 4:25 5/12/43*

## TREASURY DEPARTMENT - U. S. S. R.

MATERIALS AVAILABLE FROM STORAGE AND PRODUCTION DURING MAY 1943

COMMODITY	PRIORITY CARGOS SPECIFIED FOR MAY 1943	AVAILABLE		BALANCE
		STORAGE	PRODUCTION	
STEEL BARS, SHEETS, STRIP PLATES, SHAPES, ETC.	6,500	203,606	25,100	221,306
TOOL AND DIE STEEL	1,315	1,377	5,800	5,862
RAILROAD RAILS, WHEEL SETS AND ACCESSORIES	20,000	88,024		88,024
WIRE PRODUCTS	1,290	79,094	9,200	87,004
PIPE AND TUBING		117,352	2,100	119,452
TIE PLATE	1,000	3,431		2,431
COPPER AND ITS PRODUCTS	7,200	51,501	21,640	85,941
ZINC	2,000		3,500	1,500
ALUMINUM AND ITS PRODUCTS	2,000	1,188	2,300	1,488
FERRO ALLOYS	730	4,612	610	4,492
CHEMICALS	1,500	9,220	1,585	9,305
MERCURY				
INDUSTRIAL AND CONSTRUCTION MACHINERY, MATERIAL ACCESSORIES AND PARTS	2,700	68,474	20,000	88,774
AUTOMOTIVE EQUIPMENT AND PARTS			290	290
TIRES AND TUBES	3,500	1,054	13,510	11,064
GRAPHITE - METAL ELECTRODES		463	1,675	2,138
RUBBER PRODUCTS			2,935	2,935
HAND AND MACHINE TOOLS	250	1,175	2,910	3,835
BALL AND ROLLER BEARINGS	150	122	500	472
PAPER AND PAPER PRODUCTS		2,437	35	2,472
MISCELLANEOUS SUPPLIES AND EQUIPMENT	900	45	1,300	45
WOVEN WIRE FENCE		31		400
	<u>51,035*</u>	<u>632,208</u>	<u>114,990</u>	<u>696,163</u>

NOTE: \*Priority Cargo represents only that tonnage with assured shipping space as of today.  
As in previous months substantial other cargo will be shipped.

MAY 12 1943

My dear Mr. Secretary:

This is in reply to your letter of May 5, 1943, relative to the possible provision of gold by this country to the Middle East.

The Treasury has been considering this problem in connection with prior requests from Iran and will be glad to extend consideration of the problem to the Middle East area. I have asked Mr. White to call a meeting to consider the problem and to invite Mr. Winant and Mr. Feis to participate.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable Cordell Hall,  
Secretary of State.

Orig. file to White's office

Photo file in Diary

By Messenger *Manney 4:25*  
*5/12/43*

HDW:dal  
5-8-43



DEPARTMENT OF STATE  
WASHINGTON

May 5, 1943

My dear Mr. Secretary:

Mr. Frederick Winant, the American representative in the Middle East Supply Center, is back in this country temporarily reporting on the the economic supply and financial situation in the various countries with which the Center is concerned.

Among the matters which Mr. Winant reports to be of importance is the possible provision of gold by this country and possibly also Great Britain as a means of checking what appears to be becoming an extremely difficult inflationary condition. There are various ways in which gold might be used, and various advantages and disadvantages to be taken into account as regards each of the several possibilities. May I suggest therefore that the Treasury undertake careful consideration of this subject. Mr. Winant will be available during the next week for discussion of it, and I have asked Mr. Herbert Feis, Adviser on International Economic Affairs, to represent the Department.

Sincerely yours,

*Cordeell Hull*

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

*orig to Paul.**5/13.*

MAY 12 1943

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Your letter of April 16, inclosing copy of a memorandum from Governor Lehman to Mr. Acheson of the State Department on the subject of shipment of relief supplies through the blockade to enemy-occupied areas, and intra-blockade purchases of such supplies, has been referred for consideration to appropriate divisions of the War Department in order that the military interest may be determined.

The problems raised by this question are complex, and it will be necessary for the War Department to examine them in close detail. I will communicate with you again upon completion of this examination.

Sincerely yours,

(Sgd.) HENRY L. STIMSON

Secretary of War.

TRANSMISSION OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: May 12, 1943, 10 a.m.

NO.: 692

This is message TF-120 from Mr. Adler for the Secretary of the Treasury.

Reference is made to the Department's telegram no. 587 dated May 6, 1943.

Section I

The temporary measure with regard to the conversion by foreign embassies and consular establishments of foreign exchange which was drafted by the Ministry of Finance and communicated to the Board on April 13 by the Ministry is translated below:

1. Conversion by foreign embassies and consular bodies of foreign exchange into Chinese National dollars for their own expenditures will for the duration of the war be at the official rate, in addition to which an amount which equals 1/2 the proceeds in Chinese National dollars will also be paid.
2. The foreign exchange which is received from embassies and consular establishments of foreign countries will not be credited to the account of the Chinese Stabilization Board but will be put in a separate account with the Central Bank.
3. The Central Bank will temporarily advance the Chinese National dollars which will be needed for foreign exchange converted by embassies and consular bodies of foreign countries. The said foreign exchange will offset these dollars. Settlement of the account will be made as soon as the war is over.
4. The Central Bank will carry out the conversions of such foreign exchange as is referred to above on the basis of certified letters from the embassies and consular establishments of foreign countries.
5. The Central Bank should send monthly reports of the amounts of such conversions to the Ministry of Finance."

Section II

Section II

1. Reference is made to paragraph 1 of the Department's no. 587. No information other than that contained in paragraphs 2 and 3 above is available. It is not known whether a settlement of the account which would involve Lend-Lease in reverse as far as the United Kingdom and the United States are concerned is contemplated by the Ministry of Finance or whether a settlement between the Central Bank and the Ministry is contemplated.

2. With regard to paragraph 2, in the Board's reply to the Ministry the following formula was deliberately used in order that neither approval nor disapproval might be indicated: "The Board takes note of the proposal". However, in raising questions of detail concerning the proposed new arrangement the Board in its reply implied consent or acceptance.

3. With regard to your paragraph 3, neither the Board nor I went on record as assenting to 50 per cent as a reasonable and adequate compensation. In the existing circumstances however, it is my feeling that the extra 50 per cent for diplomatic and consular bodies can be regarded as an opening wedge and is, after all, better than nothing. Officials of the Embassy whom I have contacted with regard to the matter do not disapprove of the arrangement as proposed.

4. With reference to your paragraph 4, my Chinese colleagues have told me that the Ministry of Finance was ordered by the Generalissimo to draft a new arrangement as the result of complaints made by smaller legations and embassies in Chungking. As far as paragraph 2 of TF-118, dated May 8 is concerned, there is no additional information to report. If it turns out to be true that the same concession has been promised to foreign philanthropic and missionary organizations by the Minister of Finance, then your question would be answered affirmatively.

5. For your information the Ministry of Finance has not yet adopted the proposed new arrangement with respect to foreign embassies and consular bodies. The arrangement is not likely to go through until after Dr. Kung returns from Chengtu. He is expected to come back during the latter part of this week. The reports are that the major reason for his trip was to handle complaints about the land tax and conscription.

VINCENT

TREASURY DEPARTMENT  
MAY 13 PM 1 57  
OFFICE OF THE ASST. SEC. FOR  
SECURITY

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET  
U.S. SECRET

OPTEL NO. 156

Information received up to 7 a.m., 12th May, 1943.

1. NAVAL

Northern Waters. An enemy transport has been sunk in BARENTS Sea by Russian warship.

2. MILITARY

TUNISIA. Northern Sector. 10th. U.S. forces continued to clear up battlefield. Prisoners in this sector now number 35,000 of whom 30,000 are Germans. Central Sector. 10th. U.K. armoured troops reached HAMMAMET and on 11th pushed north to NABEUL and BINI AICHOUN (18 miles north of HAMMAMET), and also south to BOU FISHA, south of which an anti-tank screen and some tanks were encountered. Patrols of infantry from SOLIMAY area have completed circuit of CAP BON Peninsula, meeting little opposition. Some pockets of enemy resistance including some tanks remain to be cleared up in the hills west of GROMBALIA.

French Sector. 10th. Little progress was made and there was no indication of enemy withdrawal but on 11th enemy troops in ZAGHOUAN Area accepted unconditional surrender. 8th Army. A British attack on eastern slopes of DJEBEL MENGOUB was unsuccessful and we suffered considerable casualties.

3. AIR OPERATIONS

WESTERN FRONT. 11th. Fighters damaged a 700 ton ship off CALAIS and 5 locomotives in NORMANDY. GREAT YARMOUTH attacked by 18 F.W. 190; 2 destroyed, 1 damaged. Considerable damage to property, also casualties in a military H.Q. 11th/12th. 6 enemy aircraft passed over east coast.

TUNISIA. 9th/10th. Allied aircraft continuously attacked enemy targets in CAP BON PENINSULA. 10th. Harbour and Airfield at PANTELLARIA attacked by 215 escorted light and medium bombers.

SICILY. 9th/10th. Medium bombers attacked docks and railways at PALERMO and MARSALA. 10th. 91 escorted Fortresses (B17) bombed MILO and BORIZZO Airfields. 11th. 189 heavy and medium escorted Bombers attacked MARSALA.

SARDINIA. 8th/9th. 18 tons of bombs dropped on 4 Airfields.

May 13, 1943  
9:32 A. M.

HMJr: Hello.

Sen. Carl  
L. Hayden: Good morning, Mr. Secretary.

HMJr: How are you?

H: This is Carl Hayden.

HMJr: Is it?

H: My colleague and I want to come down to see you about Wirt Bowman.

HMJr: It's all right with me. When would....

H: Well, that's what's bothering me at the moment. I've got the darned Appropriations Committee....

HMJr: Yeah.

H: ....running here all the time and I've got the ....

HMJr: Yeah.

H: ....that Ruml plan (laughs) on the floor. Its - it's very difficult to get away. The - the essence of what we wanted to say, Mr. Secretary, isn't much. My colleague asked me to make the appointment, but maybe I can talk with you and save coming down....

HMJr: All right.

H: ....is this. We recommended Mr. Bowman to be the collector at Nogales.

HMJr: I know.

H: I talked to Mr. Gaston about it.

HMJr: That's right.

H: Mr. Gaston seems to feel that he has the conscience of a ? on his hands and that Mr. Bowman has committed a very grave offense in that he had arranged for the - a concession to operate a race track, gambling establishment at Tia Juana....

HMJr: Yeah.

H: ....years ago when there was prohibition and movie people and all that. Our argument was that nobody did business in Mexico under the old regime....

HMJr: Uh huh.

H: ....unless they got the concession and that the Treasury Department had collected from him and he said there was no hold-over from that, but I think some eighty-seven thousand dollars on money that he never got.

HMJr: Yeah.

H: His - he made an arrangement with the Governor of lower California....

HMJr: Yeah.

H: who afterwards became President of Mexico, whom he had known from boyhood....

HMJr: Yeah.

H: ....to pay so much a month.

HMJr: Yeah.

H: The money was paid to Bowman and Bowman paid it to him, but anyway he had - he paid the tax on it.

HMJr: Yeah.

H: Now, that - that was all right. We talked to the President about it the other day.

HMJr: You did?

H: The President said he would be very glad to appoint Wirt to any other position.

HMJr: That's right.

H: He said - he said, "I will make him the Director of the Mint in Denver", which would be under your department. But our view is that either Mr. Bowman is qualified to be collector at Nogales....

HMJr: Yeah.

H: ....or he is totally unfit to hold any office of honor, trust or profit under the Government.

HMJr: Yeah.

H: I - I can't see the - the difference why the collector-ship at Nogales should make any - that he's particularly disqualified for that. That's the point that bothers me. If he's good enough ....

HMJr: Well, I....

H: ....to be Director of the Mint.

HMJr: Carl, I've - you and I have always had very pleasant relations and I - I - I'll be perfectly frank. I had a talk with the President too. The President knew as much or more about Bowman than I did.

H: Yes. Oh, he's known him for years.

HMJr: Yes. And I - I just feel that there's been a New Deal in Mexico as well as there's been here and to put a man in like that who did business the way he used to to deal with the Mexicans and have to deal with the Governor of the Province there opposite Nogales....

H: Well, the funny part of that is that ? ....

HMJr: Yes.

H: ....whom he did business with in the north is to be the next Governor of Sonora.

HMJr: Yeah.

H: A former President. He will be Governor next September.

HMJr: Yeah, Well, then....

H: So that there - there can't be anything to that.

HMJr: Well, I - I - look - I - I talked with the President and the President said to me -- this is when you were urging him recently -- he said, "Put him in - put him in something else", see? I mean - he thought border - whatever you call it ....

H: Yes.

HMJr: ....the thing under Justice - whatever it's called.

H: Yes.

HMJr: Immigration.

H: Yes.

- HMJr: And he said - said the President, "I - I think Henry, you're right, that he shouldn't be Collector of Customs." Now, my God, in the whole fine State of Arizona there must be somebody else.
- H: No, there isn't. It's Wirt Bowman, as far as we're concerned.
- HMJr: Yes.
- H: Wirt Bowman has been a very active, loyal Democrat all these years - been entered as a nomination for Governor and wouldn't take it - as leg... - the legislature; elected to National Committeeman....
- HMJr: Yeah.
- H: ....a high ranking Mason. There isn't anybody in the State that's got any better standing than Wirt. This - all that's the matter with him, if you want to know, he feels aggrieved at the Treasury Department because they - in making the - the charge that he hadn't paid his taxes, that he had cheated his own Government.
- HMJr: Yeah.
- H: Which he feels he had not done, because he didn't get the money.
- HMJr: Well, of course....
- H: And that's - he thinks nobody - nothing but the Treasury Department can - can remove the stain. It's like the story I told the President about old Ed Thompson up at Kingman. Ed ran the best saloon in Kingman for years..
- H: Yeah.
- H: ....and on that account with the leading business then, and then political life came there, he found out what was going on. He got into good mining properties. He found that the State was going to go dry and he sold his saloon and when Wilson was elected he said he wanted to be Postmaster at Kingman....
- HMJr: Yes.
- H: ....and I said, "Ed, (laughs) you old horse's gazoop, what do you want that for? You're worth a quarter of a million dollars." He said, "Listen, I've got a son and a daughter and they are now the saloon-keeper's children...."
- HMJr: Hmm.

H: ....and I want them to be the Postmaster's children."

HMJr: Yeah.

H: And I said, "Well, all right - you - as far as I'm concerned." I recommended him to Albert Burlington, the Postmaster General, and Albert said, "Doggone it, Colonel, why did you send me this old saloon-keeper and get me in trouble with all these white ribboners?"

HMJr: Yeah.

H: And I said, "Listen, he was delegate to the Baltimore Convention and he voted on every ballot for the nomination of Woodrow Wilson."

HMJr: Hmm.

H: He said, "He is the Postmaster."

HMJr: Hmm.

H: Now, last year in the last campaign when Louis Douglas and Mrs. Greenwich came out to Arizona....

HMJr: Yeah.

H: ...and advocated the election of Wilkie, Wirt Bowman took the stump....

HMJr: Yeah.

H: ....the only man in the State. He trailed them all over and he burned them up.

HMJr: Yeah.

H: He's been the President's friend all these years.

HMJr: Yeah, but....

H: And - and he's as honest as the day is long.

HMJr: Yeah.

H: And you -as far as the administration of that office is concerned, there won't be - he'll be meticulous. There'll not be a red cent that is due the United States that won't be collected, and no - no trouble at all with the Mexicans. Don't let that worry you for a minute.

HMJr: Well, I - I've been through this whole works, and it isn't just the one thing. I mean - and - and - I - I didn't pass on this thing alone. I went to see the President about it, and the President told me just what he told you, and I - you know me - I don't - I never appoint anybody personally in the sense that ....

H: I understand that. Well, that's the way we look at it....

HMJr: I mean I have nobody in Arizona that I - I - that I want to have the job.

H: I understand that too.

HMJr: But I - ever since I've been with the President in - in as - when he was Governor, he always said to me, "Henry, if you can't take somebody", he said, "go back to Jim Farley, get him to give you a second and a third fellow. Then...."

H: Well, we - we can't do that in this case, because we made the recommendation. It's known - it - it - and we take the responsibility for it. Any difficulty about his confirmation, it's not you, it's not the President. The President said he was afraid that it might be like the Flynn case.

HMJr: Well....

H: I said, "No, Mr. President, because in the Flynn case he was a New Yorker that you knew, and he was your friend and they were trying to hit you. In this case we recommend a man that is perfectly competent....."

HMJr: Yeah.

H: ".....that speaks the Spanish language....."

HMJr: I know.

H: ".....and understands those folks, that will run a magnificent office." We have every confidence in the world in him. I'd trust him with my own money and if I'm willing to do that, I'm willing - with the Federal money. And - he - you'll never have one ounce of trouble, and if there is anything comes up in the Senate, Senator McFarland and Carl Hayden are responsible for this appointment. Nobody else.

- HMJr: Well - I - yeah, well, that's very nice and as far as Carl Hayden and McFarland are concerned, I'd personally give them my checkbook. I mean my own checkbook - I mean that's the way I feel about you two men.
- H: Yes.
- HMJr: There's no two men in the Senate that I - that I have a higher or greater respect for, but - but I - you people get him through the Senate and then he - he's - I - I'm his boss.
- H: That's right, and if he doesn't do what's right, you fire him in the morning.
- HMJr: Well, that's not so easy.
- H: Well, I know, but he....
- HMJr: Look, old man, can't you do - isn't there something - maybe the Department of Justice don't - isn't there a United States Marshal or something in the State of Arizona?
- H: We've got an excellent United - he doesn't want anything else....
- HMJr: Yeah.
- H: ....because he lives in Nogales. The man is worth between four and five hundred thousand dollars. He has interests there....
- HMJr: Yeah.
- H: .....that he'd be nearby and take care of.
- HMJr: Well....
- H: He would make you an excellent Collector. The finest you ever had in that place, up on his toes and attentive to the job.
- HMJr: Well, you don't mind if - if - if I differ with you.
- H: Oh, not at all. I - I'm not arguing. The only thing that - that I couldn't understand was the President said, "I will make him Director of the Mint in Denver."
- HMJr: Well, the President doesn't know that we have a perfectly good Director of the Mint.

H: Well, I understand that, but the point I'm trying to get at was he would seem to be as willing as you'd be that Mr. Bowman could have any other place....

HMJr: That's right.

H: ....except this particular little spot.

HMJr: Yeah, and the President arrived at that on his own.

H: Well, he didn't tell us that the other day.

HMJr: Didn't he?

H: No.

HMJr: What did he say?

H: This is what he said. He told us about somebody who had been in political life over here in Maryland who was accused of probably favoring gamblers or something else....

HMJr: Magruder.

H: Yeah, and he said that he decided to appoint him and that he made a wonderful official - been fine, and he - he - this - if you want to know just what the President said. He said, "I'm going to talk to Mr. Morgenthau...."

HMJr: Yeah.

H: ....and maybe I might suggest to him that he not make any recommendation at all. Let me tend to it." So we went away quite well satisfied.

HMJr: Well, he hasn't said "boo" to me.

H: Well, how long since you talked to him?

HMJr: Oh, I - I ....

H: I mean about this matter.

HMJr: Oh, it must be a month.

H: Well, now - this - there's some misunderstanding then, because he said, "I expect to see Henry...."

HMJr: Yes.

H: ....at 9 o'clock tomorrow."

HMJr: That was last Thursday, wasn't it?

H: Yep.

HMJr: Well, I did see him.

H: And he said, "I'm going..." - then he indicated what he was going to say to you.

HMJr: Well, it must have slipped his mind.

H: Well, I think it did.

HMJr: It must have slipped his mind.

H: Yeah, I think it prob... - undoubtedly did then, because that's exactly what he told us - that he was going to see you, I think he said....

HMJr: No, he....

H: ....9 o'clock....

HMJr: He did. That was....

H: ....in the morning.

HMJr: That was last Thursday.

H: And he said, "I'm going to suggest to him that he make no recommendation at all."

HMJr: Well, maybe he'll get around to it.

H: Well, of course, with Churchill here and all that, I don't....

HMJr: Because, as you know, there's only one thing I've got on the Hill and that's my word....

H: Sure.

HMJr: ....and I've always kept it.

H: Yes, sir.

HMJr: Well, let's see what happens, Carl, shall we?

H: All right.

HMJr: And maybe the - the President will get around to it.

H: Well, I - now - I - I - I wouldn't repeat what he said, except.....

HMJr: No, no.

H: ....that....

HMJr: But he - I saw him Thursday and it - it must have slipped his mind.

H: Well, all right. Now that's undoubtedly what happened...

HMJr: Yes.

H: ....because with all that he's got on him, I can understand that perfectly.

HMJr: But....

H: But, as far as you're concerned or the President is concerned, I - I - I'd be the last....

HMJr: There's nothing....

H: ....man in the world to do anything....

HMJr: There's nothing personal - there's nothing personal.

H: No, I understand. I - I wouldn't - no, I'm talking about in your official capacity. I - I wouldn't do a thing in the world to - to embarrass you, but it is my honest judgment....

HMJr: Yeah.

H: ....that this is an excellent appointment....

HMJr: Yeah.

H: ....from every angle.

HMJr: Well, let's see what the President does.

H: Right. Particularly in view of the fact that he has - has been such a long and persistent friend of this Administration.

HMJr: Yeah.

H: There's now - when - whenever it was in a tight hole he was there, and I particularly admired him in the last campaign for going right after Brother Louis Douglas and Brother - and Mrs. Isabella Greenwich.

HMJr: Well....

H: He just burned them up. He did a swell job on them.

HMJr: Well, that's a good mark for him.

H: Yes, sir.

HMJr: Well, thank you, anyway.

H: All right.

HMJr: Thank you.

May 13, 1943  
11:00 a.m.

120

HMJr: Hello.

Eugene Meyer: Hello.

HMJr: Henry Morgenthau, Jr.

M: Good morning, Mr. Secretary.

HMJr: Henry to you.

M: How are you?

HMJr: Fine. Eugene, your paper a couple of days ago ran an editorial about our financing that disturbed me a little bit, and I wondered whether you could see Ted Gamble any time Friday afternoon and let whoever - could your editor be there and hear our side of the story?

M: Yeah. Has he got the knowledge and the figures?

HMJr: Yeah, he's got everything that he needs.

M: Uh huh. All right....

HMJr: Could you set a time for Friday afternoon?

M: I'll set it - I'm - I still am at home. I'm just....

HMJr: Oh.

M: ....about to go down.

HMJr: Oh.

M: I think three o'clock would be good.

HMJr: Well, if I don't hear from you again, I'll have him over there at three o'clock, eh?

M: All right. Be delighted. I was away - that was Tuesday morning, wasn't it?

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HMJr: It was something about....

M: I didn't see it before it was printed because I was in New York Monday afternoon and Tuesday....

HMJr: Frankly, you see....

M: But I - I'd be glad to get all the facts, because I've been a little concerned by some of the things you hear, and that I....

HMJr: Yes. Well, your paper....

M: ....I'd like to get the facts....

HMJr: Your paper has been so swell on these War Bonds, you see, and you're running this baseball game next week and all that, you know....

M: Yes.

HMJr: ....and then you had these bombers last Sunday....

M: Yeah.

HMJr: ....and the thing is really going awfully well, and then somebody on the editorial page gives us a sock.

M: (Laughs) Well, did you ever try to run a newspaper? I know you ran a farm paper.

HMJr: Well, it's kind of different but....

M: (Laughs)

HMJr: ....I thought if you had it and then let whoever is there....

M: Yeah, I'll be tickled to death to do it. Call us up any time about anything.

HMJr: All right. Three o'clock tomorrow.

M: Three o'clock Friday is okay....

HMJr: And his name is Gamble.

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M: .....unless I let you know to the contrary.

HMJr: Thank you.

M: Okay.

May 13, 1943  
2:15 P. M.

Marriner  
Eccles:

Hello.

HMJr:

Marriner?

E:

Yes, Henry.

HMJr:

I got your nice letter today, and what I'd like to do, if it's agreeable to you - I think the fellow's name is O'Brien -- anyway, the Wall Street Journal -- he tried to make trouble between you and me this morning on some testimony that you had before some committee in which he tried to make out that you were dissatisfied with the results of the War Loan.

E:

Well, of course....

HMJr:

Now, what I'd like to do - I'd like to give out my letter to you and your letter to me.

E:

Yeah.

HMJr:

Just release it.

E:

That's fine. I've not the slightest objection to it.

HMJr:

And - because they're all the time trying to make trouble.

E:

Well, this is - this is - well, what happened I - I didn't figure that I ought to go on the Hill at all, but Henry Steagall - see, the - the - the bill.....

HMJr:

Yeah.

E:

.....that permits the use of Government securities back of Federal Reserve notes expires on June 30th...

HMJr:

Yeah.

E:

....had to be extended because we've got to put up Government securities back of Federal Reserve notes, because there's no eligible paper and there  
(Con't)

E:  
(Con't)            isn't enough gold certificates to take care  
                      of it, so it's absolutely imperative....

HMJr:            Yeah.

E:                ....and I told Steagall that. And it was only  
                      an extension of an existing authority - wasn't  
                      anything new.

HMJr:            Yeah.

E:                He said that his committee wanted me to come up  
                      again....

HMJr:            Yeah.

E:                ....and I said, "Well, hell, I was just up there  
                      on the War Loan business", but I had to go.

HMJr:            Yeah.

E:                I had no choice....

HMJr:            Yeah.

E:                ....and I had no notice. In fact they called me  
                      Monday morning - I had a half hour notice and I  
                      had to go up, so I went up there and they - there  
                      was at least, oh, fifteen members of the committee  
                      there. I was amazed that they'd - they'd have most  
                      of them there.....

HMJr:            Yeah.

E:                ....but they were there, and they asked about  
                      everything under the sun nearly, as they usually  
                      do....

HMJr:            Yeah.

E:                ....and what - what they - they - they - I think  
                      it was Crawford of Michigan.....

HMJr:            Yeah.

E:                .....was at least one of them that asked some of  
                      the questions -- they all asked questions with  
                      reference to the financing, see - and they wanted -  
                      and wanted to know, didn't - did I think it was  
                      successful. That was the question.

HMJr: Yeah.

E: They - they wanted to know if - if there was - we got more in the Drive - if I'd expected it would be - we'd get as much - something to that effect, and I said, no, that I had - that - that it was at least two to three billion dollars more than I thought we would get.

HMJr: Yeah.

E: See?

HMJr: Yeah.

E: Then they got to the question of - of where the money came from. See? They asked about where it - this fellow Crawford is pretty smart....

HMJr: Yeah.

E: ....and he wanted to know how much they got from individuals....

HMJr: Yeah.

E: See?

HMJr: Yeah.

E: ....and what the national income was. How much money individuals got and - and in the course of the conversation I said that I didn't think that - measured by what we got from individuals that we could consider that it was eminently successful, that we had to get a lot more from individuals, based upon the amount that individuals are getting. Which, of course, is a fact.

HMJr: Yeah.

E: So that it just depends - you've got to - it's like any - it's like anything you say, if you pick the contents....

HMJr: I know.

E: ....context out, you can always misconstrue it....

HMJr: Well....

E: ....but you've got to take the whole story....

HMJr: I know.

E: ....in order to.....

HMJr: Well, you know the trouble with this town. I needn't tell it to you. They only want to tear down.

E: Well, the newspaper fellows like to get a controversy if they can.

HMJr: And I thought that - I - if it was agreeable with you, I'd give out my letter to you and yours to me.

E: That's fine.

HMJr: That came in this morning.

E: That's right. Yes, sir.

HMJr: Now, one other thing. Are you going to be busy around four? I wondered if you could drop over.

E: Well....

HMJr: Or....

E: The - the Richmond Bank Board....

HMJr: Oh.

E: ....are meeting here today....

HMJr: I see.

E: ....and....

HMJr: Well, would tomorrow morning then - before I see these other fellows, I'd like to see you.

E: Well, I'd like to see you too. And now, let's see what - I could meet tomorrow any time you say. You're going to meet with them at 10 o'clock?

HMJr: Yeah. How about.....

E: Well, what about me seeing you at nine or nine-thirty?

HMJr: Nine? I'll split the difference. Nine-fifteen?

E: Yeah. And then - I suppose we'd meet almost from then until the time you meet them?

HMJr: That's right.

E: Well, either that, or ....

HMJr: Well, now, I - I can....

E: ....or later. How late are you going to be there this afternoon?

HMJr: Well, not too late. I - I....

E: Well, I....

HMJr: It's a little bit better in the morning for me.

E: Well, I'd better stay - I think these - these people....

HMJr: All right.

E: ....are here and they expect me to sit in up there and - and I - I - they met up here at the Board and we arranged for it before we knew the general staff was going to be over here.

HMJr: Well, would - would nine-fifteen be all right?

E: Nine-fifteen then. I'll see you at your office at nine-fifteen.

HMJr: Good.

E: Okay.

HMJr: Thank you.

E: Goodbye.

May 13, 1943  
2:30 p.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell  
Mr. Robbins  
Mr. Gaston  
Mr. Graves  
Mr. Buffington  
Mr. Gamble  
Mr. Peabody  
Mr. Odegard  
Miss Elliott

H.M.JR: I haven't read this, so let me read this out loud. I have asked Gaston and Gamble to collaborate. Let's see what they have been able to do. (Plan read by the Secretary, copy attached.)

I can understand it down to "State chairmen and/or administrators shall be appointed by the Secretary of the Treasury with the approval of the President of the Federal Reserve Bank in whose district the state falls."

You say that the sales manager shall report to and be responsible to the President of the Federal Reserve Bank as chairman of the War Finance Committee.

MR. GAMBLE: That is right.

H.M.JR: Then you go on and say "These state organizations shall be responsible directly to the National Director of sales in Washington, and will receive plans, instructions and materials for aid in promoting sales from Washington."

MR. GASTON: That is the State organization.

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MR. GAMBLE: You see, the States are continued as Treasury organizations under this plan, and they remain Treasury organizations and they get all of their plans for the promotion of sales from Washington.

MR. BELL: How does it tie in with the central committee in the district?

MR. GAMBLE: The central committee supervises all of their activities, Mr. Bell, but they don't do the planning for them and don't supply them with their materials for the promotion of sales.

H.M.JR: Herbert, how do you see this thing?

MR. GASTON: Well, you mean as to the relation between the--

H.M.JR: State administrator - the district sales manager and the national sales manager.

MR. GASTON: My idea - the relation is somewhat similar to what you would have in a general organization. The general sales plans are formulated here. The district sales manager supervises the execution of those plans. The State chairman and administrator report on the results of their efforts through the Federal Reserve Bank to Washington.

However, so far as the sales methods and material they use, they will be in direct contact with the national sales director here in Washington. They will have been selected by the Secretary of the Treasury - the State - with the approval of the president of the Federal Reserve Bank; and the function of the president of the Federal Reserve Bank and of his assistant, the director of sales, is to promote the execution of those plans and supervise their effectiveness within their districts.

H.M.JR: I still don't see what the district sales manager would do.

(Mr. Odegard entered the conference.)

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MR. GAMBLE: What he really is is a district supervisor or division sales manager. His sales policies are established in Washington. The plans for promotion of these sales are all prepared here, and all sent to the field. It is his job to see they are put in execution, as Mr. Gaston says. He brings to that organization such intelligence as he has, such sales experience as he might have, plus such prestige and influence that he can bring as a representative of the president of the Federal Reserve Bank.

H.M. IR: Let me ask how they do these - there are two different people here. I would like to ask how does General Foods handle the thing, and then I would like to ask how Borden's handles it.

MR. ROBBINS: We break the country down into twenty-five districts. Those twenty-five districts are gathered into four divisions. Those four divisions each have a divisional sales manager. They report to a national sales manager.

Now, our plans for marketing are developed by a group of people whom we refer to as product managers. Those product managers handle the whole line of merchandise, like the whole cereal line or the whole coffee line, or something of that nature. There are six such people in our organization.

MR. GASTON: They are in the general organization - that is, the national organization?

MR. ROBBINS: They are at the headquarters point.

MR. GASTON: They generate promotion plans for the whole country?

MR. ROBBINS: Right. Now, while they are individuals they have attached to them staffs to help them with their advertising, budgeting, their planning, their marketing, their merchandising, and everything. A plan once conceived and integrated into a program is passed - is cleared - well, in my office, as the head of the sales company. It will

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be presented by the marketing man, the product man who develops that plan. Once it is cleared it is then put on the track for execution. That track means that I say to my sales manager, "Make this effective."

He says to his division men, "Make this effective."

They say to their district men, "Make this effective."

And the divisions are again subdivided into a hundred and forty-two regions which are a hundred and forty-two key marketing places in the country.

The lines of authority are never circumvented in any sense of the word. A district manager reports to a division manager, who reports to the national sales manager.

Now, regarding what I said a moment ago, here is the man who is responsible for coffee back in headquarters. He has a staff, as I say. He has people who are devoting their principal time to merchandising, their principal time to planning the activities that the salesmen will perform in the store at the time they make their call. He has also people who are there working on advertising with him. He integrates the whole program.

Now, those people and this product man himself have complete freedom of access down to the districts for the interchange of information and advice.

H.M.JR: Say that again.

MR. ROBBINS: The product manager can call his secretary in and say, "I would like to write to Mr. Brown who is the manager in St. Louis." But he cannot give Mr. Brown any orders. He can only exchange information and advice. "How is the coffee campaign coming? When are you going to have your men in? I would like to come down and talk to your men when you have your meeting."

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The interchange of advice and information is completely free, but the issuance of orders is completely safeguarded. It only goes one way, and that is through direct organization channels.

H.M.JR: That is clear enough. How do you (Peabody) do it?

