

DIARY

Book 634

May 15 - 18, 1943

- B -

	Book	Page
Buffington, George See Financing, Government: War Savings Bonds (Organization Plans)		
Business Conditions		
Haas memorandum on situation, week ending May 15, 1943 - 5/17/43.....	634	119
Byrnes, James F. See Revenue Revision		

- C -

China		
Stabilization Board: Investment of U.S.\$1 million in Chinese Government U.S. dollars-backed Savings Certificates - Adler cable concerning - 5/15/43.....		72
Trade between occupied and unoccupied areas through Honan province discussed in American Embassy, Chungking, cable - 5/15/43.....		74
Occupied China - remittances from United States to: Treasury program reported to Adler - 5/15/43.....		75
Clark, Bennett C. (Senator, Missouri) For criticism of Treasury personnel on floor of Congress see Revenue Revision		
Collison, Norman See Tunnell, James M. (Senator, Delaware)		
Contracts, Renegotiation of See Post-War Planning		
Crawford, Robert (Brother of Helen and Janet) Recommended for increase, Collector of Customs, New York City - 5/18/43.....		275
Curacao See Netherlands		
Currency Stabilization See Post-War Planning		

- D -

Dutch East Indies
See Netherlands

- E -

Early, Stephen See Revenue Revision		
Edwards, B. M. See Financing, Government: War Savings Bonds (Organization Plans)		

- F -

Federal Reserve System See also Financing, Government: War Savings Bonds (Organization Plans)		
Attitude toward Treasury discussed by group in connection with War Savings Bonds Drive plans - 5/18/43.....		167

	Book	Page
Financing, Government		
Federal Reserve operations in Government securities - 5/15/43.....	634	55
War Savings Bonds:		
2nd War Loan Drive:		
Highlights in booklet form, "The Story of America's Greatest War Loan," described in memorandum to editors, publishers, etc. - 5/17/43.....		7
a) Smith memorandum describing purpose - 5/15/43.....		5
b) Distribution discussed by HMJr, Bell, Gaston, Gamble, Smith, Tickton, Lindow and Banyas - 5/19/43: See Book 635, page 20		
1) Booklet: Book 635, page 28		
c) Schwarz memorandum on distribution - 5/25/43: Book 636, page 209		
d) Gregory article in New York Herald Tribune criticizing data - 6/13/43: Book 641, page 63		
1) Haas memorandum - 6/15/43: Book 641, page 61		
Frankford Arsenal: Biddle (Attorney General)--Treasury supplemental correspondence concerning non-delivery of bonds - 5/15/43.....		10
Payroll Savings Plan: Issuing agents - list circularized urging greater sales - 5/15/43.....		12
Poughkeepsie District report given to HMJr by Richmond F. Meyer - 5/18/43.....		262, 265.
Organization Plans:		
See also Book 630		
Conference; present: HMJr, Bell, Gaston, Sullivan, White, Gamble, and Thompson - 5/18/43.....		160
a) Federal Reserve vs. Treasury plans discussed		
1) Sullivan's opinion on Federal Reserve attitude.....		161
b) B. M. Edwards-Burgess conference with Treasury discussed.....		165
1) Edwards' letter.....		173
c) Federal Reserve System--Treasury relationship explained to group by White.....		166
Conference; present: HMJr, Bell, Gaston, and Graves - 5/18/43.....		176
a) Federal Reserve's desire to recommend the sales manager resented by HMJr		
b) Eccles reported to have made strong plea to Federal Reserve presidents to cooperate with Treasury.....		179
Conference; present: HMJr, Bell, Gaston, Gamble, Buffington, Fleek, and Bryce - 5/18/43.....		185
a) Federal Reserve--Treasury difference of opinion discussed		
b) "Cooperation with commercial banks will be greater through a Federal Reserve set-up" - Buffington.....		192
c) Fleek recommends Federal Reserve-Treasury cooperation.....		194
d) Fleek plan - 5/25/43: See Book 636, page 195		

- F - (Continued)

	Book	Page
Financing, Government (Continued)		
War Savings Bonds (Continued):		
Organisation Plans (Continued):		
Leffingwell-HMJr conversation - 5/18/43.....	634	203
a) Federal Reserve--Treasury cooperation in last war discussed		
b) Leffingwell deplures any possibility of falling out in present financing		
Conference; present: HMJr, Bell, White, Paul, Gaston, Sullivan, Gamble, and Currie - 5/18/43.....		221
a) Eccles' report on results of further conference of Federal Reserve Bank presidents discussed		
1) State managers' appointments - relinquishing of frowed upon		
b) Bell and Gaston felt to be anti-Federal Reserve Banks		
c) Sproul (New York), Day (San Francisco), and Peyton (Minneapolis) most strongly opposed		
1) Ruml "out to get HMJr" - Paul; may be "putting heat on" Sproul.....		224
Buffington (George) asked by HMJr if he will work under Gamble - 5/18/43.....		229
a) Resignation - 6/14/43: See Book <u>641</u> , page 233		
Hobbs (Robert B.) resignation - 6/14/43: Book <u>641</u> , page 235		
Shipyards:		
Waldman (Emerson) reports in connection with War Savings Bonds drives - Houghteling asks for permission to show reports to Maritime Commission - 5/17/43.....		118
Reports* on Delaware, Maryland, New Jersey and New York shipyards - 5/24/43: See Book <u>636</u> , page 35		
Frankford Arsenal		
See Financing, Government: War Savings Bonds		

- G -

Greenbaum, Edward S. (Brigadier General)		
See Post-War Planning		
Gregory, Nicholas P. (Financial Writer, New York Herald-Tribune)		
See Financing, Government: War Savings Bonds		
("Story of America's Greatest War Loan")		

- H -

Haas, George C.		
World Food Conference: Thanks HMJr for designating him as adviser to - 5/15/43.....		64

*By Emerson Waldman

	Book	Page
India		
Anti-inflationary measures reported by American Embassy, New Delhi - 5/18/43.....	634	326,328

Leffingwell, Russell T. See Financing, Government: War Savings Bonds (Organization Plans)		
Lend-Lease		
Report for week ending May 14, 1943 - 5/18/43.....		321
United Kingdom:		
Federal Reserve Bank of New York statement showing dollar disbursements, week ending May 5, 1943 - 5/15/43.....		67
Aircraft despatched, week ending May 11, 1943 - 5/17/43.....		135

Netherlands		
Financial position of Netherlands, Netherlands East Indies, Surinam, and Curacao outlined - 5/18/43.....		323
North Africa		
See Occupied Territories		

Occupied Territories		
Tunisia: Report on reoccupation - 5/15/43.....		77
North Africa: Reports on Purchases		
May 10-16, 1943 - 5/17/43.....		131
" 17-23, " : See Book 636, page 77		
" 24-30, " : Book 638, page 156		
Tripolitania: Currency situation discussed in Treasury-State correspondence - 5/18/43.....		317
Office of Price Administration		
Cowles-LaRoche-Rogers conference with HMJR planned - 5/18/43.....		181

Peabody, Stuart		
Borden Company thanked for his services - 5/18/43.....		273
Peabody thanked - 5/19/43: See Book 635, page 60		
" reply - 5/27/43: Book 637, page 181		
Post-War Planning		
Contracts, Renegotiation of: White letter to Greenbaum transmitting Treasury plan - 5/18/43.....		276,280
Currency Stabilization: Delegates to see HMJR personally - 5/18/43.....		314
Poughkeepsie, New York		
See Financing, Government: War Savings Bonds		

Procurement Division

Confidential nature of certain strategic information
contained in schedules and manner of handling
discussed in Paul-Gaston memorandum - 5/17/43..... 634 137

Renegotiation of War Contracts

See Post-War Planning

Revenue Revision

Clark (Senator, Missouri) criticism of Treasury personnel
lobbying on floor of Senate - 5/15/43..... 57

Ruml Plan: Veto discussed by HMJr. Bell, Paul, Sullivan,
and Gaston - 5/17/43..... 103

a) Byrnes reports Doughton's telephone call for
guidance..... 88
96,106

b) Doughton-HMJr conversation..... 106
109

1) FDR-Byrnes-HMJr-Paul talk on strategy
reported..... 112,115
217

a) Early-HMJr conversation on publicity..

b) Letters to George and Doughton from
FDR.....

c) Byrnes-HMJr conversation - 5/18/43.....
1) FDR's intervention lauded

d) Paul's resumé of conferences with Cohen, FDR,
Byrnes, etc. - 5/18/43..... 231

e) Doughton-HMJr conversation - 5/19/43: See Book 635,
page 1

f) Rayburn-HMJr conversation - 5/19/43: Book 635,
page 29

g) Connally-LaFollette-Byrd thanked - 5/19/43:
Book 635, page 51

Robbins, W. M.

General Foods Corporation thanked for his services -
5/18/43..... 274

Ruml, Beardsley

See Financing, Government: War Savings Bonds
(Organization Plans)

Shipyards

See Financing, Government: War Savings Bonds

Small Businesses

White, W. W. (Newark, Ohio): Plan for procurement of
additional help in return for payment in War Stamps
or Bonds or in contributions to Red Cross discussed in
Mrs. FDR--Treasury correspondence - 5/18/43..... 305

Smith, Fred

See Financing, Government: War Savings Bonds
("Story of America's Greatest
War Loan")

- S - (Continued)

Book Page

Sproul, Allan
See Financing, Government: War Savings Bonds
(Organization Plans)
"Story of America's Greatest War Loan"
See Financing, Government: War Savings Bonds
Surinam
See Netherlands

- T -

Taxation
See Revenue Revision
Tripolitanis
See Occupied Territories
Tunisia
See Occupied Territories
Tunnell, James M. (Senator, Delaware)
Support of FDR and rebuff on recommendations discussed
by Byrnes and HMJr - 5/18/43..... 634 218
a) Collison, Norman, appointed as Collector of
Internal Revenue in Delaware - 5/27/43:
See Book 637, page 198

- U -

United Kingdom
See Lend-Lease

- W -

Waldman, Emerson
See Financing, Government: War Savings Bonds
War Savings Bonds
See Financing, Government
White, W. W. (Newark, Ohio)
Small Businesses: Procurement of additional help in
return for payment in War Stamps or Bonds or in
contributions to Red Cross discussed in Mrs. FDR--Treasury
correspondence - 5/18/43..... 305

Pages 1-4, dated
May 15, 1942, placed
in proper volume,
Book 528.

11/5

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 15, 1943

TO Secretary Morgenthau

FROM Fred Smith (RS)

Attached is another new twist.

Up to this point, we have released material to the newspapers, and they knew very well if they didn't publicize it, the story wouldn't get told.

In order to short-circuit that situation, we should like to produce our "memorandum to editors" this time in the form of a booklet. This booklet can be distributed (after the editors have had ample time to see it) to the War Bond organization and to all those who have helped promote the Second War Loan. Hence, it will get wide public attention over and above what the newspapers may see fit to give it, and the very fact of its distribution makes it news.

By giving the newspapers time to digest and use the material before general distribution, we are doing them a favor. By letting them know that our story is going to be told, whether they tell it or not, we are doing ourselves a favor.

I think the attached booklet gives a quick and dramatic picture of what has happened, and what is going to happen. By charting up the results and the plans in pictographs, no one can accuse us of being "fuzzy." They can not misinterpret what we are saying. In this way, I think we are not only telling the story, but pinning it down, with the result that the newspapers will have to tell it our way, or not at all. And it is much better to have them ignore it than confuse it.

- 2 -

You will notice that we have used part of your CBS speech as an introduction. This was not very widely heard, nor very widely reported, so I think reprinting the meat of it is a good idea anyway.

* * * * *

Chic Schwarz has all the information on this so he can put it through on Monday if it is OK. The facts and figures were supplied by Lindow, Tickton and Company. I would stay over until Monday myself except that I have an appointment to get basic metabolized to prevent my folding up on the next plane trip with you. My doctor, Herbert C. Chase, M. D., F.A.C.S., presented me with a book about anoxia, which he wrote for the Army, and which he says is what ails me. I would have understood pills better than the book, but that's the penalty of looking intelligent.

I can be reached through my office at any time and will return in the middle of the week if nothing urgent turns up.

I am about cleaned up at Y & R.

May 17, 1943

MEMORANDUM TO EDITORS,
PUBLISHERS AND COMMENTATORS
FROM HENRY MORGENTHAU, JR.,
SECRETARY OF THE TREASURY

I have already thanked you, but I will thank you still again, for your excellent contribution to the success of the Second War Loan Drive.

At the beginning of that drive, you will recall that I sent you a memorandum explaining what we were setting out to do during the year 1943, and the place that the Second War Loan took in our over-all war financial program.

As a sequel to that memorandum, I am sending you herewith an advance copy of a Report which we will release on May 26th to the War Bond organization, to all those who helped us in the promotion of the Second War Loan, and to others. It shows some of the highlights of our results, and, incidentally, promises that more work and still bigger jobs remain to be done.

I am sending you this advance copy so that you will have time to digest and utilize any of the material in it for editorial and news matter, on Monday, April 24th, or thereafter.

I hope you will see your way clear to give publicity to the material in this report because I feel that the American people are entitled to know about it. From every indication, they seem to be happy that the War Loan is going so well. They feel a personal interest in it. We can only maintain that personal interest if we keep them advised of everything that we have done, that we are doing, and that we plan to do.

- 2 -

I can assure you that I appreciate your past courtesies, and hope you will continue to work for the War Bond program in the future as you have, so generously, in the past.

FS:cf

OFFICE OF WAR INFORMATION
WASHINGTON

9

AM

May 15, 1943

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

Dear Mr. Morgenthau:

This is simply to express my sincere thanks to you for taking care of the letters to Mr. George Washington Hill, and your letter of thanks to the broadcasting industry as a whole. I can assure you that they will be more than grateful for your statement of appreciation.

We have arranged a meeting for next week with Fred Smith, wherein we hope to set up a practical way of operation through which OWI can give complete and efficient service to the Treasury. After we have ironed out whatever bugs there may be in our present method of operation, we would like to present our new plan for your approval.

Sincerely yours,

Don Stauffer
Donald D. Stauffer, Chief
Domestic Radio Bureau

RECEIVED
MAY 15 1943
U.S. DEPARTMENT OF WAR
WASHINGTON, D.C.



May 15, 1943

Dear Mr. Biddle:

The Secretary has asked me to get word to you this morning that we are working on the matter referred to in your letter of May 6.

Following receipt of information from you on April 22, a complete investigation of the status of the War Bond Program in the Frankford Arsenal was started.

On the basis of information that we now have we are requesting our representative in Philadelphia, Mr. Benjamin Ludlow, to communicate with Mr. Scoville and to apprise him of the steps we are taking to correct this matter. We are advising Mr. Scoville direct of this arrangement. I am sure that the whole affair can be cleared up at once to everybody's satisfaction.

The Secretary wants you to know that he appreciates your interest in bringing this to his attention.

Sincerely yours,

(Signed) D. W. BELL

Daniel W. Bell
Under Secretary of the Treasury

Honorable Francis Biddle
The Attorney General
Washington, D. C.

TRG: jdg

(Handwritten initials)



Office of the Attorney General
Washington, D.C.

Dumb

—

e B

May 6, 1943

PERSONAL

Dear Henry:

I am in receipt of a letter from Samuel Scoville, Jr., who, as I wrote you on April 22nd, had been asked by employees in the Frankford Arsenal to represent them in connection with their subscriptions to bonds, stating:

"I have never received any advices from the Treasury Department, to which you referred my letter of April 21, in connection with the failure to deliver bonds or receipts to employees of the Frankford Arsenal which they have been paying for during this last year".

You may wish to have someone in Philadelphia communicate with Mr. Scoville.

Sincerely yours,

Francis Biddle

Attorney General

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

Expenses of Loans, Act

of 9/24/17, as amended and extended

To tele. off 5 PM 5/15

TO: Corporations on the attached list.

Last fall the nation's large corporations helped me speed up the issuance of war bonds purchased under the payroll savings plan by the suggestions and information they were good enough to submit in response to my telegram of September 9 re war bond issuance. The number of war bonds issued under the payroll plan has more than doubled since last September, and we confidently expect the number to increase as deductions for war bond purchases continue to rise from month to month. We realize that the increased volume has been the cause of delays in bond issuance in some companies, yet many corporation executives in plants where the plan has resulted in maximum achievement have advised me that it has never been truer than it is today that war bond sales can continue with full success only if the bonds are delivered promptly. Employees tell me that bonds must be issued promptly after payment if their enthusiasm for the plan is to be maintained. Will you as an issuing agent please wire me collect how long it takes your employees to receive bonds after payments are completed and any suggestions you can give me for speeding up delivery.

Henry Morgenthau, Jr.
Secretary of the Treasury

SOT:md 5/15/43

List of Issuing Agents
Subject of Telegrams on May 15, 1943

Name and address	Number of employees	Telegraph code number	Serial number
The New Britain Machine Co. New Britain, Conn.	3,792	59	1
Naumkeag Steam Cotton Co. 47 Congress St. Salem, Mass.	2,493	59	2
National Vulcanized Fibre Co. Maryland and Beech, Wilmington, Del.	1,750	35	3
National Union Radio Corp. 15 Washington St. Newark, N. J.	2,133	40	4
The National Sugar Refining Co. 129 Front St. New York, N. Y.	230	40	5
National Gypsum Co. Buffalo, N. Y.	3,032	59	6
Narragansett Electric Co. 53 High St., Washington County Westerly, R. I.	1,505	59	7
The Narragansett Electric Co. Providence, R. I.	1,505	59	8
National Electric Products Corp. 107 6th St. Pittsburgh, Pa.	2,610	45	9
Mutual Life Insurance Company of New York 34 Nassau St. New York, N. Y.	3,294	40	10
Mundet Cork Corp. 65 S. 11th St. Brooklyn, N. Y.	946	40	11
Tallasse Mills of the Mt. Vernon Woodberry Mills, Inc. Tallasse, Ala.	3,954	103	12

May 28, 1943

14

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- - 2 -

Name and address	Number of employees	Telegraph code number	Serial number
Philip Morris and Co., Ltd. Richmond Va.	3,052	35	13
Monroe Calculating Machine Co. 555 Mitchell St. Orange, N. J.	2,084	59	14
Mergenthaler Linotype Corp. 29 Ryerson St. Brooklyn, N. Y.	3,151	40	15
York Manufacturing Co. Saco, Maine	1,656	84	16
York Ice Machinery Corp. York, Pa.	3,689	35	17
The Mathieson Alkali Works (Inc.) 60 E. 42nd St. New York, N. Y.	2,364	40	18
Mathews Cotton Mill Greenwood, S. C.	2,321	84	19
Marlin Rockwell Corp. Plainville, Conn.			
Changed to: Marlin-Rockwell Corp. 402 Chandler Jamestown, N. Y.	1,890	59	20
Manville Jenckes Corp. Manville, R. I.	2,515	59	21
McCloskey and Co. P. O. Box 1728 Tampa, Fla.	1,177	103	22
Lorraine Manufacturing Co. 547 Mineral Spring Ave. Pawtucket, R. I.	2,284	59	23

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 3 -

Name and address	Number of employees	Telegraph code number	Serial number
Lord and Taylor 424 Fifth Avenue New York, N. Y.	2,700	40	24
Linton's Lunch Philadelphia, Pennsylvania	1,294	35	25
Liberty Aircraft Products Corp., Motor Avenue Farmingdale, N. Y.	2,064	59	26
LeTourneau Company Toccoa, Georgia	1,612	84	27
Lee Rubber and Tire Corp., Conshohocken, Pennsylvania	809	35	28
Leeds and Northrup Co., 4901 Stenton Avenue Philadelphia, Pa.	2,285	35	29
A. C. Lawrence Leather Co., Peabody, Mass.	3,800	59	30
George Lawley and Son Corp., 26 Ericsson Street Neponset, Mass.	2,492	59	31
Landis Tool Company Waynesboro, Pennsylvania	2,251	35	32
Kresge Department Store Newark, New Jersey	1,685	40	33
Kollsman Instrument Division of Square "D" Company Elmhurst, N. Y.	3,766	59	34

List of Issuing Agents

Subject of Telegrams on May 15, 1943

Name and address	Number of employees	Telegraph code number	Serial number
Judson Mill, Greenville, South Carolina	2,126	84	35
Supplee-Wills-Jones Milk Co., 1523 N. 26th St., Philadelphia, Pa.	2,092	35	36
Sullivan Dry Dock and Repair Corp., Foot of 23 Street Brooklyn, N. Y.	2,798	40	37
B. F. Sturtevant Co., Hyde Park Boston, Mass.	1,540	59	38
Strawbridge and Clothier 8th and Market St., Philadelphia, Pa.	3,400	35	39
Stillwater Worsted Mills, Harrisville, R. I.	1,428	59	40
John B. Stetson Co., 5th and Montgomery Ave., Philadelphia, Pa.	2,639	35	41
The L. S. Starrett Co., Athol, Mass.	2,200	59	42
Spencer Lens Company Buffalo, N. Y.	1,971	59	43
Sonoco Products Co., Hartsville, S. C.	2,074	84	44
Smith and Wesson Inc., 55 Steekbridge St., Springfield, Mass.	1,538	59	45

May 28, 1943.

17

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 5 -

Name and address	Number of employees	Telegraph code number	Serial number
Alexander Smith and Sons Carpet Co., Lake Avenue and Sawmill River Road, Yonkers, N. Y.	6,193	45	46
Skouras Theatres Corp., 1501 Broadway, New York, N. Y.	1,321	40	47
L. C. Smith and Corona Typewriters, Inc., 701 E. Washington Street, Syracuse, N. Y.	2,231	59	48
Simplex Wire and Cable Co., 79 Sidney Street, Cambridge, Mass.	2,010	59	49
Simonds Saw and Steel Co., 470 Main Street, Fitchburg, Mass.	2,602	59	50
Shirtcraft Co., Inc., Shippensburg, Pa.	1,442	35	51
Shamut Mining Co., St. Marys, Pa.	524	59	52
Sharp and Dohme Inc., Broad and Wallace Sts., Philadelphia, Pa.	2,585	35	53
Sharon Steel Corp., South Irvine Avenue, Sharon, Pa.	4,006	59	54
Scott Paper Co., Front and Market Streets, Chester, Pa.	1,559	35	55
J. Schoeneman, Inc., 412 W. Redwood Street, Baltimore, Md.	1,476	35	56

May 28, 1943

18

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 6 -

Name and address	Number of employees	Tele graph code number	Serial number
The Wm. Schluderberg -T. J. Kurdle Co. Baltimore, Md.	1,500	35	57
Sayles Finishing Plants Inc. Saylesville, R. I.	2,056	59	58
Savannah Machine and Foundry Co. P. O. Box 590 Savannah, Ga.	2,205	84	59
Rustless Iron and Steel Corp. Edison Highway Baltimore, Md.	2,800	35	60
The Russell Manufacturing Co. East Main St. Middletown, Conn.	2,400	59	61
Rohm and Haas Co. 222 West Washington Square Philadelphia, Pa.	4,523	35	62
Rockerfeller Center Inc. 50 Rockerfeller Plaza New York, N. Y.	1,664,	40	63
Richmond, Fredericksburg and Potomac Railroad Co. Richmond, Va.	3,950	35	64
Reynolds Alloys Company Isterhill (Sheffield), Ala.	3,352	203	65
Resinous Products and Chemical Co. 222 W. Washington Square Philadelphia, Pa.	3,355	35	66
Pusey and Jones Corp. 941 Poplar St. at Front Wilmington, Del.	3,036	35	67

May 28, 1943

19

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 7 -

Name and Address	: Number of : : employees :	: Telegraph : : code number :	: Serial : : number :
Price Waterhouse & Company 56 Pine Street New York, N. Y.	440	40	68
The Presbyterian Hospital 620 West 168 Street New York, N. Y.	2,200	40	69
The Potomac Edison Company Frederick, Maryland	1,603	35	70
Pittsburgh Screw & Bolt Corporation 2719 Preble Avenue Pittsburgh, Pa.	1,739	45	71
Philadelphia Suburban Transportation Company 69th Street - Terminal Building Upper Darby, Pa.	10,362	35	72
Pepperell Manufacturing Company Lindale; Georgia	8,892	84	73
Pennsylvania Electric Company 222 Levergood Street Johnstown, Pa.	650	40	74
Pennsylvania Coal Company Scranton, Pa.	2,030	45	75
Pardee & Curtain Lumber Company Bergoo, W. Va.	1,339	59	76
American Laundry Machinery Company Norwood Station Cincinnati, Ohio	793	59	77
Oswego Falls Corporation Fulton, N. Y.	1,546	59	78

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 8 -

Name and Address	: Number of : employees	: Telegraph : code number	: Serial : number
Number 9 Coal Company Exeter Avenue W. W. Pittston, Pa.	1,100	59	79
Northwestern Mining & Exchange Company Scranton, Pa.	1,508	45	80
Norfolk Shipbuilding & Drydock Corporation Norfolk, Virginia	1,189	40	81
Carl L. Norden, Incorporated 80 Lafayette Street New York, N. Y.	3,000	40	82
The New Yorker Hotel Corporation 34th Street & 8th Avenue New York, N. Y.	1,800	40	83
New York Power & Light Corporation Albany New York	2,042	59	84
New York City Omnibus Corporation 605 West 132 Street New York, N. Y.	2,999	40	85
New York Air Brake Company Watertown New York	3,220	59	86
New Jersey Worsted Mills Gera Mills Branch Garfield, New Jersey	2,750	59	87
Sylvania Industrial Corporation Fredericksburg, Virginia	1,839	35	88
The Hecht Company 7th & F Streets N. W. Washington, D. C.	1,890	30	89

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 9 -

Name and Address	: Number of : employees	: Telegraph : code number	: Serial : number
Potomac Electric Power Company 10th & E Streets N. W. Washington, D. C.	2,023	30	90
Wiscassett Mills Company Albemarle, North Carolina	2,956	84	91
Winslow Bros. & Smith Company 248 Summer Street Boston, Mass.	2,150	59	92
J. W. Robinson Company 600 W. 7th Street Los Angeles, Calif.	1,257	162	93
Reed Roller Bit Company Houston, Texas	2,010	132	94
Wayne Manufacturing Corporation Waynesboro, Va.	1,774	35	95
Ware Shoals Manufacturing Company Ware Shoals, South Carolina	4,000	84	96
Wanskuck Company of Providence Providence, R. I.	2,204	59	97
John Wanemaker Philadelphia, Inc. Philadelphia, Pa.	2,801	35	98
Van Norman Machine Tool Company Springfield, Mass.	3,500	59	99
Utica and Mohawk Cotton Mills, Inc. Utica, N. Y.	1,747	59	100

May 28, 1943

22

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 10 -

Name and address	: Number of : : employees :	: Telegraph : : code number :	: Serial : : number :
Utica Knitting Co., Utica, N. Y.	2,835	59	101
Universal Pictures, Inc., New York, N. Y.	364	40	102
United State Pipe and Foundry Co., Burlington, N. J.	380	40	103
United States Fidelity and Guaranty Co., Calvert and Redwood St., Baltimore, Md.	2,851	35	104
United Parcel Service of New York, Inc., 331 E. 38th Street, New York, N. Y.	2,361	40	105
Tung-Sol Lamp Works, Inc., Newark, N. J.	2,340	40	106
Triumph Explosives, Inc., Elkton, Md.	3,600	35	107
Trimount Clothing Co., Inc., Roxbury, Mass.	1,028	59	108
Trico Products Company 817 Washington Street Buffalo, N. Y.	2,167	59	109
The Torrington Co., Torrington, Conn.	3,288	59	110
Titaflex Metal Hose Co., Newark, N. J.	4,168	40	111

List of Issuing Agents

Subject of Telegrams on May 15, 1943

Name and address	Number of employees	Telegraph code number	Serial number
Textile Machine Works P. O. Box 1382 Reading, Pa.	2,695	35	112
Tennessee Products Corp., Nashville, Tenn.	2,043	84	113
Dairymen's League Co-operative Assn., Inc., New York, N. Y.	2,200	40	114
Cushman's Sons, Inc., 250 West 57th St., New York, N. Y.	2,700	40	115
The Crowell-Collier Publishing Co., 250 Park Ave., New York, N. Y.	4,224	40	116
Crompton and Knowles Loom Works Worcester, Mass.	1,838	59	117
Crause-Hinds Co., Wolf and 7th North Sts., Syracuse, N. Y.	1,944	59	118
Arnold Constable and Co., Inc., 453 Fifth Ave., New York, N. Y.	770	40	119
Consolidated Laundries Corp., 122 E. 42nd St., New York, N. Y.	2,407	40	120
Consolidated Engineering Co., Inc., 20 E. Franklin St., Baltimore, Md.	1,600	35	121
Congoleum-Hairn, Inc., Kearney, N. J.	3,052	40	122

May 28, 1943

24

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 12 -

Name and address	Number of employees	Telegraph code number	Serial number
Commercial Credit Co. Baltimore, Md.	650	35	123
Colonial Beacon Oil Co. Boston, Mass.	1,630	59	124
J. and P. Coats (R. I.) Inc. 366 Pine St. Pawtucket, R. I.	2,753	59	125
Clinchfield Coal Corp. Dante, Va.	896	59	126
Cliffside Mills Cliffside, N. C.	1,385	84	127
The Clark Thread Co. 260 Ogden St. Newark, N. J.	1,769	40	128
Cities Service Oil Co. 60 Wall Tower New York, N. Y.	2,158	40	129
Chadwick-Hoskins Co. Charlotte, N. C.	2,001	59	130
Central N. Y. Power Corp. (Niagara Hudson) Syracuse, N. Y.	2,895	59	131
Carpenter Steel Co. 101 W. Bern St. Reading, Pa.	2,910	35	132
Canada Dry Ginger Ale Inc. New York, N. Y.	2,050	40	133

May 28, 1943

25

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 13 -

Name and address	Number of employees	Telegraph code number	Serial number
Bulova Watch Co. 630 Fifth Avenue New York, N. Y.	1,800	40	134
The Bullard Co. Bridgeport, Conn.	6,406	45	135
Buffalo Niagara Electric Corp. Buffalo, N. Y.	1,676	59	136
Buffalo Bold Co. 101 East Ave. North Tonawanda, N. Y.	1,561	59	137
Buffalo Arms Corp. Box C, Station E Buffalo, N. Y.	3,977	59	138
Brown Co. Berlin N. H.	3,463	59	139
The J. G. Brill Co. 62nd and Woodland Ave. Philadelphia, Pa.	1,709	35	140
Breeze Corporations 24 South 6th St. Newark, N. J.	3,494	40	141
Boston Edison Co. 39 Boylston St. Boston, Mass.	2,826	59	142
Boston Consolidated Gas Co. Boston, Mass.	1,362	59	143
Boswit Teller Inc. 721 5th Avenue New York, N. Y.	1,308	40	144