MR. PEABODY: Practically the same way, Mr. Secretary. We have fourteen districts and three divisions, but all matters of operations are carried on through those channels. In other words, our product men do not issue orders to anybody who is selling. We have our general sales manager, our product manager for different groups, and all matters affecting operations are then passed down through the divisions to the district, and then to the men.

MR. GASTON: The general ideas are conceived at headquarters and there is some follow-up from headquarters. That is, they go out into the regions and, as Mr. Robbins says, give advice to the local people.

MR. PEABODY: They have free access on that to the districts.

H.M.JR: Supposing you bring out some new cheese product; how would it work out?

MR. PEABODY: The whole plan would be conceived with regard to all the merchandising factors at headquarters. Probably in a case like that of a new product, the division men and your district men would be brought in and made familiar with the plan. Then the plan would be executed, insofar as the actual operation of the salesmen were concerned, through the division and the district people.

H.M.JR: Say that again, will you?

MR. PEABODY: Yes, sir. The plan would be made at headquarters. The division and the district people would be brought in and made thoroughly familiar with the plan. Then the actual execution of the thing with regard to what the salesman does, would be carried on through the division office and the district office.

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H.M.JR: That makes sense to me.

MR. PEABODY: From the division to the district. In other words, what it is, the product sales manager cannot give orders to the selling force.

H.M.JR: But for instance, let's say that you are launching a new cheese and if, out of St. Louis, it isn't going well, the man who is responsible in your headquarters in New York, he could jump on a train and go down to St. Louis and see why it isn't going well.

MR. PEABODY: He could do that. In the first place, he would get all reports from all districts, and he would know when that situation developed, and the first thing he would do would be to take that up with the national sales manager

H.M.JR: But supposing the thing still stalled in one particular district.

MR. PEABODY: He would--

H.M.JR: Say Boston wasn't going well.

MR. PEABODY: He would, with the knowledge of the national sales manager and the division and district officers, go right down in there and work with that sales manager in correcting the condition.

MR. ROBBINS: It is even better than that, sir, because these people who are the division managers are frequently coming in to our product managers and saying, "I wish you would come with me to Boston. We need some help in Boston. Please come on down and help us."

H.M.JR: In other words, if we had a direct flow of authority and the pay-roll savings plan wasn't going well in Boston, people from Washington could go to Boston and try to--

MR. ROBBINS: They would be urged to go.

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H.M.JR: Or if the women weren't functioning well in Boston, again, Miss Elliott could get on the train and go up to Boston and see what was the matter with the women. Is that right?

MR. ROBBINS: That is right, and Miss Elliott would be in constant communication with all the Bostons and all the Baltimores - the constant interchange of information and advice would be perfectly free.

H.M.JR: I mean, let's take your example - the coffee man. How does the coffee man - your headquarters is New York?

MR. ROBBINS: That is right.

H.M.JR: How does the man - you say you have six different product chiefs?

MR. ROBBINS: We call them product managers.

H.M.JR: How does the product manager in charge of the coffee - how does he communicate with the various centers of distribution to make sure that he is getting his quota? I suppose he has a quota.

MR. ROBBINS: The normal flow of information on sales is a perfectly standardized routine, controlled by our controller's office. That just flows in like your daily reports from the banks do. So he has access to all that, day in and day out, week in and week out.

Now, if he has a campaign that he wants to put on, he develops that campaign in the form of, we will say, a bulletin if it is a small campaign - some campaigns will be very elaborate, but they all follow the same pattern - and he will prepare the type of instructions that he thinks should be issued to motivate people to do things. He will write the instructions himself, but he can't issue them. Then he brings the instructions - "Here is my plan; here is my program. I want to do this."

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He will come to my office, and we will have our staff get together. Our staff consists of our advertising head, our merchandising head, our national sales manager, and myself, and the fellow with the plan. It could be any one of six.

He says, "Here is the plan." We look at it. The sales manager says, "That won't work."

The advertising man says, "You have it timed wrong. I can't have my copy coordinated with your program."

Ultimately we get it into balance and somebody says, "Go." I am the fellow that says, "Go."

When the go signal is given, the plan moves from my hands to the national sales manager's hands, to the division sales manager's hands, to the district sales manager's hands. People are called together in meetings. They are trained and the plan moves.

MR. GASTON: But your districts don't, themselves, conceive by themselves the plan of sales that they are going to adopt in their territory. In general, those things are conceived at headquarters and they carry them out. That is true, isn't it?

MR. ROBBINS: It is true, yes, Herbert, but it is not entirely true because, you see, we keep a group of travelling people in the field who are charged with performance of this two-way channel of communication, and their ideas are the very essence of what creates the necessity for planning.

MR. GASTON: Let's say that we had translated this commercial plan into operation in the sale of Government securities, then the president of - suppose the president of a Federal Reserve Bank is a district sales manager with a sales director under him, and he should decide that for the time being, "Now, we will do nothing but pay-roll savings work."

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Now, under your plan of operation, the national headquarters could very well say to him, "Well, now, that doesn't suit our national plan at all. We want more done than just the pay-roll savings at this moment. We want some propoganda carried on in the schools. We want a general canvass of homes" - for instance, or - "We want the retailers - we want to put on a program among the retailers." Under that setup it would be within the sphere of operation at national headquarters to say, "No, we want campaigns of this character carried on."

MR. ROBBINS: That is right. It is an obligation on our part to see to it - in the first place, they know what we want done in each district and that they are equipped and prepared to do that.

MR. ODEGARD: Could I ask a question? What are the limits of discretion in the division and district managers?

MR. ROBBINS: That is awfully hard to answer.

MR. ODEGARD: I mean with reference to plans, generally, at headquarters.

MR. BELL: You mean with reference to plans after they have been announced?

MR. ODEGARD: Are they free to reject that?

MR. ROBBINS: No.

MR. ODEGARD: They must carry it out?

MR. ROBBINS: That is right.

MR. ODEGARD: It is as though they were under orders?

MR. ROBBINS: When they get through direct orders, they are under orders.

MR. PEABODY: Some organizations will operate their men differently. That is called on by circumstances - by such things as relative scarcity of outlet, but the broad plan they carry out.

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MR. BELL: You mean a general over-all policy of instructions, and then they fit those into their territory?

MR. ROBBINS: They are a little tighter than that. We tell them where, what, and how.

MR. PEABODY: There is one difference here I think we ought to point out. In both Bill's organization and mine we have multiple products - a great many more products than we have here. We have got four product sales managers and you (Robbins) have six. In our organization anyway we have one group of grocery salesmen charged with the responsibility of selling all of those four groups of products. So that has to come back through the district and the division of the sales manager because otherwise you would have no coordination at all. They would all go out and sell the thing they wanted to sell at the time.

MR. GASTON: You assign a team to work in a certain territory by understanding with the district or local sales manager, as the case may be. You may assign a special pressure group to go out and work up a campaign - advising the local manager that that is being done.

MR. ROBBINS: No, he is the one that trains them and puts them out on the job. We will swing our whole organization of eight hundred and fifty salesmen into a cereal campaign for the month, we will say, the first three weeks in July, and then pick up, we will say, cake flour and something else - baking powder - for the next two weeks, and after that swing them over to gelatin desserts for three weeks, then something else. This talk about flexibility - we have eighty odd products that this one crew of men must handle. All this must be planned, and one follows the other. For every change of pace we have to have a series of meetings. We will generally have a meeting in each one of the hundred and forty-two sections of the United States, and all those markets - those people will be brought together and trained specifically for that campaign. One of our big problems is to change those gears without losing momentum.

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MR. ODEGARD: The only question I was going to raise again was this question of local discretion.

Now, you expressed yesterday a great desire for decentralization in this operation. As I see it from Bill's description, there is very little decentralization so far as discretion goes. Plans are originated at headquarters and they flow in from the field, but they are planned there. They are sent down as orders to the division and district managers who are under obligation to carry - to put them into effect. They have no choice as to whether this is good, bad, or indifferent, except as it may allow for minor modifications to fit a local situation.

Now, in the operation of a bond-selling program such as ours, I am inclined to think you will probably find you will have to have more local discretion.

H.M.JR: May I interrupt? We are all ducking this thing. We are all ducking the issue. I know I can talk here without being quoted outside of this room, but what this plan is trying to do is this, is to make use of the Federal Reserve presidents as window dressing without giving them any responsibility, and simply going around them so that you can maintain your State organizations and keep your contacts with your State organizations. Well, I could no more sell that if I believed in it, which I don't; I just can't sell that to Eccles tomorrow morning or to the twelve Federal Reserve presidents. I can't do it. I mean, what you have done here - let's be frank - is to give a device which will completely circumvent these people and no matter what else they are, nobody is going to call them stupid. They are just not going to stand for it.

Now, the way I see it - the way I look at it - there are three ways that this thing can be done. We can have a planning organization here in Washington, our various product people which would correspond to Mr. Houghteling and Miss Elliott, if you don't mind being compared to a product - call you "cake flour" - is that all right?  
(Laughter)

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MR. GAMBLE: Gelatin dessert. (Laughter)

H.M.JR: No, she is not gelatin - don't kid yourselves. I could compare her with a lot of things, but that would be the last thing I would compare Miss Elliott with. (Laughter)

You have these various product chiefs which are schools, pay rolls, and so forth. They would be here. Then you would have a national sales manager under Bell and myself who would work directly with the president of the Federal Reserve, who would have a sales manager under him, and then a certain number of States under that person.

Then when these product managers here had something that they wanted to merchandise they would more or less follow the steps of industry and do it more or less the same way, the plans being worked out here and then sent out. Then they could go to the field and see that their plans are carried out.

We haven't too much time, we might as well be frank - that puts the president of the Federal Reserve Bank in a very important position.

Now, there is another way to do this thing. This is the way I see it. Another way to do this thing is to simply have your president of the Federal Reserve Bank sort of ex officio chairman of an advisory committee or let's call them chairmen of advisory committees to the executive managers in the field.

The district sales manager will have surrounding him an advisory committee to advise him, and the chairman of that advisory committee will be the president of the Federal Reserve Bank.

Again the authority would be from the national sales manager to the district sales manager to the State chairman.

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Then there is a third way, and that is to have your national sales manager, your district sales manager, and your state chairman, and cut out the Federal Reserve altogether.

It seems to me it boils down to one of those three things. But none of those things are the things described here.

MR. GASTON: Now, let me suggest that if you change just one word here you will make this strictly comparable to the commercial plan that Mr. Robbins and Mr. Peabody have outlined.

Instead of saying that the State administrators shall be "responsible" - and that is the only word that throws that plan out of kilter with this commercial plan - "responsible to the national sales director," you simply need to say: "The president of the Federal Reserve Bank, with the assistance of the district sales director, shall be responsible for sales in his district and for the execution of general policies and plans outlined by the Secretary of the Treasury and his staff; but the national sales director shall have free access to the State chairmen and administrators and even local organizations for the purpose of obtaining reports, making suggestions, and imparting advice as to the execution of the general plans."

MR. BELL: That is a little - that is going a little far, it seems to me. You are getting into the instruction field where you get conflicts.

MR. GASTON: What I am trying to say is exactly what the general commercial plan of operation is, as I understand it.

MR. BELL: I understood it was exchange of information, but not imparting advice.

MR. PEABODY: Who would the State administrator look to for instructions? In the commercial setup he would look to his divisional sales manager.

MR. GASTON: Under that plan he would look to the chairman of the Federal Reserve Bank and the sales director in the district for his general instructions as to execution of the plans.

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H.M.JR: Now, wait a minute, Herbert. You ran your words together there. You said he would look to the president of the Federal Reserve Bank. I don't know whether you said "and" or--

MR. GASTON: I meant, and the district sales director, that is the executive assistant.

H.M.JR: It has to be one or the other.

MR. GASTON: Well, my understanding is that they are the same man. The district sales director is directly under and responsive to the president of the Federal Reserve Bank under that plan.

MISS ELLIOTT: Mr. Secretary, what are the Federal Reserve Bank presidents more concerned with, the execution of plans or with policy making - the general over-all policy making?

H.M.JR: I don't know, but I think this: I know one who isn't going to be put in the position of responsibility unless he has the responsibility.

MR. ROBBINS: And the authority.

H.M.JR: I mean, he just isn't going to do it.

MR. BELL: There are four of them that way, at least.

MR. GASTON: You talk about giving a man an absolutely free hand to develop his own - to sell the securities in his own district. That is not comparable to any commercial plan anywhere.

H.M.JR: That is out.

MR. GASTON: That is what this man you are speaking of does suggest.

H.M.JR: That is out, Herbert, but I think I suggested three possible ways, and I said - let's just take one at a time.

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One way is - in the room here I don't think there is anybody that disagrees that the national sales plan should be worked out here in Washington. There isn't anybody in disagreement, is there?

MR. ROBBINS: That is right.

H.M.JR: And that we should have a product manager who should have access to the field - I don't think there is any disagreement in that. I mean so far, I think, we are all together.

Now, the question comes, how should we get the national plan for the product. We will use pay-roll deduction as a good example - how shall we get that to our volunteer organization and get it out?

Heretofore I have talked about the district. Now I will talk at the top. We have one sales manager; we have one product manager. We have five or six different groups - labor, women, pay roll, and so forth and so on - each one of those people held responsible for developing a plan.

Now, how are we going to get that to the field and see that our plan is carried out the way, after careful consideration, we want it?

MR. ROBBINS: That is the question - just that simple.

H.M.JR: Now, we are so far together, aren't we?

Now, you want to reach from Washington - you want to get to your State chairmen, and the question - what we have been trying to do here is - we say we need a district sales manager. I think there is pretty much agreement that we need a district sales manager and that one national sales manager can't handle forty-eight States.

I think there is pretty much agreement on that, isn't there?

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I am not trying to lead you into any trap. I am not a district attorney. We are all amongst friends. I am just thinking out loud. How much do we trust the presidents of the Federal Reserve Banks? That is the question.

Now, I know some of these fellows, and I know that they are going to say to me, "Mr. Morgenthau, if you want me to carry out your national plan for pay-roll savings in the district, I have got to be responsible. I will agree with you that you can make the plan" - because on that I would be adequate and I have got good commercial backing on that - I mean, precedent and not backing - "but I want the responsibility for carrying it out."

The question gets down, should we say that Mr. Sproul in New York or Mr. Young in Chicago is responsible for carrying out the plan, or should it be a district manager?

Now, as I say, the alternative is to have a district manager and have an adviser who will be responsible. You have to have one or the other; either the president of the Federal Reserve is responsible, or the district manager. If we want the cloak of the Federal Reserve, you could say, "All right, we will have an advisory group of which the president of the Federal Reserve will be chairman, who will advise the district manager." Then Mr. Sproul will say, "Am I held responsible for the sale?"

"No, Mr. Sproul, you are not, but you are there to advise the district manager." Now, isn't it pretty near down into that group?

MR. ROBBINS: I think so. He won't take the responsibility unless he gets the authority, and he is right.

MR. ODEGARD: Who would choose the district sales manager, then, Mr. Secretary?

H.M.JR: I have said right along, my representative would choose the district sales manager and my representative will choose the State chairmen, just the way in commercial business you would have your sales manager for coffee and he would want to have his people down the line.

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MR. ROBBINS: Not for coffee. The national sales manager and myself will decide who--

MR. PEABODY: ...who is the district man. You, being over all, would - you plus the national sales manager.

MR. ROBBINS: That is right.

H.M.JR: But to answer Odegard, I or my representative would select the district sales manager and then we would also select the State managers.

Now, the thing to me - I have never seen it quite so clear - it gets down to, do you want to use the president of the Federal Reserve and hold him responsible for his district, or do you just want him as chairman of an advisory committee? That is what it gets down to.

MR. GASTON: Well, Mr. Secretary, it seems to me that you have answered your own question. If you say you are going to choose that district sales manager, he is therefore going to be responsible to you.

H.M.JR: No, I didn't say that.

MR. ROBBINS: He simply said he had to be acceptable and chosen by--

H.M.JR: The last time, Herbert, George Buffington would come to me and say, "Mr. Morgenthau, in Cleveland they want" so and so. And I would look him up, and if he had paid his income tax, I would say O.K. (Laughter)

Now, I propose that I will pick a man from Cleveland who has paid his income tax, and I would say to the president of the Fed, "Mr. Fleming, this is the fellow." And he would say, "I don't like him." I would ask him why, and if he has a good reason I would say, "All right, then I will give you another fellow." And if he didn't like him, O.K., I would give him a third fellow. I would keep giving him a man until he said the fellow was satisfactory. I would give him the veto power if I am going to give him the authority.

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MR. ROBBINS: You would also be willing, then, to vest in Mr. Fleming the right to fire that man if he didn't function.

MR. BELL: Or at least to bring it to his attention that he isn't functioning.

H.M.JR: I hadn't gone that far.

MR. ROBBINS: I envisioned a complete delegation, once the agreement as to the selection of the man was confirmed.

H.M.JR: What Mr. Fleming - if I give him the authority, Mr. Fleming would carry out the plans which were created here in Washington, and it would be his job to do it just the way I could go to Eccles and say, "Fleming won't cooperate; give me somebody else." But he would have to carry out the plans if I am giving him the authority, and then he would have to - I could say, "Look, Fleming, you are falling down on your pay-roll savings plan. I don't like what you are doing and I am sending a group of pay-roll experts into your district who will work out of your office and get this thing straightened out."

Now, the other way to do the thing is to simply say, "Look, Mr. Fleming, I don't like you; I don't think we see eye to eye. Therefore I am going to put in a district sales manager for that district and I am going to ask you, as my fiscal agent, to be chairman of an advisory committee to this district manager, but with no responsibility other than purely advisory."

I am saying it is one or the other.

MR. ROBBINS: Just about that.

H.M.JR: It is one or the other, because I know these fellows.

MR. ROBBINS: I don't know. I wonder how they would react to a suggestion of that kind.

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H.M.JR: I don't know. I haven't got enough strength, I know, because I wouldn't believe in it, to ask the president of a Federal Reserve Bank to be responsible for a five-billion-dollar quota in New York, and at the same time not give him the authority. You wouldn't take it, Ted.

MR. GAMBLE: I don't see where he doesn't have the authority, Mr. Secretary. There is still something I don't understand. You say you are going to have product managers, and you compare these various divisions with them. On whose approval, or, on whose authority are they going to carry forward some program in the district?

H.M.JR: On whose approval?

MR. GAMBLE: Yes.

H.M.JR: The product man?

MR. GAMBLE: Yes.

H.M.JR: What you would do would be this: There would be a committee here, and - if Miss Elliott doesn't mind being used - we would have a committee and this committee will sit here, which I might attend or I might not - if it was well organized, I wouldn't have to attend, but I might want to attend once a week - and Miss Elliott would come in with a layout for the next three months as being what she wanted to do, and she would have to sell it to this committee. If the committee liked it, they would say, "O.K., Miss Elliott, fine - it is approved." Then the thing would go on down the line to the people in the field who had to carry it out.

MR. GAMBLE: You think that all should be done at the Federal Reserve District line instead of at the State?

H.M.JR: No, the only excuse for it - there are two excuses for the Federal Reserve, Ted. If you feel that a sales manager, sitting here in Washington, can deal directly with forty-eight chairmen and be in direct contact, you don't need the Federal Reserve, or you don't need a

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district sales manager, but if, on the other hand, you feel that the country should be broken up into twelve or fifteen districts, and you need a district sales manager, O.K. - or if you need the Federal Reserve to put their "oomph" into it, because it is to their interest to do it--

MR. GAMBLE: I think it is two different problems.

H.M.JR: No, I don't think--

MR. GAMBLE: Hand in hand with all the recommendations that have been made for that kind of an organization setup, decentralizing it as completely as you have just indicated you would be willing to do, it calls for setting up - in addition to a sales manager at the Federal Reserve District line, it calls for setting up a staff of people equipped to funnel these various programs through, because it can't be one man who does it. No one man can oversee four States and try to absorb everything that comes out of Washington.

H.M.JR: Any more than when they distribute pictures. I am sure they must have district sales managers, and so forth--

MR. GASTON: You would have to have district promotion managers especially assigned to pay-roll savings.

MR. ROBEINS: In a farm area, specialists assigned to an agricultural program.

MR. ODEGARD: Would you, in addition, have all those in the State?

MR. GASTON: Yes, in all the States.

MR. GAMBLE: You would have to have, but it means an addition in twelve Federal Reserve Districts of a considerable staff.

MISS ELLIOTT: In this last drive - this April drive - didn't they use the State organizations? These Federal

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Reserve banks, they set up immediately and operated back through their State organizations. They were responsible for certain activities, but to get this done, they used their State organizations, didn't they?

H.M.JR: In some cases they did; in some they didn't.

MISS ELLIOTT: All the reports came in by States.

H.M.JR: In some of the States where they cooperated the worst with the War Savings - take Atlanta, for instance, where on certain phases they didn't cooperate - they did on dollar sales - they were at the top--

MR. BELL: Yes.

H.M.JR: Ted, let me answer you. If you are afraid of duplicating twelve times, take Bill Myers, who certainly in his field is as able a fellow as I know on agriculture, and Bill Myers has been at this thing how long? a year?

MR. GRAVES: Yes, longer than that.

H.M.JR: He has covered--

MR. GRAVES: Almost two years, in fact.

H.M.JR: Well, in two years' time, working out of Washington, he has about six agricultural States organized.

MR. GRAVES: More than that.

H.M.JR: Not many more.

MR. GRAVES: Not more than that number organized, perhaps, to his complete satisfaction.

H.M.JR: Let's say it is twelve.

MR. GRAVES: That is nearer it.

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H.M.JR: Let's say it is twelve. That is my answer to you. But there are other Bill Myers, and you give Bill Myers twelve fellows to help him and we will get somewhere. But in two years he has twelve States organized.

That is the whole trouble with this thing. After all, the war appropriations only really began to flow - when did we begin to really start to spend money? How long ago was it when we got going in a billion or two billion a month?

MR. BELL: Before we entered the war, under the defense program - '41 - I don't know.

H.M.JR: Anyway, a year and a half or two years, and this terrific burden of getting this money has been thrown on us, and so far we have been able to keep ahead of it. But I don't - I think that Bill Myers should have twelve or fifteen district people to help him, then he would move that much faster. And they can be gotten. I organized Farm Credit from the ground up in three or four months - created a whole new organization. They can be gotten.

MR. GRAVES: There, I think, is the difficulty. They are awfully hard to get. The thing that has slowed up Bill Myers' program has been his difficulty in finding qualified people to take hold of this farm program.

H.M.JR: But we haven't tried to get one in each of the twelve districts.

MR. GRAVES: Well, we tried to get a half a dozen regional men and I think we have ended up with three, just because we can't find qualified people to take hold of this thing.

H.M.JR: Well, ladies and gentlemen, the whole thing, to me, gets down to the question of what you are going to do once you leave Washington - as between the Washington and the State level. That is, are you going to give the president of the Federal Reserve Bank the authority, or aren't you?

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MR. GASTON: Suppose on this setup of sales directors in each district, they would be appointed by you with the consent of the president of the Federal Reserve Bank, then would they be directly responsible to the president of the Federal Reserve Bank? They would be - he would be responsible for seeing that those men functioned?

H.M.JR: Yes. That is one of the three ways I described. I described three different ways. That is one of them, Herbert.

MR. ODEGARD: Isn't it a unique form of administrative organization, Mr. Secretary, where the appointing power appoints an agent that is responsible to someone other than the appointing officer?

H.M.JR: Oh, what is the use - I mean, we are trying to do something. If we were all satisfied with the presidents, we wouldn't have to find something unique; so we are trying to find something unique.

MR. ROBBINS: I don't think that is out of cast, anyway. It happens all the time.

H.M.JR: If these twelve Federal Reserve presidents were selected by me, we wouldn't be fussing here trying to find the thing; so you have to find something different.

MR. GASTON: We have plenty of that. The Federal Reserve president is a Presidential appointee, and after being appointed - politically selected - he then becomes responsible to an existing organization. If they are no good and can't function, we try to get them removed.

H.M.JR: Read the authority of the Comptroller of the Currency and see whether he is responsible to me. He isn't. Have you ever looked at it?

MR. ODEGARD: Yes. This is a special case.

H.M.JR: Well, you say "unique" - there is the Comptroller of the Currency.

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MR. ODEGARD: You mean the Comptroller General?

H.M.JR: No, Comptroller of the Currency I am talking about; and when we used to have the Director of the Budget here in the Treasury it was a very nebulous thing.

MR. ODEGARD: I was just thinking of the difficulty that might arise in a case where you appointed an official whom you might also have power to remove, who was to be the agent, really, of the president of the Federal Reserve Bank, whom you are going to hold responsible, yet he wouldn't have the power to appoint his own immediate agent, and he wouldn't have the power to remove him. You might get into some difficulty.

H.M.JR: I don't see what you are arguing about. Do you want to let the president of the Federal Reserve Bank pick him?

MR. ODEGARD: I am not arguing - simply trying to understand.

MR. ROBBINS: This pattern repeats itself amazingly over in WPB where they had a question of putting in the WPB regional salvage directors. The head of the salvage department said, "You regional managers don't know what I want. I want the best darned junk man I have ever seen and you fellows don't know him, so I have to get him and put him into the organization." They were completely a part of that organization, and they could be removed, of course, if they didn't function, by the local organization.

H.M.JR: Peter, I don't see what is bothering you. This thing - I am going to stick to my guns, because I am not going to kid myself and I am not going to kid anybody else in the room. It gets down to this: I can work directly with my forty-eight States, I can work directly with the presidents of the Federal Reserve Banks, holding them responsible, or I can work directly with the district sales manager with the Federal Reserve Bank president acting in an advisory capacity. But what I won't do is, I won't let the president of the Federal Reserve Bank

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select the executive manager and select the State manager. That bridge I have crossed. That I am adamant on, and I don't think anybody in the room would advise me to let a president of the Federal Reserve Bank pick the fellow. Is that right?

MR. PEABODY: I certainly wouldn't. I certainly agree - I wouldn't, I know.

H.M.JR: Would you?

MR. ROBBINS: They haven't any comprehension of a lot of these programs.

H.M.JR: I know I am repeating myself, but I am going to do it again for Peter's and my benefit. Everybody in the room agrees here that the Office of the Secretary of the Treasury should pick the State managers, should pick the district sales manager, if there is going to be one - I am not saying there has to be one, but if there should be a district sales manager he should be picked by me.

It gets down to, what are we going to do with the president of the Federal Reserve Bank? Should he be an honorary chairman or should he be responsible, because he isn't going to - I know these fellows, and I haven't got - I can't budge them. I went all through that thing with Sproul.

MR. ROBBINS: Isn't that another question, then - that is, whether the Federal Reserve or the central banking system of the country are part of this or not?

MR. BELL: That is what it comes down to, because they won't serve as honorary chairmen.

MR. ODEGARD: Isn't it a question of whether or not they shall direct and control it in the districts? That seems to me the question, not whether they shall be part. It is obvious that they are a part now, and have been from the beginning of the program.

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MR. BELL: Of the major financing program.

MR. GASTON: I think we should meet the question first - laying aside the Federal Reserve Bank president question - as to whether or not it is desirable to have a district organization.

I believe you are inclined to think, Mr. Secretary, that we should have a district organization, and we can have more effective organization by having an organization divided into districts. If we once decide that there are a great many reasons why we should make that district coincide with the Federal Reserve district lines--

H.M.JR: Well, Herbert, I just feel that I don't care who the giant is, that he can't get over these forty-eight States fast enough. But the only thing I am adamant on, and I think that everybody in this room - nine of you - are with me, and that is that my office should have the right to select the State chairmen.

MR. GASTON: I think you have given pretty completely the answer to this whole question. The district system of organization seems desirable for many reasons. There are many added reasons why, if we are going to have districts, they ought to be - there are many reasons why you feel that we ought to have districts to break down this problem of supervision - districts with authority - district headquarters with authority. There are a great many reasons why, if we are going to have districts, they should coincide with Federal Reserve District lines. It gets down to a question of the - you are going to have a sales director in the district, and a staff - it gets down to the question of what is the relation of the Federal Reserve Bank to that director and his staff.

You have already said you were going to select that director. You are going to select the State director, so the organization is going to be in the main yours.

If, under those circumstances, the president of the Federal Reserve Bank is willing to undertake responsibility

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for the supervision of that district through the sales director, I think that we could grant it to him - the responsibility for the supervision of that district - with it limited in that way. There would be the further limitation that we do maintain direct contact with the field for the purpose of consultation and advice and information; that we have travelling supervisors, as we have now - specialists in certain lines corresponding to your product salesmen - and that we maintain control through those channels through the appointment of the sales director in the district, through the appointment of the district managers, through the constant access to the field with planning, suggestions, requests for information, and so on. I think that is an entirely feasible setup.

MR. ROBBINS: And the Secretary, of course, Herbert, planned that the appointments would meet with the approval of the Federal Reserve presidents when he made them, so it isn't quite as tough as it might seem if a man has a refusal on acceptance of an appointment, because acquiescence to it is agreement, you see.

MR. BELL: Do you contemplate picking these people yourself?

H.M.JR: Personally?

MR. BELL: Yes, you, or your people - having the Treasury people pick them?

H.M.JR: Well, I have been trained by Governor Roosevelt on this thing - this maybe explains it a little bit. A local boss would call up and say - this may sound ridiculous to you people - and say, "I want such and such a man appointed in my district." I would say, "Sorry, he is no good." He could come back twice, three times, four times. He could pick them - the local boss - but I wouldn't appoint them until he was agreeable. I am in trouble right now with Carl Hayden McFarland of Arizona because I won't accept the fellow that they want to put in my organization. I say, "Give me somebody else." They won't do it. I am sitting tight, and the President is backing me up.

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Now, I don't know whether this is at all comparable, but it is in my mind. I would go out and if Mr. Sproul or Mr. Smith or Mr. Jones had a good reason - they would have to have a good reason why the man that I picked for district sales manager wasn't all right - if they had a good reason I would say, "All right, you are responsible. If you don't like this fellow and have convinced me I am wrong, I will get you another." I would get him another until he was satisfied.

But I would want to pick them instead of the way it is now. They pick them and I just initial them. I don't see why that isn't fair to the president of a Federal Reserve Bank.

MR. ROBBINS: It would work either way and give you the same result. Your refusal could be just as firm as your selection.

H.M.JK: Well, I would rather take the initiative. I would look for the fellow, and I would be more apt to get the kind of fellow than he picking him and my turning him down.

MR. BELL: I wonder if you couldn't lay down certain specifications as to the type of people you want - say "Now, I would be willing to take the names of five people that you recommend", and we would look up their records. We would interview them and pick one out of the five. If we didn't like any of them we would send back for another five.

H.M.JK: Now, look, let's take a fellow like Madden, executive vice president of the Manufacturers Trust. I would just as leave have him as chairman for the State of New York as any fellow I have met. Now, how am I going to describe Mr. Madden as one executive of a financial institution as against another one that I don't want? How am I going to do that? But if I go out and say that I will take Mr. Madden as opposed to somebody else because I have seen what Madden has done and I know how he can work with mass people - I will take Mr. Madden of the Manufacturers Trust - I can't describe that fellow - I don't know how to describe him, but I would take him and

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put him in charge of the State of New York tomorrow or I would make him district sales manager, because I think he is an unusual fellow, and I think if you take him apart you will find that he ticks all right.

Now, if I pick Mr. Madden and say to Allan Sproul, "I recommend Mr. Madden for district sales manager," he can't turn Mr. Madden down because he can't find anything the matter with him. He can't find anything the matter with Madden, but I'll be damned if you could describe Mr. Madden.

MR. ROBBINS: You couldn't say, "Take the vice president of a bank with a capitalization of so much." (Laughter)

H.M.JR: Did you meet Madden?

MR. BELL: No.

MR. ROBBINS: He did the house-to-house job.

H.M.JR: An amazing fellow.

MR. ODEGARD: I wanted to ask, Mr. Secretary, a question that puzzles me some. I am trying to think of the purpose for those districts. I understand that it is to decentralize the job and make it more manageable. Now, districts that you will have to carry out the job from Washington will not correspond with the Federal Reserve districts except in a limited number - for a limited number of purposes. I go back to an illustration again.

In the Bureau of Internal Revenue here, for example - you have no less than five different kinds of regions represented in the Bureau of Internal Revenue. The Technical Staff has its regions; the Intelligence Unit has its regions, the Alcohol Tax Unit, and so on. They have different regions for different purposes, all within the Bureau of Internal Revenue. It seems to me that in the War Savings organization or in a general Treasury function operation you are going to have the same problem.

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Your farm regions aren't going to correspond to your Federal Reserve districts, your pay-roll savings regions aren't going to correspond to the Federal Reserve districts, and you are going to have regional people for all of these different functions. How are they going to mesh with these local executive sales managers unless they are directed from Washington?

H.M.JR: I can't go along with you, Peter, at all. I just can't follow you. I mean, I am not going to make the thing more difficult for myself in my own limited way.

MR. ODEGARD: I am just trying to think what are the purposes of the Federal Reserve Districts; what is the reason for that except to bring in the Federal Reserve presidents?

MR. GASTON: Well, if you are going to have districts, Peter, the sales are recorded, the securities are distributed by Federal Reserve Districts and they make logical areas for that purpose.

Now, I don't think there is any particular merit to the question that some regions are suitable for farm purposes and some regions are suitable for pay-roll purposes, and so on. I think whether the particular district selected has a large or a small pay-roll problem, or a large or a small farm problem, it still can be handled on the arbitrary Federal Reserve District region basis.

There is no particular reason why you should be separately regionalized for different purposes. If there is, I can't see it.

MR. ODEGARD: No, you are quite right. I didn't mean that at all.