May 28, 1943

26

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 14 -

Name and address	Number of employees	Telegraph code number	Serial number
Blue Bell Globe Manufacturing Co. Greensboro, N. C.	1,230	59	145
Birdsboro Steel Foundry and Machine Co. Furnace St. Birdsboro, Pa.	1,762	35	146
Westvaco Chlorine Products Corp. New York, N. Y.	1,708	40	147
Western Railway of Alabama No. 4 Hunter St., S. E., Atlanta, Ga.	3,287	84	148
American Type Founders, Inc. 200 Elmore Ave. Elizabeth, N. J.	3,164	40	149
American Sales Book Company, Inc. 3000 Highland Ave. Niagara Falls, N. Y.	1,751	59	150
American Machine and Foundry Co. 5502 Second Ave. Brooklyn, N. Y.	2,561	40	151
American Ice Company 43-17 Dreyer Ave. Long Island, N. Y.	1,621	40	152
American Enka Corp. Enka, N. C.	3,027	84	153
American District Telegraph Co., Inc. 155 Sixth Ave. New York, N. Y.	3,174	40	154
American Bank Note Co. 70 Broad St. New York, N. Y.	2,000	40	155

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 15 -

Name and address	Number of employees	Telegraph code number	Serial number
Allied Kid Co. 324 E. 11th St. Wilmington, Del.	629	35	156
Alexander's Department Stores 2501 Grand Concourse New York, N. Y.	1,162	40	157
Joseph T. Ryerson and Son, Inc. 2558 West 16th Street Chicago, Ill.	1,964	84	158
White Sewing Machine Corp. Main and Elm Sts. Cleveland, Ohio	828	59	159
Teletype Corp. 1400 Wrightwood Ave. Chicago, Ill.	3,491	84	160
Joseph and Feiss Co. Box 5968 Cleveland, Ohio	1,939	59	161
Kansas City Power and Light Co. 1330 Baltimore Ave. Kansas City, Mo.	1,888	103	162
Best and Company, Inc. 372 Fifth Ave. New York, N. Y.	2,000	40	163
Beech-Nut Packing Co. Canajoharie, N. Y.	2,378	59	164
Beacon Manufacturing Co. Swannanoa, N. C.	2,560	84	165
Bates Manufacturing Co. Lewiston, Maine	1,833	84	166

List of Issuing Agents
Subject of Telegrams on May 15, 1943

Name and address	Number of employees	Telegraph code number	Serial number
Joseph Baneroff and Sons Co., Wilmington, Del.	1,747	35	167
Baltimore Transit Co., Baltimore, Md.	3,705	35	168
Babcock and Wilcox Tube Co., Beaver Falls, Pa.	3,460	59	169
B. G. Corporation, The 136 West 52 St. New York, N. Y.	2,400	40	170
The Autocar Co., Ardmore, Pa.	2,738	35	171
Atlanta Laundries, Inc., Atlanta, Ga.	1,820	84	172
The Associated Press 50 Rockefeller Plaza N. Y. C.	1,957	40	173
Associated Lerner Shops of America, Inc., 354 - 4th Ave., New York, N. Y.	2,250	40	174
Arma Corporation 254 - 36th St., Brooklyn, N. Y.	5,481	40	175
Apex Hosiery Co., 5th and Luzerne Sts., Phila, Pa.	1,750	35	176
Ken-Rad Tube and Lamp Corp., Owensboro, Ky.	4,148	84	177

- 17 -

List of Issuing Agents

Subject of Telegrams on May 15, 1943

Name and address	Number of employees	Telegraph code number	Serial number
Keeshin Freight Lines, Inc., 221 West Roosevelt Road Chicago, Ill.	1,700	84	178
Kaufmann Department Stores, Inc., 5th Ave., and Smithfield St., Pittsburgh, Pa.	3,207	45	179
F. and R. Lazarus and Company Columbus, Ohio	2,067	59	180
Aviation Manufacturing Corp., Lycowing Division, 652 Oliver St., Williamsport, Pa.	3,674	40	181
Katz Drug Co., 1130 Walnut, Kansas City, Mo.	1,477	103	182
Ballantine, P., and Sons 57 Freeman Street Newark, N. J.	1,800	40	183
B. Kuppenheimer and Co., Inc., 415 S. Franklin St., Chicago, Ill.	1,509	84	184
Key System 2129 Grove Street Oakland, Calif.	1,968	162	185
Lunkenheimer Co., Cincinnati, Ohio	1,969	59	186
The Long-Bell Lumber Co., Longview, Wash.	2,257	162	187
Liquid Carbonic Corp., 3100 South Kedzie Ave., Chicago, Ill.	1,350	84	188

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 18 -

Name and address	Number of employees	Telegraph code number	Serial number
Lima Locomotive Works, Inc. Lima, Ohio	4,200	59	189
Life and Casualty Insurance Co., Life and Casualty Building Nashville, Tenn.	1,857	84	190
R. G. LeTourneau, Inc., 220 Grant St., Peoria, Ill.	2,991	84	191
Mars, Incorporated 2019-59 North Oak Park Ave., Chicago, Ill.	1,872	84	192
Market Street Railway Co., 58 Sutter Street San Francisco, Calif.	1,997	162	193
Marathon Paper Mills Co., Rothschild, Wisconsin	2,847	103	194
Lyon Metal Products Aurora, Ill.	1,340	84	195
Meier and Frank Company, Inc., 621 S. W. Fifth Avenue Portland, Oreg.	2,137	162	196
The Massey-Harris Co., 615 Marquette Street Racine, Wis.	2,684	103	197
Masonite Corporation Laurel, Miss.	2,600	103	198
The Paraffine Companies, Inc., 475 Brannan Street San Francisco, Calif.	1,687	162	199

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 19 -

Name and address	Number of employees	Telegraph code number	Serial number
Midland Ordnance Foundation, Inc., Box 1110 Decatur, Ill.	3,245	84	200
Michigan Consolidated Gas Co., 415 Clifford St., Detroit, Mich.	2,177	59	201
Michigan Alkali Company, 1609 Biddle Avenue, Wyandotte, Mich.	2,343	59	202
The Permanente Metals Corp., 1522 Latham Square Bldg., Oakland, Calif.	1,819	162	203
Pacific Greyhound Lines, 201 Pine Street, San Francisco, Calif.	3,262	162	204
Pacific Car and Foundry Co., 220 West Hudson Street, Seattle, Wash.	1,975	162	205
The Red River Lumber Co., Westwood, Lassen County, California	2,048	162	206
Ray-O-Vac Co., 2317 Winnebago St., Madison, Wis.	1,600	103	207
Bathorne Hair and Ridgway Co., 1140 West 21st Place, Chicago, Ill.	1,207	84	208
Public Service Company of Indiana, Inc., 110 N. Illinois Street, Indianapolis, Indiana	2,341	84	209
Pacific Lumber Co., Scotts, Calif.	1,292	162	210

May 28, 1943

32

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 20 -

Name and Address	Number of employees	Telegraph code number	Serial number
Public Service Company of Colorado Denver, Colo.	2,355	132	211
Palmer House Company, 17 E. Monroe St., Chicago, Ill.	2,426	84	212
The Owl Drug Company, 657 Mission St., San Francisco, Calif.	2,828	162	213
Outboard, Marine and Manufacturing Co., Waukegan, Ill.	1,721	84	214
M. O'Neil Company, Akron, Ohio	1,164	59	215
Omar, Incorporated, 1910 Harney St., Omaha, Nebr.	1,750	103	216
Ohio Fuel Gas Company, 99 N. Front St., Columbus, Ohio.	2,583	59	217
Oberman and Company, Brooks and Miller Sts., Jefferson City, Mo.	2,100	103	218
Oak Manufacturing Company, Crystal Lake, Ill.	1,803	84	219
Nunn-Bush Shoe Company, 2822 North Fifth St., Milwaukee, Wis.	1,502	84	220
The Northwestern Mutual Life Insurance Co. 720 East Wisconsin Ave., Milwaukee, Wis.	1,479	84	221

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 21 -

Name and Address	Number of employees	Telegraph code number	Serial number
Northern Indiana Public Service Co., 5265 Holman Ave., Hammond, Ind.	2,108	84	222
North American Refractories Co., Cleveland, Ohio	2,496	59	223
Nordberg Manufacturing Co., 3073 S. Chase Ave., Milwaukee, Wis.	3,765	84	224
Nekoosa-Edwards Paper Co., Port Edwards, Wisconsin.	1,351	103	225
Munsingwear, Inc., Minneapolis, Minnesota.	2,105	103	226
Motor Wheel Corp., Lansing, Michigan.	3,303	84	227
Morton Salt Company, 310 South Michigan Ave., Chicago, Ill.	2,071	84	228
Mills Novelty Company, 4100 Fullerton Ave., Chicago, Ill.	1,954	84	229
Mid-States Shoe Co., 2460 N. 6th St., Milwaukee, Wis.	1,325	84	230
General Electric Supply Corp., 1260 Boston Ave., Bridgeport, Conn.	3,082	45	231
Robert Gair Co., Inc., 155 East 44 St., New York, N. Y.	3,307	40	232

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 22 -

Name and Address	Number of employees	Telegraph code number	Serial Number
The Fulton Slyphon Co., Knoxville, Tennessee	2,145	84	233
Frank and Seder of Pittsburgh, Pa. 5th Ave. and Smithfield, Pittsburgh, Pa.	2,133	45	234
Foster Wheeler Corp., 165 Broadway, New York, N. Y.	800	40	235
Florida Power and Light Co., Miami, Florida	1,250	103	236
Fleetwings, Inc., Radcliffe St., Bristol, Pa.	5,087	40	237
Fire Companies Adjustment Bureau, Inc., New York, New York.	1,228	40	238
Federal Telegraph Co., 200 Mt. Pleasant Ave., Newark, N. J.	9,197	40	239
Kimble Glass Company, Crystal Ave., Vineland, N. J.	3,907	35	240
Federal Advisers, Inc., 70 Pine St., New York, N. Y.	34	40	241
Fairchild Aviation Corp., Jamaica, New York	3,764	59	242
Exposition Cotton Mills Co., Atlanta, Georgia	1,829	84	243

May 28, 1943

35

List of issuing Agents
Subject of Telegrams on May 15, 1943

- 23 -

Name and Address	Number of employees	Telegraph code number	Serial number
George E. Keith Co., (Campbello) Brockton, Mass.	1,474	59	244
Edwards Manufacturing Co., Augusta, Maine	1,595	84	245
Keasbey and Mattison, Amabler, Pennsylvania	1,727	35	246
May McEwen Kaiser Co., Burlington, North Carolina	1,707	84	247
A. D. Juilliard and Co., Inc., Providence, Rhode Island	2,535	59	248
National Enameling and Stamping Co., 270 N. 12th St., Milwaukee, Wis.	2,425	84	249
Weyenberg Shoe Manufacturing Co., 234 E. Reservoir Ave., Milwaukee, Wis.	2,307	84	250
West Kentucky Coal Co., Sturgis, Kentucky	1,568	84	251
Wisconsin Electric Power Co., Public Service Building, Milwaukee, Wis.	2,310	84	252
Wm. Wrigley Jr. Co., 410 N. Michigan Ave., Chicago, Ill.	1,600	84	253
Yellow Cab Company, 57 E. 21st St., Chicago, Ill.	1,830	84	254

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 24 -

Name and address	Number of employees	Telegraph code number	Serial number
Yellow Cab Company of San Francisco 284 Turk St. San Francisco, Calif.	923	162	255
Waukesha Motor Co. W. St. Paul Ave. Waukesha, Wis.	1,942	103	256
Hiram Walker and Sons, Inc. Foot of Edmund St. Peoria, Ill.	2,000	84	257
Van de Kamp's Holland Dutch Bakers, Inc. 2930 Fletcher Drive Los Angeles, Calif.	2,240	162	258
Union Central Life Insurance Co. 309 Vine St. Cincinnati, Ohio	1,000	59	259
Trojan Powder Co. Plum Brook Ordnance Works Sandusky, Ohio	3,700	59	260
Todd-Seattle Dry Docks, Inc. 1801 - 16th Avenue S. W. Seattle, Wash.	4,050	162	261
Timm Aircraft Corp. 117 West 9th St. Los Angeles, Calif.	3,380	162	262
Wm. Taylor Son and Company 630 Euclid Ave. Cleveland, Ohio	2,193	59	263
Sunbeam Electrical Manufacturing Co. Evansville, Ind.	3,579	84	264
Stanolind Pipe Line Co. P. O. Box 591 Tulsa, Okla.	1,790	132	265

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 25 -

Name and address	Number of employees	Telegraph code number	Serial number
Standard Oil Co., (Kentucky) Louisville, Ky.	2,214	84	266
Spokane, Portland and Seattle Railway Company American Bank Building Portland, Oreg.	2,626	162	267
Leatham D. Smith Shipbuilding Co., Foot of Libery St., Sturgeon Bay, Wis.	3,821	103	268
The John Shillito Company Seventh and Race Streets Cincinnati, Ohio	1,949	59	269
Sealed Power Corporation 500 Sanford Street Muskegon, Mich.	2,117	84	270
Scullin Steel Co., 6700 Manchester St. Louis, Mo.	2,900	84	271
Scruggs, Vandervoert and Barney Ninth and Olive Streets St. Louis, Mo.	1,393	84	272
Schwitzer-Cummins Company 1125 Massachusetts Ave., Indianapolis, Ind.	1,500	84	273
San Antonio Public Service Co., 201 North St. Mary's Street San Antonio, Tex.	1,590	132	274
St. Louis Independent Package Co., 824 S. Vandeventer Avenue St. Louis, Mo.	2,311	84	275
Illinois Publishing and Printing Company Room 621, 326 W. Madison Chicago, Ill.	3,196	84	276

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 26 -

Name and address	Number of employees	Telegraph code number	Serial number
Illinois Central Railroad Co., Treasurer's Department 135 East 11th Place Chicago, Illinois	46,815	84	277
Illinois Bell Telephone Co., 212 West Washington Street Chicago, Illinois	28,485	84	278
Houston Lighting and Power Co., Houston, Texas	1,579	132	279
Hobart Manufacturing Co. Troy Ohio	2,194	59	280
Hobart Brothers Co. Troy, Ohio	1,147	59	281
Edward Hines Lumber Co., 77 West Washington St., Chicago, Ill.	1,627	84	282
Hillman's Inc. 28 W. Washington St., Chicago, Ill.	2,730	84	283
Hercules Motors Corp. Canton, Ohio	4,067	59	284
Joshua Hendy Iron Works, Sunnyvale, Calif.	5,967	162	285
The Heil Co. 3000 W. Montana Street Milwaukee, Wis.	2,835	84	286
Hayes Manufacturing Corp. 551 Seventh St., N. W. Grand Rapids, Mich.	3,200	84	287

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 27 -

Name and address	: Number of : : employees :	: Telegraph : : code number :	: Serial : : number :
Harnischfeger Corp. 4400 W. National Ave. Milwaukee, Wis.	3,625	84	288
Harley-Davidson Motor Co. 3700 W. Juneau Ave. Milwaukee, Wis.	2,400	84	289
Halliburton Oil Well Cementing Co. P. O. Drawer 471 Duncan, Okla.	1,560	132	290
Hall Brothers Inc. 2505 Grand Ave. Kansas City, Mo.	2,000	103	291
Granite City Steel Co. Granite City Ill.	1,920	84	292
Goodman Manufacturing Co. 4834 S. Halsted St. Chicago, Ill.	1,511	84	293
Good Luck Glove Co. Carbondale Ill.	610	84	294
Golden State Co., Ltd. 425 Battery St. San Francisco, Calif.	3,015	162	295
Globe-Wernicke Co. 5025 Carthage Ave. Norwood, Ohio	2,084	59	296
The Girdler Corp. Louisville Ky.	448	84	297
General Engineering and Dry Dock Co. Alameda Calif.	1,500	162	298

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 28 -

Name and address	Number of employees	Telegraph code number	Serial number
Gardner-Richardson Co. Middletown Ohio	1,701	59	299
Gar Wood Industries Inc. 7924 Riopelle St. Detroit, Mich.	4,221	59	300
W. P. Fuller and Co. San Francisco Calif.	1,775	162	301
J. D. and A. B. Spreckels Co. 2 Pine St. San Francisco, Calif.	1,413	162	302
Ft. Worth and Denver City Railway Co. Ft. Worth Club Bldg. Ft. Worth, Texas	1,955	132	303
Foots Brothers Gear and Machine Corp. 4545 South Western Blvd. Chicago, Ill.	3,819	84	304
Fibreboard Products, Inc. 710 Russ Bldg. San Francisco, Calif.	4,062	162	305
Florsheim Shoe Co. 541 West Adams St. Chicago, Ill.	3,069	84	306
The Fair State, Adams and Dearborn Sts. Chicago, Ill.	2,293	84	307
The Evening News Association 615 Lafayette Ave., West Detroit, Mich.	1,450	59	308
Edison General Electric Appliance Co., Inc. 5600 W. Taylor St. Chicago, Ill.	3,668	84	309

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 29 -

Name and address	Number of employees	Telegraph code number	Serial number
Eastern Coal Corp., Stons, Kentucky	2,000	84	310
East Ohio Gas Co., 1405 E. 6th St., Cleveland, Ohio	1,878	59	311
Diebold Safe and Lock Co., Mulberry Road, Canton, Ohio	2,311	59	312
Dayton Malleable Iron Co., Dayton, Ohio	1,558	59	313
The Curtiss Candy Co., 622 Diversey Parkway, Chicago, Ill.	3,000	84	314
Cudahy Brothers, Co., Cudahy, Wis.	1,820	103	315
Crown Drug Co., Box 307, Kansas City, Mo.	1,400	103	316
Crowley-Milner and Co., Detroit, Mich.	2,096	59	317
The Continental Insurance Co., 135 South LaSalle St., Chicago, Ill.	4,200	84	318
Continental Casualty Co., 910 S. Michigan Ave., Chicago, Ill.	2,066	84	319
Consolidated Paper Co., Monroe, Mich.	1,483	84	320

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 30 -

Name and Address	: Number of : employees	: Telegraph : code number	: Serial : number
T. E. Connolly, Inc., 461 Market Street, San Francisco, Calif.	1,500	162	321
Concrete Ship Constructors, P. O. Box "D", National City, Calif.	3,410	162	322
Columbia Broadcasting System, Inc., 485 Madison Ave., New York, N. Y.	2,252	40	323
Cleveland Twist Drill Co., Cleveland, Ohio.	2,890	59	324
Cleveland Tractor Company, Cleveland, Ohio.	2,006	59	325
Cleveland Pneumatic Tool Co., Cleveland, Ohio.	3,215	59	326
Cincinnati Street Railway Co., 809 Dixie Terminal Bldg., Cincinnati, Ohio.	2,044	59	327
The Chicago Screw Co., 1026 So. Homan Ave., Chicago, Ill.	2,998	84	328
Chicago, Wilmington and Franklin Coal Co., 332 South Michigan Ave., Chicago, Ill.	2,694	84	329
Chicago Mail Order Company, 511 South Paulina St., Chicago, Ill.	4,111	84	330
Chicago, Indianapolis and Louisville Railway Co., Monon Route - 608 So. Dearborn St., Chicago, Ill.	2,061	84	331

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 31 -

Name and Address	Number of employees	Telegraph code number	Serial number
Chicago Flexible Shaft Co., 5600 W. Roosevelt Road, Chicago, Ill.	1,204	84	332
Chicago Daily News, Inc., 400 West Madison St., Chicago, Ill.	1,400	84	333
Chain Belt Company, 1600 W. Brice St., Milwaukee, Wis.	3,388	84	334
Certain-teed Products Corp., 120 S. LaSalle St., Chicago, Ill.	1,340	84	335
Century Electric Co., St. Louis, Mo.	2,350	84	336
Philip Carey Manufacturing Co., Cincinnati, Ohio.	3,089	59	337
Campbell Wyant and Cannon Foundry Co., Henry Street, Muskegon, Mich.	2,592	84	338
California and Hawaiian Sugar Refining Corp., Ltd., 215 Market St., San Francisco, Calif.	1,524	162	339
Burton-Dixie Corp., 2025 South Racine Ave., Chicago, Ill.	1,057	84	340
Bucyrus-Erie Company, Eleventh Ave., South Milwaukee, Wis.	3,981	84	341
Brunswick-Balks Collender Co., 623 S. Wabash Ave., Chicago, Ill.	2,357	84	342

May 28, 1943

44

List of Issuing Agents
Subject of Telegrams on May 29, 1943

- 32 -

Name and Address	Number of employees	Telegraph code number	Serial number
Brown and Root, Inc., and W. S. Bellows Construction Co., McAlester, Okla.	1,500	132	343
Broadway Department Store, Inc., 401 South Broadway, Los Angeles, Calif.	2,143	162	344
Brinks, Inc., 711 W. Monroe St., Chicago, Ill.	2,130	84	345
Bowman Dairy Company, 140 West Ontario St., Chicago, Ill.	2,881	84	346
The Boss Manufacturing Co., 215-223 W. First St., Kewanee, Ill.	2,117	84	347
Bloedel Donovan Lumber Mills, P. O. Box 146, Cornwall Ave. Bellingham, Wash.	1,832	162	348
Wm. H. Block Company, Indianapolis, Indiana.	2,500	84	349
Block and Kuhl Company, 124 S. Adams St., Peoria, Ill.	500	84	350
The Belt Railway Company of Chicago, 47 West Polk St., Chicago, Ill.	1,550	84	351
Bell and Howell Company, 1801 Larchmont Ave., Chicago, Ill.	2,851	84	352
Belknap Hardware and Manufacturing Co. 111 E. Main, Louisville, Ky.	1,025	84	353

May 28, 1943

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 33 -

Name and address	Number of employees	Telegraph code number	Serial number
Basic Magnesium, Inc., P. O. Box 1150 Las Vegas, Nev.	4,542	162	354
Barber-Colman Co. River and Locmis Streets, Rockford, Ill.	2,825	84	355
Balaban and Katz Corp., 175 North State Street Chicago, Ill.	2,610	84	356
Bailey Company Cleveland Ohio	2,004	59	357
The Aviation Corp., Republic Aircraft Products Division 5914 Federal Avenue Detroit, Mich.	1,753	59	358
Atchison, Topeka and Santa Fe Railway Co. Topeka Kans.	1,879	103	359
Arden Farms Co. 1900 West Slauson Avenue, Los Angeles, Calif.	2,124	162	360
Apex Electrical Manufacturing Co. Cleveland Ohio	1,447	59	361
American Seating Co. Grand Rapids, Mich.	1,980	84	362
The Heald Machine Co., Worcester, Mass.	3,410	59	363
Hayward-Schuster Woolen Mills, Inc., East Douglas, Mass.	1,520	59	364

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 34 -

Name and address	Number of employees	Telegraph code number	Serial number
Harrison Construction Co. Pittsburgh Pa.	1,475	45	365
Harrisburg Steel Corp. 10th and Herr Streets Harrisburg, Pa.	3,164	35	366
Hanes Hosiery Mills Co. Winston Salem, N. C.	1,398	84	367
Hammermill Paper Co. Erie Pa.	1,477	59	368
Abbotts Dairies Inc., Philadelphia Pa.	2,506	35	369
Great American Insurance Co. 1 Liberty St., New York, N. Y.	1,709	40	370
Graybar Electric Co., Inc., 420 Lexington Ave., New York, N. Y.	1,927	40	371
Gossett Mills Anderson S. C.	2,000	84	372
Jeddo Highland Coal Co. Third and Broad Sts., Jeddo, Pa.	2,688	40	373
International Business Machines Corp. 590 Madison Avenue New York, N. Y.	15,308	40	374
The International Nickel Co., Inc. Huntington, W. Va.	2,494	59	375

List of Issuing Agents

Subject of Telegrams on May 15, 1943

Name and address	Number of employees	Telegraph code number	Serial number
Interchemical Corp., 75 Varick St., New York, N. Y.	3,000	40	376
The E. Ingraham Co., 392 N. Main St., Bristol, Conn.	1,099	59	377
I-T-E Circuit Breaker Company 501 N. 19th St., Philadelphia, Pa.	3,508	35	378
Hygrade Sylvania Corp., Emporium, Pennsylvania	2,939	59	379
Hudson Worsted Co., 45 Broad St., Hudson, Mass.	615	59	380
Hotel Waldorf Astoria Corp., 301-315 Park Ave., New York, N. Y.	1,750	40	381
Hopeman Brothers, 19 East 47 Street, New York, N. Y.	1,533	40	382
Hillman Coal and Coke Co., Pittsburgh, Pennsylvania	2,865	45	383
Hill Manufacturing Co., Lewiston, Maine	1,265	84	384
The High Standard Manufacturing Co., Inc. 1337 Dixwell Ave., Hamden, Conn.	4,049	59	385
Hearn Department Stores, Inc., Fourteenth Street, New York, N. Y.	2,148	40	386

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 36 -

Name and address	: Number of : : employees :	: Telegraph : : code number :	: Serial : : number
Gimbel Brothers 9th and Market Sts. Pittsburgh, Pa.	3,420	45	387
Gillette Safety Razor Co. 15 W. First St. Boston, Mass.	1,848	59	388
Gilbert and Barker Manufacturing Co. West Springfield Mass.	2,223	59	389
Gibbs and Cox, Inc. 21 West St. New York, N. Y.	2,548	40	390
General Instrument Corp. 829 Newark Ave. Elizabeth, N. J.	1,750	40	391
Aluminum Goods Manufacturing Co. 1512 Washington St. Manitowoc, Wis.	1,959	103	392
Addressograph-Multigraph Corp. 1200 Babbitt Road Euclid, Ohio	3,708	59	393
Abbott Laboratories 14th and Sheridan Road North Chicago Ill.	2,045	84	394
Acme Steel Co. 2840 Archer Ave. Chicago Ill.	3,218	84	395
The Celotex Corp. 919 North Michigan Ave. Chicago, Ill.	3,547	84	396
Ed. Schuster and Co., Inc. Milwaukee Wis.	1,574	84	397

List of Issuing Agents
Subject of Telegrams on May 15, 1943

- 37 -

Name and address	: Number of : : employees :	: Telegraph : : code number :	: Serial : : number
Joseph Schlitz Brewing Company 235 West Galena St. Milwaukee, Wis.	2,700	84	398
The Austin Co. 16112 Euclid Ave. Seattle, Wash.	36	162	399
Auburn Central Manufacturing Corporation 18th St. and Columbia Ave. Connersville, Ind.			
Changed to: American Central Manufacturing Corp. 18th St. and Columbia Ave. Connersville, Ind.	2,154	84	400
Ingersoll-Rand Co. Phillipsburg, N. J.	4,864	40	401
Richman Brothers Co. Cleveland Ohio	2,100	59	402
Draper Corp. Hopedale, Mass.	3,000	59	403
Dunearn Mills Greenville, S. C.	2,624	84	404
Dietaphone Corp. Bridgeport, Conn.	1,574	45	405
Diamond Alkali Co. Pittsburgh, Pa.	3,032	45	406
Delaval Steam Turbine Co. 853 Nottingman Way Trenton, N. J.	2,814	40	407
De Laval Separator Co. 165 Broadway New York, N. Y.	2,328	40	408

May 28, 1943

50

List of Issuing Agents

Subject of Telegrams on May 15, 1943

- 38 -

Name and address	Number of employees	Telegraph code number	Serial number
Devoe and Reynolds Co., Inc., 787 First Ave., New York, N. Y.	1,552	40	409
Decca Records, Inc., 621 West 54th St., New York, N. Y.	578	40	410
Interstate Bakeries Corp., Porter Bldg., 34th and Broadway, Kansas City, Mo.	3,854	103	411
The Interlake Steamship Co., 200 Union Commerce Building, Cleveland, Ohio	2,160	59	412
Interlake Iron Corporation, 332 South Michigan Ave., Chicago, Ill.	2,390	84	413
Industrial Rayon Corp., 9801 Walford Ave., Cleveland, Ohio	3,334	59	414
Economy Grocery Stores, 393 D Street, Boston, Mass.	1,350	59	415
Eagle and Phenix Mills, Columbus, Georgia.	2,535	84	416
Illinois Tool Works, 2501 North Keeler Ave., Chicago, Ill.	1,844	84	417
Johns-Manville Products Corp., Waukegan, Ill.	2,376	84	418
Selby Shoe Co., Portsmouth, Ohio	2,712	59	419

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 15, 1943

TO Secretary Morgenthau
FROM Mr. Odegard

Subject: Axis radio propaganda

There has been no discernible comment by the Axis this week on the subject of War Bonds or the Second War Loan Drive. There is still, however, some attention paid to the "sinister" implications of the world stabilization plan outlined by you to Congress a few weeks ago. There is talk by Germany, Italy and Japan of the threat of United States economic domination over the whole world, and of the strained relations between the U.S. and Britain resulting from the United States' economic and territorial aspirations.

Japan, for example, broadcasting on May 13th in English to the Western United States and Latin America, declares:

"What the U.S. Army, Navy and Air Force is doing right now is actually fighting for the dollar empire that a handful of American people are organizing. This war is not being fought by the American nation. It is being fought by a tight little centralized group of immensely powerful men.

"To the average American man or woman it is not important whether or not America puts up a system of economic domination all over the world. For they will see nothing of this. In other words, when Americans ponder more and more over the whole thing, they must surely see that what the American power-holders are out to do is something which the U.S. has no business doing at all...."

Rome, broadcasting to the Middle East in French on May 12th, says that the U.S. dollar is falling in all countries of Latin America, especially in Argentina:

"The mistrust is caused not only by military and political reasons, but there are also technical factors. The Brazilians, Chileans and Argentineans cannot exchange Mr. Roosevelt's money for merchandise. Consequently, they are selling the dollar to the highest bidder."

As in the past few weeks, most of the comment against the Treasury's world stabilization plan has come from Italy. On May 11, a commentator named Carlos Scarfoglio broadcast in Spanish the following comments to Latin America:

"While the war continues.... its hardest phase, North Americans and English fervently discuss the control of world markets. It is a very instructive spectacle. Controversy has been displaced to the field of financial and monetary plans. Soon, in the House of Commons, the two plans will be discussed. The English plan is signed by (Kaylith sounded like the name--ed.) and the North American plan is signed by the Jew Morgenthau. In German, Morgenthau means 'morning dew,' but his plan has not been accepted as 'dew' in the hearts of the English.

"According to this plan, England would fall into the category of poor nations.... In other words, she would totally lose the possibility of controlling and would find herself controlled. It is very natural for the English to organize a great discussion in the Commons while they prepare themselves to sabotage Morgenthau's proposition in other lands.

"But the United States has opened the counter campaign with Sumner Welles' speech (German and Japanese comments on this speech also, saying that Welles admits the unfortunate aspects of American economic domination--ed.), which has been bitterly received by the English press. In (his) speech, England is accused of economic aggression. Its aggression is the preferential system of Ottawa. Sumner Welles has declared that previous to the world crisis, North American tariffs were also economic aggression.

"The truth is that.... The North Americans want to abate the preferential system.... assume the direction of business, and keep the enormous mass of gold that they have accumulated.

North Americans reproach the English, telling them that this plan is nothing more than a copy of (that of) proletarian countries. And this is true because it is the system of exchange which has been introduced during the last century by totalitarian countries. What does all of this mean? It means that the totalitarian countries were right, in the social field as well as in the civil and economic field.... Was it necessary to add the crime of war to this moral defeat?"

From Rome, Paolo Kirkpatrick on May 7th, devoted all of his 10-minute broadcast in English to North America to a discussion of the American monetary system - its history and need for reform - and the implications of the Treasury-sponsored world stabilization plan. I can provide you with the complete text of the speech, if you wish, but here at least are a few pertinent quotes:

"Congress has wisely resolved not to permit Mr. Roosevelt to commit the country in advance to any particular policy. It does not yet, however, seem to have perceived the strict inter-dependence between Mr. Morgenthau's aim to enslave the peoples of the world to gold under the control of the Federal Reserve Board, and the actual tyranny which this Federal Reserve Board has already established over the American people...."

"There can be no liberty in America until the back of the present banking racket is broken, and unless... liberty is first effectively restored in the United States, it is absurd to talk of the United States taking a part in establishing liberty abroad.

"It is curious that so few people realize that the key to the whole problem of liberty lies precisely there: namely, in reform of the monetary and banking system. It is an ironical fact that the war against the Axis was declared with the main purpose of preventing monetary and banking reforms.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE
MAY 15 1943

TO Secretary Morgenthau
FROM Randolph Paul

Attached are pages from the Congressional Record containing the discussion by Senator Clark and others, dealing with the presence of Treasury representatives on the floor. I mentioned this to you over the telephone last night. You will notice the really critical comments by Senator Clark marked in the first column of page 4517. You will also notice that Senators Connally, LaFollette, George and Hill came to our defense.

I said over the telephone that the remarks did not criticize you, but did criticize me. I am afraid that you are included. Notice the first column on page 4517.



am going to pay the bank is better. I shall be able to borrow more money or borrow it at a lower rate of interest. That is a real and immediate benefit.

But I don't need to borrow money from the bank to realize immediately the benefit of this decrease in my liabilities. If I have had any common sense and foresight, I have been saving money to pay my taxes. Through such saving—and most of the people who have substantial taxes to pay do save for taxes—at the end of each year I have set aside enough out of the income of that year to meet my tax debt. I was therefore even, so far as the year was concerned. Thus, a \$10,000 man who owed \$3,152 tax debt by December 31, 1942, would have \$3,152 out of his 1943 income to meet that debt. He is, likewise, at this moment accumulating savings out of his 1943 income to meet the tax debt which is being built up on account of 1943 income. If we cancel the 1943 tax liability of \$3,152 he does not need to use the amounts he has saved up in 1943 to pay his taxes. With his tax debt wiped out, the savings that he made in 1943 to meet that debt are available for other purposes. He does not need the 1943 savings to pay his taxes during 1943 because the savings he is accumulating out of 1943 income for the tax for 1943, and which he expected to use in 1944, under a current system would be paid directly in 1943 on 1943 taxes. Under any pay-as-you-go plan each year provides the income to pay the taxes of that year. A person does not need to save to meet a liability due next year, for there is no overhanging liability. If the Ruml plan passes, that money you have saved up in 1943 to pay your taxes is free for you to use in any other way you wish. You can make it a permanent part of your capital. Or you can spend it. It is money in your pocket available now to do with what you wish. That is an immediate benefit. An acquaintance of mine has been buying tax-savings notes. After the Senate Finance Committee voted to forgive a year's taxes he said he was writing his banker to stop deducting money to buy more notes. He has a year's notes that he can cash. This is a real and immediate benefit from forgiveness.

Some people do not save specifically to pay taxes but do save for other purposes. The result is the same. The taxpayer's need for savings is less by the amount of the forgiven tax. Even people who have been unwise enough not to save anything get an immediate financial benefit from forgiveness because they are freed from the danger of having a debt to meet with no income from which to meet it.

It does not matter whether your income is going up, or going down, or remains the same. The minute the Ruml plan becomes law, every taxpayer would be immediately benefited by an increase in his net worth of 1 year's taxes and that increase in net worth gives an immediate benefit of the same kind as any other forgiveness of debt.

Let us look at the tax payments for a minute. A pay-as-you-go plan, whether it is tied up with Ruml forgiveness or not, speeds up collection of taxes by about 1 year. The taxpayer would no longer be given the favor he has had of waiting a year to pay his income taxes. It is this speeded up collection that results in the receipts of the Government not dropping out disastrously for a year. Pay-as-you-go means that tax payments respond more quickly to increases or decreases in tax rates. As long as incomes are going up, a pay-as-you-go system will bring in more money than our present system. The minute incomes turn downward—and I think all of us believe they will turn downward after this war—the tax collections will turn downward 1 year sooner than under present law. Then is when the Government will particularly feel the loss in actual receipts from forgiving a year's taxes.

How are Government receipts kept up when people retire or die? If they are, it will be due to new taxpayers who did not get the benefit of the forgiveness. New taxpayers who have taxable incomes for the first time in 1943 or thereafter would have to pay currently but would not have had a year's tax dropped out. They are the ones who will make up for the loss in revenue which comes from the older taxpayers' declining incomes, or loss in incomes, to the extent that it is made up without raising rates.

The proponents of the Ruml plan talk as if no one was going to die, or retire, or lose his income for a lifetime. People are dying every day. The Rumlites say they could not support a forgiveness plan where the taxpayer died in 1943 so they deny the forgiveness in that case. They say they could not support it where he died in 1943, so they put in a special windfall provision to reduce or wipe out the forgiveness. But, if he dies in 1944, the final and full effect of forgiveness as well as the immediate benefit is felt. There will be many people dying in 1944 and in the early years thereafter. Moreover, there are many people who will retire in 1944, or 1945, or 1946, and who will then derive all the final benefits of the year's forgiveness. Like everybody else, they would get the increase in net worth as once in 1943. But they would also get quickly the benefits of not having the final year's tax to pay. The elderly taxpayer gets the maximum benefit out of this plan sooner instead of later. Moreover, the more elderly taxpayers are likely to be the ones with the large incomes.

The advocates of tax cancellation have made a big point about getting back some of this forgiveness in the estate tax. Of course, the minute they talk about getting it back and the minute they talk about windfall provisions, that minute they are admitting the benefits I have been talking about. But let us pass over that inconsistency. They talk as if the estate tax would recover the loss in income tax. This is obviously not the case. Under no circumstances could the estate-tax return to the Federal Government exceed 77 percent, since that is the maximum estate-tax rate and it applies only above \$10,000,000.

By far the largest part of the estates will, of course, not fall in these very high brackets. Only about 1 percent of the people dying in the United States have estates large enough to be subject to any Federal estate tax whatever. Moreover, the law affords ample opportunity for giving away property without tax or at much lower tax rates. The gift loophole would greatly cut down the return through the estate tax. There is also no assurance that the funds represented by this forgiveness will remain in the estate. Being a windfall, they are available for expenditure. They can support a trip to California, or a summer home in the mountains. Or the forgiven tax may be invested and lost in business. Any one of a dozen things may happen to keep the return to the Government from being substantial. There will be some return, no doubt, but the total amount of it can hardly be more than minor.

So much for the question of whether there really is forgiveness and really is a benefit.

This Ruml plan is bad chiefly because of the way in which the forgiveness is distributed. There are all sorts of ideas of what is fair and what is just. I am not going to try to impose my ideas of what is fair on my colleagues. But I want to give you a few facts and see if you do not agree that a tax bill which distributes its forgiveness the way this one does is grossly inequitable, according to your standards of fairness.

At the top are the 60 or so people who have incomes of a million dollars or more. The effect of this Ruml plan of forgiveness is to remit for each of these people as much as they could possibly save in 6 years if they saved every cent of what they would have left after taxes. Now, I think Congress did

what it thought was equitable when it put the existing tax rates on the higher incomes. I think Congress wanted to have that tax burden imposed. The effect of this forgiveness is to undo our progressive tax schedules to the tune of handing our most fortunate citizens—60 in number—as much as they would have left over 6 years under our tax laws.

The same thing is true in a lesser extent for other high incomes. The person with a \$100,000 income would be forgiven the equivalent of 30 months' income after taxes. But a person with an income of \$2,000 would get the equivalent of less than 1 month's income after taxes.

It needs to be pointed out that under this bill 60 people with net incomes of \$1,000,000 and over will receive as much forgiveness under the plan as 2,600,000 people with net incomes of less than \$1,000; as much as 750,000 people with net incomes of \$1,000 to \$2,000; and as much as 550,000 people with net incomes of \$2,000 to \$3,000; and the forgiveness for the 60 millionaires will represent a far larger proportional increase in the income remaining after taxes. The forgiveness will average 226 months of income after taxes for the 60 people with the largest incomes as compared to an average of slightly over a half month for the large number having small incomes of less than \$1,000, slightly over a month's income for those with incomes of from \$1,000 to \$2,000, and a little less than a month's income for people with net incomes of \$2,000 to \$3,000.

I do not want to cast aspersions on the supporters of the Ruml plan, but in the light of the disproportionately large benefits to the high-income groups, is it any wonder that the issues of the Ruml plan have been consistently and persistently misstated in the newspapers and that the facts of the kind I am telling you have scarcely appeared at all? Is it any wonder that the editorials of our most prosperous newspapers have fanatically favored the Ruml plan? Is it any wonder that the financial leaders of the Nation have thrown their prestige behind the Ruml plan? The unfortunate fact is that the great masses of the people who will get little out of this and who, as I shall point out in a few minutes, will lose what little they do get—the unfortunate fact is that these people have not been informed by the newspapers and by the radio of what the truth is about the Ruml plan. The people are all mixed up. I am willing to prophesy that if this plan becomes law the politicians who run for our seats and try to take our places here will be better able to persuade them than the Treasury Department has.

Here are some more facts that you do not read about in the newspapers. In the last 5 years, 1940, 1941, and 1942, we have been imposing new taxes to pay for the defense effort and the war. Now it is proposed that we turn around and forgive taxes for the year 1943. A person who has steadily had an income of \$5,000 has had imposed on him new additional taxes for the war, totaling \$991 up through December 31, 1942. An amount equal to three-fourths of that \$991 is forgiven under the Ruml plan. The person with the \$100,000 income will have had the whole increase forgiven under the Ruml plan. So far as the increased war taxes are concerned, the slate will be clean for him as of January 1, 1943. Finally, the man who has been getting \$1,000,000 year after year will not only have been forgiven all tax increases up to January 1, 1943, but at present tax rates for 3 years more. He will actually be better off as of January 1, 1943, by nearly \$800,000, than if there had been no revenue act of 1940, 1941, and 1942, and no Ruml plan.

It is very unfortunate that this tax forgiveness proposal comes before the Senate as a separate issue. It should come here as part of the revenue bill. The President of the United States has asked for an additional

10,000,000. That is a conservative estimate of the amount of the new revenue from the new and the existing of the new... (text continues with financial details and legislative proposals)

are now this Government. It would be simply removing the privilege of postponing payment by 1 year.

But what does this bill do? Does it bill get a substantial portion of the money we get by collecting the debts of people to the Government? It does not. It forgives all the taxpayers of the country 1 year's tax. It will in effect postpone in the lower income and middle income classes the taxes which might have been gotten by collecting that debt.

These are some of the things which I believe there are some of the things which I believe that the members of the Senate Finance Committee and the Members of this Body have not have been fully informed on the way the bill operates and on the effects it will have on the distribution of our tax income. It is not the life to bill this important plan and sensitive economic reform program in its life.

Mr. CLARK of Missouri. Mr. President, I rise at this time, not for the purpose of discussing the merits of the proposed amendment, but to draw attention to the fact that the bill is in violation of the rules of the Senate in this matter.

Mr. President, rule No. XXXIII of the Senate relates to the question of the privilege of the floor. It states that the Senate shall read the bill in full, Mr. President, in order to elaborate the point which I am about to make.

Rule XXXIII of the standing rules of the Senate is as follows:

...no case shall be admitted to the floor of the Senate unless it is a bill, except as follows:

The President of the United States and his private secretary.

The President elect and Vice President elect of the United States.

Ex-President and ex-Vice Presidents of the United States.

Judges of the Supreme Court.

The officers and employees of the Senate at the discharge of their official duties.

Ex-Secretaries and ex-Secretaries at arms of the Senate.

Members of the House of Representatives and Members elect.

Mr. President, under the rule, not even an ex-Member of the House of Representatives is entitled to the privilege of the floor of this body, under the standing rule of the Senate. An exception is made in the case of those who have held the high honor of presiding over the House of Representatives.

The Speaker of the House of Representatives and the Clerk of the House and his deputy.

Members of the executive department.

That is, Cabinet officers of the United States.

Announcers and Ministers of the Gospel of the United States and Territories. The General Comptroller of the Army. The Senate Admiral of the Navy on the active list.

Not every individual, not every general, not the General Comptroller of the Army and the Senior Admiral of the Navy on the active list.

Members of national legislatures of foreign States of the Court of Claims. Commissioners of the District of Columbia. The Librarian of Congress and the Assistant Librarian in charge of the law library.

The architect of the Capitol.

Mr. of public is an official of the Senate and the House.

The Secretary of the Smithsonian Institution.

Clerks to Senate committees and clerks to Senators when in the actual discharge of their official duties.

Clerks to Senators, to be admitted to the floor, must be regularly appointed and sworn into the office of the Secretary of the Senate as such.

Mr. President, under the explicit terms of the rule, there are the only persons who are entitled to be admitted to the floor of the Senate while the Senate is in session, and yet—and this does not apply only to the present debate—over a long period of time we have seen representatives of the various departments and agencies come on a bill, trying to influence the action of the Senate in passing on legislation.

Mr. HILL. Mr. President, will the Senator yield?

The PRESIDENT OFFICER (Mr. CANNON in the chair). Does the Senator from Missouri yield to the Senator from Alabama?

Mr. CLARK of Missouri. I yield.

Mr. HILL. Of course, the Senator has stated the rule exactly as it is written.

Mr. CLARK of Missouri. I have read the rule.

Mr. HILL. Since the Senator has made the statement which he has made about the departments, does he not think it is fair to say that although bringing representatives of the departments to the floor of the Senate has not been in accordance with the rule, as the Senator says, it has been the practice in the past?

Mr. CLARK of Missouri. I am protesting against the practice. I am not only protesting against the practice, but I am particularly protesting against such an instance as this, in which representatives of the Treasury Department have come into the Senate Chamber for the purpose of opposing a measure approved and recommended to the Senate by an overwhelming majority of one of its great standing committees.

It is a matter of common knowledge that a representative of the Treasury Department has been on the floor of the Senate actively laboring in opposition to the report submitted by the Finance Committee of the Senate. When the Senate adjourned yesterday there were a sufficient number of these representatives around the desk of the Senator

from Louisiana, waiting their turn to be so constituted a town meeting.

Mr. HILL. Is it not fair to say that the representatives who have come here from the Treasury Department and from other departments have come at the invitation of some member of the Senate?

Mr. CLARK of Missouri. Mr. President, I do not think there is the slightest doubt of it. I am not making these remarks for the purpose of attacking the young men who came here from the Treasury Department. I am simply giving notice that I think the rule ought to be enforced or repealed. I think the practice has been a growing evil. I have seen examples of it on several previous occasions. I remember when Mr. Thomas Corcoran and Mr. Ben Cullen from the Senate alongside the Senator from Montana (Mr. Wrenn) advised him and whispering in his ear in connection with most important legislation. I have seen Army officers in uniform come here and talk to a Senator. I think the practice is in violation of the rule and ought to be stopped.

Mr. WHEELER. Mr. President, will the Senator yield?

Mr. CLARK of Missouri. I yield.

Mr. WHEELER. For the purpose of the House, let me say that Mr. Corcoran never came on the floor of the Senate.

Mr. CLARK of Missouri. As a matter of fact, I think Tommy sat on the lounge outside the door, and then sat next to the Senator.

Mr. WHEELER. Ben Cohen came here when he was publicly holding company here before us. And he came at my request. Mr. Corcoran never came into the Chamber.

Mr. CLARK of Missouri. He sat on the bench which I can see through the door. The Senator is probably correct.

Mr. WHEELER. The Senator probably saw him. I asked him to come here. The question was never raised, and he rendered valuable service when the bill was before the Senate.

Mr. CLARK of Missouri. As I say, I did not raise the point of order when the Senator from Texas (Mr. Connally) turned around and called this young man to the floor. I was not going to make a personal issue of it, because I do not think it is the duty of the young man who came here. Treasury representatives have been coming here for some time and they are encouraged to do so by the attitude of the Secretary of the Treasury, who gives orders to Congress through the newspapers about bills, and by the attitude of Mr. Handolph and general commenters from the Treasury, who tell on the radio and in the newspapers to do and want Congress to do. However, I am anxious to the rule, with the suggestion that I think a great deal more attention should be paid to it in the future than has been paid to it in the past, or else the rule should be repealed.

Mr. HILL. Mr. President, will the Senator yield?

Mr. CLARK of Missouri. I yield.

Mr. HILL. Of course, the Senator is well within his rights in calling attention to the rule. He has read the rule. Under the rule, gentlemen, who come not only from the Treasury Department but other departments are not entitled to be admitted to the floor of the Senate. However, I do not think the Senator ought to give the impression to the Senate or to the country that these gentlemen have shoved themselves in here, so to speak, as lobbyists, on their own initiative. They have come here, whether they have come from the Treasury Department or from some other department, at the invitation and request of some Member of the Senate. Of course, the purpose of having them here, as the Senator from Montana (Mr. Wrenn) has said, and as has been my experience on one or two occasions, is that the Senator in charge of a bill or some particular amendment may have the information which the representative of the department can give him. The Senator may transmit such information to the Senate.

The Senator is entirely within his rights in calling attention to this practice, but he ought not to give the impression that representatives of the departments have crowded into the Senate like lobbyists. They have come here at the request of Members of the Senate.

Mr. CLARK of Missouri. Mr. President, I still have the floor.

I have already said that I recognize this practice as a growing evil. That is the reason I am calling attention to it. I do not know why I invited these gentlemen to come here. I do know that the practice has been an increasingly prevalent evil in the Senate. Almost anyone connected with any executive department has been admitted to the floor of the Senate. As a matter of fact, they pull at the coat-tails of Senators and give them advice. At the conclusion of the debate in the Senate yesterday I noted the occurrence to which I have referred, in the course of a brief meeting. I am now calling attention to the letter of the rule, with the suggestion that I think it should be enforced. I do not criticize the representatives of the Treasury Department for coming here. I have seen on the floor of the Senate representatives of almost every other Governmental department. I have always thought that it was an evil to violate the rule of the Senate in that way, and I am now calling attention to the specific provisions of the rule.

Mr. CONNALLY. Mr. President, of course the Senate from Missouri is quite familiar with all the rules. However, the Senator knows that there is statutory law and there is common law. Common law grows up as a matter of custom, and statutory law supercedes the common law.

For many years it has been the practice, at the request of Senators, to have representatives from the Secretaries who are familiar with all the facts at by them and respond to requests for information. As I stated to the Senate, the young man from the Treasury Department came here at my invitation, so that instead of my stepping in the middle of a speech

and running through a pamphlet containing 10 or 15 pages, I could call on him, and in a moment, while I was talking about something else, he could have the information ready for me. The same is true of a committee. It is not upon a strict construction of the rule, the legislative counsel who sits by the Senator from Georgia cannot remain in the Chamber.

Mr. CLARK of Missouri. If the Senator will permit me, I think that the rule is clearly entitled to be admitted to the floor of the Senate.

Mr. CONNALLY. Where does the rule say that he is entitled to be admitted to the floor of the Senate?

Mr. WHEELER. It is not in the rule.

Mr. CONNALLY. There is nothing in the rule which would entitle him to that privilege.

Mr. CLARK of Missouri. I disagree with the Senator. I think that the provision relating to the actual discharge of their official duties. Clerks to Senators, to be admitted to the floor, must be regularly appointed and sworn into the office of the Secretary of the Senate.

That is, as clerks to Senators. It is not a Senate official. It is a joint committee between the House and Senate.

I do not wish to exclude those gentlemen. I wish to have them here. I do not wish to shut the windows of my mind to information. I obtain a great deal of information from Senators, but there is some information which Senators do not have. I have found on several occasions that I can thus obtain information which is not in the possession of any Senator. So I think it is very helpful to think it expedient the work of the Senate. If the rule is to be invoked harshly and rigidly, I should favor a modification or an amendment of it, because I believe the Senate needs information at times, and I am willing to receive information. But I want it to come from a source I have never found among the representatives of the Treasury Department or other departments who have been seen here in the Senate Chamber who did not answer to the name of a Senator. I have never seen a man from Missouri who has been here to give his views on the bill but not to give his views for that purpose. We may have our own views, but we certainly can obtain from these men factual information, as well as information concerning provisions of the bill which they are familiar with. I think that the law which Congress has passed. So, Mr. President, I hope the Senator from Missouri will exercise the able and gracious tolerance for which he is famed, and not insist on a rigid and strict enforcement of the rule.

Mr. LA FOLLETTE. Mr. President, will the Senator yield?

Regraded Unclassified

Mr. CONNALLY. I yield.

Mr. LA FOLLETTE. Mr. President, I wish to say a word about the matter which has been brought up by the Senator from Missouri.

It is obvious from a reading of the rule that a strict enforcement of it would exclude any person not mentioned directly in the rule and described therein, from having the privilege of the floor of the Senate. But, Mr. President, it is a matter of common knowledge that legislation, and the problems with which the House and the Senate have to deal, have become so complex, and the duties, obligations, and problems confronting Senators have become so diverse, that it is impossible for any one Senator, no matter how hard he may work, to become an expert on complex questions such as those involving tax legislation.

I am proud of my membership on the Finance Committee. I think I can say, without making any comparison with any other committee, that the membership of the Finance Committee other than myself, is certainly representative of the ability which is lodged in this Chamber. Mr. President, I venture the assertion that if that committee had nothing else to do it could not frame and bring to the floor of the Senate a tax bill under conditions which confront us when we come to a revision of the tax laws, or the necessity of increasing revenue.

To my certain knowledge, Mr. President, ever since the revenue act of 1917 representatives of the Treasury Department have been upon the floor of the Senate, not to lobby, but to furnish information to Senators. I grant that they have been here in violation of a strict enforcement of the rule, but I also make the assertion that the Senate could not have legislated, it could not have discharged its responsibility in connection with these important measures without the assistance of experts here to give information impartially to any Senator who desired to ask for it—not argument, but information, I emphasize.

We have also had present with us since 1924, I believe, if my recollection serves me correctly, representatives of the staff of the Joint Committee on Internal Revenue Taxation in connection with each revenue bill. I do not think they are privileged to the floor under the strict interpretation of the rule. Yet, I say that it would be a great mistake, and the work of the Senate upon revenue legislation would be greatly impaired, if the members of the staff of the Joint Committee could not be here likewise to furnish impartial information to Senators who disagree—sometimes very definitely and sharply—upon questions of policy in connection with revenue legislation.

It has been my experience, Mr. President, that both the experts of the Treasury Department and the experts of the Joint Committee have, insofar as humanly possible, endeavored to furnish impartially, and without bias, information to Senators who have disagreed vitally upon principles as well as the application of principles to questions of taxation.

Mr. CONNALLY. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield.

Mr. CONNALLY. The Senator is a member of the Finance Committee. Does he think the committee itself, the members of which are supposed to be well informed upon the subject, could get anywhere without the constant attendance of these experts before the committee? Does that not hold true also here in the Senate?

Mr. LA FOLLETTE. Mr. President, I made the statement that I do not believe the committee could discharge its responsibilities without the assistance of experts both from the Joint Committee and from the Treasury. I think it follows that the Senate could not discharge its responsibility as well as it does discharge it if it did not have the privilege of allowing these experts to be present here upon the floor of the Senate.

I would join with the Senator from Missouri in saying that we ought to modify the rule and make it definite and specific. But, unfortunately, Mr. President, or fortunately—I have never been able to decide which—the Senate does not enforce its rules. The Senate has operated usually on the principle of unanimous consent and practice. It is only when some advantage from a parliamentary standpoint can be obtained that the rules of the Senate are invoked.

That leads me to say that once a very able man came to the Senate of the United States. He had never had any experience in legislative bodies, but he had made a mark for himself in the world outside affairs of government. At various times during the first few months of his work in the Senate I saw him reading the Senate Manual, marking paragraphs of the rules. Occasionally he would raise his eyes from his book and a look of mystery and amazement would come over his face as I assumed he was attempting to apply the rule to the procedure which was taking place before his eyes.

I ventured to say to him that I thought that unless he intended to become involved in a filibuster, or unless he hoped at some time to take a parliamentary advantage as a result of knowledge of the rules, he certainly could learn nothing as to the daily activity and action of the Senate by a study of its rules, no matter how long he devoted himself to that purpose.

Mr. President, I hope at some time the Rules Committee will undertake a revision and modernization of the rules of the Senate, but it seems to me it would be unfortunate to invoke the rule now. I wish to join with the Senator from Texas in urging the Senator from Missouri not to invoke the rule in the midst of consideration of what is obviously a very complex and difficult tax bill or tax problem.

Mr. McFARLAND and Mr. CLARK of Missouri addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Wisconsin yield; and if so, to whom?

Mr. LA FOLLETTE. I shall yield in a moment. I wish to say one further word.

I have observed the experts present upon the floor of the Senate, and I wish to say that there are only two experts from the Treasury Department whom I have recognized as being on the floor of the Senate during the time the pending bill has been under consideration. That is a lesser number than has usually been present. The other experts here are from the Joint Committee staff or from the legislative counsel's office of the House of Representatives and of the Senate.

I now yield to the Senator from Arizona.

Mr. McFARLAND. I should like to ask the Senator from Wisconsin if he does not agree that this discussion shows the need for experts being employed by the Senate so that the Senate may rely on them and not be required to call in experts from the various departments.

Mr. LA FOLLETTE. Mr. President, we have available to us the experts of the Joint Committee. I certainly would join with the Senator in saying that I believe we need more expert service in the Senate. But unless the Senate and the House of Representatives are willing to appropriate a great deal more money for expert services than they have been willing to appropriate in the past, there will be a continuing need on the part of the Senate, when confronted with legislation such as tax legislation or complex legislation of other character, to call upon experts from various departments of the Government. I certainly hope that we will not place ourselves in such a position that we cannot obtain the information which is necessary to an intelligent consideration of the problems which confront us.

Mr. GEORGE. Mr. President, I do not understand that a motion has been submitted by the distinguished Senator from Missouri but that he has simply called attention to the rules. I hope very much that we may proceed with the bill. I regret the circumstances which have provoked this discussion, because I think the officials of the Treasury Department have usually come here at our insistence and request to aid and assist us, and I know that I have always found their assistance to be invaluable.

Mr. President, there is a point I should like to bring to the attention of the Senator from Texas. Since the proposal which I have made is not in the form of a substitute for the entire bill but is in the nature of a perfecting amendment to a particular section of the bill, the question has arisen in my mind—and my view has been confirmed by the statement of the Parliamentarian—that the vote upon that amendment should come before the vote upon the complete substitute, because, if the complete substitute should be adopted, I would have no opportunity to present my amendment. I did not think that was the situation when the Senator from Texas presented his amendment, because he very kindly said he would be glad to have my amend-

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
OFFICE OF ECONOMIC STABILIZATION
WASHINGTON, D. C.

*Photostat
to Mr. Hall
5/17/43*

JAMES F. BYRNES
Director

May 15, 1943.

Dear Mr. Secretary:

Enclosed herewith a slightly revised draft of the proposed Executive Order regulating the use of credit under the national stabilization program. The draft has been revised in minor detail to meet suggestions offered by the technical staffs of various agencies concerned.

Any further comments or suggestions you may have to make will be appreciated.

Sincerely yours,

James F. Byrnes
Director.

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



Confidential
Draft
5/14/43

EXECUTIVE ORDER

REGULATION OF CREDIT UNDER NATIONAL STABILIZATION PROGRAM

WHEREAS the effective conduct of the present war and the maintenance of the national stabilization program authorized and directed by the Congress in the Act of October 2, 1942, require that means be available readily to control the use of credit for buying, carrying, or trading in commodities, real estate, or securities in order to assist (a) in preventing hoarding and harmful speculation, (b) in curbing profiteering and unwarranted, speculative, and abnormal price advances, (c) in protecting and promoting the sound and constructive interests of commerce, agriculture, and industry, and of consumers, home owners, and investors, and (d) in supplementing and supporting other governmental measures to restrain inflationary tendencies.

NOW, THEREFORE, by virtue of the authority vested in me by the Constitution and the statutes, and particularly by section 5(b) of the Act of October 6, 1917, as amended from time to time including the amendment made in the "First War Powers Act, 1941", and in order during the time of the war and the period of the national emergency declared by me on May 27, 1941, to promote the effective conduct of the war and protect the national economy, it is hereby ordered as follows:

-2-

Section 1. To carry out the purposes of this order the Board of Governors of the Federal Reserve System (hereinafter called the Board) is hereby designated as the agency through which there shall be investigated, regulated, or prohibited transfers of credit or payments between, by, through, or to any banking institution, which constitute or arise directly or indirectly out of any extension or use of credit for or incidental to buying, acquiring an interest in or control of, carrying, processing, holding, distributing, or trading in commodities, real estate, or securities, or evidences of ownership thereof or interest therein, for immediate or future delivery. The Board, in effectuating the purposes of this order, shall have the powers set forth in paragraph (1) of subdivision (b) of section 5 of the aforesaid Act of October 6, 1917, and it may, in order to carry out such purposes, utilize all other powers vested in it. The Board is authorized to prescribe definitions not inconsistent with this order for any terms which it may use in its directives, orders, or regulations issued pursuant to this order; Provided, That, for the purposes of this order and unless the Board gives more restricted meanings: (1) "extension or use of credit" includes but is not limited to options, demands, liens, pledges, and similar claims against, or for the delivery of, property or money; (2) "banking institution" means any person or any agency of the Government engaged, either primarily or incidentally, as principal, agent, broker, or otherwise, in the business of transferring credits or receiving deposits, or of

-3-

making, receiving, holding, or clearing extensions of credit or payments which constitute or arise out of extensions of credit. Nothing herein shall be construed to amend, supersede, or repeal any powers heretofore delegated to the Board or to any other agency under the aforesaid paragraph (1) of section 5(b) of said Act. None of the powers conferred by this order shall be exercised by the Board in a way that will interfere with the Treasury Department in the exercise of its functions with respect to the public revenues, borrowings, credits, taxation and finance.