H.M.JR: Would all of you bear with me a little bit if I would ask Mr. Bell and Mr. Gamble and Mr. Gaston just to let me talk with them a little bit, and then I could send for you again. Would you mind?

(Mr. Robbins, Mr. Graves, Mr. Buffington, Mr. Peabody, Mr. Odegard, and Miss Elliott left the conference.)

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MR. GASTON: Suppose we go to the original Federal Reserve District plan if we are going to have districts - suppose we go to the Federal Reserve District plan - suppose we give the president of the Federal Reserve Bank a large measure of authority. He supervises in the district, reports flow through him, and so on - general orders flow through him. The question in my mind is, do we retain sufficient control through your appointment of the district sales manager and of the State administrators so that no Federal Reserve Bank can sabotage the pay-roll savings plan, for instance, by turning it over to a group of investment bankers instead of using the Union men, nor can he sabotage the farm plan, nor can he subordinate the War Savings Staff so that they can do no effective work except on pay-roll savings. That is really the question.

I am inclined to think that, safeguarded in the way you propose, it can be done so that they cannot sabotage it.

H.M.JR: This is the way I feel, Herbert. You have got a very difficult group to work with and let's go, for the moment, if we don't want the Federal Reserve, then there is no problem, but everybody here feels that we should use them.

If you are going to use them, you have got to put it up to them on a basis that is at least palatable. I mean, I am not still saying I have got to have the Federal Reserve but if we are going to have to have the Federal Reserve - I am not saying that we do have to have them, but we are all suspicious of them. We all feel that they won't, in some districts, carry out their orders. In some places the reports I got have been excellent, in others they haven't been.

Let's, for the moment, say we do. I don't see how, if the district sales manager is selected by me or my representative - and when I think of representative I am thinking of the three of you, that is why I asked you to stay - then in turn, the State people - and giving the president of the

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Federal Reserve Bank the right to say, "I reject," but he has to have an awfully good reason - then having what they call these product managers who we have now going into the district wherever it is at all doubtful, hitting these people and hitting them hard - I mean, if we hear that they are going through the front door, and Mr. Sproul is forcing his people to go on the pay-roll plan instead of going through the CIO shop stewards, we simply go in there and say, "This thing has got to stop, and it has to stop quickly. We want to know why."

Then, if the Federal Reserve Bank president doesn't cooperate we go to Mr. Eccles and bring charges, and Mr. Eccles either fires him or we take it out from under him. That is all.

Now, if we are going to do it, and still, I don't say that we want to do it, but if we are going to use the Federal Reserve, then we need a district sales manager, because we have to have a fellow in there who is going to represent me.

If we don't use the Federal Reserve, then we don't need a district sales manager.

MR. GAMBLE: That is right.

MR. GASTON: Can we function effectively through such a setup here in Washington?

MR. BELL: You mean without the Federal Reserve?

MR. GASTON: No, no, including this setup. We will say we will make the Federal Reserve Bank president responsible, but under him we have a district sales director of our selection - that is, of the Secretary's selection - we have State managers that the Secretary selects, but orders channel through the president of the Federal Reserve Bank and the district sales director; and the president of the Federal Reserve Bank, with the assistance of the district sales director, is responsible for seeing that a good record is made in his district, and at the same time, the national

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sales director has direct access to the States for advice and consultation and information and encouragement, and all that sort of thing. He even sends out his travelling representatives to find out what is wrong with this plan, and to help them. With all those controls, can a national sales director function effectively? Can we have a good organization?

MR. BELL: It seems to me we can have a good organization. I believe that all of this confusion comes from the split States. I think, if the Federal Reserve System ran through to State lines, that we would immediately say, "All right, for your Federal Reserve System you will have an executive manager and a State man or manager for each State in that district, and that State manager would flow through--

MR. GASTON: I think we can solve that very easily. I don't think it is a serious problem.

MR. BELL: Then why is it a problem at all working through the State manager?

MR. GASTON: The problem is whether we can retain adequate control over this organization and see that it functions along the lines we want it to function, and at the same time, give the Federal Reserve Bank president authority for directing the campaign and getting results in his district.

MR. BELL: I think we can, but I think we have to do some work on certain fronts. I think you will have to do some work, and keep control certainly for a long time over labor, the women's division, and certainly the pay-roll end of it.

MR. GASTON: The point is, can we, under this theoretical plan of organization, can we keep those necessary measures of control?

MR. BELL: I think we can, but I think we have to keep those to carry out the Secretary's theory, philosophy.

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MR. GAMBLE: I wouldn't want to answer offhand. Here is what worries me, giving them authority doesn't worry me, and there was no intention here - Mr. Gaston and I talked this out and our minds met on it if it reads that way, and it is very sketchy--

MR. GASTON: Just one word--

MR. GAMBLE: There was no intention that we wouldn't give them the authority. Our grave concern was that we would have access to these State organizations.

Now, take the offices of Internal Revenue. I don't know how they work, but I dare say that you don't wait to hear from someone of twelve regions about problems dealing with State offices of Internal Revenue, but you have constant--

MR. GASTON: They deal directly with all sixty-five collectors from the Accounts and Collections, over here.

H.M.JR: What you have is - I didn't want to get into it - we created - I don't know what Peter was getting at - we created coordinators of each district and sometimes it was the Captain of the Coast Guard, sometimes an Internal Revenue man, sometimes a tax man, but these fellows met, and this coordinator would coordinate all Treasury activities in the district in order that they wouldn't be running over each other.

Look, Ted, because Bell knows what I have in mind - if we want to use the Federal Reserve, and we have the district sales manager - first we would make the president of the Federal Reserve - this is the way I see it - responsible for carrying out a program as worked out here in Washington. That is number one. We do the programming. We give them a program and say, "We want this carried out."

Under him we have a man that we select to carry out the program in his district. Then we have a State chairman in charge of the State, who will be selected.

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Then on top of that you will have five or six crews constantly travelling around the country, who will say, "The program for the pay-roll, the women, or the farm, isn't being carried out, Mr. Bell."

You will say, "What is the matter?" "Well, this is the matter."

You, as national sales manager, would say, "All right, stay there," or, "I will come there myself," or something or other, but this information would flow back and forth, but the plan, what has to be done, the quota, the carrying out of the machinery once the thing is set, you have got to give somebody the responsibility. If we are going to use the Federal Reserve, we give them the responsibility, but as to information back and forth, and all the rest of that, he has six products chiefs - you have six, now. You have the women, you have labor, you have retail, you have this and that, and these promotion crews, whatever you want to call them, will be constantly travelling - constantly reporting. They will go to the man in the district and say, "This is no good." The stuff would flow back to you; it would flow back to me; we will know what is going on.

You can call them anything you want; you can call them the Office of Inspector General, which travels out and reports right back to the chief of staff directly. You have that authority. But your corps commander - once the plan is laid, it is up to him to carry it out. The only difference is, they don't pick the corps commanders, but pick the chief of staff for the corps commanders, because the corps commanders are picked already. I think it is as simple as that, always provided we want to use the Federal Reserve.

Now, what do you think?

MR. GAMBLE: Well, I still think that there is very little difference. I have always believed that there was little difference in what we are talking about. You are asking a big question, Mr. Secretary.

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For example, we have in the State of New York a hundred and thirty-five people, and we have direct access to those hundred and thirty-five people constantly. We don't even have to wait and get hold of Patterson to find out something in New York. I am only using this as an example; I don't want to answer you quickly. I would rather think about it for a couple of hours before answering it.

H.M.JR: Well, all right.

MR. GAMBLE: I don't want to talk to anybody about it.

H.M.JR: Don't talk with somebody like Peter.

MR. GAMBLE: I just want to unravel it in my mind - this organization problem.

H.M.JR: Well, let me go through it once more.

MR. GAMBLE: I have your plan straight. It is straight in my mind. I have no difficulty absorbing it.

MR. BELL: I should think that scheme of contact would work out sooner or later. You set up an organization that is pretty tight, but take what we do now in the Fiscal Agency; we go through sixty thousand agents to deliver our bonds. We don't go to twenty thousand financial institutions to distribute our circulars, and I don't go through Allan Sproul for every one of my things. I write to House, to Wilson Jones, all of the Federal Reserve Bank of New York, or I call them on the telephone. Allan certainly can't handle all of the details, and neither can this director of sales that you are talking about.

H.M.JR: What I want to say is this, young fellow (Gamble): He has given you a lot of examples. You have to start on paper with the thing tight.

MR. BELL: That is right.

H.M.JR: Then you begin to make the exceptions. I mean, let's be practical.

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MR. GASTON: Yes, a whole lot depends on how it works out in practice.

H.M.JR: In the first instance it has to be tight to sell it to these fellows.

MR. BELL: You have to have a chart - that is, a line chart.

H.M.JR: It has to be a tight thing, and then as the thing goes along and things don't work out, you begin to adjust the thing to actuality.

MR. GASTON: We run across a Federal Reserve Bank president--

H.M.JR: I mean, in one place you might perfectly well say, "Well, Sproul is a good guy; he says what he thinks; you can trust him."

All right, now, in Sproul's case we can do this, but up in Minneapolis we can't. And it doesn't mean that every district has to be treated the same.

Now, in Minneapolis we can't trust that fellow, so we have got to have it very tight, and we have got to even appoint a couple of extra fellows to just sit on the lid all the time.

I come back and repeat myself for the tenth time - if you are going to use the Federal Reserve District, you have got to give them this authority to carry out the plans created by the Office of the Secretary of the Treasury and hold him responsible - not to do the plans, but to carry them out once they are created.

MR. GAMBLE: We didn't take that away in here (indicating memorandum).

H.M.JR: No, this is quite different than what Allan wants.

MR. GAMBLE: I mean the plan that Mr. Gaston and I--

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H.M.JR: The thing - "These state organizations shall be responsible directly to the National Director of sales in Washington, and will receive plans, instructions and materials for aid in promoting sales from Washington" - that is out if you are going to use the Federal Reserve.

MR. BELL: That is the same problem you have now.

MR. GASTON: They will be responsible to the president of the Federal Reserve Bank through the district sales director, but the national sales director will have direct contact with all State - with State and local offices for the purpose of exchanges of information and advice.

H.M.JR: That is right.

Does this bother you - what I have been saying for ten times?

MR. GASTON: It doesn't bother me at all. I think the question is not whether we have the Federal Reserve Bank presidents in or not; I think they are in to some degree anyway. But I think the question is, to what degree they are going to be in.

The only thing that bothers me is the question of our maintaining enough control so that no Federal Reserve Bank president can sabotage the general policy of campaign. I am inclined to think that this plan here - making them responsible - can work out.

I think, if we find a Federal Reserve Bank president who wants to run the whole show himself and resents any interference by us, that man will be one of two kinds; he will either be good and efficient or he won't be good and efficient, and if he isn't good and efficient, then we have to dynamite him.

H.M.JR: That is right. And I will be absolutely ruthless.

MR. BELL: What will you do with a fellow like John Peyton? He will give you the results, but he may be ruthless in getting the results.

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H.M.JR: Well, I tell you what can happen. If John Peyton, for instance, won't take the man I want and - let's say he is unreasonable. This is a very good case. I will say, "All right, Mr. Peyton, I am sorry I can't use you in your district. I will just get along without you."

MR. GASTON: Just have a sales director.

MR. BELL: You know what he did out there, he ignored entirely the executive manager.

MR. GAMBLE: He ignored everybody.

MR. BELL: He made his own first vice president his first assistant, and did the whole job.

H.M.JR: I didn't know it. But I would say, "All right, Mr. Peyton, you can't do it. I am not going to argue with you. This is what I want. If you are not going to do it, I am very sorry. You are a very nice fellow, but we will just have to get along. Glad to have your advice, but we just won't use you."

MR. BELL: What did Peyton do, ignore labor?

MR. GASTON: I imagine he did. I know the things the unions were greatly upset about.

Prepared by Mr. Gamble  
and Mr. Coyne 5/12/43  
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PLAN FOR THE ESTABLISHMENT OF A SINGLE SALES ORGANIZATION

The War Savings Staff has been operating for over two years with a field organization based on the states as units. It has become well integrated, relations between Washington and the Field have been defined, points of friction eliminated or minimized and the morale of the staff, both paid and volunteer workers, is unusually high. It took well over a year to organize the War Savings Staff and any major reorganization such as eliminating the state committees would certainly cause unnecessary confusion and serious loss to the Treasury of forces indispensable to any sales effort, no matter what plan it is to operate. Under the most favorable conditions a major reorganization involving the establishment of new relationships, the recruitment of new personnel, the redefinition of function and jurisdiction, would in all probability require more time than can be afforded at this date. Though it may be desirable to change the name of the War Savings Organization, there is certainly no good reason why we should toss aside political, economic, civic and social advantages encompassed within the state organization. It would seem to be more sensible to go ahead with what we have, **strengthening** it and supplementing it where necessary to obtain all the strength needed in a single sales organization. The best personnel from the Victory Fund Committees at the state and community level can be drawn upon for such strengthening.

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Plan

The President of the Federal Reserve Bank shall serve as chairman of the Treasury War Finance Committee.

The jurisdiction of this committee shall be co-extensive with the Federal Reserve District.

In those cases where Federal Reserve Districts cut across state lines, jurisdictional questions will be settled by adjustment and agreement.

The Secretary of the Treasury shall appoint with the approval of the President of the Federal Reserve Bank a district sales manager.

The sales manager shall report to and be responsible to the President of the Federal Reserve Bank as chairman of the War Finance Committee.

The sales managers shall:

(a) Supervise all Treasury sales promotion in their respective districts.

(b) Report to the President of the Federal Reserve Bank as chairman of the War Bond Committee concerning the operation of the State War Bond Organization falling within their jurisdiction.

State chairmen and/or administrators shall be appointed by the Secretary of the Treasury with the approval of the President of the Federal Reserve Bank in whose district the state falls.

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These state organizations shall be responsible directly to the National Director of Sales in Washington, and will receive plans, instructions and materials for aid in promoting sales from Washington.

They shall report on their activities and sales to the Presidents of the Federal Reserve Banks through the District sales manager and to the National Director of Sales at Washington.

May 13, 1943  
5:19 P. M.

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Randolph  
Paul: .... all day today.

HMJr: Yes.

P: If anything we're gaining ground, but I don't think we'll gain enough ground.

HMJr: I see you've got a new partner in O'Daniel.

P: Yeah. (laughs) I got all the demagogues.

HMJr: (Laughs)

P: I'm just getting a report over another wire now from Surry. There's one thing that's come up. They're trying to press to close the debate on the ground that the tax bill has to be passed....

HMJr: Yeah.

P: ....and LaFollette told us we ought to call George and McNary and - and Hill - and tell them that they ought to take - they can take some more time for debate, because the Bureau is going right ahead and there having been - collection at the source and all the bills, and so on....

HMJr: Sure, and if necessary they can make the date August 1.

P: Yeah, but they don't even need to do that.

HMJr: Well....

P: I'm going to call those fellows up now....

HMJr: Yeah. Tell you what I'd do - as a matter of courtesy, I just would talk with John Sullivan if he's still here. See?

P: All right. I will, if he's here.

HMJr: If he's here.

P: Okay.

HMJr: And then - then I'd go ahead.

P: All right.

HMJr: Thank you.

**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

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*M*  
DATE

May 13, 1943

TO Secretary Morgenthau

FROM Randolph Paul

I just had a long telephone conversation with Mr. Doughton, in which he urged pretty strongly that the President should veto the Rumml plan if it passes. His reasons are:

- (a) that we will lose this good political issue if the President does not veto the bill, and
- (b) it will be difficult to get any sort of a tax bill this year if all this tax is forgiven.

I do not entirely follow the Chairman's reasoning, but I thought his point of view should be presented to you. There is certainly a good deal in his first point.

*RSP*

May 13, 1943  
5:30 p.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell  
Mr. Gaston  
Mr. Graves  
Mr. Gamble  
Mr. Odegard  
Mr. Buffington  
Mr. Peabody  
Mr. Robbins  
Mr. Smith  
Miss Elliott

H.M.JR: Do you want to read it?

MR. GAMBLE: The National Director, together with the policy committee, is to have absolute authority as to policy, plans and procedures. The appointment of the Federal Bank presidents as regional directors - this is not written; these are just points - appointment by the Secretary, with the approval of the Federal Banks, of regional managers to function under Federal Bank presidents--

MR. BELL: Change "approval" to "concurrence," or something like that.

MR. GAMBLE: "In collaboration."

H.M.JR: Say "in consultation with."

MR. GAMBLE: This is just the intent of it. The appointment of administrators of States by the Secretary - that again is to be appointed by the Secretary in consultation with the Federal Reserve Bank president.

The policy and planning is to be centralized in Washington. Decentralization of administration does not

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delegate to regions the power to change the fundamental policy. The line of authority is to go down through the Federal Reserve Bank presidents from the National Director, which means the office of the Secretary down to the office of the Federal Reserve Banks.

The line of operation and information - exchange of ideas - should not be circumscribed.

The national functional leaders should be permitted direct access to working people in the State.

Pay Roll Savings people in Washington can contact Pay Roll Savings people in the State; the women can contact the women, and so on, not with respect to any instructions or directives, but an exchange of ideas and plans.

All communications relating to policy would clear through the regional offices, which means directives and instructions.

Those are the points that there was some question about. The other things have been pretty much accepted by everybody. These are the points there had been some question about.

MR. ROBBINS: I think it is all right. I think it would work. It will work provided the spirit as well as the letter of the rule is followed.

H.M.JR: Well, the spirit is the important thing. We have got the thing now, a direct flow of authority from my office to the president of the Federal Reserve, to the district sales manager, to the State chairman. Keeping it that way, what you called your "commodity man" can work with the field people directly, but not issue any orders. The policy will be set here, but the sales responsibility, carrying out the orders - the responsibility of carrying out the orders will be with the president of the Federal Reserve Bank and their district sales managers.

MR. GAMBLE: That is right.

- 3 -

H.M.JR: I don't see as it is very different from what you two gentlemen sketched of what is followed in business, is it?

MR. PEABODY: No, it isn't. I think it will work, too. I think it is good organization.

H.M.JR: I don't see as it is very different, do you, from what you sketched this morning?

MR. ROBBINS: No, that is the way we run our business. As I say--

H.M.JR: Again, as I say, what we compare Miss Elliott to-- (Laughter)

MR. PEABODY: Swans Down cake flour. (Laughter)

MR. ROBBINS: We knew it wasn't Jell-O. (Laughter)

H.M.JR: If Miss Elliott or the Jell-O man wants to work directly in "promoting" - I believe that is the word - a certain commodity or a certain group, they are free to do so. But the responsibility for seeing that we get our sales rests with the direct flow right straight through.

MR. ROBBINS: Do you wish to put in any reference in this broad outline to the fact that the National Director of Sales - his field director will not be, perhaps, just an individual. There may be several assistants just as we have today that will be constantly moving about the country carrying on through personal contact a lot of the work.

MR. GASTON: A mechanism for carrying out this exchange of information and advice function.

MR. ROBBINS: Yes. The division sales manager in a normal business is a tremendously important fellow because he takes headquarters to the field, and he brings the field to headquarters. I assume that you anticipate that sort of thing. You have it now.

- 4 -

H.M.JR: I think those things will come out, unquestionably, but we only started yesterday afternoon at five. I am satisfied as far as the Treasury is concerned. Whether the Federal Reserve will be satisfied or not, I don't know, but at least I have something now that I can believe in and present, and I am not going to budge very much, if the Federal Reserve stays in the picture. I am not going to budge very much. It is a good businesslike way. Don't you think so?

MR. ROBBINS: I do think it is a good businesslike organization. As I say, the spirit with which it is carried out is going to be controlling. There will be plenty of chance for abuse of privileges that are anticipated here; and if anybody wishes to abuse them they can, but they couldn't do it for long if your organization is tight and loyal, and there is no reason why it shouldn't be.

H.M.JR: There will be abuses on both sides.

MR. PEABODY: There are in business.

H.M.JR: You are telling me! (Laughter)

MR. ODEGARD: Would the discretion of the presidents of the Federal Reserve Banks be limited to such minor matters as related to the adaptation of a policy to a local area, or would their discretion extend to modified policy? Let me give an illustration, Mr. Secretary, and it is an important one. I suspect that many of the presidents of the Federal Reserve Banks - perhaps I should say some of them - are not sympathetic with the program which we have been promoting by the establishment of labor-management committees as a device for promoting the sale of bonds to industry. I know that many of them are not sympathetic. Now, suppose we propose a plan that involves that as a crucial feature and suppose it goes to a president of the Federal Reserve Bank, Mr. Secretary, and he says, "I don't like it. I don't like to give any hostages to labor union leaders," and so on, and you just soft-pedal that. What control has the National Director of Sales over that?

H.M.JR: I am too tired now, Peter.

- 5 -

MR. ROBBINS: I can answer that one.

MR. BELL: He has absolute control.

MR. ROBBINS: He is under strict orders. That fellow has to carry out the policy from Washington; and if it means that, it means that, and no fooling; and you have a contact man who is constantly going out there to see that it is followed out. If there is any exception to it, the Secretary can take whatever action is appropriate.

MR. ODEGARD: That would satisfy me if that is understood.

MR. ROBBINS: If he decides that only red-headed people should call on certain people, that will have to be done.  
(Laughter)

MR. GASTON: They are distinctly focused on that particular question, Peter.

MR. GAMBLE: We said that policy and planning is to be centralized in Washington. Decentralization of administration does not delegate to regions the power to change fundamental policies.

MR. ODEGARD: I think it is very important.

MR. SMITH: What would your appropriate action be?

MR. ROBBINS: If necessary, remove the Federal Reserve president from any authority whatsoever. Take somebody else and put him in.

MR. GAMBLE: As I understand it, they can be relieved, just as the State chairmen can, not as presidents of the Federal Reserve Banks - that is a little more difficult - but they can be relieved of their responsibility.

H.M.JR: As fiscal agents.

MR. GAMBLE: Representing the Treasury in that particular district as sales director.

- 6 -

MR. ODEGARD: He can be removed as chairman of this.

H.M.JR: I have been all through this. I won't mention any names, but I have had much more serious things involving hundreds of millions of dollars - involving one of the biggest banks in the country - and I simply told Mr. Eccles, "If in twenty-four hours a certain person isn't removed I will appoint a national bank in that district as fiscal agent of the Treasury." And in twenty-four hours that man was removed. That is all there was to it. You remember it, don't you?

MR. BELL: Yes.

MR. ROBBINS: I just don't think there is any problem there at all.

H.M.JR: I said, "Marriner, in twenty-four hours either you remove this fellow as chairman of this bank" - he was chairman of the Bank of the Federal Reserve System - "or I will appoint a national bank as my agent."

I mean, if I were here one year, or still a farmer, as the newspapers paint me - but I have had a little experience, and on balance my experience with Eccles is good - on balance it is good.

MR. BELL: When you told him the situation he was just as anxious to remove him as you were, if that is the one I remember.

H.M.JR: Yes.

MR. BELL: As a matter of fact, he never had liked him before.

H.M.JR: But he did remove him as chairman of the Federal Reserve Board.

MR. BELL: Yes.

H.M.JR: It is the only time it happened.

- 7 -

Well, anyway, what I would like to do - Eccles is coming tomorrow. Would you be here, please?

MR. BELL: Yes.

H.M.JR: Do you think I could have that typed by nine o'clock?

MR. GAMBLE: Yes, sir, it will be on your desk at nine o'clock.

H.M.JR: Well, will you still keep Mr. Pulliam here, please?

MR. GRAVES: I will if he hasn't already gone. He had reservations for six o'clock.

MR. ODEGARD: I think he had to go.

H.M.JR: Well, I hope I haven't made an enemy of him, but I can't help it.

MR. GRAVES: No, no, you haven't.

H.M.JR: But after all, this is terribly important.

MR. ODEGARD: He understood that.

MR. GRAVES: In fact, he told me that if he missed you he would be glad to come again if you wanted him to.

H.M.JR: We meet with the Federal Reserve at ten. I would like Robbins, Gamble, and Gaston to be present, please, with the Federal Reserve at ten o'clock.

Thank you all.

May 13, 1943

D. W. Bell  
The Secretary

Would you please give instructions that I would like to send out a questionnaire to each County Chairman of War Finance asking them what scheme helped sell the most: (1) 2½% Bonds, (2) 2% Bonds and (3) E Bonds.

Please have the answers come in as rapidly as possible and let George Haas analyze them for me. *oh*



## TREASURY DEPARTMENT

WASHINGTON

WIS SAVINGS STAFF

May 13, 1943

MEMORANDUM

To: The Secretary of the Treasury  
 From: James L. Houghteling

SUBJECT: The Attitude of War Finance Committee Chairmen Toward  
 Labor Participation in the War Loan Drive.

FIRST FEDERAL RESERVE DISTRICT

Chairman Paddock delegated the entire management of the War Loan Drive to his Executive Assistant, John Stubbs. Mr. Stubbs assumed an attitude of arrogant indifference to labor participation.

Although the Drive was implemented by State War Finance Chairmen in the six New England States, no effort was made by the latter at the state level to bring in labor representation. The State Administrators of the War Savings Staff and representatives of the Labor Section made up this deficiency by taking the initiative themselves.

SECOND FEDERAL RESERVE DISTRICT

Chairman Sproul handled Labor well in New York and Fairfield County, Conn., ably assisted by the New York War Savings Staff. The western county of Connecticut in its labor relations integrates closely with New York City. In New Jersey, a state divided between two Federal Reserve Districts, satisfactory labor representation was not established. The use of the arbitrary geographical limitations of the Federal Reserve District created confusion. In general, labor organizations in Northern New Jersey took an enthusiastic part in the Drive.

THIRD FEDERAL RESERVE DISTRICT

Chairman Williams had excellent relations with Organized Labor in Eastern Pennsylvania and in Delaware. For the reasons stated above, in the New Jersey portion of his District labor relations were slightly less satisfactory.



FOURTH FEDERAL RESERVE DISTRICT

Because this District is made up of one state, Ohio, plus the Pittsburgh district of Pennsylvania and the eastern half of Kentucky, Chairman Fleming divided his work into six districts (four of them in Ohio). Both Mr. Fleming and the chairmen of the six districts seem to have been deeply interested in labor participation. Through hostility to the War Savings Staff they at first created considerable confusion and resentment among labor leaders by trying to duplicate the War Bond organizations already in existence.

FIFTH FEDERAL RESERVE DISTRICT

Chairman Leach advised me during the first week of the Drive that he personally knew nothing about labor relations but wanted to be friendly and cooperative. He relied on state and local War Finance Chairmen. After receiving the Robbins telegram he advised that labor relations be left to the State Administrators of the War Savings Staff (an arrangement already put into effect by the State Chairmen in most of the states of his District).

SIXTH FEDERAL RESERVE DISTRICT

Chairman McLarin was interviewed by Gilbert Hyatt of the War Savings Staff and admitted that he was completely ignorant on labor matters. He was very critical, and advanced the idea that under war-time wage scales war-plant workers were making \$30,000 a year and should buy at least \$5,000 of bonds (preferably not War Savings Bonds) a year. When actual facts about wage scales, as developed in our reports from corporations on Pay Roll Savings results, were quoted to Mr. McLarin he expressed incredulity and said that he washed his hands of the whole subject. Some of his state and local War Finance Chairmen took a more constructive attitude toward labor.

SEVENTH FEDERAL RESERVE DISTRICT

Chairman Young and all his State Chairmen took a cordial and cooperative attitude toward Labor.

EIGHTH FEDERAL RESERVE DISTRICT

Chairman Head seems to have handled labor relations well in this District.

NINTH FEDERAL RESERVE DISTRICT

Chairman Peyton's attitude toward Labor was one of arrogance and hostility. His own local War Finance Chairmen apologized to

Gilbert Hyatt of our Labor Section for the Chairman's unreasonable attitude. State Chairmen of his organization in the states of his District did varying jobs of reconciling Labor.

TENTH FEDERAL RESERVE DISTRICT

Chairman Leedy definitely banned labor participation at the outset of the Drive, according to a person who attended the meeting for organization. Some of his State Chairmen appear to have found it necessary to disregard his attitude in order to prevent unfortunate consequences in their states.

ELEVENTH FEDERAL RESERVE DISTRICT

Chairman Gilbert's attitude is reported by Texas labor leaders to have been indifferent and unfriendly.

TWELFTH FEDERAL RESERVE DISTRICT

Chairman Day, although located in an industrial city in which labor participation in the war finance effort has been notable, appears to have taken little or no personal interest in the potentialities of this numerous section of the population.

James I. Hayttel

attached review  
see point K

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NEW YORK - 265 Madison Avenue

May 13, 1943

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

Dear Mr. Morgenthau:

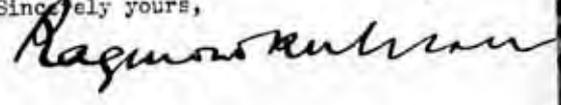
I appreciate very genuinely your recent letter.

Certainly Fred Smith could be doing no more important work for the war than he will be given an opportunity to do with you; and certainly our own needs must defer to such calls insofar as we can possibly make them.

You may be pleased to know that all of our people who have worked here on your bond sale promotion have derived great satisfaction from the work and from the generous appreciation given them by you and your associates. We sometimes have a problem to find enough people and enough hours to do well the war tasks we are called on to do, and want to do, but that is a restriction we must cheerfully cope with as long as the need exists.

Again with appreciation, I am,

Sincerely yours,



May 13, 1943

My dear Mr. Baruch:

It was very kind of you to write me as you did on May 9th. The Second War Bond Campaign far exceeded my fondest hopes. The American people are all right, as I am sure you have discovered long ago.

With kind regards,

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Mr. Bernard M. Baruch,  
597 Madison Avenue,  
New York, New York.

File in Diary

BERNARD M. BARUCH  
597 MADISON AVENUE  
NEW YORK

May 9, 1943.

My dear Mr. Secretary:

The selling of such a huge amount of bonds was an accomplishment far beyond what anyone, except perhaps yourself, visualized. You clung to the idea you wanted to reach the masses and you seem to have done so.

My congratulations!

Sincerely yours,

*Bernard M. Baruch*

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

**FINAL REPORT  
SECOND WAR LOAN  
UNITED STATES TREASURY  
WAR FINANCE COMMITTEE**

Ninth Federal Reserve District

TO: WAR FINANCE COMMITTEEMEN, REPRESENTATIVES AND BANKERS IN THE NINTH FEDERAL RESERVE DISTRICT:

It is with gratification that I submit below the final figures, according to our records, for the Second War Loan Drive held during April:

	Number of Subscriptions	Dollar Amount of Subscriptions
2½ .....	3,025	\$ 49,689,000
2 .....	5,868	44,720,000
½ .....	2,004	69,476,000
Tax C Notes.....	1,544	34,790,000
Series E .....	1,427,141	86,502,689
Series F and G.....	25,062	29,829,194
<b>Total Sales .....</b>	<b>1,464,644</b>	<b>\$315,006,883</b>
<b>Quota .....</b>		<b>\$175,000,000</b>

Per Cent of Quota 180.0

With pride, the district can accept as an outstanding achievement 1,464,644 individual subscriptions from a total population of approximately five and one-half million.

Such a result could only have been accomplished with the complete, whole-hearted co-operation, patriotic effort, and hard work of some seventy thousand people who devoted a large part of their time to the drive in this district. It would be difficult to justify special commendation for any person or group of persons. So many did so much.

Our country will need us again. With confidence that you will be eager to serve, we await the call.

J. N. PEYTON, Chairman,  
War Finance Committee.

May 13, 1943.