Section 2. In effectuating the purposes of this order the Board shall consider and make due provision for the legitimate and bona fide credit needs of commerce, agriculture, and industry and of consumers, home owners, and investors to the extent that the extension or use of such credit is consistent with the national stabilization program; and any action of the Board shall not apply to credit outstanding on the effective date of this order except to the extent that the Board may deem it necessary in effectuating the purposes of this order.

Section 3. In administering this order, the Board may utilize the services of the Federal Reserve Banks and any other agencies, Federal or State, which are available and appropriate. It may, in its discretion, delegate to such banks or agencies all or such part of the administration of its directives, orders, or regulations as it determines will promote simple and effective administration; and any

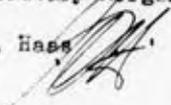
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such bank or agency, to which such administration has been delegated, may, in order to carry out any functions so delegated, utilize all other powers vested in it. The Board shall, so far as practicable, utilize the information of and consult with other Federal departments and agencies which have activities or functions related to the national stabilization program and, in discharging its responsibilities, shall take into account any recommendation which any such department or agency may take on matters of general policy. In exercising the powers conferred by this order, the Board shall be governed by the general policy directives of the Economic Stabilization Director.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION



DATE May 15, 1943.

TO Secretary Morgenthau
FROM Mr. Hass 

I had hoped to see you today (Saturday) before I left for the World Food Conference, to thank you for designating me as an advisor to the conference. No one knows how long the conference will last -- some guesses are 2 or 3 weeks -- but if you should want me to come back before it adjourns, the State Department will no doubt release me.

MAY 15 1943

Dear Mr. Lehman:

This is to thank you for your note of May 11, 1943 regarding the planning of relief and rehabilitation programs for certain of the Balkan countries. I shall, of course, be glad to discuss with you policy questions referred to in your letter.

I am happy to be informed of the cordial relations which have been established between your organization and my Department. My representatives will continue to cooperate with your country committees, though it may not always be possible or desirable, as you will appreciate, for reasons of security to reveal or discuss all financial and monetary problems that these committees might wish to consider.

Mr. White, who is in charge of the occupation program for Treasury, will be glad to keep your office advised on personnel assigned to this work.

Sincerely 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.

By Brown 11:03 5/15/43
Photo file in Diary
File to White's office

WH:ISF:cds 5/14/43



DEPARTMENT OF STATE
OFFICE OF FOREIGN RELIEF AND
REHABILITATION OPERATIONS

WASHINGTON, D. C.

May 11, 1943

My dear Mr. Secretary:

My office has begun planning relief and rehabilitation programs for certain of the Balkan countries.

Your office has been giving us very splendid cooperation in the development of a Greek program for which I wish to express my sincere thanks. I plan to discuss with you the major policy questions which emerge when the program is completed by this group.

It seems clear to me that both the logic of the situation and the exigencies of time now make it advisable to expand the task of the Greek Committee to include the Balkan areas which lie immediately north of Greece. I am accordingly extending the terms of reference of this group.

If this expanded assignment in any way makes it desirable to shift the personnel which you have assigned to work with us on Greece, I will appreciate it if your office will notify mine.

I know I may continue to count on your cooperation.

Sincerely yours,

Herbert H. Lehman
Director

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



TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

May 15, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended May 5, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

(init.) E.M.B.

inc:5/17/43

C
O
P
YFEDERAL RESERVE BANK
OF NEW YORK

May 13, 1943

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

I am enclosing our compilation for the week ended May 5, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

(Signed) L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:imc:5/17/43

STATEMENTS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended **May 5, 1943**

British
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)									BANK OF FRANCE			
	DEBITS				CREDITS					Net Incr. (+) or Decr. (-) in \$ Funds	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in \$ Funds (d)
	Total Debits	Gov't Expendi- tures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Transfers from Offi- cial Aus- tralian Account	Other Credits (c)				
First year of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+125.9	18.5	4.4	- 14.1
1942													
Sept. 3 - Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	57.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3
Nov. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-
Jan. 31 - Feb. 3	168.6	20.9	125.0	22.7	58.9	-	-	8.0	50.9	-109.7	-	-	-
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.0	105.8	+ 33.6	-	-	-
Mar. 4 - Mar. 31	35.3	12.9	-	22.4	64.4	-	-	5.0	59.4	+ 29.1	-	-	-
Apr. 1 - Apr. 28	37.0	16.3	-	20.7	87.4	-	-	15.1	72.3	+ 50.4	-	-	-
Week Ended:													
Apr. 14	6.6	2.3	-	4.3	33.0	-	-	13.0	20.0	+ 26.4	-	-	-
21	5.8	2.3	-	3.5	9.0	-	-	2.1	6.9	+ 3.2	-	-	-
28	12.3	8.4	-	3.9	14.6	-	-	-	14.6	+ 2.3	-	-	-
May 5	6.8	4.7	-	2.1	17.8(j)	-	-	1.0	16.8(k)	+ 11.0	-	-	-

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

See attached sheet for footnotes.

England (through June 19, 1940) \$27.6 million
England (June 20, 1940 to March 12, 1941) \$54.9 million
England (since March 12, 1941) 22.8 million

- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941.
- (h) For monthly breakdown see tabulations prior to October 8, 1941.
- (i) For monthly breakdown see tabulations prior to October 14, 1942.
- (j) Includes \$5.0 million deposited by British Ministry of Supply, \$6.0 million held for credit of U. S. Army, and \$1.2 million transferred from New York accounts of British Authorized Banks.

STATEMENTS OF CURRENT AND RESERVE ACCOUNTS
(In Millions of Dollars)

Week Ending May 5, 1943

United States
Department of the Treasury

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official A/C	Others Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds(d)	Total Debits	Transfers to Official British A/C	Others Debits	Total Credits	Proceeds of Gold Sales	Others Credits	Net Incr. (+) or Decr. (-) in \$ Funds(d)
First year of war (a)	525.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (b)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war (c)	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.3	95.0	- 5.0
1942																
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
1943																
Feb. 11 - Feb. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5	+ 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.1
Mar. 4 - Mar. 11	36.2	-	36.2	51.6	-	-	-	51.6	+ 15.4	7.1	5.0	2.1	6.7	-	6.7	+ 0.1
Apr. 1 - Apr. 28	29.0	-	29.0	39.6	-	-	-	39.6	+ 10.6	16.4	15.1	1.3	19.3	-	19.3	+ 2.9
WEEK ENDING:																
Apr. 14	2.6	-	2.6	12.0	-	-	-	12.0	+ 8.4	13.0	13.0	-	3.5	-	3.5	- 9.5
21	10.6	-	10.6	11.5	-	-	-	11.5	+ 0.9	2.1	2.1	-	0.5	-	0.5	- 1.8
28	6.1	-	6.1	4.0	-	-	-	4.0	- 2.1	0.1	-	0.1	0.2	-	0.2	+ 0.1
May 5	6.7(a)	-	6.7	22.8(a)	-	-	-	22.8(f)	+ 16.1	3.0	1.0	2.0	3.3(g)	-	3.3(g)	+ 0.3

Average Weekly Expenditures

First year of war	6.2 million.
Second year of war	8.9 million.
Third year of war	10.1 million.
Fourth year of war (through May 5, 1943)	8.6 million.

- (a) For monthly breakdown see tabulations prior to April 23, 1941.
 (b) For monthly breakdown see tabulations prior to October 6, 1941.
 (c) For monthly breakdown see tabulations prior to October 14, 1942.
 (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
 (e) Does not reflect transactions in short term U. S. securities.
 (f) Includes \$ 16.7 million deposited by War Supplies, Ltd.
 (g) Includes \$3.0 million credited to Australia for account of Treasurer of United States to be applied against U. S. currency and Treasury checks negotiated.

LET

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

Chungking

Dated May 15, 1943

Rec'd. 7:51 a.m., 16th.

Secretary of State

Washington

704, May 15, 9 a.m.

SECRETARY OF TREASURY FROM ADLER TF 121.

At Board meeting on 12th, Chairman raised question of Board's (*) an investment of say United States dollars one million, in Chinese Government United States dollars backed savings certificates. As Board has a short position in fapi (owing to loss of its national currency deposits in Shanghai and to fact that its current foreign exchange receipts exceed its current foreign exchange outgoes), Board would have sell United States dollars to Central Bank to obtain fapi with which to purchase United States dollars backed certificates. But as Board now has long position in United States dollars of over United States dollars nine million including United States dollars four million invested in United States Treasury Certificates over indebtedness and as current United States dollars receipts are likely to continue to exceed United States dollars current outgo in existing circumstances, Chairman felt that fact that Chinese Government

2. #704, May 15, 9 a.m., From Chungking.

Government United States dollars backed certificates have a maturity of one year does not constitute serious objection to Board's investing in them. Chairman pointing out that prime, in fact, sole purpose of such an investment would be psychological; Board is a Chinese Government organization and it would be an appropriate gesture for Board to make investment in Chinese Government securities as well as in those of United States and United Kingdom Governments. He mentioned that Universal Trading Corporation has invested in Chinese Government United States dollars backed certificates for precisely this reason. At same time Chairman indicated that it was not clear whether such an investment in Chinese Government United States dollars backed savings certificates was covered by first sentence of Article One (C) of Sino-American agreement of April 1, 1942. Board therefore directed me to ascertain from Treasury whether investment proposed by Chairman would be permitted under the terms of Article One (C) and if so whether Treasury has objection to Board's converting United States dollars one million into fapi with which to purchase Chinese Government United States dollars backed savings certificates with a maturity of one year.

ATCHESON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking
TO: Secretary of State, Washington
DATE: May 15, 1943
NUMBER: 705

STRICTLY CONFIDENTIAL

A Canadian who has recently returned from Chingchow had an interview with Drumright at Chengtu. Upon the basis of this interview, the latter has reported the following information with respect to conditions in Honan Province. Drumright says that his informant did not enlighten him as regards his sources of information and that the figures must be accepted with reserve.

1. The Chiaotso coal mines are being exploited by the Japanese (these mines are on the branch railway between Huaiching and Sinsiang). It is reported that the Japanese are making daily shipments of around 3,000 tons of excellent coal which is apparently shipped to Japan via the Kaifeng cut off and Haichow.
2. It is also reported that a very flourishing trade exists between the occupied and unoccupied areas through Honan. The customs in Honan reportedly estimate that the trade has a daily value of approximately 10,000,000 Chinese National Dollars. The chief trade route passes through Chienhsu, Honan, over which approximately 60% of the trade flows. The next most important route is from Kaifeng through Chungmow to Chungchow. This route handles approximately 25%. The least important route crosses the Yellow River south of Huaiching and Toloyang. Raw materials from unoccupied China are exchanged for Japanese manufactured goods made in the occupied areas. It is asserted by Drumright's informant that 80% of the wool produced in North and West China is being exported to occupied areas. The Japanese are paying higher prices or barter goods. (Note: Upon the basis of an incomplete survey being made by the Embassy in reply to the Department's wire of May 1, 1943, no. 575, it is believed that this percentage is exaggerated). The statement was also made by the informant that approximately 50% of the Honan cotton crop was finding its way into occupied areas. The Japanese goods consist mainly of luxury items common in the shops in unoccupied Honan and Shensi.
3. There are also moving into occupied China considerable quantities of tung oil.

Would the Department kindly bring the foregoing information to the attention of the Board of Economic Warfare.

ATCHESON

Copy:bj:5-19-43

To: Adler, Chungking, China.
From: Secretary of the Treasury.

MAY 15 1943

Reference is made to Treasury's cable of March 20, #380, and your cable of March 28, TF-102.

1. The Treasury proposes for the consideration of Dr. Kung and the Stabilization Board the following program for effecting remittances from the United States to occupied China.

(a) The Bank of China, New York Agency, or any bank in the United States, including Hawaii, designated by it, would be permitted to effect remittances including telegraphic and air mail transfers to persons in occupied China through the Bank of China, Chungking.

(b) Such remittances would be effected in accordance with procedure outlined in General License No. 75. The Chinese Government would assume the responsibility for reviewing in Chungking each such remittance to determine the desirability of providing funds to such beneficiaries, and would ensure that the effectuation of such remittances would not result in a benefit to the enemy.

(c) Censorship officials in the United States would be informed by the Treasury that no instructions (other than those sent by the Bank of China, New York Agency, or other bank designated by it, to the Bank of China, Chungking) should be permitted to go forward from the United States to China which directed persons in unoccupied China to send funds to persons in occupied China. Instead, Censorship officials in appropriate instances would inform the senders of such instructions that they should contact the Bank of China, New York Agency, or other satisfactory bank designated by the Bank of China, with regard to such transactions. The Bank of China,

- 2 -

New York Agency, or banks designated by it, on being contacted by these individuals, could effect the remittances in the manner outlined in (a) and (b) above, thereby subjecting such remittances to the controls of the Chinese Government.

(d) We are considering the desirability of permitting remittances as specified in (a) and (b) above to be effected ^{also} by Hongkong and Shanghai Banking Corporation, New York. We would appreciate your comments on extending such facilities to this bank.

2. The U. S. Treasury would be glad to receive the comments of Dr. Kung and the Stabilization Board on the above proposals.

3. The Treasury has been contacted by the Bank of China, New York Agency, regarding remittances to occupied areas in Kwangtung. The Bank of China suggested that Treasury's General Ruling No. 11 be amended to permit remittances to occupied areas in Kwangtung. The Bank of China has been informed that revision of General Ruling 11 will not be considered by the Treasury at this time and that any arrangements made will be in the nature of an informal and confidential understanding.

ISF:AWFex:JERichards:dg 5/12/43

Treasury Department
Division of Monetary Research

77

Date May 20, 1943 194

To: Miss Chauncey

The Secretary might be interested
in glancing through this.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

U. S. G. CONFIDENTIAL
BRITISH SECRET

COMBINED COMMITTEE FOR FRENCH NORTH AND WEST AFRICAN CIVIL AFFAIRS

The following communication was received 15 May, 1943.

A/C Airgram 89, 7 May, 1943

From: WACH, Finance and Control Division
To: CCNA and Secretary of Treasury
Subject: Report on reoccupied Tunisia

The following is the report of Treasury representatives in Tunisia and represents material gathered up to April 28.

1. Physical destruction by Allied Bombings in reoccupied cities is very great. Dock, railroad, and business sections of towns are uninhabitable. The population evacuated to suburbs and country many weeks and months ago. As of April 28 the water, sewage and electricity were not operating in Sfax but partial operation was expected daily. In Sousse only 2,000 out of 10,000 European people are still living in city. There is room for about 2,000 more but no housing facilities for other 8,000. It is reported that the people who are living in rural areas are faced with very unsanitary conditions. It is difficult to distinguish effects of bombing and enemy destruction but electricity plants, at least, were damaged by the enemy. The olive orchards, chief agricultural assets of the area, were left untouched. Very little agricultural machinery removed but there is a tight situation now due to shortage of spare parts, fuel and lubricating oils.

2. Pillaging and looting by the enemy, in the old fashioned sense, appears to be small. A great deal of furniture was removed and used for fire wood, sent to Germany and Italy, and used to woo the Arabs. In Sousse and Sfax regions very little evidence of willful destruction of buildings in order to get wood in doors, window frames, etc. but a lot of this reported in small towns of Southern Tunisia. Most of the civilian cars were requisitioned. Except for individual soldier looting the enemy appears to have followed the practice of requisitioning and paying handsome prices in Bank of France francs. Some people were not paid but they felt they would have been had the enemy remained a little longer.

3. In region now reoccupied there is little or no starvation. The people appear generally to be better clothed than in some parts of Algeria. There were in general no serious raids on food stocks but

5-17-101

3. SOUTHERN TUNISIA
WARFICHE AREA

required supplies for civilians were not brought into area. Live stock herds in Southern Tunisia have been seriously depleted. There is sufficient olive oil on hand and a bumper grain crop is in prospect. As a result of some 60 Arab farmers having been killed, while harvesting, by land mines in Southern Tunisia there is concern over whether or not the much needed barley crop, now ready for harvest, will be gathered. There are shortages of milk, sugar, tea, coffee and textiles. Transportation problems are acute.

In area now reoccupied there seems to be only a small direct relief problem. Arabs financial position has improved with the war as the enemy paid them well, in Bank of France currency, for goods and services. Most of the Frenchmen are functionaries and still have their incomes. Many of the Jews and Greeks have neither money or property.

4. The Italians who worked actively with the enemy have left with them. Most of the small tradesmen and farmers, however, stayed behind and are continuing their daily life undisturbed. A few have been arrested at the instigation of British field security in the Sfax-Sousse region. French seemed to feel that they can take all property belonging to Italians who left with the Germans. That the French policy is to be in the North where Italians are much more numerous is not yet clear and is the subject of discussion by us with the French.

5. The enemy did not destroy or remove banks' records, property or personnel, so far as we have been able definitely to ascertain. Nor do we have evidence that they forced or requested that Bank of Algeria notes be exchanged for Bank of France notes and it is commonly said the people still hold sizeable amounts of Bank of Algeria currency. All enemy expenditures were made in Bank of France notes and they doubtless kept all the Bank of Algeria bills which came into their possession. They made no overt effort to collect metal coins but there is a shortage now.

There are very few lira and no marks, dollars, pounds, British or A.G.F. francs in circulation. Only Bank of Algeria and Bank of France notes were circulating while area was occupied. All French banks refused to accept lira and even the Italian banks accepted very little. All enemy troops were paid in Bank of France notes while in Tunisia, but soldiers did have some lira in their pockets which had been paid them in Tripolitania. Bankers in Sousse report Italian officers told them that the soldiers had been specifically asked not to spend lira in Tunisia since the Italian government did not want lira circulating there. The day the enemy left they went to the local branch of the Bank of Algeria, the central bank in these towns, took practically all the currency in the vaults including Bank of Algeria and Bank of France currency, accompanied by two employees of the Bank sent to Tunis and deposited it in

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INTERNAL SECURITY

the Bank of Algeria there to the account of the local bank. The two employees then returned with the receipt. The enemy did not do this with the other banks but they held only small accounts in any case. The Bank of France notes held by the banks and public institutions have been turned in and though only small amounts of Bank of Algeria notes have, up to now, been given in exchange, therefor it is planned to convert the balance of such deposits as soon as there is a sufficient supply of Bank of Algeria currency.

There was one small Italian bank in Sfax and one in the suburbs of Sousse. The one in Sfax had been doing less and less business for several months and in March closed its doors and the manager left town. A list of depositors with accounts totaling some 1.4 million francs and 1700 francs in cash were deposited with the local branch of the Bank of Algeria. The location of the other records is not known. The Italian bank in the outskirts of Sousse was closed when the British arrived and its manager has been jailed.

In each area the Jews were first forced to sell their holdings of olive oil and turn the proceeds over to the Germans. Later they were forced to go to the local bank and mortgage to the hilt all their property and the proceeds were turned over to the enemy. Next they were forced to draw out their deposits from the banks and the day the Germans left they went around to the homes of wealthier Jews and took all the cash, jewelry and other valuables that could be found.

The conversion of Bank of France notes is progressing slowly but on the other hand very few goods are available for purchase. Up to April 20 it was estimated that conversion operations were about one half complete in the Sfax and Sousse areas and that about 80% of the Bank of France notes turned in by other than banks and public institutions were converted into Bank of Algeria notes on a basis of a conversion limit of 2,000 francs per person up to 10,000 francs per family. That is, only 20% of the Bank of France notes received are currently being blocked. This arises from the practice on the part of the Arabs of distributing holdings of Bank of France notes among friends so as to get the maximum amount of Bank of Algeria notes and also the general practice of not turning in any Bank of France notes in excess of the amount to be immediately converted. There are constant rumors that people are selling Bank of France notes in these regions at big discounts but no tangible evidence is yet available. It is also reported that Bank of France notes are being sent to Tonkiers from the Tunisian area.

Contrary to earlier information evidence now available shows that no or very few 1942 Bank of France notes were distributed to the enemy. Those being received by the banks are largely 1941 and 1940 issues but sizeable amounts go back as far as 1935.

~~BRITISH SECRET~~

A few accounts for important, well-known business concerns are being unblocked and the practice is generally to unblock the whole account. This raises the basic question of whether the Allies are to underwrite purchases by the enemy in Bank of France currency at high prices in areas later occupied by Allies. French authorities have yet to take a definite stand on this question, although we have begun to discuss the problem with them. A few advances are also being made by the banks on their own responsibility.

On May 3 Tron sent out new instructions regarding the conversion operations in Tunisia. These orders call for:

- a. Conversion to be strictly limited to 8 day period.
- b. The quantity exchanged to be reduced to 1,000 francs per person with a maximum of 5,000 per family.
- c. Bank accounts to be unblocked only for essential business needs and then, in so far as possible, to limit the amount unblocked to 50% of the account.

6. The very important question of the olive oil situation in Tunisia cannot be answered until Tunisia is reoccupied and more definite information is obtained from other areas. Preliminary data shows stocks of some 23 million kilograms with needs for Tunisia during rest of year estimated at around 17 million kilograms leaving about 5 million kilogram exportable surplus. However, there is doubtless a considerable quantity hoarded and some sources report a total of 30 million kilogram available. Advance estimates made last year for the 1942-43 harvest ran as high as 80 million kilogram. However, the actual harvest is now estimated at 35 million. The difference is probably due to:

- a. Overoptimistic forecasting.
- b. Dislocation through the occupation of the orchards by the Germans during the harvest season.
- c. A draining off of manual labor by higher wage rates paid by the enemy.
- d. Considerable general hoarding. The Controls Civile in Sfax recently said well-to-do natives in that area probably have 2 to 3 years food reserves on hand.

7. Border controls between Tunisia and Tripolitania will be a serious problem so long as present price policies are maintained. British general policy is to charge landed cost plus handling charges. The result is usually considerable higher price than those collected in

CONFIDENTIAL
SECURITY REPORT

Tunisia. During enemy occupation of Tunisia there was some traffic in lira into Southern Tunisia where lira was said to be received at the legal Italian rate. Now there may be some traffic the other way since lira are completely outlawed in Tunisia. It is planned to permit the regular Arab grazing and trade in domestic products across the border.

8. Since Jan. 1941 the legal retail prices of cereal have increased about 50% and since Jan. 1942 they have increased about 30%. Dry vegetables have increased on the average about 50% since Jan. 1941 and about 15% since Jan. 1942. Olive oil, the most important product in Central Tunisia, prices are now a little more than 300% higher than they were two years ago and are double their 1942 level. Egg prices have increased four-fold in the past two years and three-fold in the past year. Canned milk prices are currently about 80% higher than they were in January 1941 and about 20% above their January 1942 level. In general it appears that the cost of living has probably not increased as much as in Algiers despite a greater shortage of supplies.

Practically all goods have legal prices. In general the wholesale price is set by the price control authorities in Tunis and the jobber and retail prices are determined by local authorities. The price control organizations in Sfax and Sousse have very limited staffs and it is clear that thorough control is not possible. Despite this it is the general feeling that both ration and price control have been surprisingly well administered. Black market activity is present in all commodities, of course, but it appears that only reasonably small amounts get outside the rationing scheme. There has been relatively little black market activity in food cereals, milk, meats and clothing. Much greater black market activity has occurred in sugar, wine, eggs and poultry.

9. Detailed reports on conditions in Tunisia are being sent by regular air mail.

ACTION: Treasury *Accounting Manual*
DISTRIBUTION: "A"

U.S. SECRET.
BRITISH MOST SECRET.

NOT TO BE RETRANSMITTED.

13
OFFICE
SECRETARY OF THE
TREASURY
1943 MAY 17 AM 9 09
TREASURY DEPARTMENT

OPTEL No. 159.

Following for Joint Staff Mission Washington.

Information received up to 7 a.m. 15th May, 1943.

1. NAVAL: Before dawn 14th off the Hook of Holland, 4 of our Motor Torpedo boats attacked a South bound enemy convoy which was escorted by 4 ships either torpedo boats or mine-sweepers as well as by E or R boats. 2 of the escorts were destroyed. Minesweeping trawlers off Harwich before dawn on 14th shot down 3 enemy aircraft. One of H.M. Cruisers and 2 destroyers bombarded Pantelleria at 3 a.m. 13th. 20 broadsides were fired and all fell in the target area. Shore batteries replied ineffectively. At Bizerta berths are now available for tank landing craft and anchorage for coasters so that 1,000 tons of cargo per day can be handled. At Tunis the canal is blocked but there are some berths for coasters and port will be able to handle 500 tons per day as soon as the approach channel has been swept.

2. MILITARY. BURMA. Our forces have now withdrawn from Maungdaw, no contact with enemy reported on 13th.

3. AIR OPERATIONS. Western Front. 13th/14th Bochum. 167 tons were dropped including 64 4,000 pound and 129, 2,000 pound H.B. bombs. Cloudless weather, bright moonlight but ground detail somewhat hidden by industrial haze and later by smoke marker bombs well placed and accurately timed resulting in concentrated attack on town centre.

Berlin. 9 Mosquitos dropped about 7 tons 14th, U.S. Eighth Air Force. 115 Fortresses and 21 Liberators were sent to attack the Germania works at Kiel, 125 aircraft attacked dropping 270 tons,

8, bombers missing. 12 Marauders bombed power station at IJmuiden. 34 escorted Fortresses attacked Courtrai Airfield dropping 76 tons of bombs, 2 bombers are missing. 39 escorted Fortresses bombed the Ford Assembly Plant at Antwerp dropping 87 tons, one bomber missing. During encounters with enemy fighters a large number of the latter were reported destroyed.

R.A.F. Eight Typhoon bombers attacked a factory near Dreux. 2 Spitfires damaged 2 E-boats off Guernsey. 8 Whirlwind bombers attacked shipping Cherbourg. R.A.F. and U.S. Fighters provided escorts for the above operations. Enemy casualties 12.9.16, ours 5 missing.

ALGIERS. 13th.. In the evening between 30 and 35 enemy bombers attacked, no damage reported to Harbour, A/A destroyed 5 and fighters one.

SICILY. 13th. 52 Liberators attacked Augusta Harbour, bursts were seen among about 20 ships.

SARDINIA. 13th. U.S. Bombers dropped 443 tons on Cagliari.

AEGEAN. Beaufighters sank one Caique of 120 tons and set fire to another.

4. HOME SECURITY. Chelmsford. 13th/14th. Now reported 19 persons killed.

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 162

Following is supplementary resume of operational events covering the period 8th to 15th May, 1943.

1. NAVAL

German aircraft carrier GRAF ZEPPELIN reported at STETTIN 5th.

MEDITERRANEAN. Intensive patrols by at least 21 Destroyers and numerous light craft precluded any large scale attempt to evacuate enemy forces from TUNISIA. H.M. Destroyers bombarded KELIBIA 8th/9th May and engaged batteries at CAPE ZAFRAN and SIDI DAUD. Light forces sank at least 7 small ships and took nearly 900 prisoners between 9th and 14th. H.M. Submarines report 2 small ships sunk, one E-boat damaged and one merchantman probably hit. A new Regolo Class cruiser is working up at TARANTO. 2 Italian 6 inch Cruisers have arrived at GENOA from TARANTO. Between 200 and 250 Caiques of over 100 tons are estimated to be operating in the AEGEAN on enemy account carrying between 10,000 and 15,000 tons of supplies per month.

SUBMARINE WARFARE. Now estimated 120 U-boats operating in ATLANTIC being largest number so far recorded. Week 5th - 12th 73 attacks on U-boats. Of 18 promising attacks 11 were by H.M. Ships. Shipping losses during April at 313,000 tons were less than half March figure. 72 per cent of losses by U-boat action were in North ATLANTIC. 39,000 tons of total were tankers. 19 Atlantic convoys arrived without loss. Japanese have intensified submarine attack on Allied communications in PACIFIC and INDIAN OCEANS, and 67,000 tons of April losses were caused by their submarines in these oceans.

SHIPPING CASUALTIES. During week 8th - 14th 16 ships were reported torpedoed. One U.S. ship in West ATLANTIC, one Greek ship in the South Western Approaches, 2 British and 2 Norwegian ships (2 of them in convoy) in the AZORES area, one British and one Norwegian ship in the FREETOWN area, a Cuban and a United States tanker off the BAHAMAS, one Dutch and 2 British ships in the INDIAN OCEAN, and one British ship east of AUSTRALIA. Belated reports were received of one British ship torpedoed in the INDIAN OCEAN in March and a United States ship in the North ATLANTIC in February.

A British ship reported torpedoed in attacks on an outward bound convoy arrived safely at ST. JOHN'S, NEWFOUNDLAND, and a U.S. ship reported torpedoed in the PACIFIC has arrived at SUVA, FIJI. One United States and 2 British ships were damaged by external explosions at GIBRALTAR and a British ship was damaged by aircraft at MURMANSK. One U.S. ship was reported overdue.

TRADE. 11 arrivals and 14 sailings of ore ships reported from BILBAO during week on enemy account. During first half April 25 enemy ships totalling 68,853 tons were sunk, captured or became total losses. Of these 17 ships totalling 36,458 tons in MEDITERRANEAN. In addition more than 70,000 tons were damaged.

Imports in convoy into United Kingdom week ending 9th - 669,000 tons of which 264,000 oil.

2. MILITARY

TUNISIA. Total number of prisoners so far counted 143,000 but total expected to exceed 170,000. Material very considerable and no final count is yet possible. It is confirmed that no serious attempt was made to evacuate any of Axis forces.

BURMA. ARAKAN. Efforts on 6th failed to dislodge enemy estimated at 1,500 on MAUNGDAW - BUTHIDAUNG Road. Owing to consequent impossibility of supplying our troops in BUTHIDAUNG and area south of it, withdrawal carried out north westwards on 7th after all transport and essential supplies had been demolished. Owing to resulting weakness of the left flank of our positions around MAUNGDAW and indications of Japanese intentions to outflank we withdrew from MAUNGDAW area on 12th after all stores had been evacuated. Enemy did not interfere.

NORTH BURMA. Our levies and patrols inflicted casualties on the Japanese in a series of encounters north of SUMPRABUM between 3rd and 11th. In HUKAWNG Valley enemy have withdrawn from their advanced positions in the hills to SHINGEWIYANG. Enemy force in this area believed to be largely Burman.

3. AIR OPERATIONS

86

WESTERN FRONT. Night. Bad weather until latter part of week. Large scale operations on 2 nights only. 1,258 of our bombers operated, 69 missing.

On 12th/13th very heavy and highly successful attack on DUISBURG. Considerable fires were still burning the next day. Main station and neighbourhood particularly damaged. Principal industrial damage was in the Vereinigte Steel Works and Railway workshops.

On 13th/14th our bombers covered wide range. Very successful attack on BOCHUM. Principal damage to station, fires still burning long afterwards. Attack on PILSEN was heavy considering distance from our bases, but details of result not yet available.

Day. United States Fortresses and Liberators carried out some heavy attacks on MEAULTE Airframe Factory, ST. OMER Airfield, COURTRAI Airfield, ANWERP Ford Motor Workshops, and Germania Works at KIEL. United States attacks resulted in strong counter action by enemy fighter aircraft on whom considerable losses were inflicted.

ENEMY. Focke Wulf fighter bombers attacked YARMOUTH and LORESTOFT by day. Total of 22 enemy aircraft crossed our coasts at night. CHELMSFORD bombed. 3 enemy aircraft destroyed.

TUNISIA. On 6th about 1,000 aircraft attacked objectives in battle area. We lost 2 aircraft and enemy lost 24. By 7th German Air Force had been compelled to withdraw their main force to SICILY and SARDINIA leaving only a small fighter force in the CAP BON Peninsula. By the 9th the remaining aircraft had been withdrawn and enemy resistance in the air ended. Our sorties rose to nearly 1900 on 8th and similar scale on 9th. Last attack before enemy surrendered was on BOU FIGHA on 12th.

SICILY. Very heavy attacks by Allied heavy and medium bombers on all ports and harbours. In one attack on PALERMO 123 Fortresses and 27 medium bombers operated with an escort of 178 Lightnings. In one attack on MARSALA 388 tons were dropped. Considerable damage both these towns, especially latter. Much damage to shipping, including ammunition ship exploded and tanker set on fire.

SARDINIA. In 2 attacks on CAGLIARI same day total of 107 Fortresses and 96 medium United States bombers escorted by 209 fighters dropped 394 tons of bombs.

RUSSIA. Main feature daily bombing by Russians of German railway communications and airfields from LAKE ILMEN to SEA OF AZOV and as far west as BREST-LITOVSK. These raids were successful and several German aircraft were destroyed on the ground in addition to damage to troop trains and railway installations. More than 150 tons on BREST-LITOVSK where serious damage done to railway property and barracks. Increased strategic bombing by Germans of railways, airfields and communication centres, especially between KURSK Salient and SEA OF AZOV.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF ALLIED AIR ATTACKS FROM UNITED KINGDOM BASES

STUTT GART. Now established that after raid on 14th/15th April 3 important trunk railway lines were still closed on 17th. Signalling system which is power operated, again badly damaged (after November raid it was not fully restored for nearly 8 weeks). Much damage to overhead electric power wires on railway system.

DUISBURG. Attack 26th/27th April. Work completely stopped temporarily at Thyssen Steel Rolling Mills owing to very heavy damage.

LILLE. Since United States attack on 13th January Hellammes Locomotive Repair Shops remain closed and hands have been distributed among other factories.

5. HOME SECURITY

TREASURY DEPARTMENT

Estimated civilian casualties week ending 12th - Killed 28, seriously wounded 22.

MAY 19 3 19 2 30

OFFICE
SECRETARY OF TREASURY

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL NO. 160

Information received up to 7 a.m., May 16th, 1943.

1. MILITARY

RUSSIA. Local fighting appears to be continuing in the TAMAN BRIDGEHEAD Northeast of NOVOROSSISK and at one or two localities on the Upper DONETS.

2. AIR OPERATIONS

WESTERN FRONT. 15th. 132 Fortresses out of 192 sent dropped 132 tons on EMDEN and 154 tons on other objectives in North-Western GERMANY. 9 Squadrons of Thunderbolt fighters (P.47) carried out a sweep over HOLLAND. 6 Fortresses and 3 Thunderbolts missing. 14 Squadrons of fighters escorted and covered 6 Mitchells, 12 Bostons and 8 Typhoon bombers which attacked airfields at CAEN and POIX. 6 other Squadrons of fighters carried out a sweep over Northern FRANCE. Enemy casualties - 7, 0, 5. Ours - 6 Spitfires missing and 1 Boston crashed. One enemy aircraft was destroyed by fighters over this country. 15th/16th. Aircraft despatched - BERLIN - 3, Leaflets - 17, Intruders - 47 and anti-shipping - 10. About 40 enemy aircraft flew over Coastal districts in EAST ANGLIA and later 7 attacked SUNDERLAND. One was destroyed and two damaged.

ITALY. 12th/13th. Wellingtons dropped 39 tons on NAPLES. 13th/14th. Mosquitoes attacked a factory and railway trains near TARANTO. Wellingtons bombed and probably sank a train ferry off CAPE COLONNE. 14th. 46 Fortresses dropped 123 tons on the Port of CIVITAVECCHIA. 14th/15th. Mosquitoes attacked shipping at GARLIPOLI (48 miles Southeast of TARANTO) and railways at BARI and BATTIPAGLIAO (40 miles East-Southeast of NAPLES).

SICILY. 13th/14th. 6 Liberators bombed the ferry terminus at MESSINA.

3. HOME SECURITY

15th. SOUTHGOLD. 10 persons killed in dusk raid. 15th/16th. SUNDERLAND. 2 Oil cisterns in the docks set on fire. 13 persons killed.

SEAHAM. Damage to property and 12 persons killed.

File TransSec
May 13 1122
2 J. 7.

May 17, 1943
10:18 a.m.

Operator: Go ahead.

HMJr: Hello.

James Byrnes: Henry?

HMJr: In person.

B: How are you?

HMJr: Fine.

B: I telephoned you Saturday and heard you were on the good mission of seeing the boy.

HMJr: I was down at Columbia.

B: I hope he was all right.

HMJr: He was fine.

B: Have you talked to the President at all about the tax situation?

HMJr: Not recently.

B: That's what I mean. Well, these boys up on the Hill have been bothering me, and....

HMJr: Oh.

B:I did not want to take it up with him, and that's what I rang you for on Saturday. Doughton and the - somebody else with him in his office rang me Friday.

HMJr: From whose office?

B: Bob Doughton.

HMJr: Oh, yes.

B: He wanted to know what the President's position was with reference to the Senate bill - what - what we wanted him to do. I told him I did not speak for him, and I couldn't tell him. Then he - the old boy was quite nervous. He - he took - he was taking the position, of course,

(Cont'd.)

- 2 -

B: that the President ought to tell him. And I told
(cont'd.) him that the President had gone off. It was
right after....

HMJr: Oh.

B:he had left, and that I could not tell him
anything about it, but I'd get in touch with you,
and since that time I've come to the conclusion....

HMJr: Yes.

B:that it'd be a good thing for you -- they're
going to pester you today....

HMJr: Yes.

B:to find out what you want them to do. I....

HMJr: You mean what - what the President should do.

B: Yeah, they - well, they wanted to know what he's
going to do, whether he'd veto the bill....

HMJr: Oh.

B:if it passed, or whether he'll say so if he
is going to do it - if he is prepared to do it,
that they want to know. Downey of the Senate
telephoned me and awhile ago Curley telephoned
me to - they wanted to know what to do. I told
them I couldn't tell them - that they - anything
about it. But he - they - they've got a -
they're - a pretty close situation, that the
chance is rather in favor of the damn thing
getting - of a change in a few votes. At least
these boys think so, and Sam wants to know from
the President. He sent me a message through a
third party, and I told him to telephone the
President direct....

HMJr: Yeah.

B:that he being....

HMJr: How....

B:the Speaker of the House he ought to do it.

HMJr: You mean on how they should vote?

- 3 -

B: Yes.

HMJr: Yeah.

B: They want - you see, they - they say they're going to shoot it at them tomorrow, and that....

HMJr: Yeah.

B:they would - if he would - if the President was going to make a fight - if he wanted a fight made, that they'd go out and make the fight. If he didn't care about it, they're going to let nature take its course, and - they'd make their record but they'd vote and they'd instruct the conferees to agree.

HMJr: Yeah.

B: That they thought that would be the result unless a fight was made.

HMJr: Well, I - from what they tell me -- of course, this does - isn't....

B: Yes.

HMJr: From what I understand through Paul is that the House - the chances are excellent that the House will concur.

B: Well, that's what I'm saying. That's what....

HMJr: Yeah.

B:it looks like they're - that they would concur in the Senate amendment unless we'd put up a fight on it.

HMJr: Yeah.

B: And whether the Boss wants to put up that fight is the question. What did - did Paul know actually of any votes that had been changed?

HMJr: Well, he felt - no, that there were so many Democrats that had left town though.

B: Oh, my God! I thought - if that'd be so, that's - that's just terrible.

- 4 -

HMJr: He felt so many had left town that - that we didn't have much chance.

B: Isn't that hell?

HMJr: Yeah.

B: If - if that's so and if no effort was made to get them back, it - it'd be - well, I....

HMJr: Well, look....

B:I am just going to tell them to....

HMJr:I'll tell you....

B:to - that I know nothing about it, and let....

HMJr: Well, look....

B:them talk to you, and that....

HMJr: Well, as - as the day goes along and it gets any clearer, I'll give you a ring.

B: Yes.

HMJr: And I - I - I'd like to get your advice.

B: Right. Because I know what they want to know.

HMJr: Yeah.

B: Those fellows - those fellows....

HMJr: What they want....

B:don't want to go out on a limb....

HMJr: No.

B:making a fight if he's going to turn up approving it, don't you see?

HMJr: That's right.

B: Yes.

- 5 -

HMJr: Well, as the day goes along, and if it gets any clearer, because it's not very clear to me now....

B: Yes.

HMJr:because, as I say, Paul doesn't think there's much use in putting up a fight.

B: Yes. I was going to ask, is that Paul's advice?

HMJr: Well, he hasn't advised that yet, but - he was just giving me a factual report.

B: Well, that's what the - the factual report is - he's been closer to it than anybody and he'd - he's talked to the fellows - if he'd tell me whose - the fellows he's talked with I'd know whether they were good judges or not. I'm afraid they are. (Laughs)

HMJr: Would you like to see him?

B: No, you....

HMJr: I mean would you like to see Paul?

B: No, I've - because I've got to get off on this damn coal strike.

HMJr: All right.

B: But, Henry....

HMJr: Yes.

B:if - when you find out - or if - after you've talked it over and you determine that you want to do anything....

HMJr: Yeah.

B:if you go to - to fighting, let me know, and....

HMJr: I'll let you know.

B:I'll see whether I can help. Oh, I thought of this. Here's what would be the - the technical thing -- what I first had in mind -- to ask the President to consider....

- 6 -

HMJr: Oh.

B:this question. If he's going to - if he's going to have to sign it....

HMJr: Yeah.

B:take that alternative - it would - it'd be a good thing for him to - to state - to make a statement now....

HMJr: Yeah.

B:before this vote in - in the hope that it would go to conference and he'd get a better bill to sign.

HMJr: Yeah.

B: First - then - then he'd have to consider that if he did that and said that it - it should be sent to conference because the bill is - as it passed in the Senate was too liberal in its relief provisions....

HMJr: Yeah.

B:then he'd be confronted on the veto with that decision....

HMJr: Yeah.

B:whether he would stand by what he had said or whether he could say that he - he regretted that the Congress had not done it but that he had taken the position, and because of the necessity to get a "pay-as-you-go" bill, that he couldn't do anything but sign. Now he could....

HMJr: Well....

B:those things to think over.

HMJr: As far as I know, we - we've been very careful not to say anything, because we didn't know ourselves.

B: Yeah.

- 7 -

HMJr: And we didn't want to get out on the end of the limb....

B: No. (Laughs)

HMJr:and - and the boys are working on a memorandum, and they were going to bring it in to me just as soon as they had it ready.

B: Yeah. Well, I told Doughton -- I suppose you know....

HMJr: Yeah.

B:that he'd have to talk to you - that if I heard of the President's view that I'd let him know....

HMJr: Well, that's....

B:but you did not know it.

HMJr: Well, that's good team-play at this end anyway.

B: Yes.

HMJr: And, as I say, as the day goes along....

B: All right.

HMJr:I'll - I'll give you a ring.

B: Right.

HMJr: Thank you very much.

May 17, 1943
10:46 A. M.

HM Jr: Hello.

Operator: Mr. Eccles. Go ahead.

HM Jr: Hello.

Marriner
Eccles: Hello.

HM Jr: Marriner?

E: Yes, Henry.

HM Jr: I was waiting patiently for a call so I said, "What the hell, I'll call Marriner."

E: Fine. Why, I'd like to come over this afternoon if I may. I was going to call you and see if I could arrange an appointment.

HM Jr: Yeah. Would three-thirty be all right?

E: Yeah. Yes. Any - any time this afternoon that's convenient for you.

HM Jr: Well, I've got the press at four. You think a half an hour would be enough?

E: Well....

HM Jr: I've got another man - or two men at three, that's my trouble....

E: Yeah.

HM Jr:and I've got to go and see Benes at five.

E: Uh huh. What about two?

HM Jr: No, I - that's - I'm tied up then also.

E: All right. I'll come over at three-thirty.

HM Jr: All right.

E: I think that might be all right.

HM Jr: Well, we can have a run on it anyway.

E: Yeah.

HM Jr: Thank you.

E: All right. Goodbye.

May 17, 1943
11:50 A. M.

Operator: Go ahead.

HMJr: Hello.

Robert Doughton: Hello. Henry?

HMJr: Hello. Bob?

D: Are the sun, moon and the stars shining to suit you now?

HMJr: Well, I wouldn't say that, no.

D: (Laughs) A little too strong, is it?

HMJr: Uh.....

D: Yeah.

HMJr:I did have a pleasant week-end. I spent it with my son down at Columbia, South Carolina.

D: Yeah. Well, that - I know that was....

HMJr: So that was a breath of fresh air.

D: Yeah. Well, I know you had a good time and I know you've come back rested....

HMJr: Yeah.

D:and enjoyed that. Well, how do you feel about the general situation?

HMJr: Well, I don't know, Bob. We're working on it here, and I thought later in the day I'd get in touch with you....

D: All right.

HMJr:but I'm still up in the clouds.

D: Yeah.

HMJr: I just don't know, but I - I'll be wanting to talk to you later - later in the day. Will you be available or will you be on the floor?

D: I'll be on the floor. You can call me off the floor any time.

HMJr: All right. Because I - I - frankly, I just don't know.

D: All right.

HMJr: But I'll....

D: Well, of course, I suppose that you'll want this bill to go to conference if the Senate - the way they've doctored up our bill - or do you want us to concur in the Senate amendment?

HMJr: Well, you know where I stand.

D: That would be the first thing, I reckon....

HMJr: I....

D: At the present time, I reckon, our main fight will be now to get it to conference. From what I see in the papers and hear on the sidelines, it looks like the Republicans are going to do their best either not to let it go to conference or instruct the conferees....

HMJr: Yeah.

D:to accept the Senate version.

HMJr: Yeah.

D: Of course, they don't either one suit me, but I'm backing up the House bill....

HMJr: Well....

D:of course.

HMJr:and, of course, the - the bill that passed the Senate doesn't suit me either.

D: Yeah.

HMJr: And - of course, I'd like to see it go to conference.

D: Yeah. Well, of course now, you'll know better than I will how to - and what to do about bringing any influence to bear you can on members that are in doubt.

HMJr: Yeah.

D: We lost fourteen Democrats before that were here and voted for the Ruml plan.

HMJr: Yeah.

D:and fourteen Republicans voted against it, but quite a number of Democrats were not here, but some of them will be here this time. And anything you - of course, I - I'm very anxious not to let the Republicans in the Senate just take complete charge of the writing of tax bills if we can help it.

HMJr: Well....

D: It looks like if we get this thing, we'll get a Republican bill by - one written by the Republicans in the House and Senate and under the leadership and direction of Ruml and Joe Martin and Spangler and that crowd....

HMJr: Well, have you got the - do you think you've got the votes?

D: Well, nobody can tell. It's just as uncertain as can be. You can't tell. It's just as uncertain as wind - you can't tell how they'll vote on this. It's so close and there's an uncertainty as to just which side will have the more of their members - of their voters here, you know....

HMJr: Yeah.

D:that were going to vote with them, so I don't know which voters - I don't know how it's going - it's just as uncertain as can be, Henry.

HMJr: Well, I - I - I'll be giving you a ring later this afternoon, Bob.

D: And then as you get your mind made up on that general proposition, I'll be glad to talk to you any time about anything. Just call me - call me when you're ready.

HMJr: Okay. I'll do that.

D: Yeah, and I'll be glad to talk with you. I'll be around here - be available - in touch - where you can get me all day.

HMJr: Thank you so much.

D: You're welcome. Goodbye.

HMJr: Goodbye.

May 17, 1943
1:21 p.m.

HMJr: Hello.

Operator: Justice Byrnes. Go ahead.

HMJr: Hello.

James Byrnes: Henry?

HMJr: In person.

B: How are you?

HMJr: I'm alive.

B: It seems that Sam Rayburn telephoned the - the President and asked him to ask me to help him out down there in the House....

HMJr: Yes.

B:and I told -- Herry got back first and delivered me the message....

HMJr: Yes.

B:I told him that I - about my talking with you, and that the first thing that I had to know was what the President's view was....

HMJr: Yes.

B:that that's what Doughton....

HMJr: Yeah.

B:wanted to know and that - Sam and the others too, so when he got in a few minutes ago....

HMJr: Yeah.

B:he said that he hadn't made up his mind, and - about it. I - I told him....

HMJr: The President had not made up his mind.

- 2 -

- B: Yeah. I told him that these fellows wanted to know if he'd made up his mind what he was going to do about whether he'd veto it or not, that they wanted to govern their actions accordingly, but they couldn't do anything until they knew what his views were, and that - that - that was the thing that he had to do. Well, he told me he had engagements at lunch with some people and somebody afterwards and that he'd - I'd present it to him then....
- HMJr: Yeah.
- B:the view that - I thought that Paul was of the opinion that the bill should be vetoed and certainly Doughton, and he said Doughton had communicated with him.
- HMJr: Well, I don't know whether Paul feels that way or not. He hasn't told me that.
- B: Well, what I had in mind - I - he asked me to - he said he'd talk to me at 2:45 about it and I told him that I would get in touch with you....
- HMJr: Yeah.
- B:and you and I'd go to see him. But I thought this....
- HMJr: Yeah.
- B: Before doing that if when - if you'd come over....
- HMJr: Yeah.
- B:and bring Paul along, I'd suggest....
- HMJr: Yeah.
- B:and Ben who - Ben and Paul have been talking about this thing, and let's - let's us talk it over before ourselves - before we go over to see him.
- HMJr: To see whom?

- 3 -

B: To the President.

HMJr: Oh.

B: And - at 2:45.

HMJr: Yeah, well....

B: He has to - he asked - when....

HMJr: Where did you get the idea that Paul wanted the President to veto it?

B: From Ben.

HMJr: Oh.

B: In - in their talks.

HMJr: Oh.

B: But the - I have not talked to Randolph....

HMJr: Oh.

B:but just solely....

HMJr: Yeah.

B:Ben and Randolph have been talking about it.

HMJr: But you're seeing the President at quarter of three?

B: Yes.

HMJr: And you'd like me to go along?

B: Why, I told him that - that you - that I would advise you, and he said, yes, to bring Henry along. I did not say - about these boys, but since I talked to him I thought of suggesting to you that because Paul and Ben have got these rates and schedules that if he wanted to ask any questions about it, they could - certainly, I'm not familiar with them....

HMJr: No.

- 4 -

B:and I'd rather have Paul there and Ben, wouldn't you?

HMJr: I'd be delighted to have them there.

B: And suppose we sit down first and discuss it ourselves to see what we'd advise him.

HMJr: All right.

B: I'm - I'm only interested from the strategy in the House.

HMJr: All right. What time would you like to....

B: And you fellows know it from the - what the Treasury wants.

HMJr: Yeah. What time?

B: Suppose we - 2:15.

HMJr: All....

B: And then we'll have a chance to discuss the thing.

HMJr: Okay.

B: Fine. Then we'll walk through - we can go over - it'll be on your way.

HMJr: Okay.

B: All right.

May 17, 1943
2:00 p.m.

TAXES

Present: Mr. Bell
Mr. Paul
Mr. Sullivan
Mr. Gaston

MR. SULLIVAN: I vote in the affirmative.

H.M.JR: This is, Should the President veto the tax bill.

Should he wait until it passes or say something beforehand?

MR. SULLIVAN: I don't know. There are two grounds on which I would make that recommendation, Mr. Secretary. In the first place, the people of the country are getting the impression that there is some kind of magic book-keeping that enables them to have their cake without paying for it.

Here we are, starting out in a year in which we are going to spend a hundred and nine billion dollars, and we are at the same time presenting a very fat bonus to a lot of people. I think that it is going to soften us up just as sure as shooting. The very same people who put this thing through are going to resist any increase in income-tax rates or in the State tax rates.

The other reason I base it on is after this war is over there will be six or seven times as many veterans as there were the last time. There will probably be twenty-five or thirty times as many dependents or partially impaired casualties, and the reasonable and fully justified demands that are made on the Government for the support of veterans and their dependents are

- 2 -

going to mean a tremendous sum. I don't see how anybody who voted for the Ruml plan can resist any kind of a demand that the veterans' organization makes for compensation.

I think we are starting off the toughest period in American life on the wrong foot. This is the longest step that has been taken toward monetary inflation and repudiation of the debts.

H.M.JR: Mr. Herbert Gaston?

MR. GASTON: I am inclined to look at it the other way. Good as the case might be against the Ruml plan, we haven't succeeded in getting that case to the country. The opinion will be that the President has vetoed this just out of vexation because the Treasury's plan wasn't adopted - his plan wasn't adopted.

I think it would be better either for him to sign it, or to allow it to become law without his signature and with a statement in which he tells what is wrong with it. We will probably be in a better position then to get taxes - additional taxes - that we need to get than if he vetoed the plan.

H.M.JR: I was with your vote first, but I have kind of veered around. I have got around to the point - there are so many things, the Federal Reserve and this and that and the other things, and I think we might just as well strike out and let the public know where he stands - the President - and be against the Ruml plan. I think if this swing to the right isn't stopped by the President nobody can stop it.

(The Secretary left the conference temporarily.)

(Mr. Bell entered the conference.)

H.M.JR: Where are you, Mr. Bell? Do you want to see the President veto the tax bill?

MR. BELL: No.

- 3 -

H.M.JR: Neither does Gaston. Sullivan does.

MR. PAUL: Gaston isn't very strong one way or the other.

MR. GASTON: I was about to say when you went out that the case is so tough that it is pretty hard to decide either way, and it wouldn't take a great deal to push me over.

I think it is a question of the future, whether it leaves us in a better position. Randolph thinks it leaves us in a better position as to the future legislation if he vetoes it. I was inclined to think the other, that we would be in a better position to get more taxes if he signed it.

H.M.JR: You don't want it vetoed?

MR. BELL: I don't know that my opinion is worth a lot, but I just have a hunch that the country wants it so strongly and that you run in the face of public opinion if he vetoes it. He might lose a lot more by vetoing it than if he signed it and accepted the will of Congress.

MR. SULLIVAN: Much to my amazement the Tennessee bankers all thought it was a phoney.

H.M.JR: B. M. Edwards is a thousand percent against it, but he says he doesn't know any other bankers who are.

MR. SULLIVAN: They all were down there, Mr. Secretary.

H.M.JR: He thinks it is a phoney.

May 17, 1943
3:57 p.m.

HMJr: Hello.

Operator: Mr. Doughton.

HMJr: Hello.

Operator: There you are.

HMJr: Hello.

Robert
Doughton: All right.

HMJr: Bob?

D: All right, Henry.

HMJr: Jimmy Byrnes and Randolph Paul and I have
just been over to see the President.

D: He got back?

HMJr: Yup.

D: Well....

HMJr: And, very confidentially, I think within the
next couple of hours there'll be a letter
coming up to you....

D: All right.

HMJr:which will state the President's position -
that - about the veto and everything else.

D: About which?

HMJr: About the veto.

D: Yeah....

HMJr: He's going to go on record this afternoon in
a letter to you.

D: Well, can you give me a tip on what that will
be?

- 2 -

HMJr: Yeah, he - he - he's going to ask - he's going to say it's going to be a vet.. - he's going to veto it if they pass the Senate bill.

D: Well, now he's talking my - he's talking my language now.

HMJr: But there's al...- there's a lot of slips, you know, between the cup and the lip.

D: Why, of course.

HMJr: And - but I think that that letter, unless something unforeseen happens, will be up to you in a couple of hours.

D: Then what will I do with the letter?

HMJr: Release it to the press.

D: Release it to the press.

HMJr: Give it out to the press.

D: Expecting me to release it. Will he send me copies?

HMJr: Well, I guess he'll just send you the original.

D: Well, oughtn't I to have quite a number of copies to give out? Will I have time to - I'll have to have it copied if he don't.

HMJr: Well, I think it would look better if it was copied in your office.

D: Well, I can - how long is it?

HMJr: Well, it won't be but about a page.

D: Oh, yes, I can have it copied.

HMJr: Yeah.

D: All right.

HMJr: Then the boys will know which - where - where the President stands.

- 3 -

D: Yes, yes.

HMJr: But I - but - and again, I'm just throwing in this warning, there's always a slip, you know.

D: How's that?

HMJr: There often is a slip....

D: I understand.

HMJr:and so - but unless - the President agreed to this, and I think within a couple of hours that it ought to be up there.

D: Well, I hope it will because I'll be adjourning - scattering everywhere directly, you know, but it will be all right. I'll be at my office or at the Capitol - one.

HMJr: All right.

D: All right. Thank you very much.

HMJr: Goodbye.

D: Thank you for calling.

HMJr: Thank you.

May 17, 1943
6:30 P. M.

HMJr: Hello.

Operator: Mr. Early.

HMJr: Go ahead.

Stephen
Early: Yeah.

HMJr: Stephen?

E: Hello.

HMJr: This is Henry.

E: Yeah, Henry. You know that we're giving out those letters the President just signed a few moments ago to go up to George and Doughton on the tax bill.

HMJr: Yeah, they were written here.

E: Well, I asked you if you knew we were giving them out. I didn't ask you where they were written.

HMJr: You didn't?

E: No.

HMJr: Are you sore about it?

E: Yes.

HMJr: Good and sore?

E: Yeah, plenty.

HMJr: Then I'll buy you a drink.

E: All right.

HMJr: (Laughs)

E: God damn. They just break in on me after the staff in the office....

HMJr: Yeah.

E:and the staff room and the press and everybody goes.

HMJr: Yeah.

E: And I told them they could let me know when they want me to help them out on things like that earlier.

HMJr: Well, it's just....

E: The reason I called you....

HMJr: Now wait a minute....

E:Henry....

HMJr:wait a minute.

E:was that Schwarz was just calling me.

HMJr: Who?

E: Schwarz.

HMJr: Yeah. Can I just say a word to you?

E: Yeah.

HMJr: When we came out from the President -- just to let you know what a good fellow I am -- I said to Jimmy Byrnes...

E: Yeah.

HMJr:"Please let Stephen Early know."

E: Well, bless your soul.

HMJr: I told him that when we came out a little after three.

E: Well, they didn't say a word to me until quarter of six tonight.

HMJr: Well, I just want you to know I said, "Please let Stephen Early know."

E: Yeah. Well, thank you, Henry.

HMJr: Yeah.

E: The reason I called you, honestly, was that Schwarz just called me and I think - he - his buzzer - your - you called him while he was on the phone.

HMJr: Oh, yeah. That's right.

E: And I thought maybe you wanted to know, that's why I told you we were giving them out, and I'll have them out, I think, in about fifteen minutes.

HMJr: You're going to do it?

E: Yep.

HMJr: Swell.

E: That's right.

HMJr: With your one hand.

E: Okay.

HMJr: All right.

E: Goodbye.

The White House
Washington

May 17, 1943

My dear Mr. Chairman:

The revenue bills recently passed by the House and the Senate contain certain provisions putting taxpayers on a pay-as-you-go basis by means of collection at the source and current payment of the income tax. Needed relief is also given to millions of men and women in our armed forces.

I am eager, as I am sure the whole country is eager, to see our taxes put on a pay-as-you-go basis at the earliest possible moment. Ever since 1941 the Treasury has consistently recommended provisions designed to this end. Such provisions would help hold the line against inflation.

The Senate bill, however, provides for the cancellation of a whole year's taxes. This cancellation would result in a highly inequitable distribution of the cost of the war and in an unjust and discriminatory enrichment of thousands of taxpayers in the upper income groups. Such groups would be enriched by the cancellation of taxes already owing by them. The Senate bill would give to a man with an income of \$2,000 a year a cancellation of taxes equalling less than four weeks' income after taxes; a man with an income of \$100,000 would receive a cancellation equalling 20 months' income after taxes. The latter would have cancelled more than all war tax increases since 1939, and would thus escape financial contribution to the war effort.

The fact that the upper income groups may pay just as many dollars into the Treasury in 1943 on account of

- 2 -

their liability for 1943 does not detract from their enrichment nor change the result that they would have permanently escaped tax on 1942 income.

A program of the proportions necessary to finance the war and to curb inflation must inevitably reach far down into the income scale. Tax rates for taxpayers in the upper income groups are already so high that substantial additional taxation cannot be imposed upon these groups. The effect of the remission of taxes contained in the Senate bill would therefore be a transfer of a substantial part of the cost of the war from the upper income to the middle and lower income groups upon whom tax increases must be chiefly imposed. Others, including those now on the battlefronts, would later be obliged to shoulder the burden from which our most fortunate taxpayers have been relieved.

The so-called anti-windfall provisions of the bill do not go to the heart of this basic inequity. Although they would reduce the total amount of forgiveness, the reduction would be made in an inequitable way. It would be made at the expense of people whose businesses have been dislocated by the war as much as it would be at the expense of those who have been enriched by war profits. It would also be at the expense of many people whose incomes have increased since 1940 not because of the war, but because they have just arrived at their greatest earning capacity. Those who have always had large incomes get the greatest windfall and they are untouched by the anti-windfall provisions of the Senate bill.

I am writing you now so that you may know my views and in the hope that a bill may be worked out in conference that I can sign. I have recommended pay-as-you-go taxation. I have not insisted upon any particular formula for transition to a pay-as-you-go basis. I believe that

- 3 -

there should be substantial adjustments to ease this transition. But there are limits beyond which I cannot go. I cannot acquiesce in the elimination of a whole year's tax burden on the upper income groups during a war period when I must call for an increase in taxes and savings from the mass of our people.

Sincerely yours,

signed (Franklin D. Roosevelt)

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

The White House
Washington

May 17, 1943

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- 2 -

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- 3 -

acquiesce in the elimination of a whole year's tax burden on the upper income groups during a war period when I must call for an increase in taxes and savings from the mass of our people.

Sincerely yours,

signed (Franklin D. Roosevelt)

Honorable Robert L. Doughton,
Chairman, Committee on Ways and Means,
House of Representatives,
Washington, D. C.



TREASURY DEPARTMENT

WASHINGTON

WAR SAVINGS STAFF

May 17, 1943

Approved also

MEMORANDUM

TO: The Secretary of the Treasury

FROM: James L. Houghteling

Your office has sent me a copy of the report made to you by Emerson Waldman on his interviews with workers at shipyards in the New York district. It contains some very interesting comments on labor-management relations in the three Bethlehem Shipbuilding Company yards on New York Harbor.