MICHIGAN

Per Cent of Quota	Per Cent of Quota
Alger .....	259
Baraga .....	211
Chippewa .....	205
Delta .....	228
Dickinson .....	188
Gogebic .....	248
Houghton .....	294
Iron .....	264
Keweenaw .....	478
Luce .....	193
Mackinac .....	130
Marquette .....	224
Menominee .....	210
Ontonagon .....	223
Schoolcraft .....	184

MINNESOTA

Aitkin .....	64
Anoka .....	175
Becker .....	106
Beltrami .....	136
Benton .....	122
Bigstone .....	177
Blue Earth .....	152
Brown .....	149
Carlton .....	142
Carver .....	82
Cass .....	133
Chippewa .....	130
Chisago .....	99
Clay .....	178
Clearwater .....	134
Cook .....	136
Cottonwood .....	88
Crow Wing .....	133
Dakota .....	133
Dodge .....	105
Douglas .....	133
Faribault .....	117
Fillmore .....	141
Freeborn .....	134
Goodhue .....	162
Grant .....	112
Hennepin .....	203
Houston .....	90
Hubbard .....	206
Isanti .....	114
Itasca .....	214
Jackson .....	160
Kanabec .....	151
Kandiyohi .....	154
Kittson .....	371
Koochiching .....	124
Lac Qui Parle .....	167
Lake .....	119
Lake of the Woods .....	167
Le Sueur .....	201
Lincoln .....	127
Lyon .....	146
McLeod .....	136
Mahnomen .....	134
Marshall .....	158
Martin .....	107
Meecker .....	145
Mille Lacs .....	106
Morrison .....	97
Mower .....	176
Murray .....	138
Nicollet .....	105
Carlton .....	120
Norman .....	135
Olmsted .....	163
Ottertail .....	150
Pennington .....	268
Pine .....	117
Pipestone .....	161
Polk .....	143
Pope .....	184
Ramsey .....	203
Red Lake .....	46
Redwood .....	37
Renville .....	134
Rice .....	141
Rock .....	142
Roseau .....	112
St. Louis .....	179
Scott .....	146
Sherburne .....	146
Sibley .....	165
Stearns .....	119
Steele .....	172
Stevens .....	185
Swift .....	114
Todd .....	86
Traverse .....	139
Wabasha .....	122
Wadena .....	94
Waseca .....	126
Washington .....	102
Watsonwan .....	127
Wilkin .....	131
Winona .....	155
Wright .....	146
Yellow Medicine .....	170

MONTANA

Per Cent of Quota	Per Cent of Quota
Beaverhead .....	108
Big Horn .....	110
Blaine .....	134
Broadwater .....	132
Carbon .....	118
Carter .....	121
Cascade .....	169
Chouteau .....	133
Custer .....	141
Daniels .....	132
Dawson .....	135
Deer Lodge .....	122
Fallon .....	137
Fergus .....	145
Flathead .....	127
Gallatin .....	122
Garfield .....	126
Glacier .....	159
Golden Valley .....	233
Granite .....	180
Hill .....	130
Jefferson .....	194
Judith Basin .....	149
Lake .....	116
Lewis and Clark .....	124
Liberty .....	187
Lincoln .....	220
McCone .....	151
Madison .....	123
Meagher .....	164
Mineral .....	392
Missoula .....	135
Musselshell .....	137
Park .....	134
Petroleum .....	176
Phillips .....	122
Pondera .....	142
Powder River .....	123
Powell .....	123
Prairie .....	159
Ravalli .....	124
Richland .....	151
Roosevelt .....	127
Rosebud .....	228
Sanders .....	126
Sheridan .....	129
Silver Bow .....	116
Stillwater .....	151
Sweet Grass .....	108
Teton .....	126
Toole .....	127
Treasure .....	126
Valley .....	149
Wheatland .....	161
Wibaux .....	128
Yellowstone .....	144

NORTH DAKOTA

Akers .....	161
Bailey .....	171
Benson .....	175
Billings .....	250
Bottineau .....	170
Bowman .....	190
Burke .....	168
Burleigh .....	258
Cass .....	175
Cavalier .....	181
Sibley .....	146
Dickey .....	122
Divide .....	159
Dunn .....	169
Eddy .....	143
Emmons .....	141
Poster .....	252
Golden Valley .....	198
Grand Forks .....	188
Grant .....	142
Griggs .....	158
Hettinger .....	126
Kidder .....	138
La Moure .....	127
Logan .....	145
McHenry .....	169
McIntosh .....	189
McKenzie .....	159
McLean .....	121
Mercer .....	133
Morton .....	179
Mountrall .....	186
Nelson .....	107
Oliver .....	165
Pembina .....	169
Pierce .....	157
Ramsey .....	183
Ransom .....	180
Renville .....	171
Richland .....	134
Rolette .....	215
Sargent .....	149
Sheridan .....	105
Sioux .....	311
Slope .....	129
Stark .....	197
Steele .....	174
Stutsman .....	177
Towner .....	201
Trall .....	183
Walsh .....	216
Ward .....	166
Wells .....	159
Williams .....	159

SOUTH DAKOTA

Per Cent of Quota	Per Cent of Quota
Armstrong .....	134
Aurora .....	145
Beadle .....	180
Bennett .....	162
Bon Homme .....	145
Brookings .....	179
Brown .....	150
Brule and Buffalo .....	145
Butte .....	129
Campbell .....	157
Charles Mix .....	237
Clark .....	158
Clay .....	171
Codington .....	164
Corson .....	174
Custer .....	165
Davison .....	206
Day .....	171
Deuel .....	175
Dewey .....	346
Douglas .....	220
Edmunds .....	145
Fall River .....	130
Faulk .....	152
Grant .....	177
Gregory .....	147
Haakon .....	121
Hamlin .....	156
Hand .....	138
Hanson .....	176
Harding .....	118
Hughes .....	115
Hutchinson .....	144
Hyde .....	161
Jackson .....	155
Jerauld .....	137
Jones .....	120
Kingsbury .....	157
Lake .....	200
Lawrence .....	136
Lincoln .....	195
Lyman .....	156
McCook .....	144
McPherson .....	108
Marshall .....	133
Meade .....	128
Mellette .....	108
Miner .....	145
Minnehaha .....	151
Moody .....	158
Pennington .....	133
Perkins .....	125
Potter .....	210
Roberts .....	169
Sanborn .....	180
Shannon .....	230
Spink .....	159
Stanley .....	153
Sully .....	156
Todd .....	160
Tripp .....	162
Turner .....	179
Union .....	190
Walworth .....	152
Washabaugh .....	212
Yankton .....	168
Ziebach .....	200

WISCONSIN

Ashland .....	160
Barron .....	114
Bayfield .....	159
Buffalo .....	114
Burnett .....	123
Chippewa .....	176
Douglas .....	179
Dunn .....	101
Eau Claire .....	117
Florence .....	110
Forest .....	167
Iron .....	260
La Crosse .....	168
Lincoln .....	119
Oneida .....	72
Pepin .....	108
Pierce .....	140
Polk .....	139
Price .....	124
Rusk .....	142
St. Croix .....	144
Sawyer .....	122
Taylor .....	131
Trempealeau .....	150
Vilas .....	148
Washburn .....	174

NINTH DISTRICT SUMMARY

	Quota	Total Drive Sales	Per Cent of Quota
NINTH DISTRICT	\$175,000,000	\$315,006,883	180
Michigan (15 Counties)	4,400,000	10,462,147	238
Minnesota	115,500,000	217,396,240	188
Montana	18,300,000	24,988,548	137
North Dakota	10,800,000	19,188,204	178
South Dakota	14,000,000	24,462,627	175
Wisconsin (26 Counties)	12,000,000	18,393,320	153
Unallocated		115,797	

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE May 13, 1943

TO: Secretary Morgenthau  
FROM: Robert A. LeRoux

PORTLAND, OREGON

Portland is the hub of Oregon, with sixty per cent of the State's population centered in Multnomah County, and with approximately all of the larger industrial operations either located in Portland proper or in the surrounding suburbs. Through the war program, Portland has changed from an easy-going small-operation-city and beautiful residential center to a tremendous industrial bee-hive, which has brought with it an increase in population of 100,000 people brought from every section of the country.

In view of the foregoing, it is natural that in a hurried survey of War Savings Bonds Sales and activities, the work should have been done directly of the Portland office of the State Administrator of the War Savings Staff, Mr. David W. Eccles.

This meteoric advancement in Portland and Oregon is reflected in the Second War Bond Drive. With a non-banking quota of \$49,000,000, Oregon did \$66,923,792 in sales, with \$18,701,000 of these being in E Bonds. It is generally believed that many thousands additional will be received from late April and early May payrolls, which will come in too late to be credited to the April Drive. The April Drive quota as a whole was \$110,000,000 and this was oversubscribed by at least \$46,000,000.

Doubtless much of the information carried in this report will have previously been conveyed to Secretary Morgenthau personally during his recent brief stay in Portland, and therefore this report may merely serve as a memory-refresher to the Secretary. Mr. Morgenthau's whirlwind trip to Portland received widespread and result-getting publicity not only in the daily press but was prominently played up in "Stem to Stern," official publication of the Willamette Iron & Steel Corporation, and in "The Bos'n's Whistle," semi-monthly magazine of the Oregon Shipbuilding Company and the Kaiser Company's Vancouver and Swan Island shipyards, copies of which are being mailed under separate cover. When I visited the Oregon and Willamette yards, many workers expressed their pleasure and pride at the honor they received in having visits from the first cabinet member to come to wartime Portland. In fact, at WISCO, they credit the Secretary's visit with many of the larger sales of Bonds, which brought the yard's extra sales in April to nearly \$400,000.

Much of the activity of the Portland office is being centered on the Payroll Deduction program, under direction of Mr. Bingham, State Manager of the Payroll Plan, and Mr. Carl, co-ordinator, both volunteer workers. That their efforts have been gratifyingly successful is shown in the fact that but few firms employing 100 or more workers remain unlisted under the plan. All shipbuilding and other large industries employing 500 or more are operating under the plan. In the State of Oregon, there are 6,000 firms employing eight or more workers, and of these 3,542 firms are operating under the Plan. The last available report of the Employees' Compensation Commission showed some 305,000 workers in the State of Oregon, and

of this total, 245,885 are in the employ of the 3,542 firms whose workers are pledged to purchase War Bonds regularly.

Contacts with seven of the larger industries in the Portland area showed all operating under the Payroll Plan. The Oregon Shipbuilding Company (Kaiser), has 33,000 workers, with 83.2% participation for a 10.5% deduction. The Kaiser Company yard at Swan Island employs 22,848, with 96.7% participation with 12% deductions. The Willamette Iron & Steel Corporation, (shipbuilding) has 13,007 employees, with 90% participating for deductions of 10%. Commercial Iron Works (shipbuilding) employs 10,200 for 91% and 10%; Albina Engine & Machine Works, 2,100 employees, 98.9% for 14.2%; Columbia Aircraft Industries, 1,884 employees for 98% and 11%, and Iron Firemen Manufacturing Company, 1,957 workers for 85% and 12%.

The five large department stores of Portland have made good showings. Meier & Frank having 92.6% participation among its 2,137 employees for deduction of 10%. Old Wortman & King, 553 employees, for 94% and 11%; Lipman Wolfe & Company, 505 employees, 90% and 10%; Sears Roebuck & Company, 234 employees, 90% and 10%, while the J. C. Penney Company has everyone of its 160 employees enrolled for 10% deductions.

The two daily newspapers, the Portland Oregonian and The Oregon Journal have each maintained a 90% and 10% program from the outset. The three larger banks in Multnomah County make reports as follows: First National Bank, 1,000 employees, 44% participation for 3.7% deductions; United States National Bank, 872 employees, 94.4% participation for 5.9% deductions, and the Bank of California, 107 employees, 98.1% participation for 5.9% deductions.

The record in sales of E Bonds is expected to be materially enhanced through appointment of a special committee, under chairmanship of Robert S. Farrell, Jr., Secretary of State. This Committee has for its objective increase of systematic purchase of War Bonds on the part of State, County and Municipal employees. Mr. Farrell has perfected an organization to bring the percentage of public employee participation in line with established practices of payroll deduction. That this phase needs "jacking up" is disclosed in a recent survey which showed that of the 5,346 employees on the State payroll, only 40% are participating through payroll deductions. It is an established fact, however, that many of these employees have been purchasing Bonds through banks and post offices.

That the schools are aiding materially in Bond sales is shown by the April Drive report of \$400,000 sales in the Portland schools alone. While the statement is not intended to detract from the loyalty and enthusiasm of the pupils and the school staffs, considerable credit for the showing in schools is being given the radio stations which carry sustaining programs. Effect of these shown by increase of an average of \$125,000 monthly sales to \$300,000 in March and \$400,000 in April.

If the statement regarding lack of public-employee is to be regarded as critical, this should not extend to employees of the Bonneville Power Administration. Of the permanent employees, there has been 100% participation for an average of 14% in deductions, and in addition to these pledges, the workers have joined during April in special drives for the purchase of military equipment.

In fact, Administrator Eccles classes Bonneville as "tops" among the Federal agencies. At the United States Veterans Hospital, Dr. Paul I. Carter informed me that 70% of the employees are participating under pledges of 8.37% and he explains this low mark by the statement that nearly all of his workers are in the lower pay brackets. The patients, he says, are mostly veterans of World War I, receiving limited pensions, and they are purchasing Bonds direct from banks and post offices.

An interesting sidelight on Bond sales was obtained at both the Oregon and Willamette operations. These firms pay by check and these must be cashed "off the job". However, should employees desire to make War Bond purchases in addition to pledged deductions, paymasters arrange to cash checks for them.

The controversy which has been in program for many weeks between the A. F. L. and the C. I. O. in the Kaiser operations has had the effect of creating some strife among workers in the two Oregon operations of the Kaiser Company and the Vancouver yard and this doubtless has affected some workers in their Bond-buying pledges. Administrator Eccles says the War Bonds program has received little cooperation from the C. I. O., while the A. F. L. has made the War Bonds its No. 1 job. Mr. Eccles quotes the head of the A. F. L. as saying: "The only thing that will save unionism and the working men is to have their pockets stuffed with War Bonds." It is stated that those workers who are not pledged to payroll deductions are not called for jobs. With the exception of limited funds as operating capital, treasuries of A. F. L. locals have practically been depleted, all spare dollars being invested in War Bonds.

At the suggestion of Mr. Eccles, I visited the operations of the Willamette Company and Oregon Shipbuilding.

At the WILCO, (trade name of Willamette), Mr. Austin F. Flegel, Jr., Executive Vice President, and Mr. E. E. Ullrey, office manager, arranged a meeting at which were present the leadmen who had conducted the campaigns for the American Red Cross and who had taken over the War Bonds Campaigns. The Red Cross set-up took over the new duties enthusiastically, and evidence of pride is manifested in all work. In addition to Red Cross and War Bonds, this Committee also directs the Blood Donor Campaign, visitations of the sick, the general welfare program among employees. This Committee, composed of men and women, apparently regards public and good-will functions as its first duty. For instance, 40 employees daily give blood to the Red Cross, with the company providing transportation to the hospitals; on Mother's Day, every woman employee with a son in service received a gardenia, 200 corsages being distributed; there is a "waiting list" of donors for blood transfusions for fellow-workers, and the Committee hears "hard luck tales" which can be relieved with payroll advances.

The Willamette does not believe in "ballyhoo" for the sale of Bonds. As J. S. "Bud" Lynch, Public Relations man and editor of the "Stem to Stern" publication expressed it, "War Bonds are a good product, the very best on the market, and we believe in selling the goods. Our only showmanship is on our regular WISCO radio programs each Sunday night when we have a Bond talk as part of the program. This program is all plant-talent, even to the announcers, and the plug in on Bonds. We told Secretary Morgenthau about it and he seemed pleased, so it must be O. K."

Here are some interesting facts regarding payroll deductions at the Willamette:

There are 15,600 employees engaged in producing aircraft carriers and minesweepers under Navy contracts, and 90% of the workers are pledged to 10% deductions.

Next to signing the work card, the new worker must sign the War Bond Pledge Card. Saleswomen are on hand to see to it that his pledge is for not less than 10%.

Handle \$50 Bonds only, and Bonds are mailed to buyers within five days after payroll checks are issued.

Figured Second War Bond Drive was for extra money, so conducted campaign and sold \$400,000 in April in addition to regular payroll deductions. At the Bond Booths, had crew of men and women working 16 hours a day counting cash.

In addition to buttons reading "I Bought a \$100 Bond", had draft room men design special "I Bought a \$1,000 War Bond", button. This was done following request of Mr. Westergard, 86-year-old worker, who has been in the company's employ 45 years.

Every pledge has been signed "for the duration", and cancellations must be passed on by the War Bonds Committee, whose procedure is such that with but few exceptions, cancellation requests are withdrawn.

"Happiness" of the WILCO family is attested by the fact that of the 2,000 workers recruited in the St. Louis area six months ago, 1,700 are still with the corporation.

"The volume of War Bond sales would materially increase if the living costs could be reasonably adjusted and rents brought down

to common sense levels. Costs have gone sky-high in Portland. For instance, a house built 21 years ago at a cost of \$4,400 will command \$5,000 spot cash today."

Here are statements from the WISCO workers themselves:

(a) "I'm a widow with three kids and I pay \$1.50 a day for their care while I'm on the job. After you pay the high prices the grocers ask for food, it don't leave much, but I manage to buy a \$50 Bond a month and I'm glad to do it. Wish it could be more."

(b) "I have a son right now at New Guinea, the hot spot. He was in the Solomons for a year. Why shouldn't I buy and also be a salesman for War Bonds?"

(c) "Blood donors here are anything but scarce. We give blood for our soldiers, the sweat of honest toil to build Navy ships, and lend our money to our Government."

(d) "Hope the new 'market basket' ceiling prices on food-stuffs will prove effective and we can put more money into the Treasury to buy those things the boys in the service need."

(e) "We're a War Family," says a Swing Shift shipfitter leadman. "My wife is a shipfitter helper; our son is in the Coast Guard and our daughter is in the SPARS. We know how important it is to be buying Bonds and I'm proud of the fact that I've never been absent or late since I came on this job two years ago in May, 1941."

(f) "I'm buying right up to the hilt on these War Bonds because the Government needs the money and also because my husband is in the Air Corps and I know what it means to him and his buddies."

(g) "I'm proud to have been chosen Portland's Citizen-of-the-week on May first through my record on the graveyard shift of seven years without being absent or late, but I'm prouder still of my ability to buy a \$500 Bond in cash in this Second War Drive because it will help win the war."

At the Oregon Shipbuilding Company at St. Johns, it was explained that the policy of the Kaiser operation provided that payroll deductions were not made from pay checks of employees until three or four weeks after they have come on the job. At the Oregon yard, for instance, while there were 33,261 workers on the payroll for May 1, deductions were made from checks of but 27,225 workers, for an average of 81.85 in participation and an average of 11.92 in participation. However, workers sign pledge cards the very day they accept employment, which accounts for the fact that of May 1, 29,919 were listed as having signed pledge cards.

Mr. Charles H. Mack, Director of War Bonds for the Kaiser Company, gave employment totals of 33,000 for the Oregon Shipbuilding Company; 29,000 for Vancouver and 23,000 for Swan Island, a total of 85,000 for the three yards. Non-delivery of Bonds was a serious handicap, so much so that in September of last year, when Mack assumed charge of the Bond work, 10,500 in the Oregon yard alone were not pledged. A personal campaign was instigated, with superintendents, foremen and leadmen contacting every individual and stressing that purchase of War Bonds was an obligation. It was arranged that every employee was contacted by a group, fully prepared to answer all questions regarding Bonds. The "Big kick" as to delays in delivery in Bonds was not overcome until today, Bonds are mailed to buyers not later than four days after payroll deduction.

For instance, Mr. Mack cited, that for the pay day of May 6th, the last Bond had gone out on May 10th. The Kaiser Company handles all Bonds by mail, this having been found more satisfactory.

Here are sidelights on Kaiser Bond operations:

All chief clerks have pledge cards and encourage increased buying.

All requests for cancellations must be submitted to Bond headquarters, where sales talks are put up to change decisions, and success is registered in 75% of all cases.

In January, there was a "run" on Bond cancellations, so order went out by Henry J. Kaiser that no cancellations were to be made unless O.K.'d by the Superintendent. If the excuse given was that ready-funds were needed for the next two or three weeks, then cancellation was made effective upon the worker signing a post-dated pledge card.

Certain percentage of workers do not want checks made subject to any deductions. Investigation shows that these workers are purchasing Bonds from banks and post offices. These cases are closely investigated and "fudging" results in most cases in dismissal.

Mr. Mack says that in the last six months, he has had less than 20 kicks about operations of the war generally. Has had few complaints about added protection for Pacific area.

Individual amount of War Bond purchases is increasing from week-to-week. For the May 1 payroll, the average purchase for all employees in the Kaiser operations was \$7.89 per employee.

Here are some of the statements by individual workers in Kaiser yards:

- 11 -

(a) "My husband and I have very good reasons to be engaged in war work at the Kaiser yards and to be putting into Bonds every dollar we can possibly spare from bare living. My three sons are in the service -- one in England, one in the Pacific with the Navy and one in North Africa, while my husband's two sons are both in the Navy, somewhere at sea."

(b) "I deem it a high privilege to be working here as an engineer's aide at Swan Island because I'm doing useful labor to help win the war and I can also aid through buying War Bonds. I know how important it is to win this war because I was born in Austria and I was one of the children rescued by the Red Cross when Hitler's armies marched into Austria."

(c) "Why shouldn't I work in the shipyards to make extra money with which to buy War Bonds? My grandson is missing in action in the Philippines since last Fall, and I want to hasten the end of the thing so other granddads will be saved the grief I've gone through."

(d) I'm happy indeed to be buying Bonds and to be assisting in the war Bond drive in every way," said the secretary to a high official. "I know how badly the money is needed. My husband, a captain in the Dental Corps, is a Japanese prisoner of war in the Philippine Islands. I pestered the War Department with my inquiries since August 1942 when my husband was reported 'Missing in Action', but those folks have been very patient with me and most sympathetic."

(e) "I'm an overtime checker on the swing shift, 4:30 to 12:30. I'm Air Raid Warden, and in my spare time I sell life insurance and every cent I make I put into War Bonds. Mine's a great life."

(f) "I've got a good plan to buy lots of War Bonds. My regular occupation is sales manager of a fuel and ice company. I go to work after I get through with my graveyard shift here from 12:30 to 8:00 A.M. as time checker of the machinists. And my entire check goes into War Bonds.

(g) "I work with the swing shift crew-eight hours. My husband works on the day shift. In that way, we can look after our six kids in fine style, and we get to buy lots of War Bonds. Incidentally, on my day off, I put in my time with the Fourth Interceptor Command fighting in the same cause for which my sons are in the service. Never a dull moment!"

(h) "I work eight hours and then I put in four hours at the War Bond Department taking care of the free service, wherein we deliver Bonds to employees wishing to make cash purchases of \$500 or more. Boy, is that a sweet job during these four extra hours!"

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE  
MAY 13 1943TO Secretary Morgenthau  
FROM Randolph Paul

In Myers v. United States, the Court of Claims decided on February 1, 1943, that Customs employees assigned to regular tours of duty at international bridges, tunnels, and ferries outside the usual 8 a.m. to 5 p.m. hours were entitled, under the terms of the existing statutes, to compensation from the United States at full overtime rates in addition to the base pay previously paid to these employees, making a total of three days' pay for one day's work. Steps are being taken for an appeal to the United States Supreme Court.

The Bureau's rough estimate of the liability arising from this decision is approximately \$8,500,000 above the amounts previously paid to the employees. The estimated maximum possible recovery from railroads, ferries, or others who may come under applicable indemnity statutes is about \$3,500,000. Bridges, tunnels, and general highway traffic are not considered by the Bureau to be subject to the indemnity provisions. The currently accruing liability has been estimated at the rate of approximately \$1,400,000 a year above the base compensation being paid to the employees. No more than \$500,000 of that amount might be recovered from indemnities. These calculations do not include interest. On May 14, 1941, this Department forwarded to the Speaker of the House a proposed bill to eliminate the future effects of an earlier decision in the same case similar to that handed down on February 1, 1943. The bill died during the last session of Congress after being referred to the Ways and Means Committee. In the meantime the court reopened the case and did not again decide it until February 1, 1943.

Legislation to clarify this situation so that the constantly accruing liability may be eliminated has again been prepared and forwarded to the Bureau of the Budget.

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The newly prepared legislation contains a provision for a 10% differential in additional pay to employees who work during the less desirable hours from 5 p.m. to 8 a.m. on regular tours of duty. If the Supreme Court upholds the decision of the Court of Claims a problem of payment will arise since no appropriation has been made for this liability. Further developments in this matter will be reported to you.

A handwritten signature in black ink, appearing to be the initials 'M.D.' followed by a flourish.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE MAY 13 1943

TO Secretary Morgenthau  
FROM Herbert E. Gaston

As you requested during our recent conversation, I have summarized below the more significant developments in the French Line situation.

Since the fall of France the Compagnie Generale Transatlantique (commonly referred to as the French Line), which is owned and controlled by the French Government, has been operating in this country under the direction of Henri Morin de Linclays who also represented the Vichy Government as head of the French Maritime Commission. Prior to November 8, 1942, the business of the French Line consisted primarily of the operation of several small ships between New York and the French Antilles.

Since this company was operating under Foreign Funds Control license, Foreign Funds Control, late in the summer of 1942, made an investigation of its operations in the United States. Our investigation disclosed that:

(1) The staff of the French Line, with full knowledge that its head office was under the domination of the Germans and that all instructions from France concerning shipping operations originated with the Franco-German Armistice Commission established at Wiesbaden, Germany, unhesitatingly carried out such instructions and submitted to its head office detailed reports on movements of its ships and its operations in this country. They reported to the head office in France all desertions of French seamen.

(2) Henri Morin de Linclays and his top staff were strongly pro-Vichy and anti-British. Although not requested to do so, they reported to the head office the names of seamen who joined the Free French or the British - knowing that such information would bring exceptionally severe reprisals against the seamen and their families, most of whom resided in occupied France. They summarily discharged French Line personnel who were openly sympathetic to the cause of the United Nations. They also subscribed to French anti-democratic, anti-British, and pro-Nazi periodicals and contributed

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to the publication of some such literature in Martinique.

(3) The French Line violated our trading with the enemy and censorship regulations. During the investigation Henri Morin de Linclays and the top staff were exceedingly uncooperative and deliberately made false and misleading statements to Treasury investigators.

Copies of Treasury's report setting forth its findings in detail were sent to the Department of State, the War Shipping Administration, the Alien Property Custodian, and the Navy Department.

When our forces occupied North Africa Foreign Funds Control revoked the operating license of the French Line and subsequently issued short term licenses of a very limited character authorizing only those expenses necessary to the maintenance of the French Line pending determination as to its final disposition. In view of the fact that the War Shipping Administration requisitioned the large French Line boats in United States waters and since the traffic between the United States and the French Antilles was very small, we were of the opinion that the French Line should be liquidated and that American shipping companies should handle the French North African trade and the French Antilles trade under the direction of the War Shipping Administration.

Moreover, it was our feeling that Henri Morin de Linclays should not be allowed to continue in the shipping business. For some reason unknown to us he was not interned at Hershey although prior to November 8th he had represented the Vichy Government and had continuously flaunted his diplomatic immunity at Treasury investigators. In fact, in February 1943 Henri Morin de Linclays was sent by this Government, in a semi-official capacity, on a very secret mission to Martinique to carry on negotiations with Admiral Robert concerning our relations with the French Antilles.

In February 1943 we were informed by the State Department that an arrangement was being worked out whereby the French Line (Compagnie Generale Transatlantique) would organize in this country a new corporation to be known as French Line, Inc. The new company, under the direction of Henri Morin de Linclays and his top staff, was to enter into a contract with the War Shipping Administration for the operation of the requisitioned French vessels in the North African trade. Upon receipt of this letter we replied by let-

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ter raising vigorous objections to the proposal and calling attention to the results of our investigation of the French Line. Despite our letter and the findings disclosed in our report, the State Department requested that we approve this application in view of the important political considerations involved. The State Department submitted to us letters from the Secretaries of War and Navy and the Administrator of the War Shipping Administration which supported their request. Accordingly, we were compelled to allow the new company to be organized under the management of Henri Morin de Linclays and his top staff from the old French Line. Simultaneously we informed the State Department that we would continue to exercise the necessary financial controls over the new French Line but that the Treasury Department could not be responsible for the security aspects of its operations.

All of the above was dictated by Mr. Schmidt in Foreign Funds Control, since they have had the most direct contact with French Line affairs. Customs in New York has been pretty continuously advised on French Line developments through members of the staff who were friendly. It is through this source that we obtained information that French Line reports were regularly going through Vichy and thence to the Germans by way of the diplomatic pouch and with permission of the State Department we examined one set of pouches and removed French Line communications. After the State Department confirmed de Linclays' authority and permitted him to set up the new corporation to handle French ships he has dismissed Dendievel, Traffic Manager, Jacob Last, a young American lawyer who was an assistant secretary, and others who have been consistently friendly to the United Nations cause and whom de Linclays accused of conspiring against him.



TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Joseph J. O'Connell, Jr.

May 13, 1948.

As you may know, the adjourned meeting of the stockholders of General Aniline and Film Corporation scheduled for May 11, has been further adjourned for a period of sixty days, at the direction of Mr. Crowley.

I am reliably informed that Mr. Crowley still expects to enlarge the Board from four to fifteen, and to install, as Directors, some of the men recently mentioned in the public press in that connection.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE MAY 13 1943

TO Secretary Morgenthau  
FROM Randolph Paul

The matter of claims for "drawback" of duties paid on merchandise imported into this country and used in the manufacture or processing of merchandise going into Lend-Lease shipments may be of interest to you. The Tariff Act of 1930 provides that 99% of such duties shall be refunded. The drawback is payable to the exporter of the finished article but the manufacturer can obtain it if he has reserved his right to the drawback with the knowledge and consent of the exporter. Before December 2, 1942, large sums were paid out as drawbacks to suppliers of Lend-Lease merchandise who were able to present the necessary documents required under the Customs Regulations. It is believed that in a number of instances windfalls may have been obtained by the suppliers because the amount of the drawback brought the total payments to the suppliers over and above the fair market and ceiling prices. In other instances, it is reported, the amount of the drawback was calculated and then deducted from the proper price. No payments have been made on any drawback claims under Lend-Lease shipments since December 2, 1942. There were pending on December 2, 1942 and there have since been presented, however, a number of claims for drawback involving a presently unascertained but substantial amount, the extent of which is evidenced by the fact that during 1942 the drawback payments on Lend-Lease shipments may have reached \$10,000,000.

Appropriate steps have been taken in cooperation with the Lend-Lease Administration to eliminate any right on the part Lend-Lease suppliers to obtain drawbacks on future contracts. Following considerable study it has been determined, with the approval of the Lend-Lease Administration, that no payment would be made on the pending drawback claims except in two types of cases: (a) the claims of the British Ministry of Supply Mission based on merchandise imported by it and contributed free of charge to manufacturers for incorporation into Lend-Lease articles, and (b) so-called "hardship" claims in which it appears that the price charged was arrived at after specific calculation and deduction of the amount of the drawback, to the extent that the payment of the drawback does not

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bring the price above the ceiling. In the latter cases consideration is being given to arrangements with procurement agencies for increase in the price previously paid to the claimants in lieu of the payment of drawback in accordance with a practice which the Agricultural Adjustment Administration is already reported to be following. Substantial technical questions arise with respect to our right to refuse payment of these claims which, it is believed, will shortly be tested in court proceedings. The claimants, in connection with court actions or otherwise may charge that the procurement agencies of the government are failing to carry out their agreements where the right to drawback was reserved, but it is believed that the policy described above will provide an equitable result. We are presently engaged in working out the details of procedure in connection with this matter and you will be advised of further developments.

A handwritten signature in black ink, appearing to be 'A. J. T.', with a long horizontal flourish extending to the right.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
 FROM Frances McCathran

May 13, 1943

## CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - Senator George opened Senate debate yesterday on pay-as-you-go income tax legislation by presenting to the Senate the Finance Committee's version of the Carlson-Ruml Plan. He reiterated the fact, however, that he could not support forgiving one full year of taxes, but said he intended to submit later his substitute measure which would provide 75% abatement. Following Senator George, Senators Barbour and Vandenberg both spoke in favor of the Finance Committee Plan. Senator Vandenberg claimed that the attitude of those who opposed the Ruml Plan was discriminating against the higher bracket taxpayers. If the principle of abatement is acceptable at all, he said, it should be applied to everyone. "External critics of the bill," he added, "are not to be blamed for echoing this prejudicial attitude, because the Treasury Department itself has set them a specific precedent in its own prejudicial class-baiting arithmetic on this subject." Senator Connally, however, in a lengthy speech whose wit frequently aroused the laughter of his colleagues, effectively combatted Vandenberg's remarks. (Connally statements, pp. 4342-4349 Congressional Record, May 12) Highlights of the Connally speech were: (1) "Under the pretext of taking care of a few almost inconsequential cases, I am not in favor of handing over to the great and powerful taxpayers in the United States \$9,000,000,000 which is due the Treasury of the United States." (2) He challenged anyone "to bring the mathematicians and professors before us to demonstrate that a man can keep in his pocket \$600,000 which he owes to the Government, and that the Government will be none the worse off." (3) "The freeing of all this money which would otherwise be paid in taxes is bound to have an inflationary effect." (4) The 1942 taxes already lawfully belong to the Treasury; "it is a sacred trust and under the Constitution

of the United States, no power in this government can give it away except the Congress, because it is the property of the United States under a tax assessment that has been levied, determined, and adjudicated." (5) Since "we will have to get that money back in another tax bill" and since higher bracket income taxpayers are already being taxed up to 90%, "every dollar given away in this bill must be recouped from those least able to pay it." (6) "When the war ends and war contracts pass out of the picture, we shall enter a period of declining incomes and declining income taxes. In my opinion, the impact of what we propose to do today will come when that decline in revenue and income comes upon us." (7) In answer to criticism of the Treasury Department, he said he frequently had disagreed with the Treasury in the past and added, "The fact that I happen to agree with the Treasury in this instance is no sign that I am following the Treasury any more than the Treasury is following me." Following Senator Connally's statements, which were occasionally interspersed with remarks from opposing senators, Senators Clark and Danaher spoke in favor of the Ruml Plan, and Senator George concluded the day's discussion by offering for the record the outline of his substitute plan.

2. Reciprocal Trade Agreements - The Administration's fight to secure the passage of the Trade Agreements Act unhampered by any restricting amendments appears to be gaining ground. Although the House tentatively voted yesterday to limit the extension of the act to two instead of three years, they turned down the most popular minority amendment which would have authorized Congressional veto within 90 days of any trade agreement made. A final vote is expected in the House today.

NOT TO BE RE-TRANSMITTED

OFFICE  
SECRETARY OF THE  
TREASURY

1943 MAY 14 AM 9 43

TREASURY DEPARTMENT

COPY NO. 13BRITISH MOST SECRET  
U.S. SECRETOPTEL NO. 157

Information received up to 7 a.m., 13th May, 1943.

1. NAVAL

MEDITERRANEAN. Between 4th and 7th, one of H.M. Submarines sank a Caique, damaged an anti-submarine vessel and shelled railway at PLATAMONE in the Gulf of SALONICA. Italian S.S. Laurana (391 tons) notified by Axis as Hospital Ship but not accepted by us, was intercepted on 11th and escorted into SOUSSE. On 12th Axis Hospital Ship Toscana was turned back from KELIBIA and sent to TRAPANI.

2. MILITARY

TUNISIA. In Southern sector, enemy showed determined resistance throughout 11th but with capture of VON ARNIM in CAP BON PENINSULA on afternoon of 12th, all organized enemy resistance except in isolated pockets ceased. Total of prisoners and booty captured since 6th not yet known but reports so far received indicate total prisoners substantially in excess of 100,000 with great quantities of equipment and stores.