Andrew J. Dunn, who for over a year handled railroad labor relations for the War Savings Staff, has recently been given an important position on the labor staff of the Maritime Commission and War Shipping Administration. I talked to him today and in the course of conversation mentioned the dangerously bad relations in these Bethlehem shipyards. He immediately said that this was a difficult situation facing the War Shipping Administration and that he would like to have any information which we have available on this subject.

As Mr. Waldman's reports represent direct contacts with the workers themselves in their homes or in public places, after he had been given the green light by labor organizers and local union presidents, and sponsored by them, I can personally see no objection to giving the advantage of his information to another government agency - particularly as it may help to avert trouble. However, since these reports were made for your personal information I do not feel at liberty even to quote them without your consent. Please advise me whether it is all right to give Mr. Dunn this information.

James L. Houghteling



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 17, 1943

TO Secretary Morgenthau

Prepared by: Mr. Murphy, Miss Michener and Mr. Daggitt *ELM*

Subject: The Business Situation, *Alm*
Week ending May 15, 1943.

Summary

Wage control: The refusal of the United Mine Workers to accept a WLB order directing the union and the coal operators to resume direct negotiations again raises the threat of a coal strike. The WLB order for direct negotiation apparently indicates willingness to provide increased compensation in some form or other to the miners. The rigidity of the hold-the-line provisions relating to wage control has recently been modified, restoring greater latitude to the WLB in settling wage demands.

Factory payrolls: Factory employment, payrolls and weekly earnings all reached new record peaks in March. Average weekly earnings of factory workers during the month were 75 percent above the 1939 average. In contrast, the corresponding rise in living costs, as measured by the BLS index, was only 23 percent. Although the index doubtless understates the actual rise in living costs, it is undoubtedly true that real wages of factory workers have advanced markedly from 1939 levels.

War plants: A cut-back in new war plant construction and machine tool output has been ordered by the WPB. Government-financed contracts for new war plants and machine tools amounting to about \$4 billion are to be reviewed, and will be canceled if existing facilities can do the job.

Commodity prices: Commodity prices have shown little change since the President's hold-the-line order was issued. Last week the BLS index of 28 basic commodities declined slightly, partly as a result of favorable war news. Hog prices dropped to the lowest levels of the year.

Crop prospects: Crop prospects declined in most parts of the country during April and were considerably less promising than in the same period last year. The May winter wheat estimate of the Department of Agriculture indicated a below-average crop, 27 percent less than last year.

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- 2 -

Wage controversy still unsettled

With the truce in the coal strike due to expire Tuesday night, the WLB near the end of last week ordered the United Mine Workers and the soft coal operators to resume negotiations today. However, the refusal of the union to accede to the WLB order again raises the threat of a strike. In ordering the resumption of negotiations, the WLB indicated that it would look with favor on a guaranteed six-day work week, together with other concessions which would provide greater income for the mine workers. However, the WLB also indicated that it would veto the demand for a \$2 per day straight time increase. While the outcome of the coal wage controversy remains in doubt, it now seems likely that the miners will eventually receive increased compensation in some form.

During the past week Stabilization Director Byrnes issued a directive modifying the rigidity of the hold-the-line provisions relating to wage control, thus restoring greater latitude of action to the WLB. However, since this directive reaffirms the "Little Steel" formula and provides that wage adjustments must be kept within existing price and production cost structures, the full significance of this latest modification of wage stabilization policy remains to be seen.

Meanwhile, the labor difficulties of the coal industry have given impetus to anti-strike legislation in Congress. The Senate has passed the Connally anti-strike bill by a vote of 83 to 16, and the House Military Affairs Committee has approved an anti-strike bill of its own by a vote of 21 to 0. While the ultimate disposition of these bills awaits developments, they are an indication of rising Congressional resentment over strikes in wartime.

Workers' earnings still rising

In view of the resentment shown recently by labor groups over wage-stabilization policies and high living costs, consideration may well be given to the great increase in workers' earnings since the war began. Factory payrolls in March, the latest period for which figures are available, showed a continued sharp expansion and were 20+ percent higher than the 1939 average. (See Chart 1.)

While part of the gain in payrolls is due to the employment of about two-thirds more workers, average weekly earnings

- 3 -

of factory workers have also increased markedly, due to higher wage rates, longer hours and overtime payments. By March, average weekly earnings of factory workers were 75 percent above 1939 levels. (Refer to Chart 1.) This contrasts with a rise in living costs during the same period of about 23 percent on the basis of BLS data. While the available cost-of-living indexes undoubtedly understate the actual rise in living costs, the discrepancy between the rise in average earnings and the increase in living costs is so great that there can be no doubt that real wages of workers have improved substantially since the war began.

Even if current wage stabilization policies are made fully effective, further gains in average earnings of factory workers are still possible as a result of the extension of the 48-hour week. Thus the WMC recently ordered the steel industry to be on a 48-hour week basis by July 1. The American Iron and Steel Institute contends that this would increase steel payrolls \$104 millions annually, although a labor estimate places the figure at \$73 millions. As a result of protests from the industry, some modifications of the original WMC order now appear likely.

War plant construction curbed

Last week's WPB order providing for a sweeping cut-back in new war plant construction and machine tool production marks a shift to a more advanced phase of the war production effort. Under the terms of the order, Government-financed contracts for new war plant construction and machine tool production amounting to about \$4 billion are to be reviewed, and will be canceled if existing plants and machines can do the job. In some cases work will be stopped on facilities already partially completed. Moreover, the WPB reported that some tool makers would stop tool production and go into direct production of munitions. Although it was indicated that the country now has sufficient plant and tool capacity to beat the Axis, further expansion will take place in facilities for the production of certain raw materials, airplanes, synthetic rubber and aviation gasoline.

In addition to curtailment of the program for war facilities construction, changes in war strategy and other factors are dictating various shifts in emphasis in the production of the various types of military goods

- 4 -

and equipment. As an example, the International Harvester Company revealed last week that the Government recently terminated its contract for M7 tanks just as the company was getting under way on production following many months of preparation.

Stock prices moderately lower

The favorable war news from North Africa and other areas last week was accompanied by a moderate decline in stock prices and a noticeable decrease in trading activity. At the close on Saturday industrial stock prices were about 1 percent lower than a week earlier, while railroad and utility stocks were about 2 percent lower.

Although the decline embraced nearly all sections of the market it was noticeable that so-called "peace" stocks were much firmer than "war" stocks. As a result the ratio of "war" stock prices declined to the poorest relative position as compared with "peace" stocks since April 1940. (See Chart 2.)

Following a burst of trading activity in low priced utility shares at the beginning of the week a more cautious trading attitude subsequently developed. In this connection it is of interest that the short interest in the market rose more than 100,000 shares in April. At the end of the month the total stood at 882,000 shares, the largest since June 1938.

Commodity prices steady

Commodity prices have shown little change since the President's hold-the-line order was issued more than one month ago. The BLS index of 28 basic commodities has declined slightly, due largely to the decrease in hog and steer prices. (See Chart 3.) However, the BLS all-commodity index has registered a fractional increase, and in the week ending May 8 was at the highest level since early in 1925.

The bearish influence of peace talk, which was noted in the stock market, had some effect on commodity prices last week, and the index of 28 basic commodities was off 0.2 percent. Wheat, cotton, and wool top prices declined moderately. Heavy marketings depressed hog prices to the lowest for the year, and they now are at levels deemed satisfactory by the War Food Administrator to bring them in line with the price ceilings on pork. Prices of rosin, flaxseed, and cottonseed oil rose somewhat during the week.

- 5 -

Congress to consider subsidy program

Price Administrator Brown said last week that the new OPA subsidy program to roll back living costs would be strictly experimental, and indicated that the future of subsidies as a means of stabilizing prices would depend on actual results of the trial next month.

The test of Congressional approval of the new subsidy program is approaching, since three opportunities will shortly be presented in which Congress can take action on the proposed use of subsidies. The first will be in connection with a bill to increase the borrowing power of the CCC by \$1 billion and to extend the life of the corporation until June 30, 1947, or until two years after the war. (The law authorizing the CCC expires June 30.) Press reports indicate that the House Banking and Currency Committee will add a provision forbidding the use of CCC funds for roll-back subsidies. A bill to increase by \$5 billion the borrowing power of the RFC is also scheduled to be considered soon, as the RFC has already committed more money than it is authorized to borrow. Finally, the OPA appropriation, for which about \$170 millions will be asked, is to come up for consideration next month.

The opponents of subsidies are advancing various arguments against their use. Congress, of course, is opposed in principle to large subsidy payments made outside its control, and is opposed to this subsidy plan on the ground that it might tend to stabilize farm prices. A valid objection is that subsidies may become a means of permitting unnecessary but hidden price and wage increases, unless they are used in combination with strict price and wage control. Moreover, if price and wage control is not rigidly applied, expenditures for subsidies could reach unmanageable proportions. A further objection, as important now as in peacetime, is the difficulty of removing a subsidy once it has become established.

Crop prospects decline

Crop prospects declined in most parts of the country last month, and on May 1 were considerably less promising than on that date last year, the May 1 crop report of the Department of Agriculture indicated. Drought conditions increased crop losses in several south western and west

- 6 -

central states, but growing conditions were favorable in the Pacific Northwest, good in the main Corn Belt, and fair to good in other areas east of the Mississippi River. Rainfall for April averaged 38 percent below normal in the Great Plains region; however, recent substantial rains have tended to relieve dry conditions throughout this area.

A below-average winter wheat crop of only 515 million bushels is now forecast by the Department of Agriculture, a decline of 43 million bushels from the April forecast and 100 millions below the very favorable prospects reported last fall. The indicated winter wheat crop will be 27 percent less than last year, partly because of a reduction in acreage, and will be the smallest since 1935.

Farm pastures have been retarded by cool weather in many sections and need rain in some areas; nevertheless, pasture conditions for the country as a whole averaged 78 percent of normal on May 1, which is 4 points above the 1932-41 average but lower than in the last two years. Because of the expected increase in livestock, combined with a decline in the hay crop prospect, the supply of hay per unit of livestock next winter is likely to be substantially less than during the last 5 years, despite a large carryover from last year's large crop.

Rough approximations of the total production of commercial truck crops for the fresh market in 1943 indicate a 14 percent reduction from 1942. The condition of the 1943 early Irish potato crop in the 10 Southern States and California was 78 percent, which is the same as last year and 2 points above the 1932-41 average.

In the 10 early Southern States, the peach crop, which was severely damaged during the budding season by freezes, was forecast at 9,141,000 bushels, the lowest on record except the crops of 1911 and 1932. This estimate compares with last year's production of 19,591,000 bushels. Other deciduous fruits, the Department of Agriculture reported, escaped freeze injury except locally in some States.

Farm employment continues low

Although farm employment showed a larger increase than usual during the month ending May 1, it was at the lowest levels on record for that month, as has been the

- 7 -

case in every month this year. The number of persons employed on farms was about 3 percent below the number on May 1, 1942, with hired workers down relatively much more than family workers. A greater utilization of women, children and older people was responsible for the relatively smaller decline in family workers.

In spite of the present low levels of farm employment, the War Food Administrator stated recently that an adequate supply of farm labor will be available to produce and harvest a 1943 crop equal to the announced goals. As a result of the deferment of agricultural workers, it is expected that a sufficient nucleus of experienced farm workers will stay on farms, and that many former farmers now working in industry will return to the farm. (Agricultural deferments numbered over 1 million on April 15, and Selective Service expects them to reach 3 million by the end of 1943.) Furthermore, plans have been made to mobilize a U. S. Crop Corps of 3,500,000 workers (including town and city men, women, and youths) for full-time and seasonal work.

Japanese evacuees from War Relocation Centers are being used in the western states, especially in sugar beet fields. The importation of foreign labor has already begun, and 35,000 to 50,000 Mexicans, 5,000 Bahaman workers, and 10,000 or more Jamaicans are expected to be employed ultimately. Plans are also under consideration, according to the press, to use war prisoners for farm work.

Shortage in East Coast oil supplies

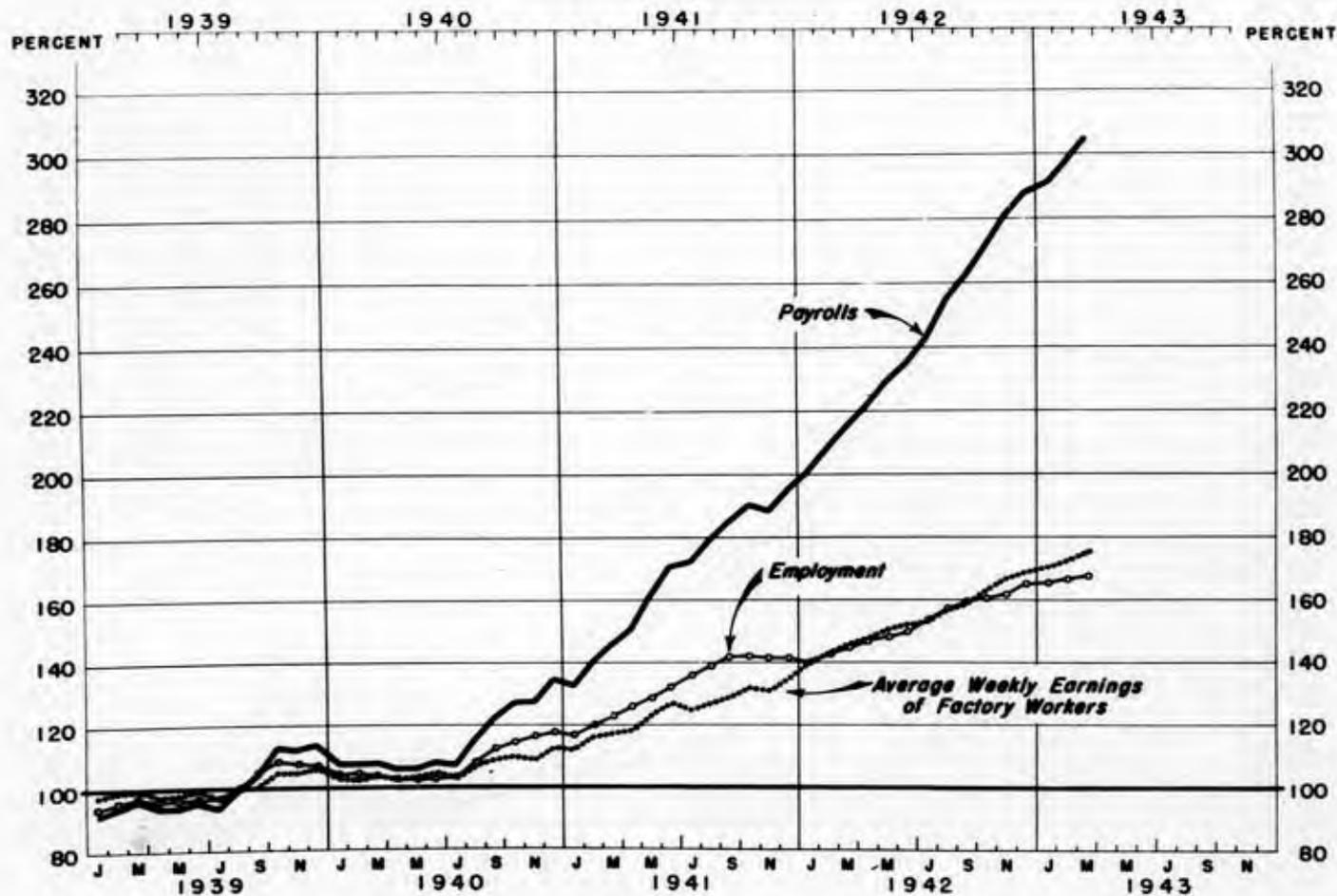
Despite substantially increased receipts, aided by a new high in tank car deliveries, East Coast supplies of petroleum products for civilians fell to a record low of 25.5 percent of "normal" in the week ended May 8. (See Chart 4.) While the existence of rationing somewhat detracts from the significance of an index based on "normal" seasonal factors, there is no doubt of a serious gasoline shortage in the Atlantic seaboard area. The situation is so bad in some areas that steps have had to be taken to assure farmers of needed motor fuel supplies for non-highway uses. During the past week the Petroleum Administrator indicated that it is going to be extremely difficult to meet East Coast essential requirements for gasoline.

The Petroleum Administrator also indicated that he intended to renew pressure for an advance in crude oil prices.

- 8 -

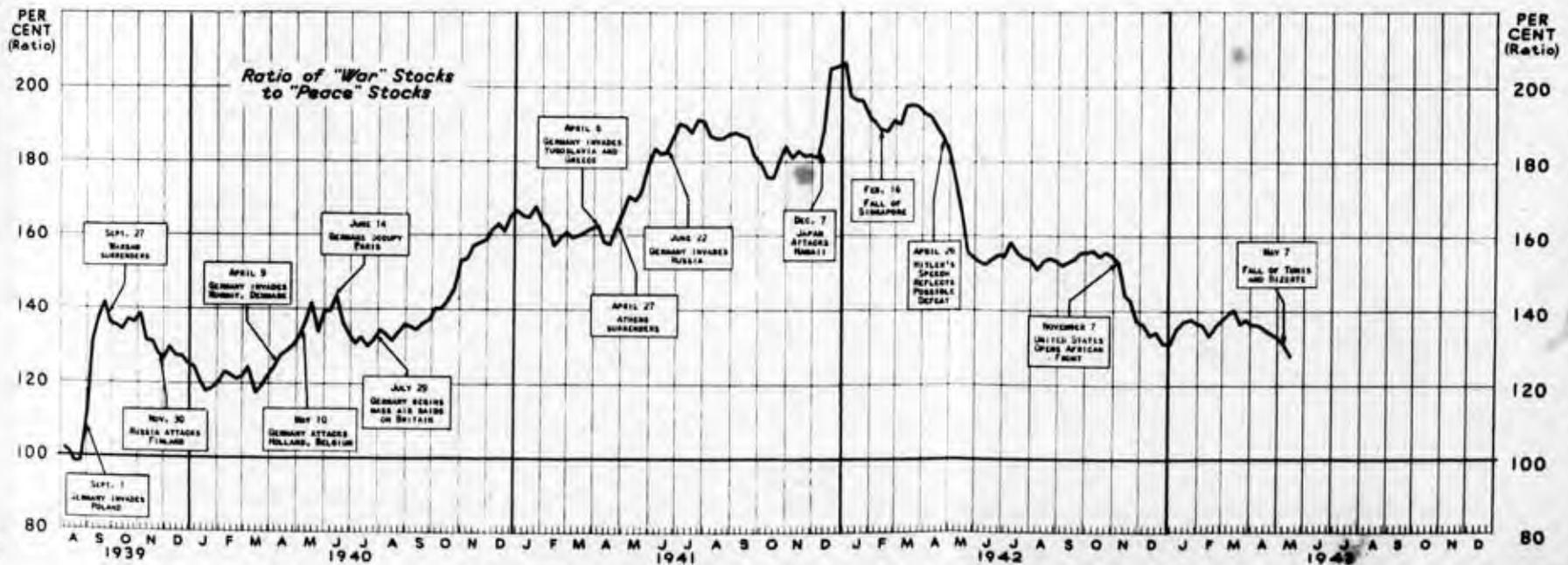
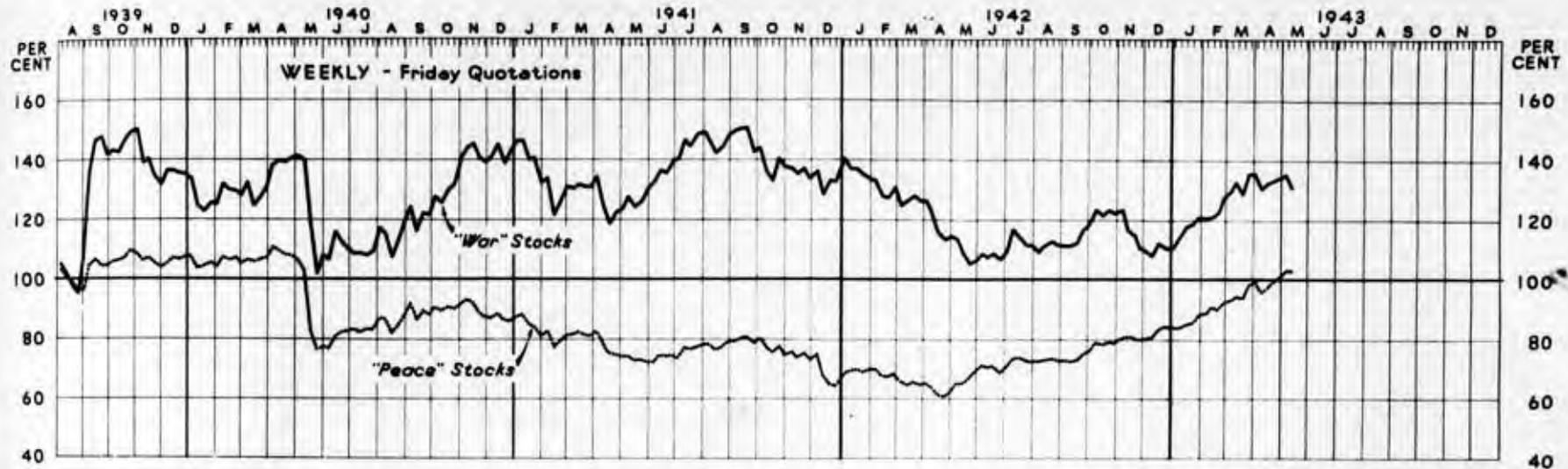
Such a request was turned down by OPA a short time ago, but important groups in the industry and in Congress are insistent that a price rise is necessary to stimulate drilling and assure the supplies needed for the prosecution of the war. Indicative of the tightening crude oil supply situation in the Middle West, refineries in that area have just been placed on a quota basis. It is said that this action has been prompted by the fact that refineries in the Middle West have been processing from 30,000 to 50,000 barrels more of crude oil per day than can be supplied by local production and by deliveries from other districts.

FACTORY EMPLOYMENT, PAYROLLS AND WAGES 1939=100, Unadjusted



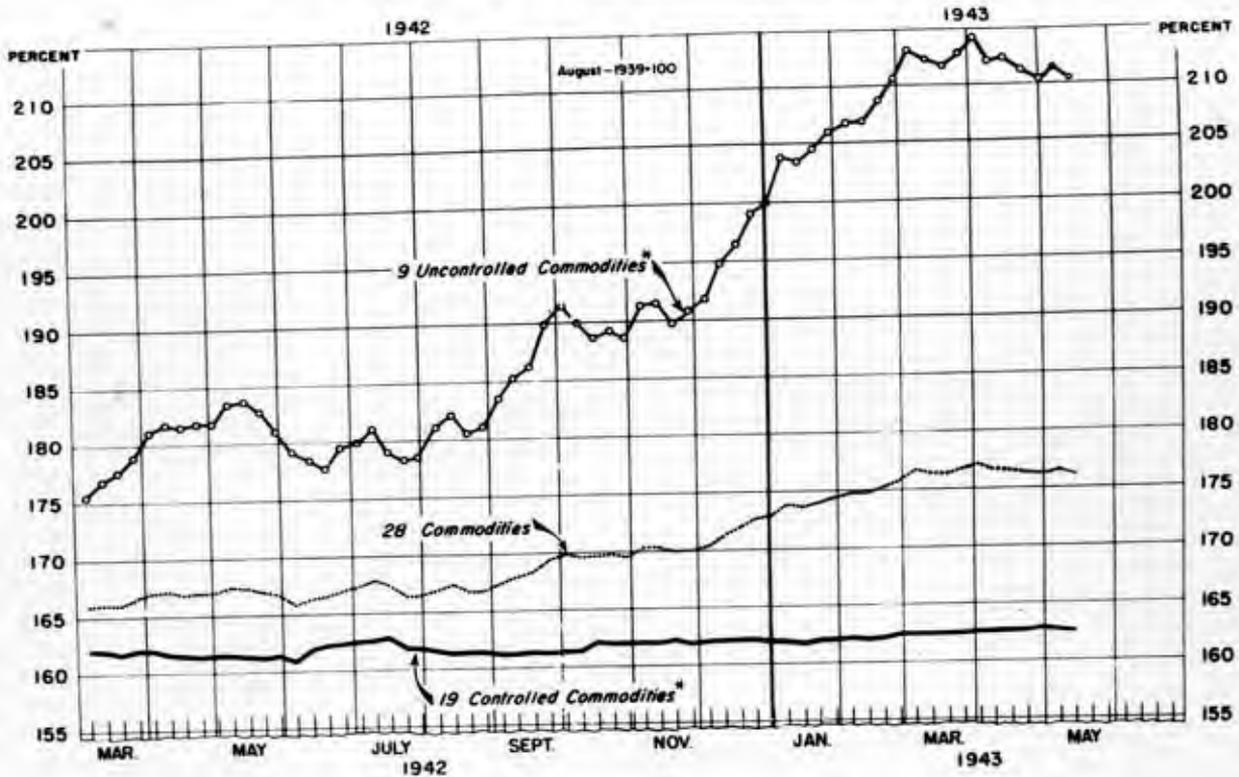
COMPARISON OF PRICE MOVEMENTS OF 20 "WAR" STOCKS AND 20 "PEACE" STOCKS*

August 1939 = 100

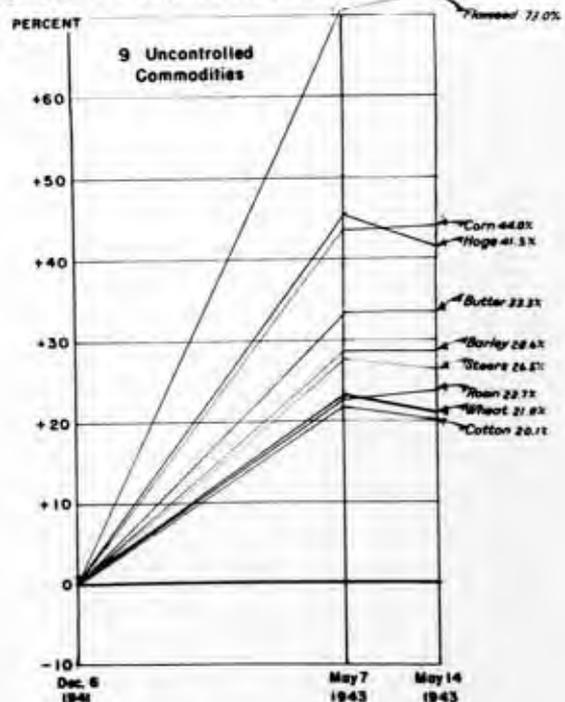
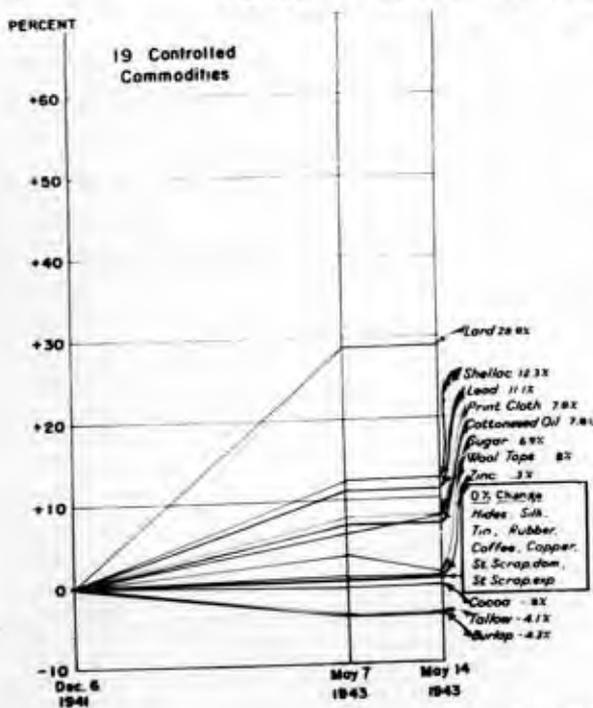


* Stocks selected on basis of relative benefits from prolonged war vs. early peace
Indexes are weighted averages of price relatives

MOVEMENT OF BASIC COMMODITY PRICES



PERCENTAGE CHANGE DEC. 6, 1941 TO MAY 7 AND MAY 14 1943

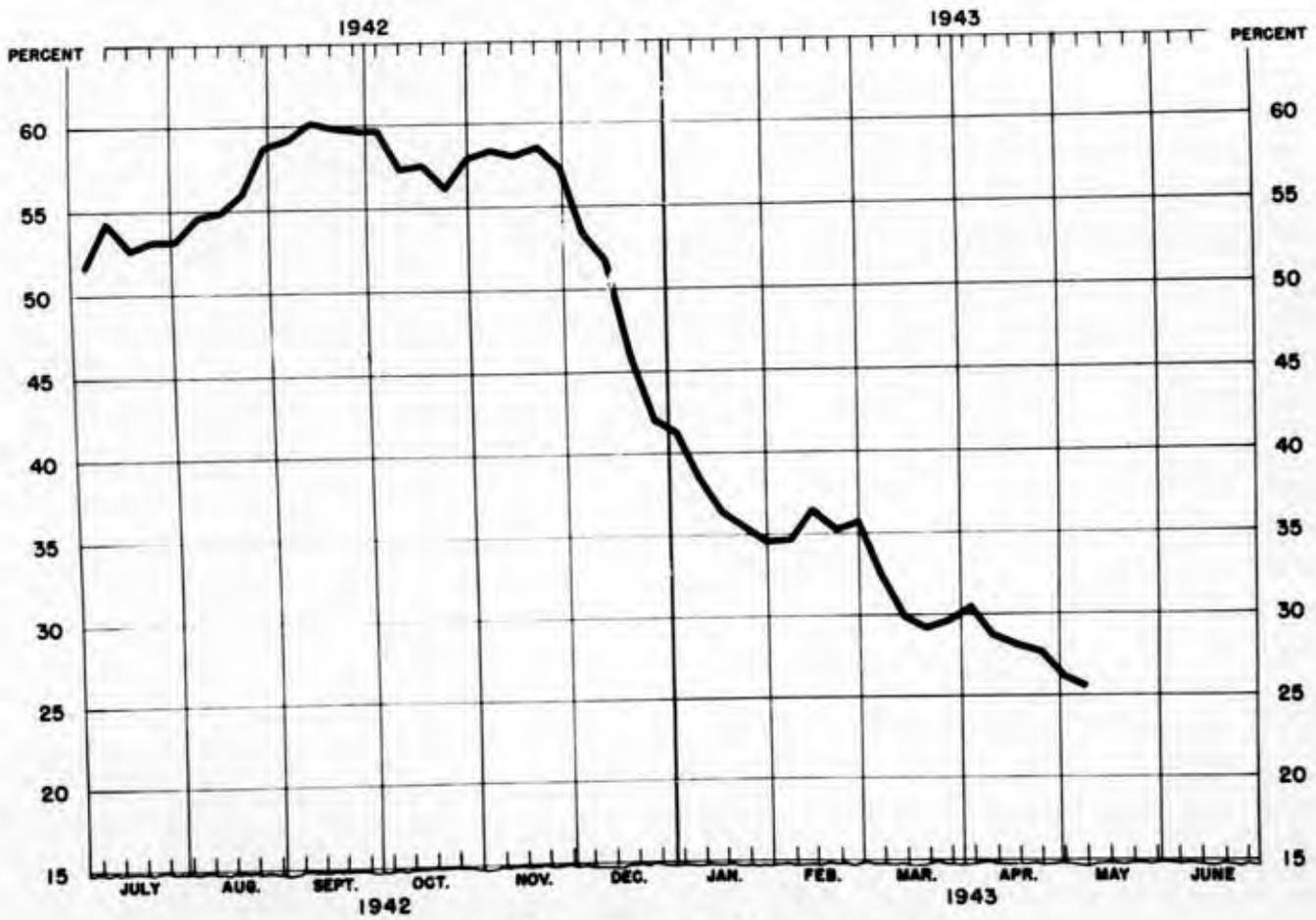


*20 Controlled and 8 Uncontrolled previous to June 26

129

PETROLEUM PRODUCTS SUPPLY

Civilian Supply on East Coast as Percentage of "Normal."* July 1942 to Date



*"Normal" Supply for corresponding month in year beginning July 1940.

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

C-474

Chart 4

Regraded Unclassified



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

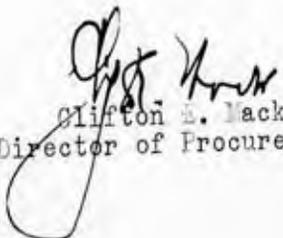
May 17, 1943

SECRET

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of May 10, 1943, the purchases against the African Program from May 10, 1943, to May 16, 1943, totaled \$528,863.00 or a total of purchases for the program thus far of \$33,030,657.72.

Attached is report giving status of shipping against these purchases.


Clifton B. Mack
Director of Procurement



SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Aluminum sulphate				14.5
Asbestos sheet packing	2			17
Boiler tubes				
Bone glue		2.5	50.5	
Books & booklets	2			
Brass rods & sheets	29.7	31.35	12.8	88.7
Babbitt metal	53.35			
Brick	129		40	
Calcium carbide		280.05	340	1870.7
Cement				20
Cement, rubber			19.5	
Chemicals	181.5	283.4	249.8	692.98
Coal cutters	12			
Copper tubing			21.6	27.5
Corrugated boards		59	32.4	55
Clothing	2233.71	68.55	18.5	1
Copper sulphate	5697.75		47.5	
Cotton thread	69.25	29		
Cordage & twine	225	5	40	
Drugs	6.5			
Electrodes		9.5	1.5	2.9
Envelopes		11.5	7.68	7.5
Files, steel	15	15		
Fullers earth	72			
Gelatin	1		1	
Glass, window			76.2	45.3
Glass lamp chimneys			17	
Glycerine	12.75			
Horse Shoes & nails	125.9	31	61.03	10.75
Hosiery	26	3.5	7.5	2.5

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Jute bags		175.4	986	
Light bulbs			8.6	
Lithopone			10.2	
Lumnite	30			
Mach. finished book paper	2			
Matches	389.75	4.5	9.1	70.15
Newsprint	913	45	189	28
Nipples, bottles, eye cups			9	
Paper products	10	234.4	235.4	497.97
Paper bags		190.6	54	
Phonograph records			1000 Each	
Paint pigments	15.5		46.2	1.6
Piece goods, textiles	7775.5	2123.1	2347.75	258.72
Pig iron				350
Pig tin	64		46	1.6
Powdered milk	119			
Printers ink	.1			
Raw sugar	1545			
Refined sugar	4196.5			
Sheet copper & rods	2.8	44.2	29.1	24
Shoe tacks	4	19.5		
Spare parts for autos, tractors & harvesters	256.1	301.2	11.1	659.79
Spark plugs	4.5	5		
Storage batteries	51.7		6.95	13.5
Steel, pipe, bars, angles	38	52	2119.2	994.22
Shoes, boots & soling	247.25	93.75	4.5	2.5
Sulphur commercial flour			474.2	2440
Tin plate	845			
Tires, tubes & tape	175.75		36.7	332.04
Tools	3.5	5.5	63.3	244
Tooth brushes			.75	

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Tea	171.5			
Typewriter ribbons			.5	
Wire nails	100.5			
Wire rope	88.5			
X-Ray films	1			14.5
Blasting caps	1.4			
Transformers				6
Wire cloth				3
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	25,946.76	4,123.50	7,732.06	8,797.92

STATEMENT NO. 85

Aircraft Despatched from the United States

Week Ended May 11th, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Liberator III	Bahamas	Nassau		1	
Catalina IV	Canada	Canada		10	
<u>CURTISS</u>					
Seamew	Canada	Canada			2
Seamew (A)	Canada	Canada			3
Seamew	U.K.	U.K.	6		
Kittyhawk	M.E.	Port Sudan	9		
<u>DOUGLAS</u>					
Boston III A	U.K.	U.K.		1	
Dakota III	U.K.	U.K.		5	
Dakota III	M.E.	M.E.		3	
<u>FAIRCHILD</u>					
Cornell PT 26	U.K.	U.K.	11		
Angus 1 (B)	Guatemala	Guatemala		1	
<u>GLENN MARTIN</u>					
Baltimore III A	M.E.	M.E.		3	
Baltimore IV	M.E.	M.E.		15	
<u>LOCKHEED</u>					
Lodestar	New Zealand	Auckland		4	
<u>NORTH AMERICA</u>					
Harvard	India	Bombay	1		
Mitchell 1	Bahamas	Nassau		1	
Mitchell 2	Bahamas	Nassau		1	
Mitchell 2	U.K.	U.K.		7	
<u>VULTEE</u>					
Vengeance	Australia	Sydney		10	
Vengeance	India	Bombay		17	
<u>STINSON</u>					
Reliant	Trinidad	Trinidad		7	
			<u>Total</u>	58	55
					5

(A) Exported week ended May 4th.

(B) Exported during week ended May 4.

*In statement number 82 twelve Baltimore IV were noted as being flight delivered to Middle East. Please note one has been diverted to U. Kingdom.

Movements Division, BritishAir Commission.

May 15, 1943.

TREASURY DEPARTMENT**INTER OFFICE COMMUNICATION****DATE MAY 17 1943**

TO Secretary Morgenthau
FROM Messrs. Paul and Gaston

We think you ought to see the attached letter from Colonel Davis of the Joint Security Control, calling the Treasury's attention to certain documents issued by the Procurement Division disclosing the location of certain aircraft warning stations. Attention is particularly directed to page 4 of General Schedule of Supplies prepared by the Procurement Division.

As we understand it the Joint Security Control has the following suggestions:

1. The important strategic information contained in such schedules should be eliminated to the fullest extent possible consistent with obtaining the supplies desired.

2. The extent of the distribution of information of this character should be carefully reviewed by the Treasury.

3. The information should be classified according to the degree of secrecy with which it is to be handled. If the material is to be sent out of the Government it should be stamped with the following legend:

"This document contains information affecting the national defense of the United States within the meaning of the Espionage Act, 50 U.S.C., 31 and 32, as amended. Its transmission to or the revelation of its contents in any manner to an unauthorized person is prohibited by law."

We understand that Government suppliers have had to include in their contracts with the Government an obligation to keep classified information carefully

- 2 -

safeguarded and the classification of the information as "Secret", "Confidential", etc., brings the contractual provision into operation.

You will note that this matter has been taken up previously by the Joint Security Control with the Procurement Division without satisfactory results.

It seems to us that this illustrates the need of more effective supervision of the Procurement Division.

BA
MS

SECRET 139

JOINT SECURITY CONTROL
WASHINGTON, D. C.

by authority Joint Security Control
Date 4/13/43
Initials F.F.A.

May 11, 1943

Mr. J. W. Pehle
Treasury Department Representative
Interdepartmental Security Service Committee
723 Washington Building
Washington, D. C.

Dear Mr. Pehle:

As suggested by you in your conversation with Colonel Smith this morning, below is briefly the situation concerning Treasury Department's "General Schedule of Supplies," and other publications:

In Treasury Department, Procurement Division, Circular letter No. 513 dated October 30, 1941, estimated requirements, invitation, bid and acceptance (short form contract) and General Schedule of supplies for delivery in Puerto Rica (Class 7 and 11) for the period January 1 to March 31, 1943, the location of certain aircraft warning stations is disclosed.

It appears that these publications are sent through the mails unclassified which I am sure you agree should be avoided. The subject previously has been discussed with Mr. Walsh of the Treasury Department in February of this year, who was very cooperative and took some corrective steps. Apparently, however, these were not entirely effective, as it appears that the information is still distributed in unclassified form.

It is brought to your attention as the Treasury Department Representative of the Interdepartmental Security Service Committee as a matter of interest from that point of view and with request for your cooperation in either avoiding publication of the objectionable information in the documents in question or arranging for them to be distributed under proper classification. If there is any further detail you would like from us, we will be glad to furnish it on request.

Very cordially yours,

F. S. Davis
F. S. DAVIS,
Colonel, G.S.C.,
Acting Army Executive.

SECRET

140

GENERAL SCHEDULE OF SUPPLIES

**GASOLINE, FUEL OIL, AND KEROSENE
DELIVERIES IN PUERTO RICO
(CLASSES 7 AND 14)**

**FOR THE PERIOD
JANUARY 1 TO MARCH 31, 1943**

**PREPARED UNDER DIRECTION OF THE SECRETARY OF THE TREASURY
BY THE
PROCUREMENT DIVISION
WASHINGTON, D. C.**



(38199)

196

GASOLINE, FUEL OIL, AND KEROSENE DELIVERIES IN PUERTO RICO (CLASSES 7 AND 14)

For use by activities of the Government of the United States of America.

3. The requirements of activities on which bids were received or no awards made are not shown herein. Such activities should communicate with their headquarters and make arrangements to procure their requirements for the period January 1 to March 31, 1944, only, as the Procurement Division will include these requirements in its invitations for bids for the succeeding quarter. Such spot-market purchases should be reported to the Procurement Division monthly, showing the names and addresses of suppliers and other prospective bidders.

4. **GRADE.**—Gasoline, fuel oil, and kerosene furnished may be produced regularly refined and commercially distributed for public use at the place of delivery. Except as otherwise specified, products shall be in accordance with the specifications for the grades shown below. The right is reserved to modify the maximum limits of the specifications, if it is in the best interest of the Government. If such modification is not acceptable to the contractor, the Government may cancel the contract for the grade involved, without liability to either contracting party. If any product (even though strictly in accordance with the specifications) is deemed by the Government to be unsatisfactory for certain shipments, orders therefor shall be discontinued without prejudicial liability to either contracting party, and a product which is deemed suitable shall be purchased without reference to this schedule.

(A) Gasoline.—Grade 5 (straight-run unaltered hydrocarbon) shall be in accordance with Proposed Federal Specification for Motor Fuel 5, dated Feb. 7, 1944.

Grade 6-72 (regular grade) shall be in accordance with Proposed Federal Specification No. 72-10-104, dated Mar. 3, 1941, except that the minimum A.S.T.M. octane number is reduced from 72 to 70 and the maximum sulfur content is increased from 10 to 15 percent. The so-called "blend" structure gasoline does not comply with this specification.

Grade 6-88 (premium grade) shall be in accordance with Proposed Federal Specification No. 72-10-104, dated Mar. 3, 1941.

(B) Fuel Oil.—Grade 2 (burner) and 5 (burner) shall be in accordance with Proposed Federal Specification No. 72-10-120, dated Feb. 12, 1944.

Grade 2-1 (burner) shall be in accordance with Navy Specification No. 7-0-1 (REV.) grade 2.

Grade 2-2 (diesel) shall be in accordance with Navy Specification No. 7-0-2.

(C) Kerosene.—Grade 8 shall be in accordance with Proposed Federal Specification No. 72-1-211, dated May 13, 1939.

3. **UNIT OR QUANTITY.**—Prices shall be based on payments made on the U. S. gallon (231 cubic inches).

4. **TANKS AND HOW DELIVERED.**—Minimum deliveries for tank wagons shall be 500 gallons; for drums (full drums), approximately 50 to 55 gallons.

(D) Maximum prices per gallon shown herein shall include delivery at contractor's expense, either by tank wagon or drum, as ordered. Unless otherwise specified, drum deliveries shall be made with contractor's drums. Drums emptied within the allowed free period shall be returned to the site where they were received, and the contractor notified that they are available for pick-up. If Government-owned drums are used, they shall be sent to the

bulk plant at Government expense and, when filled, shall be forwarded at contractor's expense.

5. **TANK-CAR DELIVERIES.**—Government-owned tank cars will be used wherever practicable.

6. **ACCESSORY-DELIVERY EQUIPMENT.**—If plans for tank-wagon delivery of fuel oil or additional sections of hose are required, they shall be furnished by the contractor at an additional cost.

7. **TEMPERATURE-VOLUME CORRECTIONS: QUANTITY DETERMINATIONS.**—Temperature-volume corrections shall be determined in accordance with Supplement to test circular C410 issued Apr. 20, 1937. Quantities furnished under tank-wagon and drum deliveries at distant to the storage tanks of floating marine equipment shall be measured without correction for temperature. If no approved meters or other acceptable devices are available for measuring tank-wagon or drum deliveries separately, the ordering activity shall, prior to delivery, arrange with the contractor the method for determining the gallons received; determination shall be made jointly by an authorized representative of the Government and the contractor.

The gallonage of tank-car shipments shall be determined at time of loading with the volume corrected to 60° F. Tank cars received more than 4 inches out-of-level shall be gaged. The gallonage of Government-owned tank cars will be determined from Government records.

8. **TIME OF DELIVERY.**—The time necessary for an order to reach the contractor will be taken into consideration and as much time as possible will be allowed for delivery. Delivery shall be accomplished within 48 hours after receipt of order.

9. **MAXIMUM PRICES.**—The maximum price per gallon that the Government shall be required to pay during the contract period shall be exclusive of Federal, State, insular, or local taxes and shall include delivery to destination.

If applicable price ceilings established by the Office of Price Administration are increased or decreased after the date set for the opening of bids, maximum prices shown herein may be increased or decreased accordingly.

10. **POSTED PRICES.**—"Posted prices" shall be those publicly posted or made available for examination at the bulk plant from which delivery was made or at the headquarters of the contractor, for use in computing commercial prices at time and place of delivery, before the addition of any Federal, State, insular, or local tax.

11. **DELIVERY TICKETS.**—A delivery ticket shall be furnished for each delivery. This shall show date of delivery, address of bulk plant, and grade and gallonage of the commodity delivered. Delivery tickets for tank-car shipments shall also show the specific gravity of the product at 60° F., the temperature at time of loading, and the outage in done or shall after landing.

12. **INVOICES AND PRICES TO BE PAID.**—Invoices shall be submitted at stated weekly or monthly periods, as requested by the ordering activity, to cover all deliveries made to an activity during that period, and shall show contract No., number, item number, and all applicable prices data. Invoices shall show the contractor's certified commercial-consumer tank-car, tank-wagon, or drum price, before the addition of any Federal, State, insular, or local tax, and transportation costs of tank-car shipments. This price shall be paid if it is less than the maximum contract price; otherwise, the maximum contract price shall be paid.

JANUARY 1 TO MARCH 31, 1944

CLASSES 7 AND 14

13. **TAX-EXEMPTION CERTIFICATES.**—Tax-exemption certificates covering all applicable Federal, State, insular, or local taxes shall be furnished at stated weekly or monthly periods, as requested by the contractor, to cover all deliveries to an activity during that period.

14. **ORDERS.**—Each activity shall issue its own orders, receipts, and tax-exemption certificates. Orders shall specify grade and quantity, time and place of delivery, and shall include any special instructions necessary.

15. **RESTRICTIONS ON MATERIALS.**—If, at any time after the date of opening of bids, the War Production Board or other authorized Government agency issues a conservation order restricting the use of materials necessary to manufacture the contract articles in accordance with the contract specifications and if the contractor anticipates that such restriction will prevent him, in whole or in part, from making deliveries under the contract, he shall immediately notify the contracting officer of all the facts and shall make recommendations as to changes, if any, in the specifications

that would permit him to deliver articles of the same general character as covered by the contract.

The contracting officer shall then ascertain the facts and if he finds that the contractor will be prevented in whole or in part by any such conservation order from making deliveries under the contract, and that it would be in the interest of the Government to amend the specifications so as to permit the delivery of articles of the same general character manufactured from substitute materials not affected by conservation orders, he may by a written order, and without notice to the contractor, make the necessary changes in the specifications, including Federal specifications, without reference to the question whether the articles affected by such order are or are not to be specially manufactured in accordance with specifications. Otherwise, the contractor shall be bound from performance, in accordance with paragraph 4 of the conditions of the contract, to the extent that delivery of articles required by the contract is prevented by the conservation order.

Item No.	Description articles and prices	Price of article	Maximum price per gallon	Contractor
DEPARTMENT OF AGRICULTURE:				
Bureau of Entomology and Plant Quarantine:				
1	Fruit Fly Investigations, Mayaguez; E-72	TK	\$6.20	The Shell Co. (P. R.) Ltd.
2	Mayaguez; 7-0-2 (diesel)	Drum	.125	The Texas Co. (P. R.) Inc.
Office of Experiment Stations:				
3	Mayaguez; E-72	TK	.20	The Shell Co. (P. R.) Ltd.
4	Tropical Forest Experiment Station, San Juan; E-72	TK	.20	The Texas Co. (P. R.) Inc.
5	K	Drum	.12	The Shell Co. (P. R.) Ltd.
Forest Service:				
6	Civilian Conservation Corps, Adjuntas; E-72	TK	.20	Do.
7	Camp F-21, San Juan; E-72	TK	.20	Do.
8	Camp F-17, Copey; E-72	TK	.20	Do.
9	Camp F-3, Guasco; E-72	TK	.20	Do.
10	Camp F-20, Isabela; E-72	TK	.20	Do.
11	Camp F-15, Isabellita; E-72	TK	.20	West India Oil Co. (P. R.)
12	Camp F-12, Maricao; E-72	TK	.20	The Shell Co. (P. R.) Ltd.
13	Camp F-10, Palmar; E-72	TK	.20	West India Oil Co. (P. R.)
14	Camp F-18, Patillas; E-72	TK	.20	Do.
15	Camp F-12, Rio Grande; E-72	TK	.20	The Shell Co. (P. R.) Ltd.
16	Camp F-8, Rio Piedras; E-72	TK	.20	West India Oil Co. (P. R.)
17	Civilian Conservation Corps, San Juan; 7-0-2 (diesel)	Drum	.125	Do.
18	K	Drum	.13	The Shell Co. (P. R.) Ltd.
19	Camp F-11, Vega Baja; E-72	TK	.20	Do.
20	Camp F-1, Villalba; E-72	TK	.20	Do.
21	Camp F-19, Villalba; E-72	TK	.20	Do.
22	Camp F-22, Yauco; E-72	TK	.20	West India Oil Co. (P. R.)
23	Soil Conservation Service, Mayaguez; E-72	TK	.20	Do.
DEPARTMENT OF COMMERCE, Coast and Geodetic Survey:				
24	Marine, San Juan; E-72	Drum	.21	The Shell Co. (P. R.) Ltd.
(A) Drum wagon; E-72				
25	(B) Tank wagon	TK	.20	West India Oil Co. (P. R.)
26	Magnatic Observatory, Galien southeast of San Juan; E-72	TK	.20	The Texas Co. (P. R.) Inc.
27	FEDERAL SECURITY AGENCY, Public Health Service, San Juan; 7-0-2 (diesel)	Drum	.125	The Shell Co. (P. R.) Ltd.
DEPARTMENT OF THE NAVY, Coast Guard:				
Arecibo Light Station, Arecibo:				
28	E-72	Drum	.21	West India Oil Co. (P. R.)
29	E; in metal drums by contractor's truck	Drum	.13	Do.
30	Cape Rojo Light Station, Boqueron; deliveries shall be made to railroad station; E-72	Drum	.21	Do.
31	E-72	Drum	.13	The Shell Co. (P. R.) Ltd.
32	Cape San Juan Light Station, Fajardo; E-72	TK	.20	West India Oil Co. (P. R.)
33	E; in metal drums by contractor's truck	TK	.13	Do.
34	San Blas Light Station, Fajardo; E-72	Drum	.13	Do.
35	Point Luce Light Station, Manabo; E-72	Drum	.13	Do.
36	E-72	Drum	.21	Do.
37	West Island Light Station, Mayaguez Playa; deliveries shall be made to boats; E-72	TK	.13	Do.
38	E	TK	.13	Do.
39	53-foot patrol boat, Ponce Playa; E-72	TK	.20	Do.
40	Muertras Island Light Station, Ponce Playa; deliveries shall be made to boats; E-72	Drum	.21	The Shell Co. (P. R.) Ltd.
41	E-72	Drum	.13	Do.
42	E	TK	.13	Do.
DEPARTMENT OF THE TREASURY, Bureau of Customs, San Juan:				
43	E-72	TK	.25	The Texas Co. (P. R.) Inc.
44	E	Drum	.15	West India Oil Co. (P. R.)

Item No.	Ordering activity and article	Type of delivery	Quantity	Maximum price per gallon	Contractor
DEPARTMENT OF WAR:					
Engineers:					
48	Barriguan Field:				
	R-72	TW	80.20		Pyramid Products, Inc.
49	T-0-2 (diesel)	TT	.12		The Shell Co. (P. R.) Ltd.
50	West India Oil Co. (P. R.)	Drum	.13		
Infantry Detachment, San Juan:					
	R-72				
51	Drum	Drum	.21		Do.
52	Tank wagon	TW	.30		Pyramid Products, Inc.
	T-0-2 (diesel)				
53	Drum	Drum	.125		The Shell Co. (P. R.) Ltd.
54	Tank wagon	TW	.12		The Texas Co. (P. R.) Inc.
55	Drum	Drum	.13		West India Oil Co. (P. R.)
Ordnance, Fort Buchanan:					
57	2-102	TW	.30		The Shell Co. (P. R.) Ltd.
58	2-102 (diesel)	Drum	.125		The Texas Co. (P. R.) Inc.
Quartermaster Corps:					
59	Puerto Rican Depot, Aguadilla; V-80	TT	.20		The Shell Co. (P. R.) Ltd.
Barriguan Field:					
61	2-102	TW	.30		The Texas Co. (P. R.) Inc.
63	2-102 (diesel)	Drum	.125		The Shell Co. (P. R.) Ltd.
	T-0-2 (diesel)				
64	Tank car	TC	.113		The Texas Co. (P. R.) Inc.
65	Transport truck	TT	.12		West India Oil Co. (P. R.)
66	Drum	Drum	.13		The Shell Co. (P. R.) Ltd.
Camp Tortuguero, 2 1/2 miles northwest of Vega Pajal:					
68	R-72	TT	.20		West India Oil Co. (P. R.)
69	V-80	Drum	.21		Do.
Caterers:					
71	R-72	Drum	.21		The Texas Co. (P. R.) Inc.
72	Tank wagon	TW	.20		The Shell Co. (P. R.) Ltd.
73	T-0-2 (diesel)	TT	.12		The Texas Co. (P. R.) Inc.
74	Drum	Drum	.13		West India Oil Co. (P. R.)
Henry Serracks, Cayey:					
75	R-72	TW	.30		The Texas Co. (P. R.) Inc.
76	T-0-2 (diesel)	Drum	.125		West India Oil Co. (P. R.)
77	Drum	Drum	.13		Do.
78	TW	TW	.20		Do.
Puerto Rican Depot Army Transport Service, Ponce; R-72					
Lossy Field, Ponce (8 miles via Ponce to Salinas Road):					
80	2-102	TT	.30		The Texas Co. (P. R.) Inc.
81	Drum	Drum	.13		Do.
Post of San Juan:					
83	R-72	TW	.20		West India Oil Co. (P. R.)
85	T-0-2 (diesel)	Drum	.125		The Texas Co. (P. R.) Inc.
86	Drum	Drum	.13		The Shell Co. (P. R.) Ltd.
	T-1/2 miles southwest of San Juan:				
87	R-72	TT	.20		Do.
	T-0-2 (diesel)				
88	Drum	Drum	.125		Do.
89	Tank wagon	TW	.12		West India Oil Co. (P. R.)
90	Drum	Drum	.13		Do.
Signal Corps, Aircraft Warning Service, Headquarters, Puerto Rican Department:					
2 kilometers southwest of San Juan, P. R.; 2-102 (diesel):					
91	Drum	Drum	.125		Do.
92	Tank wagon	TW	.12		Do.
93	2 kilometers south of Naguabo, P. R.; 2-102 (diesel):				
94	Drum	Drum	.125		Do.
	Tank wagon	TW	.12		The Shell Co. (P. R.) Ltd.
Santa Ana Peak, 6 kilometers south of Maricao, P. R.; on Sabana Grande Road:					
95	Drum	Drum	.125		West India Oil Co. (P. R.)
96	Tank wagon	TW	.12		The Shell Co. (P. R.) Ltd.
99	Bonafet Field, Cotton Garden Bay, east end of St. Croix, V. I.; 2-102 (diesel):	Drum	.12		West India Oil Co. (P. R.)
101	On Crown Mountain, 4 kilometers west of Charlotte Amalie, V. I.; 2-102 (diesel):	Drum	.12		Do.

DELIVERIES TO OTHER FEDERAL ACTIVITIES AT ANY LOCATION SPECIFIED

Item No.	Ordering activity and article	Type of delivery	Quantity	Maximum price per gallon	Contractor
Drum delivery, in contractor's drums:					
103	R-72	Drum	80.21		The Shell Co. (P. R.) Ltd.
104	V-80	Drum	.21		Do.
105	K	Drum	.13		West India Oil Co. (P. R.)
Tank-wagon delivery, full compartment (approximately 250 gallons):					
106	R-72	TW	.20		The Shell Co. (P. R.) Ltd.
107	V-80	TW	.20		Do.
108	K	TW	.125		West India Oil Co. (P. R.)

LIST OF CONTRACTORS

Item No.	Name and address	Brand name	How charges and refunds
55935	Pyramid Products, Inc., Post Office Box 4111, San Juan, P. R.	R-72: Pyramid.	
55936	Shell Co. (Puerto Rico) Limited, The Post Office Box 2032, Stop 8, San Juan, P. R. Prices include insular-government excise taxes.	R-72: Shell. V-80: Shell. T-0-2: Shell Dieseline. 2-102: Shell Dieseline. K: Shell.	Drum loaned free for 30 days, after which \$10 will be charged; this amount will be refunded if drum is returned within 3 months, but rental of \$0.50 will be charged for each month (or fraction thereof) that drum is retained after free period expires.
55937	Texas Company (Puerto Rico) Inc., The Stop 2-1/2, Puerto de Tierra, San Juan, P. R.	R-72: Texaco Fire Chief. T-103: Texaco Fire Chief. T-0-2: Texaco Diesel Chief. 2-102: Texaco Diesel Chief. K: Texaco Estrolin.	Drum loaned free for 30 days, after which \$10 will be charged; this amount will be refunded if drum is returned within 3 months, but rental of \$0.50 will be charged for each month (or fraction thereof) that drum is retained after free period expires.
55938	West India Oil Company (P. R.), Post Office Box 472, San Juan, P. R. Prices include insular-government excise taxes and custom duties.	R-72: Esso. V-80: Esso. T-0-2: Esso Gas Oil. K: El Capitan.	Drum loaned free for 30 days, after which \$10 will be charged; this amount will be refunded if drum is returned within 3 months.

SPECIFICATIONS

The Shell Co. (Porto Rico) Limited

Shell Gasoline

Specific gravity at 15° C.	0.741
Copper strip test at 122° F.	Negative
Doctor test	Negative
Color	Orange
Vapor pressure (Read at 100° F.)	5.3 lb./sq. inch
Oil	Marketable
Octane number (motor method)	73
A.S.T.M. Distillation:	
1.5% F.	37° C.
10% recovered at	58° C.
40% recovered at	107° C.
70% recovered at	149° C.
90% recovered at	180° C.
F.O.P.	200° C.
Recovery	97%
Residue	1%
Loss	2%
Rec. up to 70° C.	18-1/2%
Rec. up to 100° C.	36-1/2%
Rec. up to 140° C.	63%

Shell Diesel

Specific gravity at 15° C./4° C.	0.854
Flash point P.M. closed cup	86° C. (187° F.)
Type calorific value B. T. U./lb.	19550
Viscosity Redwood I at 100° F.	35"
Viscosity Redwood I at 70° F.	40"
Color union	2-1/2 (J)
Diesel index	53.3
A.S.T.M. Distillation:	
1.5% F.	205° C.
10% recovered at	229° C.
40% recovered at	259° C.
70% recovered at	308° C.
90% recovered at	353-1/2° C.
95% recovered at	371° C.

Shell Kerosene

Specific gravity at 15° C.	0.801
Copper strip test at 122° F.	Negative
Color Saybolt	plus 25
Oil	Marketable
Flash point A. P.	47-1/2° C. (117-1/2° F.)
A.S.T.M. Distillation:	
1.5% F.	152° C.
10% recovered at	173° C.
40% recovered at	205° C.
70% recovered at	246° C.

Shell Kerosene—Continued

A.S.T.M. Distillation—Continued.	
90% recovered at	274° C.
F.B.P.	295° C.
Recovery	98-1/2%
Residue	1%
Loss	1/2%
Rec. up to 200° C.	36-1/2%

The Texas Co. (P. H.) Inc.

Texaco Fire Chief Gasoline

Color	Orange
Distillation (ASTM D86-40):	
Percent recovered at 70° C. (158° F.)	Minimum 12
Percent recovered at 100° C. (212° F.)	Minimum 30*
Percent recovered at 140° C. (284° F.)	Minimum 60
Final boiling point	Maximum 205° C. (401° F.)
Vapor pressure/ Reid lb. (ASTM D323-40T)	Maximum 10.5
Gum existent (ASTM D381-36)	Maximum 10 mg./100 ml.
Corrosion (ASTM D130-30)	Just pass
Octane number (ASTM D357-40)	Minimum 76
Lead content ml./U.S. gallon	Maximum 3
*Avoiding if possible exceeding maximum 40.	