3. AIR OPERATIONS

WESTERN FRONT. 12th. Hampdens torpedoed and probably sank a 2,500 ton ship off NORWAY. Fighters damaged 5 locomotives in FRANCE. LOWESTOFT was twice attacked by F.W. 190's which caused some damage and casualties. 12th/13th. 572 Aircraft despatched against DUISBURG, 35 missing. Weather good and preliminary reports indicate well concentrated attack.

SICILY. 11th. In attack on MARSALA (previously reported) 388 tons bombs were dropped causing severe damage to town and harbour installation. Enemy casualties - 15, 3, 2. Ours - 3, 0, 2. CATANIA was also attacked by 53 escorted Liberators (B.17) and an ammunition ship exploded and a tanker was set on fire.

BURMA. 10th. Medium and Light Bombers attacked railway junctions at PYAWBWE and YWATAUNG (in MANDALAY Area) and at WUNTHO, near KATHA.

May 14, 1943  
10:00 a.m.  
(Chart Room)

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell  
Mr. Gaston  
Mr. Haas  
Mr. Gamble  
Mr. Robbins  
Mr. Smith  
Mr. Lindow  
Mr. Tickton  
Mr. Eccles  
Mr. Kennedy  
Mr. Sproul  
Mr. Day  
Mr. Young  
Mr. Fleming  
Mr. Gilbert  
Mr. Leach  
Mr. Williams  
Mr. Head  
Mr. Hitt  
Mr. Peyton  
Mr. Leedy  
Mr. McLarin  
Mr. Paddock  
Mr. Sienkiewicz

H.M.JR: Gentlemen, in the first place I want to say again what I said in writing, in the telegram to you, that I appreciate very much what each and every one of you have done in the Second War Loan Drive. We here think it was a great success, thanks to the American people and also to what the Federal Reserve System did. We feel that as each drive goes on we can learn and improve.

I know there are some things that you are not satisfied with, and I know there are some things Mr. Eccles isn't

satisfied with. And there are some things we here in the Treasury are not satisfied with.

I thought that before we got to talking about future plans as to organization, I want Mr. Lindow to review where we were, what our objectives were when we first met to plan this drive, how we arrived at those objectives, and then having set them, what we accomplished. If Mr. Lindow and Mr. Tickton will take over and run through it - then you can question them. I think it would be nice to review what our objectives were and what we accomplished.

MR. LINDOW: I think all of you will remember that we had a meeting one time in which we went over a lot of figures on the sources of funds for financing this calendar year. Those figures were tentative, of course, at the time, and later we made some revisions in them. We sent out a copy of the figures and an accompanying memorandum to each president shortly after we had had this meeting - a few weeks afterwards.

As a result of those figures, we had in the Treasury talked about a fifteen-billion-dollar goal for the April drive, ten billion dollars outside of the banks, and five billion dollars from the banks. But there were several meetings after we had talked about this fifteen-billion-dollar goal, and the advice that the Secretary received was principally that we ought to cut down the fifteen billion dollars. There was some talk about fourteen billion dollars, and finally thirteen billion dollars. I think that was the advice received from the Open Market Committee and from most of the other meetings which were held.

As a result of that decision we reworked the allocation of the figures in the sources of funds study, and worked out a thirteen-billion-dollar set of figures. Those figures are being passed out now, the mimeographed figures, and I want to refer for a minute to only one of the tables that was mimeographed. (Copies of tables attached.)

If you will turn to table two, which was the tentative schedule for 1943 which tied into a thirteen-billion-dollar goal, you will find that in the first four months we had

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set down total borrowing requirements, total securities absorbed, of about twenty-one billion dollars, and we had set down a figure for borrowing from individuals to such an extent that we would take fifty-five percent of their current savings in Federal securities after deductions for life insurance, debt repayment, and deposits in mutual savings banks.

Now, in the first set of figures in the sources of funds study - the one that we sent you - we had a figure of sixty-four percent for individuals, but in line with reducing the goal from fifteen billion to thirteen billion, we reduced that percentage from sixty-four to fifty-five percent.

The figures on insurance companies and mutual savings banks stayed pretty much the same, because that was a question of absorbing practically the full amount of their increase in assets as a result of premiums paid in.

For corporate accumulations we likewise reduced the figures slightly and we had a seventy-five percent take; that is, a seventy-five percent investment of new accumulation goes in Federal securities - somewhat higher than had been the experience in the last six months of 1942.

For Governmental funds - Federal funds - a billion dollars; for State and local funds, two hundred million dollars; and then the residual borrowing from banking sources of eight point nine billion dollars - a little better than a third of the total.

Those figures tied into the thirteen-billion-dollar goal, and I want to tell you something about how we broke this thirteen billion dollars down.

Taking out the five billion dollars for banks left eight billion dollars for non-banking investors, which was divided between two billion for insurance companies and mutual savings banks, three and a half billion for other corporations and associations, and two and a half billion for individuals.

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Now, for individuals we broke the figures down somewhat further, and our guess for E Bonds on the basis of the two and a half billion total, was a billion one. On the basis of the earlier figures, we had set a billion and a half dollars. And a billion and a half is about what we reached, of course.

If there aren't any questions on the early part of the sources of funds material here, Mr. Tickton will tell you something about the figures in the drive, and then I will come back and tie together the drive figures with the results for the first three months so we can get an exact comparison with the sources of funds figures in this table which I have just showed you.

MR. TICKTON: The second group of tables that I passed out gives the analysis of the drive figures. You have all received those by mail, but I will run over them in some detail.

The figures are set forth in these charts here, but I notice in the back of the room that I couldn't see the charts very well, so I will depend mainly on the figures.

As against a thirteen billion dollar total goal, the total sales were eighteen billion five hundred and thirty-three million. Of that amount, five billion was bank subscriptions, so that the remaining amount to sources other than banks was thirteen billion and about five hundred million. Five hundred and forty-four million was allotted to dealers and was not redistributed to corporations and other purchasers. We assumed that all the two and a half's - whether or not you reported that the two and a half's were non-bank, we just distributed those into other corporations unless you distributed them otherwise.

There were three hundred and ninety-one million purchases by Government agencies and trust funds. We included in the Government agencies and trust funds, all the Farm Credit agencies and all the other agencies and trust funds, so that makes some slight difference in the figures in one or two of the Federal Reserve districts.

To all non-banking investors the total sales were twelve billion five hundred and fifty million as against the eight-billion-dollar goal.

In other words, counting the dealers and the Government trust funds outside of the goal, the sales were twelve billion five hundred and fifty against a total goal of eight billion dollars. To individuals, against the goal of two and a half billion, sales were approximately three billion three hundred million.

Our original figure on the original sources of funds memorandum had set forth three billion two hundred million as the amount to be obtained from individuals, and the full amount obtained, even though the goal had been cut from fifteen to thirteen, was approximately the same as we had set in our original estimate.

The amount received from savings bonds was a billion four hundred and seventy-three million. You would be interested to know that that represented in the aggregate just about thirty-two million pieces on the basis of the latest figures wired in day before yesterday.

MR. ECCLES: What was that again?

MR. TICKTON: Thirty-two million pieces represented a billion four hundred and seventy-three million.

There was, as you probably know, quite an up-swing in the purchases of five hundred and thousand-dollar denominations of E Bonds for the period of the drive. That is, probably three or four hundred million of the increased purchases during the drive represented high denomination E Bonds.

For insurance companies and mutual savings banks, our goal was set at approximately two billion; insurance companies alone purchased two billion four hundred million, and savings banks a billion a hundred and ninety-five million. They were far ahead of the goal.

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Other corporations, with the goal of three billion and a half, purchased approximately five and a half billion. It is also interesting to note that the insurance companies - and other corporations, for that matter - went quite a bit heavier into the two percent bonds than might otherwise have been expected, based on previous purchases of those types of securities by insurance companies and mutual savings banks.

The second table breaks down the subscriptions by Federal Reserve districts. I am sure you are all rather well acquainted with the percentage accomplishments by each of the Federal Reserve districts for each of the various classes of subscribers.

As you know, the goals were distributed originally primarily on the basis of bank deposits as agreed in the memorandum that the Federal Reserve Committee prepared sometime about the end of February or the first of March. The figures were used practically from that memorandum with the exception of taking the dealers out of the eight-billion-dollar goal. So the distribution is a matter of bank deposit distribution.

The split between individuals and corporations is also a matter of the best guess we can make on the distribution of bank deposits and on the sales of securities to individuals in previous periods - primarily E Bonds.

Under individuals, the highest percentage accomplishment of the goal was a hundred and ninety-nine in Dallas; under corporations, the highest percentage was two hundred and twenty-three percent in Cleveland; and for the over-all picture, the highest percentage accomplishment was a hundred and seventy-nine percent in Atlanta.

You may not have known what the picture of E, F, and G sales were from your own bank, but the lines going off the chart on these represent E, F, and G Bonds compared with March. Sales did not reflect in the reports until about the 20th of April, and then they stepped far ahead of any sales that had been made previously.

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There is another series of figures for which you don't have tables, which are shown on this chart over here (indicating). Individuals in the First War Loan last December subscribed a billion six hundred million. In the Second War Loan, three billion three hundred million, or practically double their subscriptions between the first and second War Loans.

Insurance companies and mutual savings banks subscribed about two billion four hundred million in December, and three billion six hundred million in April. Other corporations subscribed about two billion seven hundred million in December and subscribed five billion seven hundred million in April.

Now, the subscriptions of insurance companies and mutual savings banks are known to have arisen in some large part by switches out of other Government securities. We will have figures later in the month that will indicate exactly how much these particular institutions absorbed on net balance, but for the purpose of comparison with the First war Loan, the gross subscriptions may be used to indicate they participated to a greater extent this time than last time.

E Bonds were seven hundred million in December as against nearly fifteen hundred million in the Second War Loan. And the two percent bonds when compared with the one and three-quarters in December - the one and three-quarters, seven hundred million total subscriptions, and the two's total subscriptions were twenty-six hundred million.

That covers most of the figures that I think you would be interested in.

MR. LINDOW: As Mr. Tickton said, of course we don't know what the net absorption is by all of these classes of investors, so it is really impossible to make a final comparison yet of the results with the sources of funds study, but there are parts of the material which do lend themselves to a comparison at this time.

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I thought that I would give you a few figures on what the totals are for the first four months, taking the figures that we now have and comparing these totals with what we set down for the absorption by these various classes of investors.

For insurance companies there was no net absorption in the first three months, January through March, and in the drive they took two billion four net. Now, how much of that two billion four was offset by switches during the month, we don't know yet. It probably was a fairly sizable figure, judging from the information on Government security holdings of weekly reporting member banks. That is, banks did absorb a pretty large amount during the month besides what they took in direct sales. Some of that absorption would represent switches by insurance companies.

For mutual savings banks the net absorption for the first three months is calculated at a hundred million point one dollars, and the figures for the drive are a billion two. So we have a billion three, altogether, to work from in mutual savings banks. Some reduction, again, will obviously take place when we get the final figures.

For individuals the net absorption in the first three months was two billion six hundred million, and the absorption in the drive was three billion three hundred million. Now, that probably was not offset to any large extent by switches, so I think that is a fairly solid figure at this time. If we take off redemptions during the month by individuals of savings bonds and tax notes, then we will have a fairly good tentative figure on their net absorption for the first four months, and that would come to five billion eight.

Now we had said, if you look at Table 2 in these mimeographs, that the goal was five billion three for the first four months. So five billion eight is higher than we set out to get for the whole period, and instead of getting the fifty-five percent goal which we set down for individuals, we realized sixty percent of their savings being put into the form of Federal securities. That figure is subject to some

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revision, due to switches, and we don't have the final figures, but I think that is the approximate magnitude, and I don't anticipate much of a change.

For corporations the net absorption during the first three months was a billion dollars, and gross purchases during the drive were five billion three. Redemptions for the month of April were two hundred million in savings bonds and tax notes, so we have a total amount of net absorption in the first part of the period and of gross purchases during the drive running to six billion a hundred million, which is larger than the calculation we had of the full amount available.

That is explained partly by the fact that we don't know how many switches are involved here, yet. We know there are going to be some, and also by the fact that the full allowance for purchases by non-profit associations which is included here seems to have been bigger than we expected.

In any event, the percentage of corporate accumulations invested in Federal securities during the period is obviously considerably higher than the seventy-five percent goal which we placed. That compares with the seventy-two percent realization in the last six months of 1942, so there has been a very large step-up there.

For Federal trust funds and agencies the total amount for the period turns out to be a billion three hundred million as against a billion estimate. That took place nine hundred million in the first three months and four hundred million during the drive.

State and local Governments, their agencies and trust funds, actually purchased five hundred million in the drive although we had anticipated that they would only purchase about two hundred million. So the total Governmental sector amounted to a billion eight as against a billion two for the whole period.

The banking figures are as follows: The net absorption in the first three months we now estimate at two billion four hundred million. The purchases directly during the

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drive are five billion, so you have a total of seven billion four, plus whatever the banks absorb during the month as a result of sales by other classes of investors. The figures for weekly reporting member banks indicate that these banks acquired three billion six hundred millions from March 31 to May 5. Some portion of that - I don't know just how much - represented the new certificate issue. The new bond issue is not in there. So there is something like maybe a couple of billion dollars involved in absorption by banks indirectly there, plus whatever the banks other than the weekly reporting member banks took.

All this adds up, then, to the fact that we raised twenty-five billion dollars - twenty-five billion two - in the first four months, as against a figure which we had originally set at twenty-one billion, and which, for all practical purposes, we even reduced to twenty billion when we determined on the thirteen-billion-dollar goal.

In summary I would say that the tentative figures indicate that the individual portion exceeded what we had set out to do for the first four months. The adjustments will be small when we get the final figures, and instead of getting individuals to invest fifty-five percent, which was our revised goal - fifty-five percent of their new savings in Federal securities - they actually seem to have invested about sixty percent.

Corporations, instead of investing about seventy-five percent of their new accumulations in Government securities during the period, seem to have gone considerably higher - maybe up to ninety or ninety-five. We just don't have enough figures to tell what the precise figure is, but it is well over seventy-five.

H.M.JR: Any questions?

MR.FLEMING: If you took tax notes out what figure would you have?

MR. LINDOW: What was the total for tax notes?

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MR. TICKTON: Total sales for tax notes, a billion six hundred and fifty-two.

MR. LINDOW: It was practically the whole amount, so there in the neighborhood of a billion and a half dollars involved.

MR. WILLIAMS: That might be accumulated. You used the term "new savings."

MR. LINDOW: Yes, but you are speaking of concepts which are net, so if one person draws on a bank account - a person or a corporation - and purchases securities, then somebody else who puts his money, his new savings or accumulations into a bank account merely offsets that, so that in the net concept it doesn't affect the figures any, whether you include bank accounts or whether you don't.

It is obviously impossible to trace through and find where each individual came from. All you can find is to say net there were so many savings, net there were so many purchases of securities by individuals, and they compare so and so.

MR. ECCLES: You did the same with corporations?

MR. LINDOW: Yes. That is, corporation accumulations we estimated would be five billion six during the four months, and that is after an allowance for debt repayments of six hundred million. Now those figures--

MR. ECCLES: Their actual is what?

MR. LINDOW: Actual new accumulations, depreciation of funds, other reserves, profits which weren't paid out, and accumulations for taxes - that is, the excess of tax liability over actual tax payments - that ran to five billion six hundred million after they had spent maybe six hundred million on repayment, so that that is the reservoir of new accumulations which is available for purchasing Federal securities.

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Now, the fact that we went over that total to six billion one is partly due to the fact that we don't know how many switches there were in corporation portfolios during the month, and we want to adjust the figure for that, finally, and also the purchases by non-profit associations which are classified with the corporations seem to have been bigger than were anticipated.

Now, when we get enough figures to adjust for that, the purchases by corporations won't go over a hundred percent; I am pretty sure of that. They will probably be in the neighborhood of ninety or ninety-five as compared with the seventy-five percent goal we set.

MR. ECCLES: It could go over a hundred, using last year's accumulations that were in the form of vital funds.

MR. LINDOW: That is right.

MR. ECCLES: Or selling the securities to banks.

MR. LINDOW: No, the purchases of banks would not be part of the net increase, so that that wouldn't affect it. That is, you can't go over a hundred percent by reducing your portfolio and buying new securities, because you first have to make the switching adjustment, but it could go over the hundred percent, as you suggest, by drawing down balances which were in existence prior to the accumulation of the new funds. But I don't think it is going to show up as being over a hundred percent when we get the final figures. I think it will be something below a hundred percent.

MR. LEACH: According to your calculations, if we had a perfect campaign and got every cent, we could have increased the figure by four billion dollars. That would have been--

MR. LINDOW: Five billion eight to nine billion six.

MR. LEACH: That would have been perfect, according to your figures.

H.M.JR: Then we would all have wings. (Laughter)

MR. LINDOW: Are there any other questions?

MR. ECCLES: That would have practically excluded the banks.

H.M.JR: Well, gentlemen, I thought you would be interested, as I was, in getting this background.

MR. ECCLES: A very good report.

H.M.JR: I think the boys did a good job. I think we can all take a lot of satisfaction out of it.

I would like to get right down to business on this question of organization, and I am going to plead with you most earnestly that as we will undoubtedly have some very friendly arguments, let's keep it out of the papers. I mean, don't let's wash our linen in the press. I am sure before you people go home we will come to an agreement which will be best for the interests of the country and in helping to win the war. So, while maybe at the end of this morning we might possibly be together, we might be as far apart as the North and South poles tomorrow, but whatever it is, for heaven's sake let's keep our counsel and I don't want to read about it in the Wall Street Journal or the Journal of Commerce, and so forth and so on. It isn't going to do anybody any good. That is my earnest plea.

I am sure when we get through - I am going to ask Mr. Eccles to keep you here until we do come to an agreement - we will get somewhere.

With those remarks - we, here, feel, after giving this a lot of thought, that there should be one organization in each county selling securities for the Treasury - one in a State - and we appreciate very much the advantage of using the Federal Reserve System. If for no other reason, it is entirely to the selfish interests of the Federal Reserve - you sell every dollar you can to the individuals so that the banks can take less, and ultimately you people can take less. So if for no other reason, if you weren't a hundred percent patriots, you still would be motivated by selfish interests

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in seeing as much as possible go to individuals. So there is every reason why we should work together.

I have written out here just a page and a half the way I look at this thing. I call it "Plan for Effecting Single Sales Organization" (copy attached), and we have gotten the benefit of advice of business sales organizations like the kind that Mr. Robbins heads up, and this certainly is following the pattern of modern business sales organizations.

As I say, it is only a page and a half, and I would like to read it to you; then we can go back and discuss it point by point, and you can take your coats off - don't pull your punches - and we can all do it in good humor. I had a dress rehearsal with Mr. Eccles this morning. (Laughter)

MR. ECCLES: I am thirty minutes ahead of you. (Laughter)

MR. DAY: You probably have the answer. (Laughter)

H.M.JR: We both came in smiling, although we weren't in complete agreement. Is that right?

MR. ECCLES: That is right.

H.M.JR: (Reading) "1. Appointment of Presidents of Federal Reserve Banks as chairmen of Treasury War Finance Committees, to head the single Treasury sales organization in each of the states within their respective Districts.

"2. In Districts where Federal Reserve lines cut across state lines, jurisdictional questions will be settled by adjustment and agreement.

"3. Appointment by the Secretary of the Treasury in consultation with the Presidents of the Federal Reserve Banks of each of the twelve Districts of a District sales manager to supervise all Treasury sales promotions in their respective Districts.

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"4. The Secretary shall appoint the administrators and/or chairmen of the state organizations, such appointment being made in consultation with the Presidents of the Federal Reserve Banks.

"5. The National Sales Director together with such policy committee as the Secretary may designate shall have absolute authority as to direction, policy, plans and procedures."

I want to say as we go along, we have made this extra tight and there can always be exceptions afterwards.

"6. Policy and planning to be centralized in Washington. The regional decentralization does not delegate to regions the power to change fundamental policies."

Of course, there would also be consultations and discussions.

"7. Line of authority shall flow from the office of the National Sales Director through the Presidents of the Federal Reserve Banks and District Sales Managers to the States. All communications relating to policy and direction will clear in the same manner.

"8. Line of operation and information (exchange of ideas etc.) should remain very flexible. National Functional leaders, advisers and consultants or inspectors shall have direct access to organization workers within the states."

That is a very much condensed--

MR. DAY: Was anything said about publicity in that program - where that will lead from? the sales director?

H.M.JR: That is the plan, from here. We would expect you to have your own advertising man in each district or each State.

Should I read Point 1 and then we discuss it point by point?

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Point 1 is: "Appointment of Presidents of Federal Reserve Banks as chairmen of Treasury War Finance Committees, to head the single Treasury sales organization in each of the states within their respective Districts."

MR. PEYTON: All the organizations would be separate, State organizations heading in to the one, or is it one over-all organization for the whole district?

MR. BELL: One over-all organization, and then you would have State administrators.

MR. PEYTON: Then is it worded correctly? He says for the individual States - maybe I misunderstood it. I think it would be very bad policy to have each State a separate organization. I think it has to be a district organization.

MR. LEACH: There are a lot of split States.

H.M.JR: Well, leaving out the split states, gentlemen, which can be worked out - if I understand your question - I don't want a district organization; I want this a State organization.

MR. PEYTON: Each State shall be a separate organization?

H.M.JR: Each State would have a State chairman and would have the necessary groups - psy-roll deduction, women's organization, advertising, labor - all the various half a dozen different functions.

MR. PEYTON: Where you have split States, would one district give a small portion of the State to the one that had the largest area, or how would you handle that?

H.M.JR: I can only give you a couple of examples which I am familiar with. I am not familiar with these as well as I should be, but I take it in the State of New Jersey, New York and Philadelphia would sit down and they might divide the State in half and the northern half go to New York and the southern half to Philadelphia.

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MR. PEYTON: Then set two separate organizations up in the same State?

H.M.JR: Yes. On the other hand, on the West Coast, I think - let's take Salt Lake, for instance--

MR. DAY: There is only one split State.

H.M.JR: I wasn't thinking of split States. I want to give you people, for whatever it is worth, everything that I have in my mind, because it is terrifically important to us. I mean, I think that on the West Coast, the area being so large that States like Utah and Idaho - what are the other ones, Marriner?

MR. ECCLES: Well, you mentioned Oregon and Washington--

H.M.JR: Should be separate--

MR. ECCLES: You asked me with reference to the Federal Reserve branches, and I said there was a branch in Seattle, and a branch in Portland, and a branch in Salt Lake in those areas. You had indicated a separate organization in those areas and I thought that there was no reason to make an exception in the Twelfth District as compared with any other district.

H.M.JR: I just was - I mean, there are two things here. There are the split States which I think can be overcome as they were in Illinois.

MR. ECCLES: Pennsylvania is the best example.

MR. FLEMING: I have the one full State in the Fourth District.

MR. HITT: The same thing is true in the Eighth.

H.M.JR: We here feel, going back to the original question, that we want to maintain State lines and State administrations. Where it crosses the Federal Reserve District - crosses through the middle - we might have to

have two administrations in Pennsylvania, two in New Jersey, and maybe two in Illinois. But I think if we agreed on some of the broader policies - personally, I think that the question of split States could be worked out if everything else was agreed to.

MR. SPROUL: May I ask why you prefer to have State organizations rather than district organizations? It seems to me to be the best way to preserve the difficulties we have had in the past because it preserves some of the form of the two existing organizations we have had in the past.

H.M.JR: Well, the experience they have had here in Washington with other national organizations which have been on a regional basis have been unhappy ones, OPA for one. So the President feels quite strongly on this - organizations of this nature should be kept on a State basis. And then again, taking the experience of - if the Federal Reserve had to be set up de novo, I am sure they wouldn't set it up the way it is now. I mean, there would be a lot of changes.

MR. SPROUL: I am sure they wouldn't set it up on a State basis if they knew what they were doing.

H.M.JR: Well, all right, we here feel that the State unit is one that we want to maintain. On that question I feel very strongly about it.

MR. SPROUL: So do I. It seems to me that the only experience we have had which is germane, really, to the job is the experience we had in the Liberty Loan campaigns, but more important, the experience we had in the first and second War Loans when it was done on a district basis, and we have just heard what a tremendous success the Second War Loan was. I don't see how the experience of business with regional organizations, or the OPA with regional organizations can wipe out that effective job that has just been done on a regional basis.

MR. GASTON: What we are talking about, Mr. Sproul, here, are regional organizations subdivided by States.

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MR. PEYTON: No, not in our district. It is handled as one organization over the whole territory. I agree with Allan. I think you are getting into a lot of difficulties, entirely unnecessarily.

MR. LEACH: The OPA and all of those things are brand-new; the Federal Reserve Banks are not. We are used to the districts and they are used to us.

H.M.JR: There are so many of these organizations, we want to - we depend so largely on volunteers, and so many of these organizations are set up on a State basis--

MR. FLEMING: These district organizations are pretty well organized as set up now - the present War Finance Committee. It seems to me to revamp this whole thing would be difficult and means we have to reorganize our whole district and the States which are within our district on a split basis. I just think what Mr. Sproul said, such a swell job has been done, why should there be any change. It was a good job. There is no necessity for a change.

MR. PEYTON: I was wondering why you want the Federal Reserve Banks to have anything to do with this on a State basis. Why don't you continue your original organization and expand it a little and give it to the War Finance Committee?

H.M.JR: That is a possibility.

MR. PEYTON: It seems to me we won't come into the picture on a State basis.

MR. DAY: I regret to see our organization changed. It works entirely satisfactory and is capable of great expansion. But if the decision is made, that is all that is necessary.

H.M.JR: No, I wouldn't have called you in to Washington - I never have done that - the discussion I had with Mr. Eccles didn't take that form at all. I asked you in for consultation.

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MR. BELL: Weren't the State organizations used in the last drive in many of the districts? Certainly it was used in yours, Hap.

MR. YOUNG: Well, to a certain extent.

MR. BELL: You had flow of authority to you, certainly, but you used the State organizations. So did you, Mr. Day, didn't you?

MR. DAY: Yes. That can be continued, and that is what I anticipated, that the State organizations in one after the other of the States - the seven western States - will continue because it works - it does work and it will work.

H.M.JR: It did in New York State. You had counties - supervision over the counties - and you had the State organization in the State of New York.

MR. DAY: Well, then, am I to understand that what you are saying is a continuation of that or a breakdown of that and setting up of a complete new organization?

H.M.JR: No, what I am talking about is, I want a chairman for each State, and where there is a split State--

MR. PEYTON: Then what good is the Federal Reserve System? If you have your chairman, why not make him directly responsible to you? I certainly would rather have that chairman directly answerable to you than answerable through me to you.

MR. FLEMING: We have no control over the States.

MR. PEYTON: You wouldn't because it would be in Washington.

MR. GASTON: You are dealing here not with one organization but with two organizations. You spoke of the matter in which the regional organizations under the Federal Reserve Banks operated during this drive, and everybody recognized that it is very true, but still, we have another organization.

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We have this continuing organization which was first Defense Savings Bonds - later the War Savings Organization - which has been a continuous organization working twelve months of the year in the realm of savings, not only the pay-roll savings, but the general pledges and carrying on a continuing campaign. That organization has been organized on State lines.

It seems to me very highly desirable to retain so far as possible that working mechanism which we know has been effective. We have two organizations here which have been effective. The problem is to retain and not to demoralize either, but to blend them if we can in a way which will bring the most effective results.

MR. PEYTON: There is only one way, and that is to make somebody the boss and let them boss them as they see fit.

H.M.JR: Well, that is just what I am not going to do, Mr. Peyton.

MR. PEYTON: Why don't you make your War Savings the boss in each State and let them run it? Somebody has got to be the boss in the end. You can't have two organizations working against each other and have a smooth organization.

H.M.JR: This thing is drawn up so that the plans in any business organization as to what we propose to do would be organized out here with the help of the Federal Reserve Board as we have in the past. As to what kind of securities we want to sell, we would sit down with the Open Market Committee and work it out here.

MR. PEYTON: But you haven't given us a good reason, Mr. Secretary, why you want the Federal Reserve in the picture at all if you are going to set up State organizations. You say you have a well-functioning War Savings outfit, and I think you have. It is in our district. Why not give it to them to do then?

MR. GASTON: We think that the organization can function more effectively than it has under a regional plan

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of organization - rather than supervising directly the forty-eight States from Washington, regionalize it. And the most convenient way is by Federal Reserve Districts. And if we regionalize it by Federal Reserve Districts, why don't we gain the advantage of having the extra impulse and guidance we can get through the Federal Reserve Bank organization?

MR. PEYTON: Make your Savings Staff head of the organization and be answerable to them and we be advisers to them, but let's not have two bosses in one organization. That would make in our district six bosses in one organization.

MR. BELL: I wonder if you have the picture, Mr. Payton, that these State administrators would report to you?

MR. PEYTON: They will never report to me as long as you pay their salaries.

MR. BELL: Well, we are paying all the salaries; in effect we are paying you for all of these people.

MR. PEYTON: They will never report direct to me until I have the power to hire and fire.

H.M.JR: What proportion does the Treasury pay now in your bank?

MR. PEYTON: You merely reimburse us; we pay the salaries.

H.M.JR: But what percentage?

MR. PEYTON: Of all the salaries in the bank?

H.M.JR: Of your payroll.

MR. PEYTON: You mean what is reimbursable. I again contend that you pay no salaries. You reimburse us for our expense. We hire and fire at will.

H.M.JR: But the fact remains - I can't remember the figures any more, but certainly in some of them the percentage runs up almost to a hundred percent.

MR. PEYTON: Yes, but we hire and fire, and we couldn't run our bank if we didn't.

H.M.JR: But the fact remains that we pay for a very large part of the running expenses of the Minneapolis bank.

MR. PEYTON: Yes.

MR. DAY: Correct for most of the activities as fiscal agent for account of the Treasury.

MR. PEYTON: And we would be satisfied to handle this on that basis, but you don't contemplate that. You contemplate having your own men there. We pay direct, and we can never hold an organization together that way.

MR. SPROUL: Mr. Gaston points out the fact that we have had two successful organizations working in the field, and that has been so. It seems to me, however, that what we were working toward when we made this temporary arrangement for the April Drive was one organization. We retained the names of the two, but we introduced the new name of the War Finance Committee, with the objective, as I saw it, of wiping out the two previously existing organizations and concentrating on the single War Finance Committee organization as we developed plans after the drive.

It seems to me that this proposal is a proposal to compromise and to maintain part of the two existing organizations, which, it seems to me, leads to disorganization, and it is falling short of the maximum effectiveness of our organization. As I see it, it is just as in a military command - we have to be ruthless about putting these two organizations together, and ruthless about personalities, previous associations, loyalties, and putting together an organization which is put together for this sole purpose under a single, directing head with no divided loyalties and with no continuing adherence to previously existing organizations.

MR. BELL: That is what is contemplated, I think.

MR. GASTON: Compared to a military organization a General in command of an operation doesn't select an employee - all the subordinate officers who work under him.

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MR. SPROUL: No, but they do not look when they are in a combat area - they do not look to anyone else for command or instructions. They look to him, do they not?

H.M.JR: You have picked a poor example. Take your corps areas. The corps commander is picked here by the War College - the Chief of Staff. Every officer in the corps area is picked. The plans are completely worked out in the War College.

MR. SPROUL: That is fine.

H.M.JR: Let me finish, please. They are handed to the corps area commander, which is comparable to the president of the Federal Reserve, and he is told to go ahead and carry out those orders.

MR. DAY: And he is responsible, or he is fired, or court martialed, or kicked out.

MR. SPROUL: And his subordinates look to no one at the Chief of Staff's office for instructions. From there on it is up to him.

H.M.JR: Right, which is the same here, with this exception, that the Inspector General's Office goes out of the corps area. They are responsible directly to the Chief of Staff, and he only reports to the Chief of Staff. Not only does he go out, but all other kinds of specialists go out - tank, artillery - every other kind goes into that area to see that the orders and plans are being carried out.

MR. SPROUL: But they don't issue commands in that area.

H.M.JR: No. And the only commands that would go from here would be from the National Sales Director to you.

We discussed this military organization - as far as the way the military corps area commander in the European theater, or the commander of the African theater, it is absolutely comparable.

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MR. SPROUL: The last point here, "National Functional leaders, advisers and consultants or inspectors shall have direct access to organization workers within the states" - I think that would destroy my authority in each State right there.

H.M.JR: So does the Inspector General of the United States Army.

MR. SPROUL: I don't know the--

H.M.JR: You used a poor example. I have studied it.

MR. SPROUL: He doesn't give commands in the combat areas.

MR. PEYTON: It doesn't make any difference what the Army does. We are faced with the practical question of what we are faced with in this.

MR. ROBBINS: Let me take a shot at this. I have to express some opinions that have crystallized in my mind over a period of weeks. Probably nobody has thought any more about this organization than I have; and when I tried to get my ideas crystallized, I realized that there were certain things that perhaps from a pure point of view I would have to see ways to compromise on, so I made some compromises in my original thinking. And then I have been exposed to a great deal of group thinking since my original thoughts took form. Those compromises have now perhaps rationalized themselves in my mind, but I am sympathetic to the program that the Secretary is presenting to you here, and I want to tell you why.

In the first place you are dealing with segments of geography, and in the second place you are dealing with segments of authority.

Now when it comes to handling a bond distribution organization for the entire United States, obviously we have to break it down into segments to begin with. The segments selected here are the twelve Federal Reserve Districts. In each one of those Districts today we have

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breakdowns because they are large and because they just simply for the facility of handling require further breakdown.

There have been subregions. In some places those have followed State lines, and in some places they haven't. I think, Mr. Paddock, you follow State lines almost a hundred percent.

MR. PADDOCK: Eighty percent.

MR. PEYTON: The results probably justify that procedure.

MR. ROBBINS: In other places they haven't followed State lines exactly.

Now I believe that in the first place we are going to have to have a breakdown approximately equivalent to our Federal Reserve breakdown to divide the United States into its first segments. I believe within those Federal Reserve Districts we will have further breakdowns, and that so far as is possible there is no reason why - now forget the people involved here - there is no reason why those breakdowns can't adhere to State lines so far as those State lines are concerned wholly within the district.

I have been satisfied by my observations that there are certain advantages - some of them real, perhaps some of them not so real - but there are - and I can assure you - certain advantages in handling certain types of the work that are the continuing variety, the War Savings variety, where you have access to States as a unit. There are problems that make the State a desirable subdivision of a larger division that recommends State boundaries.

Now there are twenty-two, I believe, States cut by Federal Reserve Districts, and that leaves a balance that are completely contained within the districts. So we are talking about a plan which might anticipate a reconciliation of this State problem at twenty-two points. I believe that can be handled very easily on a decentralized conference

basis to be sure that those interests which can best be served by dealing with the State as an entity are so handled.

Now, as far as my thinking goes, therefore, it doesn't bother me to say, "Let's go Federal Reserve for the large segment of territory; let's go State within the Federal Reserve so far as possible; and let's work out a reasonable compromise where State boundaries are cut so that those interests" - and they aren't the only interests to be served, but where they occur "those interests that deal with States as entities can be handled."

Now, I am dismissing from my mind any thought of a problem that will come about due to the people who are working on these campaigns. I am trying to think of the objectives in terms of subdivisions of geography in my comments up to the moment.

When it comes to lines of authority I think that we must have an absolutely inalienable and pure line of authority between Washington and every step down to the final community. I know that you all agree with me on that. So, therefore, if our lines of authority flow from Washington to a chairman in the field, to the president of the Federal Reserve - and if he is totally and completely responsible for all of the bond-selling activities within that area, and he in turn has a sales manager through whom he operates - because he is a busy man and has a bank to run, too - the line of authority there would be straight, and the line of authority from there to any subdivision within his Federal Reserve District is straight and pure and clear, it doesn't matter whether those subdivisions are ultimately States or not.

There is one other angle that has been brought up that I think is bothering all of you, and that is the angle of authority to appoint - hire and fire within your district. The Secretary has said - and it certainly is within the prerogative of his office to say that he wants to control the type of people who will be working on this bond-selling activity at the Federal Reserve District level and at the

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State level or the subdivision of the Federal Reserve level, whether it be State, or otherwise. He has also said that having exercised that prerogative he will then, when an agreement is reached as to that individual, turn that individual and his ultimate position in the organization over to the Federal Reserve authority.

In other words, I don't anticipate, Mr. Secretary, that once these appointments are agreed upon that if those appointments turn out to be unsatisfactory to the Federal Reserve president he would be in any way hindered from dismissing or changing that appointment. So it is like an account where you can sell anything but you have to get your heads together before you do.

MR. McLARIN: I have already appointed the chairmen in my district, with the understanding that if the Federal Reserve Banks have anything further to do with the drives they are going to be chairmen in that district. They have already been appointed, and they have accepted.

H.M.JR: By what authority did you do that?

MR. McLARIN: By the authority that was delegated to me. I said, "If and when the Federal Reserve Bank has anything to do with this Third War Loan I want you to work in Alabama" and "I want you to work in Louisiana."

H.M.JR: If you don't mind my saying it, I think that you exceeded your authority.

MR. McLARIN: I couldn't help that, Mr. Secretary.

MR. ROBBINS: On that point that bridge needn't be crossed, anyway, until we see whether they would be unsatisfactory from the Secretary's point of view. Assuming they are satisfactory, that is all right; assuming they are unsatisfactory, we just have to meet a specific problem head-on. But there is no thought, I am quite sure, in the Secretary's mind but that after an agreement is reached on the appointment of these people that the authority is complete and absolute within the Federal Reserve District for dismissal, hiring - not hiring, but firing - and then another agreement on the appointment of the next individual.

Now, I have been close enough to the Secretary to realize that that desire on his part stems from a very deep-seated conviction of a philosophy in the selling of these bonds as they are related to not only the raising of the money but the broad educational and social aspects of war finance. I certainly can't help but say frankly that I think he is entirely sound in taking that position against his estimate of the responsibility that rests on his shoulders.

As I said when I first got on my feet, I have looked at this thing day in and day out for weeks. I will be perfectly honest that my original thinking did not go quite along this line. I plead with you now to have a sympathetic approach to it because I think we have here the opportunity to settle these basic policy and principle differences as a group and that the spirit with which we can operate it - once those principle differences are agreed upon - will make it a very realistic and sound operating organization.

MR. FLEMING: May I ask a question? You were saying these twenty-two full States - would they be handled on a State line basis; and in the case of a bank the Federal Reserve District would be operated on a District basis - Federal Reserve District basis? I have only one full State in my District, Ohio - one full State. Kentucky and West Virginia are split States. Now, I just wonder how it is going to work out in my District on a State line. I am concerned about this. We have done a job. Why change it? They certainly have done a job. Why should we change the whole plan of operation? If this thing had failed, I can see where we might sit around the table to find out how it can be improved, but we have certainly done a job.

MR. BELL: What we are trying to do is merge two organizations into one organization. You did that before by keeping the two organizations but having their efforts coordinated. Here you are going to put the two together and call them one organization, not necessarily the personnel of the two organizations but you are going to call it one organization.

The Secretary wants a State setup. Don't you think that you and Williams can get together and work out a

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program for Pennsylvania that would coordinate those efforts?

MR. FLEMING: If I can still have western Pennsylvania in my District.

MR. BELL: You could have a deputy chairman or maybe two in Pennsylvania, one reporting to you and one to Williams, bringing the State total together in the end for the purpose of publicity from the State angle. You are speaking about having done a job. There is no question about that, but we are not speaking of one job, but two jobs, not merely the drive, but a single continuing organization to carry on the continuous solicitation.

MR. FLEMING: I had in mind that since we have an organization that is functioning even under present conditions it is still functioning and doing a job.

MR. ECCLES: Is it the idea to continue on monthly quotas?

H.M.JR: I don't know, Marriner. We haven't crossed that bridge.

MR. ECCLES: You would keep up the pay-roll deduction, of course?

H.M.JR: We gave them a quota for E bonds for May just to keep the thing rolling.

MR. ECCLES: Until you made a decision?

H.M.JR: That is right.

McLARIN: Mr. Secretary, if you don't mind I would like to discuss with you that question a little further of exceeding authority, just to show you how it worked out. We had a man in Alabama who did a very good job for us as State chairman. The Governor of Alabama and the Governor's Committee in Alabama want to appoint him chairman of the State war chest. He wanted to know whether to take it or not.

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I said, "As far as I am concerned if we have anything else to do with the Third War Loan Drive you are going to be appointed chairman for the State of Alabama."

He said, "Do you think I can take both of them?"

I said, "No, I don't think you can, but I do want you."

He said, "Well, I will do whatever you say."

I said, "Well, I am counting on you for the Third War Loan Drive, because if I have anything to do with it you are going to be the Alabama chairman." I wouldn't let that man get away from me on a possibility of having any responsibility.

H.M.JR: On the ground you did what you thought was best - and after all, you threw that at me. I couldn't be tied by it. If that went on in all the Districts--

MR. DAY: I haven't done that thing, but within a fraction of it, because talking it over I said, "We have nothing to say until we find out where we are going. But if" - and that is, in effect, what you said - "I want you to work with me" - subject of course to your approval.

H.M.JR: That wasn't quite what you said.

MR. DAY: That is what heintended to say.

H.M.JR: In my mind it is not important. I am trying to work something out here. I am not getting anywhere. It isn't something which I have arrived at lightly. I certainly am not going to attempt to force it on you.

MR. McLARIN: Personally I don't see much objection to the plan, because I don't see why I couldn't get together with Mr. Gilbert and Mr. Hitt over there for State chairmen for Louisiana, Tennessee, and Mississippi. But I think we should have a chairman for the Dallas part of Louisiana and a chairman for the Tennessee part of St. Louis District. It is all right to have an overhead chairman, I think, for the

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District, but I think we should have a chairman in each State - split State - to report to the president of that Federal Reserve District.

H.M.JR: You see, the difficulty is - I mean, I looked forward - I think it is my job to plan for a long war. By that I mean two or three years. If the war is over sooner than that, nothing has been lost and I haven't been caught off guard.

The difficult end of this selling is to the individual, and I don't think that anybody in this room feels satisfied as to what we have done yet. I don't, for one. And of all these States - I mean, whether it is the American Legion, or whether it is the League of Women Voters, or whether it is the labor organizations, or whether it is the State Chamber of Commerce, they are all organized on a State basis, and a lot of these organizations have been most helpful to you and to us. Every one of them is on a State basis. If I want to call on the American Legion tomorrow - they did a beautiful job in Georgia in the plant where they went out there. The Daughters of the American Revolution have also done a splendid job, and every one of these volunteer organizations is on a State-wide basis. They are not on a Federal Reserve basis.

If I want to call on the governor of a State to make a proclamation, it is all on a State basis. And those are the kinds of organizations as this war goes on that I need, and I need them, in my opinion, worse - I mean, the need for them is far greater than the need for the present geographical setup of the Federal Reserve.

MR. McLARIN: To get what you want - and we, of course, want a county organization. You can't do it on a State organization basis; it has to be done on a county basis.

H.M.JR: You are right, no question about it.

MR. ECCLES: Mr. Secretary, as I have seen this problem there are three alternatives. My first choice was to build the organization around the Federal Reserve Districts and forget the State lines. I have felt that the Federal Reserve

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Banks have built around the branches, too; basing it upon a regional area of thirty-six regional areas, they tie into the banks, financial institutions, which, in turn, of course, is every type of organization, whether farmer, labor, or whatever the organization is - or business concern - they tie into the banks, and they in turn to the Federal Reserve. I think it is the surest way to get the money that is needed from the sources from which it is needed to put the responsibility on the Federal Reserve - they, through the banks, and other financial institutions. Now, that is the way I have felt about it.

I recognize the value of War Savings. I think the War Savings group has done an excellent job in getting - in educating the public as to the need of saving and in getting a very wide distribution of securities.

So far as participation is concerned, it has been excellent. The amount to be gotten, I think, has got to be very substantially increased - the amount from individuals.

I would expect to see preserved the pay-roll deduction program, the educational program, which could be preserved whether it was on a State basis or not.

I would personally like to see the monthly quotas discontinued and operate on the periodical drive basis, having merely a quota, if you want, for pay-roll deduction.

Now, that, I know, has been discussed, and the Secretary, I recognize, has the responsibility - at least the prime responsibility. I don't mean that we don't have some - certainly I feel that the success of Treasury financing does to some extent revolve around the Reserve System, but, after all, he has the decision to make, and the primary responsibility, and he doesn't feel that this sort of a program meets the situation as he feels it should be met.

The other alternative is to set this up on a State basis, leaving the Federal Reserve out of the picture in so far as the financing program is concerned, with the exception of financing to be gotten from the banks.

Let all sales to non-banking investors be handled on a State basis through a State organization, State chairman,

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State manager, build it right up to the county, and let that organization report directly to the Treasury. You would then have forty-eight organizations. Now I would think that that might work very satisfactorily. It would keep it on a State basis. It would certainly be streamlining it, make it simple, and let the Reserve organization confine their activities to the financing that was required to be done through the banks, to the extent that a Reserve Bank or a branch happened to be located in a State. There would be no reason why they couldn't be active as advisers in - or maybe as State chairmen - but certainly they could assist in every way that they could wherever a Reserve Bank or a branch was located in a State and keep it on a State basis completely.

Now, I have a good deal of apprehension about this third alternative, and this is the third one now, working very satisfactorily.

H.M.JR: I didn't get your introductory remarks.

MR. ECCLES: I say, I have a good deal of apprehension about this third alternative working out satisfactorily. The fact that there are twenty-two States that are divided--

MR. ROBBINS: Sixteen, I was wrong.

MR. ECCLES: Sixteen that are divided are going to, it seems to me, make a pretty difficult problem in trying to separate those so that they are responsible to two or three Federal Reserve Districts, and that is what would have to be done.

However, there is, of course, a possibility of working out the third alternative. I don't think it would work as well as the first, nor do I think it would work as well as the second.

H.M.JR: What is the first again, Marriner?

MR. ECCLES: The first was on purely - like this last drive, just continue the organization along the Federal Reserve basis and eliminate the State end of it as such.

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I would suggest this, that there are, no doubt, some differences among the presidents as to what the first and second and third choices would be. I would think that after they talk it out - let them get together.

H.M.JR: There is no Cabinet this afternoon, so I am all right.

MR. ECCLES: That is fine.

H.M.JR: So if they wanted to get together--

MR. ECCLES: ... and come back with a definite recommendation. In other words, if you state which - as I understand, you have made a definite decision about maintaining the State organizations.

H.M.JR: I want to keep the State organizations.

MR. ECCLES: Yes. We would start with that as a premise and see what could be worked out, whether or not under those circumstances the Reserve System would feel that the second alternative is the one that they would agree upon. That is, if you decide to maintain the State organization - I mean, if you decide to maintain the State unit in the setup, whether or not under those circumstances the System would prefer to be excluded from the organization except as to the bank quotas, or would they feel rather than be excluded that they could accept the third alternative with such modifications as you might be willing to agree to.

It seems to me that it resolves itself down to those three questions, and I think the Reserve Bank presidents who would have the responsibility in carrying out the work should decide and tell you frankly just how they feel about it.

MR. DAY: May I follow down to see that I have it straight in my mind? Your organization now upon State lines is to function through the Secretary of the Treasury to the presidents of the Reserve Banks and their specific areas, and the presidents of the Reserve Banks to make

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appointments as the head of the organization in each State subject to your approval.

H.M.JR: No, Mr. Day. I will leave this memorandum with you. What I was suggesting was this, that the line of authority would flow from the office of the Secretary of the Treasury to the president of the Federal Reserve Bank, to the District sales manager, to the head of each State - direct flow of authority, and that all orders from my office would flow along those same channels.

MR. BELL: And then back the same way.

MR. ECCLES: The appointments of your District managers and of your State managers would be made from here.

MR. DAY: Same as was made before.

MR. ECCLES: The initiation would come from here.

MR. DAY: The initiation comes from here all down the line.

MR. ECCLES: With reference to your managers, with reference to your State chairmen, and with reference to - you in turn would have a veto. In other words, somebody that you couldn't work with--

H.M.JR: If you didn't like the first man; you didn't like the second; and you didn't like the third--

MR. WILLIAMS: By "here" you mean Washington, the Treasury?

MR. ECCLES: That is right. In other words, the Treasury would make the choice of your District manager, of your State chairman, of your deputy managers, subject to your approval. That is as the memorandum is. It seems to me that you might facilitate matters if--

MR. ROBBINS: I think they are confused on one point, Mr. Secretary, and that is the line of authority. Forget

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all about the appointment of people. The Secretary wants the line of authority to go one hundred percent to the Federal Reserve president for everything that goes on in that Federal Reserve District in all States or parts of States in that District, and he will be completely responsible--

MR. DAY: Wait a minute.

MR. ECCLES: ... after the organization is set up.

MR. DAY: After you set the organization up?

MR. ROBBINS: With your approval.

H.M.JR: Do you mind just taking five minutes and telling them how it works in your own business? This question of these - what do you call these people?

MR. ROBBINS: The parallel is very striking, and it is very real, and it works. We divide the country into twenty-five districts. We are talking here about dividing it into twelve. Within those twenty-five districts we sub-divide again to a hundred and forty-two territories. That needn't bother us. But we take twenty-five districts and gather them into four divisions, and gather those into headquarters.

Now, the line of authority runs from the sales manager to the division manager, to the district manager, to the regional manager. It is a complete parallel. Plans are made for the sale of our products. We divide all of our products among six managers - product managers. One fellow will take the whole cereal line, another fellow will take all the coffees, another the baking ingredients. Those men have staffs surrounding them very much the same as we would have here. I would have a fellow working on pay-roll savings, another person working on women's activities, another person working on things that had to do with the financial and banking field. They would all have staffs.

Now, we have staffs in the cereal field. Those people make up the plans for the cereal campaigns. In that staff

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surrounding that individual there are people who travel all over the United States watching the cereal campaigns develop, pitching in at sales meetings, and helping train salesmen, actually going out and calling on customers with the accredited representatives in the field. They don't give orders to anybody; they bring back information from the field; and they take information from headquarters to the field.

Likewise these division managers - we gather the twenty-five districts into four divisions - those fellows travel all the time. Now, they travel with authority, because they are the direct line of authority, but they are also a two-way channel of communication between the field and headquarters.

There is nothing in the recommendation here that need alarm you about sound organization concept, except for the point that I am sure is bothering you, and we might as well not duck it. That is, who is going to have the refusal on the appointment of these key people. There is to be a key person in every Federal Reserve District according to this plan. He is to be the general sales manager within that district. The Secretary has said he would like to have a refusal on the appointment of that individual.

Under him there will be key people in each State as far as States fall within the territory. The Secretary said he would like to have a refusal on the appointment of that person. That refusal, when exercised, once an agreement is met, is just non-active from that point on. If you don't like him, you fire him. Then you get together and use that same mechanism to find another person.

The whole success or failure of this plan, as I see it, depends upon the success in the selecting, first, of those twelve key men. Well, really, that is the essence of the success.

While I am still on my feet I want to make one more point. I want to make this very emphatic. I don't think it is possible for us to do a sound, intelligent, war finance

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job without a completely workable, sound agreement that embraces the Federal Reserve Banking System of this country. I feel that very keenly, and I hope that this discussion today will lead us to a compromise that will make it possible for that central banking system to be not only in this thing, but in control of this thing out in the field.

We have to decentralize, we have to push it down, and I want to push it down on to good strong shoulders, and that is the central banking system of this country. I just can't help but say that, because I feel it very strongly. I think this thing will work. I would like to explain it two or three different ways to you if you are still confused.

MR. WILLIAMS: Mr. Robbins, I am not sure Mr. Eccles is in agreement with you. As I understood him a moment ago, the appointments would be made from Washington, and we would approve or disapprove. That is quite different from what you have just said, which would be a case where I would select a man and the Secretary would indicate whether he was satisfactory to him.

H.M.JR: It says so very clearly in the memorandum.

MR. WILLIAMS: It is different in this sense--

MR. ECCLES: The Secretary would have the veto in one case, and you in the other.

MR. ROBBINS: You don't have to take anybody you don't like and can't work with.

MR. WILLIAMS: I think we are up against a practical difficulty as distinguished from a theoretical one. In your analysis of your own organization, Mr. Robbins, you have said that these men who travel from district to district are staff men and without line authority. It seems to me the practical problem is, how can you prevent these staff men from assuming line authority by reason of their action? I will give you an illustration. You were present at the outset of the drive in the third district where I called in every county chairman and said, "Now we are amalgamating

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for purposes of this drive. We are going to run cooperatively. We are going to have two chairmen. We are going to have a man in charge at the county level of War Savings, and a man in charge of the Victory Fund organization, and you can work as co-chairmen, or you can have one man."

Now in theory that was sound; in practice it wasn't. I found in the third district, Mr. Secretary, a group of men who were looking to Washington for their orders. At times they were receiving those orders surreptitiously. I got an illustration as late as May 10, which, I think, illustrates this difficulty in miniature; and if I may, I would like to read this because it shows you what you are up against.

This is a letter from the regional manager for New Jersey on the Victory Fund organizations. The District is covered by a deputy State manager for War Savings Staff. He ran into this difficulty on May 10. Now the drive is ended, and it so happens that in South Jersey the War Savings Staff man was ill during most of the period, and Lay, the regional manager for the Victory Fund organization, did a very fine job as the statistics, county by county, will indicate. Here is the letter that he writes. He writes this to our executive manager for the entire District: "I am loath to place this matter before you, but feel that it is necessary in order to--"

H.M.JR: Excuse me - is that to you?

MR. WILLIAMS: To the executive manager of the entire District. "I am loath to place this matter before you, but feel that it is necessary in order to perpetuate the value of the New Jersey Regional Manager to the War Finance work.

"Last evening at a meeting of the Atlantic County Bankers' Association, which meeting I had been invited to attend and address, Marshall P. Bainbridge, War Savings Staff Deputy Administrator, preceeded me on the program, and in a short talk, thanked the group (which is purely a banking group) for the help they had given him in the county and praising them for their efforts. He particularly brought

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out the fine work that had been done by the Boardwalk National and the Ocean City Banks and then said that he had arranged for a Treasury citation to be given them for outstanding and meritorious services; also saying that in his territory there had only been four previously awarded.

"Now my point is this, both officials of the Boardwalk National and Ocean City Banks were present and they are, of course, anxious to receive the citations, and I personally am just as anxious that they receive all credit from any source possible. George Groff of Cap May personally influenced his County to achieve the splendid results had there and was also directly responsible for the contacts with Elwood Kirkman and William C. Boyer of the Boardwalk National Bank, who did such a magnificent piece of work in Atlantic County. As I previously wrote you, I hoped that special commendation would be given these three people.

"Bainbridge, having stepped into a picture with which he is not familiar and where he has no contacts, claiming credit and being able to award citations, I feel definitely belittles the value of the Regional Manager in the eyes of the workers of the two counties, and leaves the sponsors of the War Finance Committee, or Third Federal if you choose, as an entirely subservient factor in the succeeding campaigns.

"There have been no words or open break over the matter, but I did remonstrate, saying that I felt that any commendation should come from Mr. Williams, as Chairman of the War Finance Committee for the Third Federal Reserve District. Bainbridge told me that while Mr. Williams had said the two divisions were now under one head, the Treasury in Washington told him at a meeting that such was not the case and he should work entirely independent of our organization. Also that in his capacity, he had the right to make recommendations and award citations to any individual, corporation or bank anytime he felt it earned. He could see no reason why it was wrong to do as he did at the meeting."

Then he goes on to discuss that situation.

Now, I think we have in this illustration the practical difficulties that you encounter. I think the point that Mr. Robbins made at the outset, Mr. Secretary, that if there is

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a clear-out line of authority and responsibility and we are really - if we are responsible, we ought to run the affairs in the District, it will mean that we have to do a lot of housecleaning on both sides, the old organization.

H.M.JR: I agree with you.

MR. WILLIAMS: And we have to be rather ruthless in that and get it down to a compact, efficient, disciplined organization. Otherwise you can't pin the responsibility on the president of any Federal Reserve.

H.M.JR: I am in complete agreement.

MR. WILLIAMS: And I think that that means we have to draw support from every possible source. We have to take in the labor unions; we have to take in the women's organization; we have to take in the banks; we have to take in the American Legion and all the service organizations, and the organized business interests of the District. But it really does have to head up in one head. Otherwise we are in for all sorts of difficulties. If they think that they can look to someone down here--

H.M.JR: You and I have no argument.

MR. GAMBLE: Mr. Secretary, it may throw a little light on the picture to say that there is no thought in the War Savings organization that as it has been constituted here in Washington would continue. It did continue, as you know, through this last Second War Loan Drive.

Most of our people were told that in all probabilities they would pick up where they left off at the end of the drive, and I dare say a good many things were done they otherwise wouldn't have done. The thought is that there would be one organization in Washington. That was not true during the Second War Loan Drive. The two organizations were put together. There would be no two organizations put together under this plan. It would be one central organization, and the War Savings organization as it has been known in the field will be discontinued. The Secretary doesn't

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feel that it needs to be abolished. He doesn't feel that we need to liquidate it or ask for wholesale resignations because we have a problem of Civil Service, we have a problem of some nine hundred employees in the field, and that is a problem to be dealt with in consultation with the presidents of the banks, but the name is to be changed. The organization as such will continue no longer after the adoption of this plan.

I wanted to make that clear, because it has not been true. This calls for a completely new and unified organization in Washington.

H.M.JR: I think the best thing that we can do to make progress is to withdraw from the field and leave you in control. The room is yours as long as you want it. And, Mr. Eccles, when you are ready - these gentlemen are ready - to see me I will make myself available. So I think we will just withdraw. The room is yours.

"Plan for Effecting Single Sales Organization"  
presented to 3 IRS & 7 RBK Piles 5/14/43 10am

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 14, 1943

TO The Secretary  
FROM Mr. Gamble JRS.

The important steps to be taken in bringing about a single sales organization are set forth in the accompanying memorandum. I have not attempted to fill in details.

The broad points of agreement have been set forth in the confidence that the political, economic, civic and social attributes of the organization shall be preserved at the state level; that it will be the policy to strengthen, to alter and to supplement these organizations where necessary to obtain maximum results.

It is the opinion of several of us here that no announcement concerning organization changes of any kind be made to the press at this time. Furthermore, it is important that all of our discussions be kept confidential and that none of the information get into the field until we are completely ready to make these changes in all sections of the country.

PLAN FOR EFFECTING SINGLE SALES ORGANIZATION

1. Appointment of Presidents of Federal Reserve Banks as chairmen of Treasury War Finance Committees, to head the single Treasury sales organization in each of the states within their respective Districts.

2. In Districts where Federal Reserve lines cut across state lines, jurisdictional questions will be settled by adjustment and agreement.

3. Appointment by the Secretary of the Treasury in consultation with the Presidents of the Federal Reserve Banks of each of the twelve Districts of a District sales manager to supervise all Treasury sales promotions in their respective Districts.

4. The Secretary shall appoint the administrators and/or chairmen of the state organizations, such appointment being made in consultation with the Presidents of the Federal Reserve Banks.

5. The National Sales Director together with such policy committee as the Secretary may designate shall have absolute authority as to direction, policy, plans and procedures.

6. Policy and planning to be centralized in Washington. The regional decentralization does not delegate to regions the power to change fundamental policies.

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7. Line of authority shall flow from the office of the National Sales Director through the Presidents of the Federal Reserve Banks and District Sales Managers to the States. All communications relating to policy and direction will clear in the same manner.

8. Line of operation and information (exchange of ideas etc.) should remain very flexible. National Functional leaders, advisers and consultants or inspectors shall have direct access to organization workers within the states.

(The background information presented herewith may be used in news stories and editorials appearing Tuesday, April 13, 1943, and thereafter.

The attached tables summarize the tentative financing program and the sources of funds for the calendar year 1943.

Table A. shows the estimated production for the country during the years 1941, 1942, and 1943. Table B. analyzes the estimated uses of the income generated by this production. Table C. shows the uses of personal savings.

Table 1. outlines the estimated sources of funds for Treasury borrowing from July 1941 through December 1942 by investor groups. Table 2. shows the estimated sources of funds for the calendar year 1943 under a series of tentative schedules to increase the participation of non-banking investors during the year. Table 3 analyzes the distribution of personal incomes by size classes.

All of the figures shown in these tables are, of course, estimates, and are subject to change from time to time. The figures for 1943 are naturally subject to a wider margin of error than the estimates reflecting the actual situation in the past. The tentative financing program for obvious reasons cannot be a hard and fast plan, but is illustrative of how the Treasury views the situation at this time.

Table A  
Production of Goods and Services, Calendar Years 1941-1943  
by 6-month Periods

(Annual rates - in billions of dollars)

	1941		1942		1943		
	First half	Second half	First half	Second half	First half	Second half	Full year
	(.....In current prices.....)				(.In January 1943 prices.)		
War <u>1/</u> .....	8	15	35	63	84	96	90
Federal Government (except war) <u>1/</u> .....	6	5	5	5	5	5	5
State and local Governments <u>1/</u> .....	8	8	8	8	7	7	7
Private capital goods:							
Purchased by business .....	15	17	11	2	0	-1 <u>3/</u>	-1 <u>3/</u>
Purchased by consumers <u>2/</u> .....	2	3	2	1	1	1	1
Total .....	17	20	13	3	1	0	0
Consumers' goods and services <u>2/</u> .....	74	78	81	83	76	69	73
Gross national product .....	113	126	142	162	173	177	175

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

March 1, 1943.

1/ Excludes Government expenditures not constituting a drain on gross national product.

2/ Total consumer spendings consist of purchases of (1) private capital goods and (2) consumers' goods and services.

3/ Represents excess of liquidation of inventories (net) over expenditures for plant and equipment, etc.

Table B  
Uses of Funds Generated by Production, Calendar Years 1941-1943  
by 6-month Periods

(Annual rates - in billions of dollars)

	1941		1942		1943		
	First half	Second half	First half	Second half	First half	Second half	Full year
	(..... In current prices .....)				(..In January 1943 prices.)		
Personal savings: ordinary savings and pressure funds .....	6	12	19	31	38	52	45
Social Security accumulations, etc. ....	1	2	2	3	3	3	3
Business accumulations .....	-1	-1	3	19	19	20	20
Federal taxes paid <sup>1/</sup> .....	8	7	16	15	29	26	27
State and local taxes paid <sup>1/</sup> .....	8	8	8	8	7	7	7
Spent for private capital goods:							
By business .....	15	17	11	2	0	-1 <sup>3/</sup>	-1 <sup>3/</sup>
By private persons <sup>2/</sup> .....	2	3	2	1	1	1	1
Total .....	17	20	13	3	1	0	0
Spent for consumers' goods and services <sup>2/</sup> ....	74	78	81	83	76	69	73
Gross national product .....	113	126	142	162	173	177	175

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

March 1, 1943.

<sup>1/</sup> Adjusted for transfer of purchasing power through pensions, relief, etc.

<sup>2/</sup> Total consumer spendings consist of purchases of (1) private capital goods and (2) consumers' goods and services.

<sup>3/</sup> Represents excess of liquidation of inventories (net) over expenditures for plant and equipment, etc.

Table C

Uses of Personal Savings, Calendar Years 1941-1943  
by 6-month Periods

(Annual rates - in billions of dollars)

	1941		1942		1943		
	First half	Second half	First half	Second half	First half	Second half	Full year
	(.....In current prices.....)				(.In January 1943 prices.)		
Private insurance .....	2.0	2.1	2.2	2.4	2.4	2.6	2.5
Mutual savings bank deposits .....	-.2	-.3	-.5	.6	1.2	1.8	1.5
Debt repayment .....	-2.6	-.7	2.8	2.8	2.8	2.6	2.7
Investment in Federal securities .....	1.6	5.0	8.8	11.6	(		
Currency and commercial bank deposits, etc. <u>1/</u> .	4.8	6.1	6.1	13.2	( 31.2	45.0	38.1
Total .....	5.6	12.2	19.4	30.6	37.6	52.0	44.8

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

March 1, 1943.

1/ Includes minor amounts of non-Federal securities and savings and loan association shares.

Table 1: Recent Experience  
 Comparison by Investor Groups of Current Savings and Accumulations  
 Received and Federal Securities Absorbed, By Semi-annual Periods,  
 July 1941 - December 1942  
 (In billions of dollars)

Source of funds and investor group	July - December 1941			January - June 1942			July - December 1942		
	Savings received	Securities absorbed	Percent	Savings received	Securities absorbed	Percent	Savings received	Securities absorbed	Percent
<b>A. Nonbanking sources:</b>									
1. Personal savings:									
a. Insurance companies..	1.1	1.0		1.1	.9		1.2	2.1	
b. Mutual savings banks.	-.2	.3		-.3	.2		.3	.7	
c. Recipients of debt repayment.....	-.4	-		1.4	-		1.4	-	
d. Individuals <sup>1/</sup> .....	5.6	2.5	45%	7.5	4.4	59%	12.4	5.8	47%
e. Total.....	<u>6.1</u>	<u>3.8</u>		<u>9.7</u>	<u>5.5</u>		<u>15.3</u>	<u>8.6</u>	
2. Corporate accumulations:									
a. Corporations <sup>2/</sup> .....	-.7	2.4	-	1.9	1.0	53%	9.5	6.8	72%
3. Accumulations in Governmental funds:									
a. Federal <sup>3/</sup> .....	1.0	1.0		1.0	1.1		1.3	1.6	
b. State and local <sup>4/</sup> ...	.2	.1		.1	.1		-	.2	
c. Total.....	<u>1.2</u>	<u>1.1</u>		<u>1.1</u>	<u>1.2</u>		<u>1.3</u>	<u>1.8</u>	
4. Total for nonbanking sources.....	<u>6.6</u>	<u>7.3</u>		<u>12.7</u>	<u>7.7</u>		<u>26.1</u>	<u>17.2</u>	
B. Banking sources.....		<u>1.7</u>			<u>5.0</u>			<u>17.9</u>	
C. Total borrowing.....		<u>9.0</u>			<u>12.7</u>			<u>35.1</u>	

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

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- <sup>1/</sup> Individuals, partnerships and personal trust accounts.  
<sup>2/</sup> Corporations other than banks and insurance companies.  
<sup>3/</sup> Federal agencies and trust funds.  
<sup>4/</sup> State and local Governments, their agencies, sinking and trust funds.

Table 2: Tentative Schedule for 1943  
 Comparison by Investor Groups of Current Savings and Accumulations  
 Received and Federal Securities Absorbed, By Four-Month Periods,  
 Calendar Year 1943

(In billions of dollars)

Source of funds and investor group	January-April			May-August			September-December			Total for year		
	Savings : received	Securities : absorbed	Percent	Savings : received	Securities : absorbed	Percent	Savings : received	Securities : absorbed	Percent	Savings : received	Securities : absorbed	Percent
1. Nonbanking sources:												
1. Personal savings:												
a. Insurance companies..	.8	1.1		.8	1.1		.9	1.1		2.5	3.3	
b. Mutual savings banks.	.4	.5		.4	.5		.7	.8		1.5	1.8	
c. Recipients of debt repayment.....	1.1	-		1.0	-		.6	-		2.7	-	
d. Individuals <sup>1/</sup> .....	9.6	5.3	55%	14.7	9.6	65%	13.8	10.4	75%	38.1	25.3	66%
e. Total.....	11.9	6.9		16.9	11.2		16.0	12.3		44.8	30.4	
2. Corporate accumulations:												
a. Recipients of debt repayment.....	.6	-		1.0	-		1.3	-		2.9	-	
b. Corporations <sup>2/</sup> .....	5.6	4.2	75%	5.6	4.5	80%	5.2	4.4	85%	16.4	13.1	80%
c. Total.....	6.2	4.2		6.6	4.5		6.5	4.4		19.3	13.1	
3. Accumulations in Governmental funds:												
a. Federal <sup>3/</sup> .....	.6	1.0		1.3	1.5		1.2	1.4		3.1	3.9	
b. State and local <sup>4/</sup> ...	-	.2		-	.1		-	.2		-	.5	
c. Total.....	.6	1.2		1.3	1.6		1.2	1.6		3.1	4.4	
4. Total for nonbanking sources.....	18.7	12.3		24.8	17.3		23.7	18.3		67.2	47.9	
5. Banking sources.....		8.9			8.5			5.4			22.8	
6. Total borrowing.....		21.2			25.8			23.7			70.7	

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

March 1, 1943.

- <sup>1/</sup> Individuals, partnerships and personal trust accounts.  
<sup>2/</sup> Corporations other than banks and insurance companies.  
<sup>3/</sup> Federal agencies and trust funds.  
<sup>4/</sup> State and local Governments, their agencies, sinking and trust funds.

## PRELIMINARY

Table 3  
Analysis of Personal Incomes by Size Classes  
Calendar Year 1943

	Distribution by net income groups					
	Total	0- \$1,000	\$1,000- 3,000	\$3,000- 5,000	\$5,000- 10,000	\$10,000 and over
I. <u>Number of income recipients</u> <sup>1/</sup>						
Millions of persons .....	63	19.6	37.1	5.2	1.1	.4
II. <u>Dollar figures</u> , in January 1943 prices (in billions)						
Gross incomes (total income payments) .	132	14.9	72.7	23.3	8.9	12.4
Less: Personal taxes <sup>2/</sup> .....	13	.6	4.8	2.3	1.4	4.2
Equals disposable incomes .....	119	14.4	67.9	21.0	7.5	8.2
Less: Consumer spendings .....	74 <sup>3/</sup>					
Equals personal savings .....	45 <sup>3/</sup>					

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

March 1, 1943.

Note: Figures are rounded and do not necessarily add to totals.

<sup>1/</sup> Excluding individuals under 18 required to report incomes as part of their parents' returns.

<sup>2/</sup> State and local as well as Federal.

<sup>3/</sup> Distribution by income groups not estimated.

**Analysis of Subscriptions to Securities Offered During Second War Loan  
By Classes of Investors and By Issues**

Class of investor	Amount of subscriptions - In millions of dollars							Total
	Savings bonds		Tax notes- Series C	2-1/2% bonds 1964-9	2% bonds 1950-2	7/8% Certif- icates	Bills 1/	
	Series E	Series F and G						
<b>I. Nonbanking investors:</b>								
(a) Individuals, partnerships, and personal trust accounts.....	1,473	425	132	540	472	246	-	3,290
(b) Insurance companies.....	-	-	-	1,582	703	123	-	2,408
(c) Savings banks.....	-	-	-	550	539	105	-	1,195
(d) Eleemosynary institutions.....	-	-	-	35	41	41	-	117
(e) State and local governments.....	-	-	-	181	82	241	-	503
(f) Other corporations and associations	-	242	1,520	504	789	1,983	-	5,038
(g) Subtotal - all nonbanking investors	1,473	667	1,652	3,392	2,626	2,738	-	12,550
II. Banking sources (allotments only).....	-	-	-	-	2,110	2,138	800	5,048
III. Other sources:								
(a) Dealers and brokers 2/.....	-	-	-	-	189	355	-	544
(b) U. S. Government agencies and trust funds.....	-	-	-	369	10	13	-	391
IV. Total - all investors.....	1,473	667	1,652	3,761	4,935	5,244	800	18,533

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

May 10, 1943.

Note: Classifications are preliminary and some figures are partly estimated. Figures are rounded and do not necessarily add to totals.

1/ Net increase in amount outstanding during month only.

2/ Excluding the amounts distributed or earmarked for distribution to nonbanking investors. These have been redistributed among the appropriate nonbanking investor classes.

Regraded Unclassified

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Comparison of the Subscriptions to Securities Offered  
During Second War Loan with the Goals Set for These Subscriptions  
By Major Classes of Investors and By Federal Reserve Districts

District	Amounts in millions of dollars												Percent of goal accomplished			
	Nonbanking investors						Banking sources		Other sources <sup>1/</sup>		Grand total		Individuals, partnerships and personal trust accounts	Corporations and associations	Subtotal - all non-banking sources	Grand total - all investors
	Individuals, partnerships and personal trusts		Corporations and associations		Subtotal for all nonbanking investors											
	Subscriptions	Goal	Subscriptions	Goal	Subscriptions	Goal	Allotments	Goal	Subscriptions	Goal	Subscriptions	Goal				
Boston.....	166	200	933	600	1,099	800	-	-	-	-	-	-	83	156	137	-
New York.....	737	600	4,119	2,400	4,856	3,000	-	-	-	-	-	-	123	172	162	-
Philadelphia...	202	150	444	325	645	475	-	-	-	-	-	-	135	137	136	-
Cleveland.....	304	250	668	300	972	550	-	-	-	-	-	-	122	223	177	-
Richmond.....	195	150	393	200	588	350	-	-	-	-	-	-	130	197	168	-
Atlanta.....	236	125	211	125	448	250	-	-	-	-	-	-	189	169	179	-
Chicago.....	495	400	1,210	650	1,705	1,050	-	-	-	-	-	-	124	186	162	-
St. Louis.....	155	100	251	150	406	250	-	-	-	-	-	-	155	167	162	-
Minneapolis....	126	75	170	100	296	175	-	-	-	-	-	-	168	170	169	-
Kansas City....	163	100	175	125	338	225	-	-	-	-	-	-	163	140	150	-
Dallas.....	149	75	183	125	333	200	-	-	-	-	-	-	199	146	167	-
San Francisco..	333	275	502	400	835	675	-	-	-	-	-	-	121	126	124	-
Unallocated....	29	-	-	-	29	-	5,048	5,000	935	-	6,012	-	-	-	-	-
Total.....	3,290	2,500	9,259	5,500	12,550	8,000	5,048	5,000	935	-	18,533	13,000	132	168	157	143

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

May 10, 1943.

Note: Classifications are preliminary and some figures are partly estimated. Figures are rounded and do not necessarily add to totals.

<sup>1/</sup> Consists of U. S. Government agencies and trust funds and those subscriptions of dealers and brokers not distributed or earmarked for nonbanking investors.

May 14, 1943  
3:15 p.m.  
(Chart Room)

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell  
Mr. Gaston  
Mr. Gamble  
Mr. Robbins  
Mr. Peabody  
Mr. Smith  
Mr. Eccles  
Mr. Kennedy  
Mr. Sproul  
Mr. Day  
Mr. Young  
Mr. Fleming  
Mr. Gilbert  
Mr. Leach  
Mr. Williams  
Mr. Hitt  
Mr. Head  
Mr. Peyton  
Mr. Leedy  
Mr. McLarin  
Mr. Paddock  
Mr. Sienkiewicz

H.M.JR: Gentlemen, just before I hear anything from you, Mr. Peabody and Bill and I had a little discussion, and so you can't possibly be under any misapprehension, I would like to read a letter from Mr. Robbins which I got last night.

Also I would like to point out that this is to continue that we are operating here without publicity.

This is dated yesterday. (Letter dated May 13, signed by Mr. Robbins, read by the Secretary, copy attached.)

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Mr. Robbins may want to say something himself.

MR. ROBBINS: Well, I would like to say this, Mr. Secretary, that I appreciate very much your bringing this up before the group because this morning the way our meeting unfolded it was the most natural and easy and honest thing in the world for me to get up and speak in behalf of the plan which the Treasury is offering and which I still hope will be made effective.

The thought that might have been in some of your minds that I would be a part of that organization, for whatever value that may have had, worried me; and I did not want to have you feel that I in any way had misrepresented the situation or that you might have come to a conclusion, putting some value or lack of value on my presence or absence from it. Therefore, I wanted the Secretary to tell you this prior to the time that whatever decision you reached was announced.

MR. ECCLES: It is a shocking disappointment.

H.M.JR: It is.

MR. ECCLES: Would you like me to--

H.M.JR: I would like to hear from you.

MR. ECCLES: We took the memorandum that you left with us this morning, and we met and discussed every aspect of the problem, with, of course, the paramount thought in our minds of the kind of a setup that we feel - I will say that we were unanimous in our conclusions - the kind of an organization that will enable us to do the best possible job for the Treasury. We realize that the success of Treasury financing means a great deal to the Federal Reserve System. We are, possibly, as you said this morning, just as anxious as the Treasury to sell the maximum amount of Government securities to the greatest number of people for the purpose of diminishing purchasing power and preventing inflationary developments so far as that can accomplish it.

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We realize that to the extent that the public does not purchase the amount of securities and does not pay taxes in sufficient amount to finance these tremendous expenditures that we must use the inflationary method of creating new money through bank financing; and the Federal Reserve in turn must take additional securities so as to supply the banks with reserves. And that creates for us and for the country as a whole future problems that are fraught with danger.

So we are very anxious to do the best possible kind of job, and we would be less than frank if we didn't let you know the kind of an organization that we feel could accomplish that purpose.

We recognize that any recommendations or program that we present to you means we are taking all of the responsibility that goes with that for the future success of financing. That is, we certainly are sharing it with you.

In order to facilitate the discussion we have written out here, briefly, what seems to us to be the kind of a program that would result in the kind of a job we think you want done.

(Plan handed to the Secretary, copy attached.)

H.M.JR: I think the best thing, to save time, is to let me go in my own office with my own people and talk about this.

MR. ECCLES: All right, that is fine.

H.M.JR: Explain three to me, will you, Marriner. I don't understand it.

MR. ECCLES: Well, the idea is to set up the organization on a Federal Reserve district basis because some States lie within two districts. We feel that it is necessary to have that divided - a manager for that part of the State that lies in each district. For instance, in Pennsylvania you would have to have two managers, one for western and one for eastern.

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MR. BELL: No difference in that and what we have, really.

(The Secretary and the members of his staff then left the conference room.)

May 14, 1943.

Dear Bill:

In accepting your resignation as Chairman of the United States Treasury War Finance Committee and National Director of Sales I want to say that I do so only with the greatest regret.

You have congratulated me on the great success of the Second War Loan Drive. I congratulate you. You deserve great credit for the smooth functioning of an organization hastily assembled for the drive and for the energy and enthusiasm you imparted to it. In all, it is a fine record of service to your country.

I am happy that you are willing to consult with me in the future and to help me when I need help. I expect to call on you.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

Mr. William M. Robbins  
Treasury Department.

File in Diary  
(Delivered by hand)

Initialed cc to Gaston

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TREASURY DEPARTMENT  
WASHINGTON

May 13, 1943

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

Dear Mr. Morgenthau:

This will confirm our conversation of this morning and convey my resignation as Chairman of the United States Treasury War Finance Committee and National Director of Sales, to become effective immediately, or, at your convenience, any time within the next week or ten days.

May I take this opportunity to thank you for your courteous and sympathetic understanding of the reasons which have made me feel that my retirement from full active service in the Treasury Department is desirable.

I will be happy to continue my interest in the sales activities of the Treasury Department and to serve you in a consulting capacity, if you so desire.

May I take this means of wishing you every success in handling the gigantic task of Government financing which lies before you.

With kindest regards.

Sincerely yours,

*William M. Robbins*  
William M. Robbins



# Federal Reserve Plan.

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## PLAN FOR UNITED STATES TREASURY WAR FINANCE ORGANIZATION

1. The Secretary of the Treasury shall appoint the Presidents of the Federal Reserve Banks as Chairmen of the War Finance Committee in each of the Federal Reserve Districts.
2. There is to be a Sales Manager in each Federal Reserve District.
3. There is to be a State Manager in each State which lies wholly within one district. In those States divided between two Federal Reserve districts, there is to be a manager for each part of the State.
4. Appointment of Sales Managers and other executive personnel, whom the Secretary wishes to retain the power of approval, are to be initiated by the Chairmen of the district organization, subject to the prior consultation with and approval by the Secretary of the Treasury.
5. All paid employees of the War Finance Organization are to be paid by the Federal Reserve Banks as Fiscal Agents on a reimbursable basis.
6. National policy and program of the organization are to be determined by the National Director of Sales, together with such policy committee as the Secretary of the Treasury may designate. Such policy and program are to be carried out on the regional, decentralized basis, with the understanding that the fundamental national policies will not be changed at district levels.
7. Line of authority shall flow from the Office of the National Sales Director through the Presidents of the Federal Reserve Banks, acting as Chairmen. All matters relating to policy and direction are to be cleared through the Office of the district Chairman. National functional leaders, advisers, and consultants or inspectors shall have access to workers with the prior knowledge of the Chairman but without authority to give orders.
8. At national, district, and state levels, there is to be but one single organization. The Victory Fund Committees and War Savings Staff that have been operating will disappear.



TREASURY DEPARTMENT  
WASHINGTON



May 14, 1943

MEMORANDUM

To: Secretary Morgenthau

From: William M. Robbins

During the campaign, you wanted to know what factors, if any, were operating to place the state of Washington so far ahead of the other states in the Twelfth Federal Reserve District.

Inquiry reveals the fact that their exceptional performance was due largely to the purchase by the state of Washington, for its own account, \$33,000,000 worth of Second War Loan Securities. In other respects, Washington state's performance was average.



MAY 14 1943

Dear Don:

As you know, the Second War Loan Drive of the Treasury Department is way over the top. Our goal of \$15 billions has been exceeded by more than \$5 billions.

The record we set in this Second War Loan Drive was due in no small part to the enthusiastic cooperation of radio advertisers, networks, stations, stars, and all the engineers, announcers, commercial writers and other people who make radio possible. I wish you would extend my sincere thanks to all of them for the really fine work they did in helping to make this drive such an outstanding success.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Donald B. Stamffer  
Chief, Domestic Radio Bureau  
Office of War Information  
Room 3114  
Railroad Retirement Building  
Washington, D. C.

File in Diary

Initialed copy to Smith

FS:cf  
5-14-43

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE May 14, 1943

TO Secretary Morgenthau

FROM Mr. Smith (S)

Don Stauffer suggests that you send him a letter like this which he can relay to all the people involved in the radio business.

May 14, 1943.

Dear Mr. Osborn:

I want to thank you for helping me out on my broadcast over the Columbia network last Thursday evening, May 6.

The project of having separate voices for the Axis broadcasters, instead of merely quoting them, was a last-minute idea, and I am afraid we put you and your associates to a good deal of inconvenience by our hurry-up call.

I think, however, that the voices added greatly to the effectiveness of the broadcast and I compliment you on the artistry of your performance.

Sincerely,

(Signed) H. Morgenthau, Jr.  
Secretary of the Treasury.

Mr. Ted Osborn  
37 Beckman Place  
New York, N.Y.

Copies in Diary

May 14, 1943.

Dear Mr. Mack:

I want to thank you for helping me out on my broadcast over the Columbia network last Thursday evening, May 6.

The project of having separate voices for the Axis broadcasters, instead of merely quoting them, was a last-minute idea, and I am afraid we put you and your associates to a good deal of inconvenience by our hurry-up call.

I think, however, that the voices added greatly to the effectiveness of the broadcast and I compliment you on the artistry of your performance.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Gilbert Mack  
74 Sperry Boulevard  
New Hyde Park, L. I.  
New York.

Copies in Diary

May 14, 1943.

Dear Mr. Rogers:

I want to thank you for helping me out on my broadcast over the Columbia network last Thursday evening, May 6.

The project of having separate voices for the Axis broadcasters, instead of merely quoting them, was a last-minute idea, and I am afraid we put you and your associates to a good deal of inconvenience by our hurry-up call.

I think, however, that the voices added greatly to the effectiveness of the broadcast and I compliment you on the artistry of your performance.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Roe Rogers  
200 West 57th Street  
New York, New York

File in Diary

May 14, 1943

Dear Mr. Sanders:

I want to thank you for helping me out on my broadcast over the Columbia network last Thursday evening, May 6.

The project of having separate voices for the Axis broadcasters, instead of merely quoting them, was a last-minute idea, and I am afraid we put you and your associates to a good deal of inconvenience by our hurry-up call.

I think, however, that the voices added greatly to the effectiveness of the broadcast and I compliment you on the artistry of your performance.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Richard Sanders  
80-12 Austin Street  
Kew Gardens, L. I.  
New York.

Copies in Diary

# YOUNG & RUBICAM, <sup>INC.</sup> *Advertising*

NEW YORK · CHICAGO · DETROIT · SAN FRANCISCO · HOLLYWOOD · MONTREAL · TORONTO

NEW YORK · 205 Madison Avenue

May 12, 1943.

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

My dear Mr. Morgenthau:

Thank you very much for your very kind letter of May 8th.

The names and addresses which you requested are as follows:

Mr. Ted Osborn,  
37 Beekman Place,  
New York, N.Y.

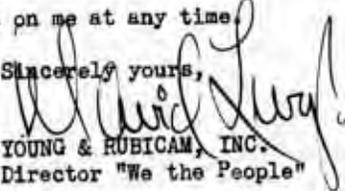
Mr. Gilbert Mack,  
74 Sperry Boulevard,  
New Hyde Park, L.I.,  
New York.

Mr. Roc Rogers,  
200 West 57th Street,  
New York, N.Y.

Mr. Richard Sanders,  
80-12 Austin Street,  
Kew Gardens, L.I.,  
New York.

None of these men know that you are going to send them a note of thanks and I know they will derive great satisfaction from it. It is a happy thought to realize that a man so pre-occupied as you are with matters of great importance can take the time to make so friendly a gesture.

It goes without saying that you may count on me at any time.

Sincerely yours,  
  
YOUNG & RUBICAM, INC.  
Director "We the People"

David Levy  
egs

MAY 14 1943

**Dear Mr. Hill:**

I want you to know that I appreciate your generous offer to let us use your Hit Parade time to thank the American people for their cooperation in the Second War Loan. I wish I could have returned from my trip West in time to take advantage of this offer. I am sure we could have reached a great many people and perhaps convinced them of the necessity for continuing to buy bonds even though the Drive is finished.

I should like to take this belated opportunity, also, to thank you for the outstanding job your company has already done through its various radio programs in promoting the sale of War Bonds.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. George V. Hill  
The American Tobacco Company  
111 Fifth Avenue  
New York, New York

File in Diary

Initialed copy to Smith

(Certificate to be  
sent Mr. Hill)

FS:cf  
5-14-43

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE May 13, 1943

TO Secretary Morgenthau

FROM Fred Smith (FS)

Don Stauffer would like to have you send the attached letter, or one like it, to George Washington Hill, who offered to give you any or all of his Lucky Strike Hit Parade. You will recall that he was asked for this time in your name, through a loose connection somewhere along the line.

Incidentally, Stauffer says that your name is frequently used in this way. If this is true, don't you think it would be wise to appoint a vice-president in charge of clearing your name for use in securing cooperation?

## MEMORANDUM FOR THE SECRETARY.

May 14, 1943.

Mail Report

Again mail receipts have fallen off, with the decrease shown in all the different types of correspondence we usually receive.

The aftermath of the Second War Loan Drive has been on the whole entirely satisfactory. Although a number of "gripes" are abstracted, the great majority of the letters received are pleasant in tone, and many are highly laudatory. There have been a great many congratulations on the success of the Drive, a number of writers expressing their pleasure at having been a part of the campaign. The Night Letter of May 11 which commended various agencies on their contributions to the Drive has elicited a number of cordial and appreciative replies. A few letters and telegrams are still coming in in response to the inquiry as to the length of time required to issue Bonds. These follow the trend of earlier replies, usually reporting fairly short periods for delivery. These letters also frequently report the satisfaction of employees; this being borne out by the scarcity of complaints from those who are privately employed and securing their Bonds through industrial sources. There were a number of predictions that the 20% withholding tax will adversely affect the payroll pledges. One writer asked that the Treasury make it clear to the public that this tax is not in addition to the regular income tax. The number of Bonds submitted for redemption dropped slightly, as did complaints about delays from War Department personnel. On the latter the figure is 55, as opposed to 70 last week.

There has been an up-swing in the number of letters which favor a pay-as-you-go system, with opposition to any tax forgiveness. Only 2 letters approved the Ruml Plan.

Other letters included scattered suggestions for increasing revenue, for liberalizing Bond provisions -

- 2 -

Memorandum for the Secretary.

May 14, 1943.

both as to purchase and as to redemption - and extension of the coverage of the Social Security and Victory Taxes.

There were a few protests about the new pennies, and one student wished to know what was the Government's telephone bill during the past year.

*W. F. Forbush*

- 2 -

Memorandum for the Secretary.

May 14, 1943.

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*W. F. Forbush*

- 2 -

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May 14, 1943.

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*W. F. Forbush*

Favorable Comment on Bonds

T. P. Stanich, Morale Officer, California State Prison, San Quentin, Calif. I hope you will accept this letter with the same pride and pleasure I take in writing it. I am a supervisor of forty inmates from San Quentin Prison, who have been and are employed by the American Crystal Farms at Knightsen, Calif. These men work not less than ten hours per day and earn 70¢ per hour. The men are not permitted to leave the prison camp and therefore do not enjoy any of the pleasures most working people do after they put in a hard day's work behind tractors, plows, cultivators, etc. \* \* \* The inmates of this camp are many times over the ten percent mark. Almost every man purchases a \$50 or a \$100 Bond every payday, which falls twice monthly. \* \* \* I am justly proud of these men for their sincerity and loyalty they display to their country and mine. \* \* \*

Unfavorable Comments on Bonds

G. Ripley Cutler, Waban, Mass. An official description of the United States War Savings Bonds, Series G, contains the following: "After six months from issue date, the Series G Bonds are redeemable at par (issue price) upon the death of the owner if application for redemption is made within four months after decease." As executor of my mother's estate, I am trying to procure the redemption of two of these Bonds. I have signed a series of forms, some of which had to be executed before a Notary, and some of which could not be executed before a Notary. I have had to swear - an oath that many executors would not be in a position to make - that I knew from my personal knowledge that the decedent owned the Bonds. The local Reserve Bank has requested that I execute additional forms, signing my name in a different way. I have complied with this request. I suppose I shall be lucky to receive a check before July 1. \* \* \* If it were generally known what an unnecessary amount of delay and red tape is involved in securing the redemption of these Series G Bonds upon the death of the owner, it is possible that the demand

- 3 -

to have been transmitted to the Chicago Office of the Treasury Department. I have received several letters from that office, and at their request I have presented two additional Forms P.D. 1522 at the Harrisburg Post Office for redemption certification of these Bonds, but in each case redemption certification was flatly refused. The Harrisburg Postmaster and his deputized employees flatly refuse to certify my Bonds for redemption and the Chicago Office of the Treasury flatly refuses to pay them without the certification by the Postmaster. So there you are -- I am entirely at the mercy of the Harrisburg Postmaster. Since he chooses to refuse to certify these Bonds for payment, there is just nothing that the Treasury Department will do to pay them. In the meantime, another distressing situation has arisen. I was depending on the proceeds of these three Bonds to meet my 1942 income tax payments. \* \* \* Since payment of these three Bonds has not yet been made, I was not able to meet my first quarterly income tax installment on March 15, 1943. Since request for redemption of the first of these Bonds had been made as early as November 18, 1942, and since payment had not, up to March 15, 1943, yet been made, and since, further, this money was actually at that time in the hands of the U. S. Treasury Department, the only thing I could do was to authorize the Chicago Office of the Treasury to pay the Collector of Internal Revenue at Scranton, Pa., the sum of \$55.10, being the total amount of the first quarterly installment of my 1942 income tax. \* \* \* This was done, but the Chicago Office of the Treasury refused to comply with this order. The result of this is that the Collector of Internal Revenue at Scranton has just notified me of delinquency, and assessed interest for delinquency against me. In the name of all justice, for which our Country stands, how can one arm of the Government charge a man interest for delinquency caused directly by the failure of another arm of the Government to pay its obligations? \* \* \* Actually, since I authorized payment of these Bonds many months ago, and since I also authorized payment of the first

- 4 -

quarterly installment by the Chicago Office of the Treasury Department to the Collector at Scranton, and since all of the money in question has been in the hands of the Government of the United States continuously, it is most difficult to understand how there can be delinquency at all. I will certainly appreciate any efforts you may expend in compelling the proper bureau to make payment of this obligation, and also in eliminating any interest charge assessed against me by the Collector of Internal Revenue at Scranton, Pa.

Stanley Newhall, Attorney at Law, Louisville, Ky. The irksome, unnecessary and burdensome restrictions on the transfer and redemption of the Defense Savings Bonds are discouraging loyal citizens from buying them, and even forcing them, in some cases, to redeem them. If it is desirable, on account of inflation, that the ownership of these Bonds be distributed widely among our citizens, then they should be transferable as were Bonds of the Liberty Loan issues. I have heard many like complaints from Banks on this point and believe something should be done to remedy the situation aside from criticising.

Senator John A. Danaher (Connecticut) sends letter he has received from William J. Burke, New Haven, Conn. People are buying Series E War Bonds for \$18.75. It is plainly printed on the Bond that after sixty days you can get what money you have paid for the purchase of this Bond. In some cases people have taken their Bonds to the local banks to be cashed. Upon payment of \$1.50 for service, the bank forwards Bond to the Federal Reserve Bank, a check is forwarded to the local bank, who in turn notifies you, after a thirty day waiting period, that your check is available. These Series E War Bonds are bought by the class of people in the so-called lower brackets and I personally think that this is another racket, when banks are allowed to charge a person \$1.50 as a service charge for cashing a Bond. No one is cashing a Bond unless they are in dire need of the money and are pressed for same. It

- 5 -

is very discouraging to the class of people who buy Bonds on the payroll deduction plan, and with the pay-as-you-go plan effective July 1, the sale of Bonds by this method will take quite a drop if this service charge continues to grow.

Anonymous - postmarked Dayton, Ohio. Listening to your broadcast Thursday, May 6, I was somewhat surprised that you failed to give notice to the important role played by the public schools of America in the success of the Second War Loan Drive. Being a teacher, I am not meaning to complain or criticize, but I am most humbly asking you to be courteous and kind enough to spare a few minutes of your precious time and listen to the story. \* \* \* During the three weeks' drive of the Second War Loan, we averaged over \$1,000 a week. Our final count was \$4,594.26. More than half of this, Mr. Morgenthau, was brought in, in pennies, nickels, dimes, quarters, etc. Each day I counted the money, kept my work going, kept the children orderly, and, because of my fear of Alcatraz, kept the accounts straight. I was allowed 15 minutes before school in the mornings and at noons to do this "extra curricula" job. \* \* \* I know my case could be multiplied many times, and that there were perhaps many teachers working under perhaps more difficult conditions than mine. I was glad to help, of course, and I know they were too, but if I'm not appreciated, I'm going to let those responsible know how I feel about it, thus this letter to you. \* \* \*

Raymond O. Palmer, c/o Engineering Officer, Alaska Communication System, Federal Building, Anchorage, Alaska. The writer's blood was brought up to a near-boiling point a few days ago when confronted with a maddening situation in connection with the purchase of a War Bond I wished to buy. \* \* \* I am one of the many working and doing our best to win this war and buy Bonds. I work for the War Department, Signal Corps, in foreign service. I receive my money in the form of a Treasury check. We are told our Government is the

- 6 -

best risk in the world, and yet when I applied at the Fairbank, Alaska, Post Office to buy a Bond, presenting my pay check, I was told, "We do not take checks". \* \* \* I know full well no one would be considered prudent to take any and every check without consideration. I think you should see to it at once that every Post Office is ordered to never say again to a Bond purchaser, "We do not take checks", but say instead in a kindly and interested way, "May I please see your identification?". A banker would do that, also a merchant, why not a Post Office, since you are so anxious that we do buy Bonds. I am at work before the banks open, and after they close, 6 days a week, and have no justification to lose hours of time from work, and extra cost trips for "Uncle" in transportation back to town during the short open banking hours, when the Post Office is open and can serve me 100%. I want to buy Bonds, but I certainly do not think any Department of our Government has the least right to either make it hard, inconvenient, or actually refuse me. In this last case, it made me so angry I barged into the Postmaster's "sanctum", said my piece and the sale was concluded pronto, but that should not have been necessary. \* \* \* Please do not give me any political "softsoap" reply -- just take away the brake that is hindering our all-out effort and get some Department cooperation going to help along the sale of Bonds. \* \* \*

R. S. Kellogg, Treasurer, Newsprint Manufacturers Association of the United States, N.Y.C. This will acknowledge receipt of your long night letter congratulating the Newsprint Manufacturers Association and myself for "the splendid work done" during the Second War Loan Drive. Since this Association has done absolutely nothing, I assume that your telegram has been sent to trade associations throughout the United States, regardless of their activities. It is therefore one more example of Governmental waste and extravagance, and also the clogging up of means of communication in a time when every energy should be concentrated upon the essential drive for victory. This is not to say that all of the

- 7 -

companies and executives thereof in the newsprint industry have not in their own communities and in their own way been doing their part in making the Second War Loan an overwhelming success. It was because they were doing so that the Association, as such, did not put on a drive. My own contribution, for instance, as indicated by the enclosed reproduction from our local newspaper, was made in my home town of Wilton, Conn. Our success was accomplished with Treasury Department hindrance, rather than help. Desired information did not come from Hartford as early as it should, or in sufficient quantity, while the continued opposition of the Department in Washington to a straight out pay-as-you-go tax plan made Bond selling unnecessarily difficult. The action of Congress in repealing the Presidential power further to devaluate the dollar helped because to that extent we had assurance that our present investment would not be repaid in a further debased currency. The continued opposition of yourself and your associates to these two measures at the time when you are asking for the buying of Bonds in unprecedented amounts is beyond the comprehension of the ordinary hard-working, thrifty taxpayer, who is willingly doing his best for his country.

Elmer B. Michelson, Boston, Mass. We are all with you in the free persuasion to buy Bonds and defense investments. But must every day's mail bring us innumerable pieces of beautifully printed material presenting "Buy Bonds" in a variety of ways? This seems to use up loads of paper and time. Too much of a good thing is too much! There is a law diminishing of returns. After a while the human animal becomes immune and oblivious to the familiar and the insistent.

Georgina R. Sims, Chicago, Ill. Today I received a Bond belonging to my son who I think has left for some place. I notice this Bond is dated May 8, and I want to know how that is. I have here a receipt dated July 31, 1942, which calls for a Defense Bond, Series E, and the Army

- 8 -

has kept out \$18.75 a month since July 31, 1942. Now what I want to know is why does this Bond have to be dated May 8, 1943, when you have been keeping this boy's money since July 31, 1942? Hasn't a soldier the same rights as a civilian? I have been buying Bonds myself and am drawing interest on mine. Now why doesn't the poor soldier get his Bond and his interest when he buys the Bond, instead of having to wait 10 months for it and losing the 10 months' interest? This is the first Bond I have received, but didn't worry as I thought the Government would be at least honest. \* \* \* Please tell me how you issue those Bonds, and if I can expect the others. Believe me I know what my son would say if I wrote him -- "Cancel the whole thing" -- but I am not going to see him cheated even if he is in a foreign country. \* \* \*

I. M. Gauthier, Authorized Agent of the U. S. Treasury Department for the Issuance of War Savings Bonds, Castle Theatre, White Castle, Louisiana. There is a vicious rumor started that the Treasury Department will have, and in some instances, have had a law passed to prevent the redemption of War Bonds before maturity. One rumor has it that a Bond cannot be redeemed before five years after the date of purchase. These rumors are spreading fast and should be stopped before they reach the stage where they would seriously hurt our war effort in the sale of these Bonds. Only yesterday I was told that these rumors were spreading fast in the defense plants in Baton Rouge, Louisiana. A few days ago a lady told me that her brother, who is in the service, wrote to his wife not to buy Bonds with the money he was sending home because he had heard that they would be frozen and she would not be able to redeem them if she needed the money. \* \* \*

James W. Smith, Chairman, Hanover County War Finance Committee, Ashland, Virginia. \* \* \* Recently there has been brought to my attention a matter in which a Hanover boy is involved, and which, in a small way, is reacting unpleasantly in our community. \* \* \* William Cabell Gray was purchasing War Bonds through a payroll savings plan and on being informed of his acceptance into the armed

- 9 -

service of his country, decided that he should leave his young wife free of debt and took ten \$18.75 E Bonds to The Hamilton Branch of the Union Trust Company, Baltimore, Maryland, to convert the Bonds into cash. The Bank in due time accommodated Mr. Gray, but charged him \$1.00 per Bond, or a total of \$10.00. Mrs. Gray, the mother of the young man, on hearing of this, advised her other sons who also were buying Bonds to discontinue their purchases because the expense of converting them into cash was exorbitant, even in cases of dire necessity. I have advised that the transaction was a private matter between an individual and a banking institution, and while the charge was exorbitant, it probably was not illegal. I have also advised the proper procedure to follow, should the necessity for cashing Bonds arise. A statement as to whether the above constitutes an offense and/or the attitude of the Treasury Department in such cases will be greatly appreciated.

- 10 -

Favorable Comment on Taxation

W. L. Parker, Ramsey, N. J. A group of friends, of which I am perhaps the most articulate, has been discussing the tax program this morning, and they have asked me to write to you on their behalf. Our view is that we agree with your office in feeling disinclined to go along with the tax bill reported to have been drafted by the Senate Committee during the past few days. The purpose of this letter is to assure you of the support of the public, insofar as we can feel that we represent the public. We would all be glad to see pay-as-you-go methods introduced for the collection of taxes, but we deplore the linking of this reform to the remission of a year's taxes on the incomes of a year when incomes were high, namely, 1942. We feel that no "anti-windfall" clauses can protect the Treasury against the loss of substantial amounts of money to which it is entitled, and of which, in war time, it stands in need. Specifically, we are opposed to the Ruml Plan, however modified, and to the Robinson-Forand program embodied in last week's House Resolution. We know that our legislators, particularly our Congressman, do not share our views, and we would prefer to express our support of you rather than merely add another sheet of paper to the accumulation of protests in their mail. \* \* \* I beg you, Mr. Secretary, to make any use you can of this letter.

**TREASURY DEPARTMENT**  
**INTER OFFICE COMMUNICATION**

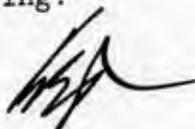
**TO** Secretary Morgenthau  
**FROM** Randolph Paul

DATE

MAY 14 1943

As you know, there have been some indications that the appropriation difficulty which Foreign Funds Control has been having stems at least in part from Leo Crowley. We recently obtained the following additional confirmation of this source of our difficulty:

In informal discussion the other day Congressman Keefe (Republican) of Wisconsin, who is on the Treasury Subcommittee of the Committee on Appropriations, told a member of the legal staff of Foreign Funds Control that Crowley had discussed the matter with him (Congressman Keefe) and had stated there was no reason why the Alien Property Custodian could not do the entire job that Foreign Funds Control is doing.



MAY 14 1943

MEMORANDUM FOR THE SECRETARY

Re: Supplementary information on financial manipulations of collaborationists in French Africa - recent shipment of gold to Portugal by the Tangiers branch of the State Bank of Morocco under instructions from the Bank of France.

Since the preparation of the report on financial manipulations of collaborationists in French Africa, the following striking case has come to our attention which serves to highlight the general theme of the report.

According to a cable received from our Consul in Tangiers (No. 636, dated May 1, 1943), the Tangiers branch of the State Bank of Morocco recently shipped approximately \$700,000 in gold to the Banco Nacional Ultramarino in Lisbon upon the demand of the Portuguese bank acting by virtue of instructions from M. de Boisauger, Governor of the Bank of France. It appears beyond much doubt that all steps taken were in accordance with orders from continental France given by the Bank of France and were with the sanction of the main office of the State Bank of Morocco at Rabat, and probably also with the sanction of the French authorities at Rabat.

- 2 -

The report from our Consul in Tangiers indicates that the French authorities have been very reluctant to furnish information with respect to this transaction and that the authorities of the bank have attempted to conceal the conditions under which the transaction was engaged in.

State Department has expressed grave concern over this transaction and has requested full information from Algiers. We have advised State that the Treasury is prepared to take the following action with respect to the assets of the Tangiers branch of the State Bank of Morocco which are within the United States:

(a) Such assets will be subjected to the same controls as those imposed on the assets of firms which are on our blacklist.

(b) The French American Banking Corporation, which is holding substantial assets of the Tangiers branch, will be directed to segregate the amount of \$700,000 (approximately equivalent to the value of the gold involved) and to place such funds in a special account pending a decision of this Government as to the disposition to be made of the segregated funds.

State is opposed to taking such action, at least until they have received further information from Algiers and the recommendations of Murphy.

- 3 -

As pointed out in our main report, the State Bank of Morocco is the subsidiary of the Banque de Paris et des Pays Bas, one of the big French collaborationist banks. The fact that the State Bank of Morocco engaged in this transaction, despite its potential benefits to Germany and despite the fact that it violated the Trading with the enemy Act which has been adopted in French Africa, demonstrates very significantly the attitude of the collaborationist groups which we are forced to deal with in French Africa.

*BJ*  
*ADW*

# The Washington Merry-Go-Round

By Drew Pearson

## Paris Bankers Sent Money to North Africa

GRADUALLY more details of the State Department's policy of cooperating with Vichy appeasers is leaking out, and unfortunately it does not make good reading.

Latest untold chapter is how the big bankers in Paris knew in advance all about the American landing in North Africa and transferred their funds there to the tune of 25 billion francs or 350 million dollars. Then, after sneaking this sum out of France, the French bankers, with the aid of their friend United States Minister Robert Murphy, brought pressure to raise the exchange rate on the franc.

Finally they succeeded. This simple transaction increased the holdings of the State Department's banking friends to 525 million dollars.

The story seems almost unbelievable, but here are the sordid details.

Ever since the fall of France, Germany has been taking over valuable property from the Jews, labor unions, and refugees who had fled from occupied countries. In doing this, the Germans obviously were preparing for a long-term, throttle-hold on France, so they went about it very carefully.

Apparently they wanted to avoid litigation in French courts after the war so they arranged these deals through certain French banks. The Jewish, labor unions and refugee property was ordered taken over and given to the banks. Then the Germans bought the property from the banks, paying in francs.

However, the francs were taken out of the "Occupation Francs" which the Bank of France paid to Germany every day, for the cost of occupation; so actually these deals cost the Nazis anything.

## Three French Profits

THE FRENCH bankers were permitted to keep the purchase price of the property, so they amassed huge profits, and it was these profits which were transferred to North Africa before the American landing.

The banks doing business with the Germans were: The Banque de Paris et de Pays Bas, the Banque de l'Indo-Chine and the Banque Worms.

Despite their close cooperation with Germany, apparently these bankers knew in advance that United States troops were going to land in North Africa. How they knew this military secret in ample time to send their money to Algiers—though the United States Cabinet did not know it until a few days before—has not been definitely established on this side of the Atlantic.

However, certain circumstantial facts are significant. The charming and naive Robert Murphy, had as his close friend Jacques Lemalgre-Dubreuil, head of the French Association of Taxpayers, a big business lobby—financed by many of these bankers. Lemalgre-Dubreuil worked hand in glove with the Comité des Forges, or steel-trust, which had property in Austria and Axis countries. He had led the Fascist disturbances in Paris in 1934, shared the same political philosophy of these German collaborating bankers, and was close to them.

Strangely enough it was Lemalgre-Dubreuil whom Murphy chose to handle his contacts for the invasion of North Africa. It was he who picked General Giraud, arranged to get him to North Africa in disguise, and who was Murphy's key man in this vitally important operation.

How much Lemalgre-Dubreuil told his banker friends in Paris about our military plans is his secret, but it is an incontrovertible fact that they moved their 25 billion franc profits, wrung from unfortunate Jews and labor unions, to North Africa shortly before the United States landing.

## French Banking Lobby

AFTER United States troops landed, the State, War and Treasury Departments had agreed to keep the exchange rate at 75 francs for 1. Whereupon the French bankers immediately launched a lobbying campaign to peg the franc at 50 to the dollar. Obviously this would greatly enhance the 25-billion-franc nest-egg they had sneaked out of Paris.

Strangely enough the bankers received vigorous support from the naive Bob Murphy. His

argument was that in Free French Africa to the south, the franc was pegged at 50 to the dollar, so it should not be 75 to the dollar in North Africa.

However, Washington had fixed the 75 franc rate in Algiers and Morocco because the Germans had made the franc much weaker in this area, while they had not been able to weaken the franc in Free French Africa.

The Treasury is supposed to govern United States financial policy. But in this case, Mr. Murphy went to bat so vigorously for his French banking friends that eventually he got hold of President Roosevelt in Casablanca and the White House is-

sued an order fixing the rate at 50 francs to the dollar.

Overnight, the French banking clique which had profited from the forced sale of Jewish and labor union property, had their 25-billion-franc nest egg increased in value from 350 million dollars to 525 million dollars.

## Capital Chaff

IT was shortly after Louisiana's Senator Ellender telephoned Louisiana's Supreme Court Justice Archie Higgins that he was sure to be appointed to the United States Fifth Circuit Court of Appeals, that F. D. R. appointed Texas' Jimmy Alfred to that judgeship . . . It looks as if Judge Higgins might now run for Governor of Louisiana . . . Jim Farley thinks the Republicans will pick Governor Bricker of Ohio as their nominee. Jim himself is partial to Senator Scott Lucas of Illinois as the Democratic candidate, but he doesn't count out Henry Wallace,

Jimmy Byrnes, Paul McNutt, or even—Jim Farley . . . A delegation from the Democratic National Committee will call on F. D. R. March 2 along with Frank Walker to discuss the moot question of rewarding more Republicans . . . The committee has been the White House favorite in the past. This question nearly blew the lid off the recent Chicago meeting of the Democratic National Committee and it was decided to send a delegation to talk it over with the "Chief."

### Dollars

Within an hour after Fighting Frenchman Georges Catroux arrived in Algiers last week (*see col. 1*), the Giraud Government announced the dismissal of Jacques Lemaigre-Dubreuil, a French industrialist (peanut oil) who had taken a devious but potent hand in North African affairs.

M. Lemaigre-Dubreuil's pre-surrender associations included an interest in a pro-Fascist Paris newspaper, connections with

both French and German industrialists. With the consent of the U.S. State Department—a consent which, according to some apologists, was given reluctantly—Lemaigre-Dubreuil recently had been an inter-Allied economic adviser in Algiers.

A fantastic episode in inter-Allied economics preceded his ouster. French speculators had transferred millions of francs to North Africa when the rate of exchange was 100 to 150 francs to the American dollar. Upon French advice, the U.S. authorities reduced the rate to 50 francs to the dollar—enabling the speculators to turn a profit of 100 to 150%. Before the U.S. Treasury finally awoke and forbade such speculation, several huge fortunes were amassed by this trading in **invasion dollars.**



# Steel Filings

## How the Treasury Halted A Peyrouton Dollar Deal

—By Johannes Steel—

It may yet be too early to draw the balance sheet for the first fiscal year of collaboration in North Africa. We have never been told when the first fiscal year of collaboration began.

We do not know when the first deal was negotiated and the first transaction consummated. Yet there are ample indications that German as well as French big business knows the precise dates. The question now is whether we will eventually be able to pay dividends on the business of collaboration in which we have engaged in North Africa.

Let us therefore strike an interim balance. What did we get? Certain military concessions which, it is insisted, saved American lives. Considering what has happened in North Africa since we first landed there, it remains extremely doubtful that any lives have been saved by negotiation. In fact, it may very well be that we would have long been in Tunis and Bizerte had we not negotiated with Darlan long enough to give the Germans time to throw really important reinforcements into Tunisia. If we had given Darlan the alternative of being shot within two hours of delivering Tunis and Bizerte within that time, we would probably be there now.

### The Fortune Hunters

We also got Giraud and that band of sinister international operators, headed by the ubiquitous Marcel Peyrouton, who see this phase of the war as nothing but an opportunity to amass gigantic fortunes and control over a continent-wide European industrial and financial cartel.

We also got Gen. Nogues who, in fact, is still actively sabotaging our efforts at every step of the way. Further on the debit side is the unparalleled loss of American diplomatic and political prestige among the peoples of Europe in particular and the peoples of the world in general.

Now let us take a look at what this has cost us already and what we are proposing to pay out in the future—I mean in ac-

tual cash. Somehow, during the last two weeks before the Allied landing in Africa, a sum of money, according to the latest information amounting to 25 billion francs in cash and securities, was transferred from the Continent to North Africa. This was done with the permission of the Vichy Government and the German economic control of France. The 25 billion francs represented assets and moneys jointly held by German and French interests.

The transaction in the main was carried out through the Banque Worms and their North African correspondents, the Banque Nationale Pour le Commerce et l'Industrie. Now, it is important to note here that these French francs which were transferred to North Africa were purchased in France at the rate of approximately 200 francs per dollar. Meanwhile, however, the American Administration in North Africa has obliged the holders of these funds by exchanging these francs for dollars with the one difference that we have been giving them \$4 for 200 francs, or fifty francs to the dollar.

### Peyrouton Finds a Way

Of course, it has been physically impossible for Marcel Peyrouton and his principals to unload altogether the total of 25 billion francs and obtain dollars for them. Apparently there were not enough dollars in North Africa. Now, however, Marcel Peyrouton and his French and German principals apparently believe they have found a way of doing it.

Representatives of the Banque Nationale Pour le Commerce et l'Industrie have convinced a group of three American banks that it would be a good idea to grant the Giraud administration

a loan of fifty million dollars upon which the American banks, of course, will earn their usual 4 per cent commission.

But—and this is a beauty—said the representatives of the Banque Nationale Pour le Commerce et l'Industrie to the American banks: "All you have to do is underwrite this loan. We will take it up in North Africa ourselves. North African French business will subscribe to this loan because we believe in the future of Giraud and France. But, of course, you must enable us to convert our francs into dollars so that we can subscribe to this fifty million dollar loan. Will you get the Treasury to buy our 25 billion francs at the rate of fifty francs per dollar?"

This plan was being worked out neatly in New York and Washington last week until the Treasury got wind of it and politely but firmly said "No!" This does not mean, however, that the boys have stopped trying. Here is one for the Senate to investigate. A really hot potato!

You also may listen to news analyses by Johannes Steel over Station WMCA daily at 7:30 p. m.

# U.S. Investigates French Profits In Revaluing of Franc in Africa

1732.  
**Vichy Officials Said to Have Reaped Harvest on  
Advance Tip of Upward Exchange Revision  
After Invasion; Seizure of Funds Likely**

By Nicholas P. Gregory

WASHINGTON, April 18.—The Treasury Department foreign funds control division is investigating reported foreign exchange profits reaped by some Vichyites and other wealthy French North African officials through an advance tip that the franc would be revalued upward from 75 to 50 to the dollar, it was learned today.

The investigation may lead to tighter control over the finances of many officials, found suddenly to have acquired extraordinarily large sums of francs in anticipation of a profit by converting into dollars.

Soon after the invasion of North Africa by the Americans, the franc was revalued at 50 to the dollar, thereby automatically raising it to 2 cents. Conversion of francs into dollars began.

The groundwork for punishment of these exchange speculators exists and may be put into operation after the investigation is completed. For example, General

Dwight E. Eisenhower, commander in chief of the Allied armies in North Africa, may permit conversion of francs based on holdings as of a certain date, perhaps prior to the invasion.

These officials, it is learned, acquired large sums of francs after the invasion and after they had received exclusive information of the proposed upward revaluation. The Treasury may also use the threat of the seizure of dollar assets some of these officials have cached in the United States or refuse to honor credits deposited to their accounts.

Bernard Bernstein, former head of the Treasury Foreign Funds Control Division, was suddenly commissioned prior to the invasion a lieutenant colonel and was sent to North Africa ostensibly to straighten out the chaotic monetary condition of the colonies.

Last January he returned to the United States and conferred with his former colleagues in the Treasury. Little is known of these con-

(Continued on page 23, column 6)

ferences. However, Colonel Bernstein asked for other Treasury employees to be sent to Africa to assist in the work.

On the basis of Colonel Bernstein's disclosures, Henry Morgenthau Jr., Secretary of the Treasury, asked for an inquiry into the financial transactions of many French officials. The investigation is now under way and may result in drastic action to eliminate these reported large profits made by some officials there.

The administration of North Africa is in the hands of the War and State Departments. Treasury, Lend-Lease and Board of Economic Warfare officials are also stationed there, but policy is dictated by the Army and the State Department.

The colonial French franc was revalued upward to raise the purchasing power of the native population and the French colonials. By one stroke the United States expected to bring some relief to the hard-pressed population which had been robbed by the Italian and German so-called armistice commissions.

The Treasury printed special American currency for circulation in North Africa. These dollars are marked with a gold seal as contrasted with the customary blue seal. This special currency was prepared as a precaution against Nazi seizure and possible use in other parts of Europe.

The franc at the time of the invasion had a nominal value of slightly more than one cent. It had been declining since the German invasion of France. The French government has in the United States about \$1,400,000,000 in gold, exchange and other assets.

Although most of the resources of the Bank of France were sent out of the country, the Germans were able to seize considerable resources, as for example, about \$250,000,000 of Belgian gold which was entrusted to the Bank of France. The position of the French currency has deteriorated since June, 1940, the Nazis draining the Bank of France at an alarming rate. Its foreign exchange holdings have declined to 37,000,000 francs, the bank reported, while occupation costs have risen to 180,999,000,000 francs. Note circulation has grown from 151,222,000,000 in December, 1939, to 223,494,000,000 francs. These statistics are said to be inaccurate and collusively "doctored" to present a better monetary picture than is the case.

In other words, the government of Marshal Henri Petain has paid a sum to the German occupying army in excess of the amount of money in circulation before the fall of France and more than half of the inflated francs now in circulation.



# Steel Filings

## Did Speculators Tip Nazis To Our Africa Invasion?

By Johannes Steel

Cordell Hull has stated that there is deep concern among the United Nations over the transmission of vital information to the Axis through neutral countries.

The Secretary of State made this comment in the course of a press conference when he was asked about a remark of a former Argentine Consular Attache in Tokio to the effect that Argentina has been the eyes and ears of the Japanese government in the Western Hemisphere.

Mr. Hull is well justified in expressing his concern, although the problem is certainly not limited to Argentina and in more than one way is of our own making. Only the politically naive will insist that Germany derives no advantage from the continued existence of large diplomatic staffs in Washington on the part of such "neutrals" as Finland and Spain, both of which are actively on the side of Germany.

### Loophole for Fascism

The whole world is laughing at our appeasement of Spain. Last week, Argentina ratified the first in a series of cultural agreements between that country and Spain which are deliberately aimed at the spread of Fascist propaganda throughout South America and at the destruction of the Pan-American ideal. The projected ideological conquest of South America by the Fascist doctrine of Hispanidad is perhaps even more important for the future than the fact that the Japanese Embassy in Argentina is accused of sending more than sixty cablegrams a day to Japan with full information on United States war production.

Yes, information is leaking through neutral sources, but not through neutral sources alone. For what I would really like to know is who was the American official who tipped off Jacques Lemaigre-Dubreuil some four weeks before the American coup actually took place, that an Allied invasion of North Africa was coming. Let it not be forgotten that that tip enabled Lemaigre-Dubreuil to inform Pierre Pucheu of the Banque Worms and the Wendel Steel Cartel and Breart

de Boisanger, who represents Vieffy on the board of directors of the Bank of International Settlements at Basle, to participate in the North African currency speculations which have made vast new fortunes and which are now being investigated by the United States Treasury.

### Nazi Bankers Also Knew

Certainly this was vital information; the leakage of which should have caused grave concern because these French speculators, who knew of the coming invasion long before the American public, informed their German colleague on the board of directors of the Bank of International Settlements, Baron von Schroeder, of it. In fact, de Boisanger met von Schroeder in Switzerland early in October 1942. Shortly after Baron von Schroeder's conference with de Boisanger, French industries and banks which were half German-owned began transferring their assets to North Africa.

All liquid funds were transferred to the offices of the Banque de Paris et des Pays Bas and the Banque de l'Etat du Maroc in Morocco and Algiers. All this, of course, for the purpose of exchanging franc assets, with the help of the American diplomatic representatives in North Africa, into dollar assets. This was possible because there was a leakage of information—something which Mr. Hull might very well be justified in worrying about. Also a beneficiary of this leakage, Pierre Etienne Flandin, a member of the Board of Directors of the two German-French North African trusts, hurried to Algiers in order to arrange with our diplomatic agents that the control of the North African economic setup was not to be disturbed by coming military events.

### Hedge Against Axis Defeat

Precisely this leakage of information enabled German-French big business to get some

of its money and holdings under the protection of the Allies. A sound hedge against Hitler's coming military defeat!

Meanwhile, it would certainly be extremely interesting to know whether Baron von Schroeder, who primarily seemed to be interested in transferring German-French assets to North Africa, thought it necessary to inform the German General Staff of his knowledge that an Allied invasion of North Africa was on the way. A particularly interesting question since Herr von Schroeder was the man at whose house in Cologne in 1933, the pact was made between German industry and Hitler, leading to the latter's election as Chancellor.

It von Schroeder did inform the German General Staff of what he expected to happen in North Africa, it would be interesting to speculate upon the reasons which made the German General Staff decide not to take more drastic counter-measures than it did. Could it be that the German General Staff felt that all the conquest of Africa would finally amount to was a delay of one year in the establishing of a second front on the European Continent by the Allies, giving the Germans enough time to fortify Festung Europa?

702 V

MAY 14 1943

Dear Mr. Lehman:

Reference is made to your letter of May 8, 1943 enclosing memorandum entitled "Statement of Policy for Relief and Rehabilitation in Future Liberated Areas". I appreciate your informing me of the policy that you intend to follow with regard to relief and rehabilitation in liberated areas. <sup>convinced me</sup> The way you are tackling this problem ~~assures me~~ <sup>convincing me</sup> that you will be successful in carrying out the tremendous responsibility which the President has given you for the relief and rehabilitation of the liberated areas.

I wish to assure you that my Department will cooperate wholeheartedly with your agency in its work. I am certain that the Treasury, in carrying out its responsibilities for financial and monetary matters in the liberated areas, can look to your organization for similar complete cooperation.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

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

JT:ISF/Drl  
5/14/43

Photo file to Dismy  
File to White's office

DEPARTMENT OF STATE  
OFFICE OF FOREIGN RELIEF AND  
REHABILITATION OPERATIONS

WASHINGTON, D. C.,

May 8, 1943.

My dear Mr. Secretary:

After studying the problem in the United States and after conferences in London with the Commander of the European Theatre of Operations of the United States Army, representatives of the British Government, ministers and experts of other allied nations and with the Chief of my North African Mission, I have reached a number of decisions with respect to the method of operations of the Office of Foreign Relief and Rehabilitation Operations in areas to be liberated in the future.

I have embodied these decisions in the annexed statement of policy which I am sending to the Secretary of State, the Secretary of War, the Secretary of the Navy, the Secretary of Agriculture, the Administrator of the Lend-Lease Administration, the Administrator of War Shipping Administration, the Administrator of War Food Administration, the Chairman of the Board of Economic Warfare, the Chairman of the War Production Board, and the Director of the Bureau of the Budget. I would appreciate it if you would bring the memorandum to the attention of the interested Divisions within the Department of the Treasury.

I know that I may count on your help in the future as I have in the past, in this important and difficult undertaking.

Very sincerely yours,

  
Herbert H. Lehman  
Director

Enclosure:  
Statement of policy.

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

MAY 8 1943

STATEMENT OF POLICY FOR RELIEF AND  
REHABILITATION IN FUTURE LIBERATED AREAS

1. The President, by letter of March 19, 1943, has directed me to "plan, coordinate and arrange for the administration of this Government's activities for the relief of victims of war in areas liberated from Axis control" through the provision of basic necessities, housing facilities and essential services. I am also directed "to facilitate in areas receiving relief the production and transportation of these articles and the furnishing of these services." To accomplish these results, the President has authorized me to "utilize the facilities of the various government departments, agencies and officials which are equipped to assist in this field" and to issue such directives as I may deem necessary "to achieve consistency in policy and coordination in administration."

2. In accordance with the President's letter my operations in each liberated area will be guided by the directives of the Secretary of State on matters of general foreign policy and will be subject to the "approval of the United States military commander in that area so long as military occupation continues." My work will also be geared to that of our allies.

3. The United States' economic operations in North Africa were already under way and had assumed a definite administrative pattern before the Office of Foreign Relief and Rehabilitation Operations was established and its responsibilities defined. Therefore, I have not sought to change this administrative pattern or to interfere with policies under which various courses of action had already been set.

4. To clarify plans and to facilitate preparations for future operations in other liberated areas,

I am sending you this memorandum to outline the general policies which I am now establishing. These policies are based on the responsibility delegated to me by the President, my analysis of the economic operations in North Africa, and my many discussions here and in London with responsible officials, American and Allied, military as well as civilian.

5. For an initial period after any area is liberated from the Axis, the military authorities must, of course, have complete control over and responsibility for the administration of civilian relief and rehabilitation. As is being demonstrated in Tunisia, the Office of Foreign Relief and Rehabilitation Operations is prepared to serve the military authorities, as they may request, in planning for and carrying out these operations during this initial period. Discussions are now under way with the appropriate military authorities to effect the closest possible coordination of effort.

6. Both during this period of military responsibility and for a considerable time thereafter the principal economic job to be performed in liberated areas will be that of relief and rehabilitation.

Relief consists of furnishing the essential goods, facilities and services required by civilian populations, irrespective of the mode of distribution, whether by gift, sale or barter. Relief cannot be limited to free distribution if we are adequately to utilize resources in liberated areas and to avoid the necessity for and the waste of a double supply line.

Rehabilitation consists primarily of assisting the liberated populations to help themselves through facilitating their own production of basic necessities and their own furnishing of essential services. This includes, among other things, the development of agricultural and other local resources by furnishing certain amounts of seed, agricultural machinery, raw materials,

and technical assistance.

7. A principal reason for the creation of the Office of Foreign Relief and Rehabilitation Operations was to "facilitate the progress of the war" by concentrating in a single agency responsibility for relief and rehabilitation, and civilian supply related thereto, during the period following liberation. Such a concentration simplifies the problem of the Army by assuring the existence of a single civilian supply line and administration. It reduces to the minimum all duplication of effort, and it eliminates the administrative confusion which exists when several agencies operate in the same field and the danger of contradictory policies in dealing with foreign governments. It provides the only means by which goods which will inevitably be in short supply can be allocated on a practical and equitable basis to the peoples requiring assistance. Finally, it will make easier the transition to any United Nations relief organization that might hereafter be established.

8. When the responsibility for the administration of relief and rehabilitation passes from military to civilian hands, it is accordingly my responsibility as Director of the Office of Foreign Relief and Rehabilitation Operations to control, so far as the activities of the United States Government are concerned, the entire civilian supply for the particular liberated area during the relief and rehabilitation period. To discharge the responsibility for the success of relief and rehabilitation operations which has been imposed upon me, I must exercise authority commensurate with that responsibility. This authority must necessarily include the formulation of requirements for submission to the Lend-Lease Administration and to the appropriate commodity control agencies and also direction of the distribution of all civilian goods imported into the liberated area.

9. Aside from relief and rehabilitation as defined by the President, the principal economic problems

presented in each liberated area during the period described above are (a) financial and currency control, (b) development and procurement of strategic and critical materials other than for civilian supply in the same or other liberated areas, and (c) the gathering of economic intelligence.

The problem of financial and currency control is, of course, a function of the Treasury Department and of other units of the Department of State. The Office of Foreign Relief and Rehabilitation Operations will work in close cooperation with the Treasury and the Department of State so that the necessary coordination can be achieved both in the planning stage and in operations.

The development and procurement of strategic and critical materials and the gathering of economic intelligence are among the functions of the Board of Economic Warfare. These functions and the rehabilitation functions of the Office of Foreign Relief and Rehabilitation Operations can be coordinated with little difficulty.

10. To fulfill the responsibilities placed upon me by the President, the Office of Foreign Relief and Rehabilitation Operations must and does take responsibility for the formulation of requirements and plans for the relief and rehabilitation of civilian populations in liberated areas and for all coordination thereof. In formulating these requirements and plans, it is the policy of the Office of Foreign Relief and Rehabilitation Operations to seek the cooperation, assistance, and participation of all the United States departments and agencies which have special knowledge, skill and experience with respect to the economic and social needs of occupied countries. It is my intention to continue the practice of utilizing the services of interested agencies to the fullest extent.

11. With respect to operations in the field, the Office of Foreign Relief and Rehabilitation Operations must and does assume responsibility for the selection

-5-

and direction of the Chief and members of the relief and rehabilitation mission in each liberated area. The mission chief will be answerable to me, as Director of the Office of Foreign Relief and Rehabilitation Operations, and his charter of operations will come from me.

In matters of general foreign policy the mission chief will be guided by the directives of the Secretary of State and the chief political officer of this government assigned to the liberated area.

When relief and rehabilitation operations are being administered by the military authorities, he will function under the immediate direction and supervision of the commanding military officer in the field; and thereafter, so long as military occupation continues, his operation shall be subject to the approval of the military commander in that area.

Throughout the period of civilian administration of relief and rehabilitation, the mission chief will be directly responsible to this office for the preparation of requirements, the formulation of plans, and the control of the reception, transportation and distribution of goods imported under United States auspices for civilian use, and for all rehabilitation operations.

12. I have prepared this memorandum with full appreciation of the grave responsibility referred to by the President in his letter of March 19, 1943. At the same time I am confident that this responsibility can be discharged with the full support of the President and with the cooperation of the federal agencies in fields related to my own, of which the President and the individual agencies have so generously given me their assurance.

Herbert H. Lehman  
Director of Foreign Relief  
and Rehabilitation Operations



CANADIAN LEGATION  
WASHINGTON

May 14, 1943.

Dear Dr. White:

Dr. Clark has supplied me with some preliminary figures on the Canadian-United States dollar position at the end of April. I have learned by telephone that unfortunately there is an error in one of the figures, the full implications of which I do not quite understand.

I am accordingly obtaining full correct figures from Ottawa as soon as possible. These will almost certainly arrive during the next ten days while I am away from Washington, so there will be some delay in their transmission to you.

Meanwhile, I can provide you with the most important single figure. Our total gold and United States dollar position at the end of April amounted to \$506 million as contrasted with \$537 million a month earlier.

During the month of May we shall be compiling our normal quarterly estimate of future receipts and disbursements. Dr. Clark tells me that the Department of Munitions and Supply is substantially behindhand in its preparation of their forecast of war production which should have been available by May 1. (There may be substantial changes in the Canadian war production programme). The delay in the estimates of Canadian war production naturally retard the estimates of its United States dollar content. Therefore, our quarterly estimates may be a bit behindhand.

Yours sincerely,

*A. F. W. Plumptre*  
A. F. W. Plumptre  
Financial Attache

Dr. Harry White,  
Treasury Department,  
Washington, D.C.

Treasury Department  
Division of Monetary Research

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Date May 14, 1943 19

To: Secretary Morgenthau

From: H. D. White

Colonel Mayer of the Chinese Branch of the Military Intelligence Service telephoned to say that they had learned from the press that Secretary Morgenthau had received a communication from General Chiang Kai-shek referring to the massacre of the Chinese population in connection with General Doolittle's group landing in China.

The Colonel wanted to know if it was possible for them to get a copy of the communication, inasmuch as it is the first intelligence of that incident that they have. They would like to check it against their sources. I replied that I would make inquiry to ascertain whether any further information was available.

*The answer  
is yes.*

*W.H. White  
in reply to Mayer 5/14/43*

TREASURY DEPARTMENT

SECRET

INTER OFFICE COMMUNICATION

DATE May 14, 1943

Mr. D. W. Bell

Messrs. White and Luxford

Re: Office of Strategic Services  
proposal re Turkey

In connection with the above matter, we suggest that we recommend to the Secretary that we go along with the O.S.S. proposal providing one of the two Treasury "representatives" is actually a Treasury man.

In this connection, John W. Gunter of the Division of Monetary Research is available for such an assignment and has indicated his willingness to go. We think that it is in the Department's interest to have a man in Turkey at this time and that this opportunity should not be neglected.

As you know O.S.S. is most anxious to have a prompt answer and this matter should be discussed with the Secretary as soon as possible.

OK

HDW

OK  
H. M. J.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET  
U.S. SECRETOPTEL NO. 158

Information received up to 7 a.m., 14th May, 1943.

1. NAVAL

COMMUNICATORS. One of H.M.S. Destroyers damaged by mine or torpedo in BRISTOL Channel.

MEDITERRANEAN. 5th. One of H.M. Submarines sank a 500 ton Schooner off ELBA. 10th. M.T.B. mined off SOUSSE. 12th. One of H.M. Submarines probably torpedoed a ship off CORSICA.

2. MILITARY

Tunisian General Von Arnim captured on 12th in ST. MARIE DU ZIT Area. Total number of prisoners captured about 150,000 and also considerable quantities of material. Confirmed that no serious attempt was made to evacuate any Axis Forces from North AFRICA.

BURMA. Having withdrawn from BUTHIDAUNG on MAUNGDAV, our troops now occupy positions on Western Slopes of MAYU Hills.

3. AIR OPERATIONS.

WESTERN FRONT. 12th/13th. 1462 tons bombs dropped on DUISBURG in a very successful attack. 13th. Escorted Mitchells, Bostons and Typhoons attacked respectively BOULOGNE Railway Centre, CHERBOURG Docks and ABBEVILLE Airfield. 88 escorted U.S. Fortresses (B17) dropped 222 tons bombs on MEAULTE Airframe Factory with fair to good results and 31 dropped 74 tons on ST. OMER Airfields with fair to poor results. Enemy casualties from Escorts - 12, 1, 12. Ours - 9, 0, 2. Also provisional enemy casualties by Fortresses - 8, 8, 3. Three Fortresses missing and one crashed. 13th/14th. Aircraft despatched Bochum 442 (24 missing and one crashed) Pilsen 168 (9 missing) Berlin 12 (1 missing) Sea Mining 8, Leaflets 12, Intruders 25. Weather good over all targets. 16 enemy aircraft flew over EAST ANGLIA. One crashed landed, fairly intensive damage at CHELSPORD and a few casualties.

TUNISIA. 12th. 24 Medium and Light Bombers made 3 attacks on enemy near BOU FICHA, where enemy subsequently surrendered.

BURMA. 11th. 13 Liberators (B 24) attacked RANGOON and 16 Mitchells (B 25) attacked Railway targets near MANDALAY. 12th. 13 Liberators (B 24) bombed BASSEIN and SHWELYO (80 Miles East of MAGYE).