Texaco Diesel Chief

Specific gravity (ASTM D287-39)	Minimum 0.830
Specific gravity (ASTM D287-39)	Maximum 0.890
Color N.P.A. (ASTM D155-39T)	Maximum 4
Flash point (P.M.C.) (ASTM D93-40)	Minimum 150
Viscosity Redwood I at 100° F. (IP 108)	Minimum 32
Viscosity Redwood I at 100° F. (IP 108)	Maximum 40
Pour point °F. (ASTM D 97-39)	Maximum 25
Sulfur S b.w. (ASTM D 129-39)	Maximum 0.85
Ash S b.w. (ASTM D 452-38T)	Maximum 0.01
Asphalteness (IP 1012)	Negligible
Conradson Carbon S b.w. (ASTM D189-39)	Maximum 0.05
Distillation (ASTM D158-38) % recovered at 372° F.	Minimum 65
Organic Acidity mg. KOH/gm (ASTM D 188-27T)	Maximum 1.5
Diesel index (ASTM page 15, 1928 Standards on Petroleum products prepared by D-2)	Minimum 48

Texaco Estrella Kerosene

Specific gravity at 60° F. (ASTM D287-39)	Maximum 0.820
Color/Saybolt (ASTM D155-38)	Minimum 20
Flash point (Abel) °F.	Minimum 100
Distillation (ASTM D86-40):	
Percent recovered at 200° C. (392° F.)	Minimum 20
Final boiling point	Maximum 300° C. (572° F.)
Burning test mg. char./kgm IP K35 (T)	Maximum 20
Smoke point IP K-35	Minimum 25

TREASURY DEPARTMENT
Procurement Division

October 30, 1941

CIRCULAR LETTER NO. 513

TO THE HEADS OF ALL DEPARTMENTS AND ESTABLISHMENTS:

SUBJECT: Gasoline, Diesel Fuel Oil, Burner Fuel Oil and Kerosene Regional Contracts for the fiscal year 1943.

1. This circular letter pertains to Procurement Division's consolidated Regional contracts covering *gasoline, diesel fuel oil, burner fuel oil and kerosene delivered in drums, by tank wagons, transport trucks, railroad tank cars, or at marine stations or marine terminals. These Regional contracts will cover the continental United States, and Puerto Rico.

2. Procurement Division's state wide Service Station contracts for gasoline and lubricating oils are not a part of this communication.

3. The Navy Department will execute contracts for its requirements of gasoline, diesel fuel oil, and burner fuel oil, and for the requirements of other Federal activities which can participate advantageously thereunder, for marine deliveries, i.e., deliveries into tanks or drums of vessels at contractor's terminal or by contractor's barges in bulk or drums. Navy contracts for marine deliveries at points in the United States are usually limited to the grades of gasoline, diesel fuel oil and burner fuel oil shown in Navy Department specifications. Navy contracts will also cover its requirements in other forms of delivery to Naval shore stations, under which contracts the commodities listed may be required for Naval vessels.

4. It is mandatory that all Federal activities located within the continental United States and Puerto Rico, purchase their requirements for drum, tank wagon, transport truck, railroad tank car and marine deliveries of these named commodities under either the Procurement Division consolidated Regional contracts or the Navy Department contracts. Special instances or conditions shall be reported to the Procurement Division for consideration, and if warranted, exemptions will be granted.

5. Activities located within the continental United States or Puerto Rico that operate marine equipment which can advantageously participate in the Navy Department contracts shall advise the Procurement Division accordingly and report their estimated requirements direct to the Navy Department.

6. Alaska, and Hawaii activities shall participate in the Navy Department contracts.

7. Panama and other territorial or insular possession activities are not required to participate in either the Procurement Division or the Navy Department contracts.

* Aviation grades of gasoline for use in aeroplanes type motors will not be included in these contracts.

(over)

8. Activities participating in the Navy Department contracts shall report their requirements to the Bureau of Supplies and Accounts, Navy Department, Washington, D. C., not later than January 15, 1942. Each point of delivery shall be reported separately, and for each point of delivery furnish the following information:

- (a) Kind and type of fuel.
- (b) Requirements by quarter-year periods (report gasoline in gallons; and diesel fuel oil and burner fuel oil in barrels of 42 gallons each).
- (c) Method of delivery.

When the Navy Department cannot advantageously procure such requirements, it will forward the involved requirement forms to the Procurement Division for inclusion in its consolidated Regional contracts.

9. Estimated requirements to be included in the Procurement Division consolidated Regional contracts shall be reported on the attached requirement forms. A separate form shall be used for each point of delivery. It is very important to have clearly described the exact location of each delivery point, i.e., the location of the storage facilities; all estimated quantities legibly inserted under the proper grade caption; and all informational data furnished. These requirement forms are to be returned in duplicate (one original and one carbon copy clipped together) to the Treasury Department, Procurement Division, Washington, D. C., not later than January 15, 1942. Additional copies of any or all of these requirement forms may be obtained upon request to the Procurement Division. Offices re-issuing these forms are to duplicate them in their exact form and substance.

10. Gasoline to be furnished under Procurement Division consolidated Regional contracts will include the following grades:

"S" In accordance with "Proposed Specification for Motor Fuel 'S'". The A.S.T.M. octane number (minimum) shall be 50. This is a straight run unleaded hydrocarbon gasoline primarily intended for use in generating sets similar to those used for air-way beacons. It is also adaptable for use in gasoline burning appliances.

"G" In accordance with Federal Specification VV-G-101a, "Gasoline - Motor, United States Government". It may contain tetraethyl lead or other approved anti-knock additives. No. A.S.T.M. octane number is required for this grade of gasoline. This is the so-called "Third Grade" gasoline.

"R-72" In accordance with Proposed Federal Specification VV-M-564 "Motor Fuel 'R'". The A.S.T.M. octane number (minimum) shall be 72. This is the so-called "Regular Grade" gasoline.

"V-80" In accordance with Federal Specification VV-M-571b, "Motor Fuel 'V'". The A.S.T.M. octane number (minimum) shall be 80. This is the so-called "Premium", "High Test", or "Ethyl" grade gasoline.

(continued)

"2-103" In accordance with U. S. Army Specification No. 3-103. The A.S.T.M. octane number (minimum) shall be 80. This grade of gasoline is identical to W-80.

NOTES:

(a) It is the intent and purpose of Procurement Division to effect contracts that will insure deliveries of grades of gasoline equal to those commercially distributed to the general public.

(b) The "S", "G" and "R-72" grade of gasoline distributed throughout the state of Oklahoma may have a maximum sulphur content of two tenths of one percent (0.2%), and in the states of Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, North Dakota, Oregon, Texas, Utah, Washington and Wyoming may have a maximum sulphur content of twenty-five hundredths of one percent (0.25%) in lieu of the one tenth of one percent (0.10%) permitted under the applicable Federal Specification. Activities using the "S", "G", or "R-72" grades of gasoline in any of these named States, that have experienced motor performance difficulties or excessive maintenance or repair costs traceable to sulphur should consider using the "V-80" grade. Before deciding on this change of grade, a comparison should be made of the cost of repairs or maintenance attributed to sulphur as against the increased cost for the "V-80" grade. The current Schedule of Contracts may be satisfactorily used to determine the difference in cost between the various grades of gasoline. Consideration should not be given to changing the grade of gasoline in any State other than named herein because of sulphur.

(c) Certain gasoline factors are modified when used at altitudes over 6000 feet above sea level. It is, therefore, important to indicate on each requirement form whether the gasoline will be used at an elevation over or under 6000 feet above sea level.

(d) The War Department, by Circular Letter No. 155 (August 1, 1941), directed that service to procure "a standard all-purpose gasoline conforming to the requirements of U. S. Army Specification No. 3-103". This War Department Circular letter further states that "(The requirements of U. S. Army Specification No. 2-103, May 9, 1941, and Federal Specification No. VV-M-571b, February 35, 1941 are identical)." Although the War Department Activities are to report their requirements in the space provided on the requirement form for the Army Specification No. 2-103 grade, the Procurement Division will indicate this grade gasoline as "V-80" in its own Schedule of Contracts.

(e) Gasoline requirements are to be reported on the requirement form entitled "GASOLINE".

(f) All requirements are to be reported in U. S. GALLONS.

(over)

11. Burner fuel oils to be furnished under Procurement Division consolidated Regional contracts will include the following grades:

(A) Proposed Federal Specification VV-O-326, "Oil: Fuel (for) Oil-burners", includes the following grades:-

"1" A distillate oil recommended for burners requiring a volatile fuel; i.e., for burners that prepare the fuel for burning solely by vaporization.

"2" A distillate oil recommended for burners requiring a moderately volatile fuel; i.e., for burners that employ a combination of atomization and vaporization, and in particular where oil is burned in contact with, or in close proximity to, metal or refractory surfaces which are an integral part of the burner installation.

"3" A distillate oil recommended for burners requiring a low viscosity distillate fuel; i.e., for burners that prepare the fuel for burning solely by atomization.

"4" An oil recommended for burners requiring a medium viscosity fuel oil. Burner installations usually include storage tank heating coils.

"5a" An oil recommended for burners requiring a medium viscosity fuel oil that is heavier than the distillate grade No. 3 and more fluid than regular grade No. 5. This grade shall meet all of the technical requirements for grade No. 5 burner fuel oil with the added stipulation that it shall have a maximum viscosity of 500 Seconds Saybolt Universal at 100 degrees Fahrenheit, and a maximum pour point of 30 degrees Fahrenheit. Burner installations do not usually require storage tank heating coils.

"5b" A heavy grade oil recommended for burner installations equipped with storage tank heating coils and pre-heaters at the burners.

(B) Navy Department Specification 7-0-1, "Oil, Fuel" includes the following grades:-

NAVY FUEL OIL, SPECIAL. Primarily intended for general Naval use, including use in Combatant Ships.

NAVY FUEL OIL, GRADE I. Primarily intended for general Naval use, including use in Combatant Ships. This grade of oil is comparable to grade No. 5 of Proposed Federal Specification VV-O-326.

NAVY FUEL OIL, GRADE II (BUNKER "C"). Intended for Naval use only where the other Navy Fuel Oil grades cannot be obtained. This grade of oil is comparable to grade No. 5 of Proposed Federal Specification VV-O-326.

(continued)

NOTES:

(a) Burner installations designed and installed to burn distillate No. 3 will satisfactorily burn grade No. 3 and vice versa. In many localities one of these grades is more readily available and sold at a lower price than the other. It is therefore, requested that before reporting requirements for either Grade No. 2 or 3, consideration be given to the availability and unit cost for each of these grades and indicate the more readily available grade.

(b) The three grades of fuel oil listed under Navy Department current Specification 7-0-1 have been restricted exclusively for use aboard vessels. Activities previously requiring any of these grades of burner fuel oil for use other than aboard vessels shall refrain therefrom and indicate on the requirement form entitled "BURNER FUEL OIL - GENERAL" the corresponding grade of Federal Specification VV-O-326 fuel oil that will be acceptable.

(c) Proposed Federal Specification VV-O-326 designates the various grades of fuel oil by using Arabic number (1), (2), (3), (5), and (6), while Navy Department current Specification 7-0-1 refers to each grade by name or name and Roman numeral. To avoid confusion all correspondence or other reference to the grades of fuel oil shall include the identifying grade number or name and the applicable specification title.

(d) Fuel Oil requirements for general burner use are to be reported on requirement form entitled "BURNER FUEL OIL - GENERAL". Fuel oil requirements for use aboard vessels that must be in accordance with Navy Department Specification 7-0-1 shall be reported on the requisition form entitled "BURNER FUEL OIL - MARINE".

(e) All requirements are to be reported in U. S. GALLONS.

12. Kerosene to be furnished under Procurement Division consolidated Regional contracts will include the following grade:-

"K" Kerosene, in accordance with Federal Specification VV-E-211, "Kerosene".

NOTES:

(a) Kerosene procured under this specification will be of one grade suitable for ordinary use including illumination.

(b) Kerosene requirements are to be reported on the requirement form entitled "KEROSENE".

(c) All requirements are to be reported in U. S. GALLONS.

13. Diesel fuel oils to be furnished under Procurement Division consolidated Regional contracts will include the following grades:-

(A) Proposed Federal Specification VV-O-326, "Oil: Fuel (for) Oil-burners" include the following grades:-

(over)

Regraded Unclassified

"1", "2", "3" Although these distillates are primarily intended for burner use, each of them has been satisfactorily used as fuel for diesel or other oil burning general purpose tractor type internal combustion engines.

(B) Navy Department Specification 7-0-3 "Oil, Fuel, Diesel" includes the following grade:-

"7-0-3" There is only one grade of diesel fuel oil procurable under this specification. It is intended for general use in Diesel Engines in the Naval Service, including submarines, diesel driven auxiliary generators and boat engines. It is also a satisfactory fuel for slow and medium speed stationary or land use diesel engines.

(C) War Department Specification 2-103 "Oil, Fuel, Diesel, for High Speed automotive type, Diesel Engines", includes the following grade:-

"2-103" There is only one grade of diesel fuel oil, that is procurable under this specification. It is intended for general use in all high speed tank, automotive and tractor Diesel Engines in the Army Service, including Quiberson radial Diesel Engines, but excluding all medium and slow speed Marine Engines.

NOTES:

- (a) Activities that use distillate Grades 1, 2, or 3 of Proposed Federal Specification VV-C-336, for heating purposes and also for operating diesel powered engines should consider using the same grade of fuel for both purposes, as savings may be effected through the consolidation of orders, reduction in the number of storage facilities, and improved delivery service because of the larger quantity that would be received per delivery. The quality of these distillates when used as diesel fuel will be improved by adding and thoroughly mixing approximately one gallon of S.A.E. 10 (Navy symbol 2110) lubricating oil with each barrel or 42 gallons of the distillate.
- (b) activities using the same grade of distillate; i.e., Grade 1, 2, or 3 of Proposed Federal Specification VV-C-336, for burner use and for diesel fuel, and require the same form of delivery for both services, are to list the burner fuel requirements on the requirement form entitled "BURNER FUEL OIL - GENERAL" and the diesel fuel requirements on the requirement form entitled "DIESEL FUEL OIL". Indicate on each requirement form or in an accompanying letter when these requirements may be combined for bid and delivery purposes.

(continued)

(c) Diesel Fuel Oil furnished under U. S. Army Specification 2-102 is of three classes, viz: "A", "B", and "X". The geographical location where this diesel fuel oil will be used and the period of the year (winter or summer) in which it will be used, automatically determine the class to be furnished, as each class provides for locality and climatic conditions in respect to the pour point. Class "A" is a readily available product; Class "X" is virtually a kerosene; Class "B" is a blend of "A" and "X". Blending should only be done by the contractor and not by Activity's personnel. Activities are not to indicate on the requirement form the class to be furnished unless an unusual local condition exists, then a complete explanation must accompany the requirement form.

- (d) Diesel fuel requirements are to be reported on the requirement form entitled "DIESEL FUEL OIL".
- (e) All requirements are to be reported in U. S. GALLONS.

14. It is believed that from the listed grades of diesel fuel oil or burner fuel oil, there can be selected a fuel satisfactory for any type of installation or equipment. There should be no occasion for an activity to submit a lengthy specification detailing analytical factors for a special fuel oil or for a fuel oil which has a chemical or physical analysis in variance with the technical specifications for those herein listed. If an activity is of the opinion that a special fuel oil is required for its equipment, it shall incorporate on the requirement form or in an accompanying letter a detailed statement of the difficulties that have been encountered through the use of the regular grades of fuel oil, a complete description of the oil burner installation or diesel equipment, the name and address of the manufacturer, and the model numbers of the units in question.

15. Gasoline contracts are executed for quarter-year (3-month) periods. Kerosene, diesel fuel oil and burner fuel oil contracts are executed for single or multiple quarter-year periods as determined by the lowest acceptable quotation.

16. Schedules of Contracts will continue to be issued by the Procurement Division on the following basis:

I. GASOLINE.

- (A) Individual State Schedules: For use by any activity requiring tank wagon or drum deliveries to any point within a defined area called a "County Zone", also for tank wagon deliveries of the R-72 grade gasoline only to any point within the corporate limits of a named city. Requirements for the "S", "Q" and "W-80" grades or for drum deliveries of the "R-72" grade for delivery within the corporate limits of a named city item are to be procured under the appropriate grade item of the county zone in which that city is located. The minimum quantity that a contractor will be required to furnish per delivery to any one point will be:

Tank Wagon Delivery	*25 gallons
Drum Delivery	1 full drum (50-55 gallons)

 The requirements of activities for 3500 gallons or more per delivery to any one point will be included in the Region Schedule.

* 40 Gallons in the State of Arizona, California, Nevada, Oregon, or Washington. (over)

(B) Region Schedule: Covers deliveries to specifically named delivery points. The forms of delivery include:

- (1) Transport Truck items: For activities ordering 2500 gallons or more per delivery to any one point by motor vehicle.
- (2) Common Carrier items: For activities ordering quantities equivalent to full railroad tank car capacities per delivery to any one point. These items will be for delivery by either transport truck or railroad tank car or both.
- (3) Marine items: For activities requiring delivery by tank wagon, transport truck, railroad tank car, in drums or at marine terminals for marine equipment (barges, boats, etc.). The minimum quantity that a contractor will be required to furnish per delivery to any one point will be:

Tank Wagon Delivery	*25 Gallons.
Drum Delivery	1 full drum (50-55 gallons)

19. FUEL OIL AND KEROSENE

(a) Tank Wagon and Drum Delivery Schedule: Issued by Regions to cover tank or drum deliveries by motor-vehicle to specifically named delivery points. The minimum quantity that a contractor will be required to furnish per delivery to any one point will be:

- Fuel Oil, Tank Delivery, 100 gallons
- Kerosene, Tank Delivery, 50 gallons
- Fuel Oil or Kerosene, Drum Delivery,
1 Full Drum (50-55 gallons).

(b) Tank Car, Transport Truck and Marine Delivery Schedules: Issued by Regions to cover:

- (1) Common Carrier items: For activities ordering quantities equivalent to full railroad tank car capacities per delivery, to any one point. These items will be for delivery by either transport truck or railroad tank car or both.
- (3) Marine items: For activities requiring delivery by tank wagon, transport truck, railroad tank car, in drums, or at marine terminals for marine equipment (barges, boats, etc.). The minimum quantity that a contractor will be required to furnish per delivery to any one point will be:

- Fuel Oil, Tank Delivery, 100 gallons
- Kerosene, Tank Delivery, 50 gallons
- Fuel Oil or Kerosene, Drum Delivery,
1 Full Drum (50-55 gallons).

* 40 Gallons in the State of Arizona, California, Nevada, Oregon, or Washington.

(continued)

17. Activities requiring deliveries in amounts less than the minimum herein set forth are to consider delivery of full drums, and continue reporting their requirements.

18. The prices to be shown in the Schedules of Contracts will be maximum prices and no payment should be made at a higher price. If a price must be shown on the purchase order when issued, the following wording is suggested: "The unit price to be paid shall not exceed" followed with the maximum price shown in the schedule.

19. Since land grant freight rates are no longer applicable on railroad transportation of goods for non-military use, transport truck rates, including unloading into storage facilities, frequently have an advantage over the railroad rates. Certain participating activities have, in previous years, restricted deliveries to railroad tank car shipments at the exclusion of motor carriers. In many instances, these restrictions have caused the Government to pay transportation charges in excess of prevailing charges for other services. The Government should be free to choose the transport facilities from the available field when requisitions are made by the consuming agency; therefore, to effect savings, the lowest cost of transportation will be considered in the award of contracts. It is imperative that complete information be furnished regarding the exact location of storage tanks, their capacity, and the local cost, if any, for transporting from railroad to storage. Activities that require the use of railroad tank cars to the exclusion of transport truck deliveries shall submit with the returned requirement forms a complete justification for such restriction.

20. Certain ordering offices such as the U. S. War Department, District Engineers, assigned to river control work may require deliveries to several points, with the requirements for each point dependent upon unforeseen conditions such as floods, etc. Such activities should total the requirements for all points, report them as a single requirement on the requirement form, list the delivery points on the reverse side of the form, request awards on an F.o.b. origin (bulk plant, refinery, or marine terminal) basis only, and name the most predominating delivery point so that all quotations can be analyzed on the basis of delivery to said point. The award, however, will be made F.o.b. origin, thereby allowing that activity to direct shipments to any point as needed.

21. Any material change in the estimated requirement of an activity shall be promptly reported to the Procurement Division as certain quotations may have been accepted under restricted conditions that would require immediate attention.

Clifton E. Mack,
Director of Procurement.

Enclosures (in duplicate)

- Gasoline Requirement Form
- Kerosene Requirement Form
- Diesel Fuel Oil Requirement Form
- Burner Fuel Oil - General Requirement Form
- Burner Fuel Oil - Marine Requirement Form

See Procurement Division
Circular Letter No. 513)

ESTIMATED REQUIREMENTS
Fiscal Year 1943

Department _____ Bureau _____ Activity _____
Point of Delivery (Town) _____ (County) _____ (State) _____

If the Point of Delivery is not located within the corporate limits of the town or the named county, state the distance and direction from town and name the county _____.

Address of submitting office _____

Signature of Officer _____ Date _____

- (a) SUBMIT REQUIREMENTS FOR EACH POINT OF DELIVERY ON A SEPARATE SHEET.
- (b) Report all quantities in GALLONS.
- (c) Return this requirement form, in duplicate, to Procurement Division, Washington, D. C., as soon as practicable, but not later than January 15, 1943.

	Motor Fuel "S"	Fed. Spec. VV-G-101a Third Grade "G"	Fed. Spec. VV-M-564 Regular Grade R-72	Fed. Spec. VV-M-571b Premium Grade V-80	U.S. Army Spec. 2-103 All purpose Grade
First quarter.....					
Second quarter.....					
Third quarter.....					
Fourth quarter.....					
TOTAL.....					
Method of delivery.....					
Quantity regularly ordered per delivery.....					
Capacity of storage tank.....					

Indicate by check mark elevation above sea level at which gasoline will be used..... Under 6,000 feet ()
Over 6,000 feet ()

- 1. Are storage tanks located and piped to receive delivery direct from Tank Wagons or Transport Trucks? (YES or NO) _____ Railroad Tank Cars? (YES or NO) _____
- 2. Address or location of storage tanks and number of nearest trunk highway _____
- 3. Address or location of railroad siding, name or ownership, and name of railroad serving same _____
- 4. Are storage tanks located on property owned by the railroad (YES or NO) _____
- 5. If storage tanks are not located to receive tank car shipments, what is the local cost per 1,000 Gallons for hauling to storage.....\$ _____
- 6. If more than one method of delivery is desired for any grade of Gasoline, list the quarterly and total requirements for each form of delivery separately.
- 7. Furnish all required information in complete detail. Use the reverse side of this form for additional notes, supplementary data, comments, suggestions, or information that may be helpful in negotiating satisfactory contracts.
- 8. The minimum quantity that the contractor will be required to deliver per order:
 - TW - Tank Wagon (Zone Item) 25 Gallons (40 Gallons in Ariz., Calif., Nev., Ore., and Wash.)
 - SD - Metal Drum (Zone Item) 1 Drum (50 to 55 Gallons)
 - TT - Transport Truck ... 3500 Gallons
 - TC - Railroad Tank Car . Full Carload

* Insert "TW" for Tank Wagon; "SD" for Metal Drum; "TT" for Transport Truck; "TC" for Railroad Tank Car.

See Procurement Division
Circular Letter No. 513

ESTIMATED REQUIREMENTS
Fiscal Year 1943

Department _____ Bureau _____ Activity _____
Point of Delivery (Town) _____ (County) _____ (State) _____

If the Point of Delivery is not located within the corporate limits of the town or the named county, state the distance and direction from town and name the county _____.

Address of submitting office _____
Signature of Officer _____ Date _____

- (a) SUBMIT REQUIREMENTS FOR EACH POINT OF DELIVERY ON A SEPARATE SHEET.
- (b) Report all quantities in GALLONS.
- (c) Return this requirement form, in duplicate, to Procurement Division, Washington, D. C., as soon as practicable, but not later than January 15, 1942.

	Motor Fuel "S"	Fed. Spec. VV-G-101a Third Grade "G"	Fed. Spec. VV-M-564 Regular Grade R-72	Fed. Spec. VV-M-571b Premium Grade V-80	U.S. Army Spec. 2-103 All purpose Grade
First quarter.....					
Second quarter.....					
Third quarter.....					
Fourth quarter.....					
TOTAL.....					
Method of delivery.....					
Quantity regularly ordered per delivery.....					
Capacity of storage tank.....					

Indicate by check mark elevation above sea level at which gasoline will be used..... Under 6,000 feet ()
Over 6,000 feet ()

1. Are storage tanks located and piped to receive delivery direct from Tank Wagons or Transport Trucks? (YES or NO) _____ Railroad Tank Cars? (YES or NO) _____
2. Address or location of storage tanks and number of nearest trunk highway _____
3. Address or location of railroad siding, name or ownership, and name of railroad serving same _____
4. Are storage tanks located on property owned by the railroad (YES or NO) _____
5. If storage tanks are not located to receive tank car shipments, what is the local cost per 1,000 Gallons for hauling to storage.....\$ _____
6. If more than one method of delivery is desired for any grade of Gasoline, list the quarterly and total requirements for each form of delivery separately.
7. Furnish all required information in complete detail. Use the reverse side of this form for additional notes, supplementary data, comments, suggestions, or information that may be helpful in negotiating satisfactory contracts.
8. The minimum quantity that the contractor will be required to deliver per order:
 - TW - Tank Wagon (Zone Item) 25 Gallons (40 Gallons in Ariz., Calif., Nev., Ore., and Wash.)
 - SD - Metal Drum (Zone Item) 1 Drum (50 to 55 Gallons)
 - TT - Transport Truck ... 3500 Gallons
 - TC - Railroad Tank Car . Full Carload

* Insert "TW" for Tank Wagon; "SD" for Metal Drum; "TT" for Transport Truck; "TC" for Railroad Tank Car.

KEROSENE

(See Procurement Division Circular Letter No. 513)

ESTIMATED REQUIREMENTS
Fiscal Year 1943

Department _____ Bureau _____ Activity _____
Point of Delivery (Town) _____ (County) _____ (State) _____

If the Point of Delivery is not located within the corporate limits of the town or in the named county, state the distance and direction from town and name the county _____

Address of submitting office _____

Signature of officer _____ Date _____

- (a) SUBMIT REQUIREMENTS FOR EACH POINT OF DELIVERY ON A SEPARATE SHEET.
- (b) Report all quantities in GALLONS.
- (c) Return this requirement form in duplicate, to Procurement Division, Washington, D. C., as soon as practicable, but not later than January 15, 1942.

	Federal Specification VV-K-211 GALLONS
First quarter.....	_____
Second quarter.....	_____
Third quarter.....	_____
Fourth quarter.....	_____
TOTAL.....	_____
Method of delivery.....	_____
Quantity regularly ordered per delivery.....	_____
Capacity of storage tank.....	_____

Purpose for which used _____

1. Are storage tanks located and piped to receive delivery direct from Tank Wagons or Transport Trucks? (YES or NO) _____ Railroad Tank Cars? (YES or NO) _____
2. Address or location of storage tanks and number of nearest trunk highway _____
3. Address or location or railroad siding, name or ownership, and name of railroad serving same _____
4. Are storage tanks located on property owned by the railroad (YES or NO) _____
5. If storage tanks are not located to receive tank car shipment, what is the local cost per 1,000 Gallons for hauling to storage.....\$ _____
6. If more than one method of delivery is desired for any grade of Gasoline, list the quarterly and total requirements for each form of delivery separately.
7. Furnish all required information in complete detail. Use the reverse side of this form for additional notes, supplementary data, comments, suggestions, or information that may be helpful in negotiating satisfactory contracts.
8. The minimum quantity that the contractor will be required to deliver per order:
 - TW - Tank Wagon..... 50 Gallons
 - SD - Metal Drum..... 1 Drum (50 to 55 Gallons)
 - TT - Transport Truck..... 3500 Gallons
 - TC - Railroad Tank Car..... Full Carload

* Insert "TW" for Tank Wagon; "SD" for Metal Drum; "TT" for Transport Truck; "TC" for Railroad Tank Car.

KEROSENE

(See Procurement Division Circular Letter No. 513)

ESTIMATED REQUIREMENTS
Fiscal Year 1943

Department _____ Bureau _____ Activity _____
Point of Delivery (Town) _____ (County) _____ (State) _____

If the Point of Delivery is not located within the corporate limits of the town or in the named county, state the distance and direction from town and name the county _____

Address of submitting office _____

Signature of officer _____ Date _____

- (a) SUBMIT REQUIREMENTS FOR EACH POINT OF DELIVERY ON A SEPARATE SHEET.
- (b) Report all quantities in GALLONS.
- (c) Return this requirement form in duplicate, to Procurement Division, Washington, D. C., as soon as practicable, but not later than January 15, 1942.

	Federal Specification VV-K-211 GALLONS
First quarter.....	_____
Second quarter.....	_____
Third quarter.....	_____
Fourth quarter.....	_____
TOTAL.....	_____
Method of delivery.....	_____
Quantity regularly ordered per delivery.....	_____
Capacity of storage tank.....	_____

- Purpose for which used _____
1. Are storage tanks located and piped to receive delivery direct from Tank Wagons or Transport Trucks? (YES or NO) _____ Railroad Tank Cars? (YES or NO) _____
 2. Address or location of storage tanks and number of nearest trunk highway _____
 3. Address or location or railroad siding, name or ownership, and name of railroad serving same _____
 4. Are storage tanks located on property owned by the railroad (YES or NO) _____
 5. If storage tanks are not located to receive tank car shipment, what is the local cost per 1,000 Gallons for hauling to storage.....\$ _____
 6. If more than one method of delivery is desired for any grade of Gasoline, list the quarterly and total requirements for each form of delivery separately.
 7. Furnish all required information in complete detail. Use the reverse side of this form for additional notes, supplementary data, comments, suggestions, or information that may be helpful in negotiating satisfactory contracts.
 8. The minimum quantity that the contractor will be required to deliver per order:
 - TW - Tank Wagon..... 50 Gallons
 - SD - Metal Drum..... 1 Drum (50 to 55 Gallons)
 - TT - Transport Truck..... 3500 Gallons
 - TC - Railroad Tank Car..... Full Carload

* Insert "TW" for Tank Wagon; "SD" for Metal Drum; "TT" for Transport Truck; "TC" for Railroad Tank Car.

DIESEL
FUEL OIL

Procurement Division
Circular Letter No. 513)

ESTIMATED REQUIREMENTS
Fiscal Year 1943

Department _____ Bureau _____ Activity _____
Point of Delivery (Town) _____ (County) _____ (State) _____
If the Point of Delivery is not located within the corporate limits of the town or
the named county, state the distance and direction from town and name the county _____

Address of submitting office _____
Signature of officer _____ Date _____

- (*) SUBMIT REQUIREMENTS FOR EACH POINT OF DELIVERY ON A SEPARATE SHEET.
- (*) Report all quantities in GALLONS.
- (*) Return this requirement form in duplicate, to Procurement Division, Washington, D. C., as soon as practicable, but not later than January 15, 1942.

	Proposed Federal Specification VV-C-326			Navy Specification	U.S. Army Specification
	Grade 1	Grade 2	Grade 3	7-0-2	2-102
	GALLONS	GALLONS	GALLONS	GALLONS	GALLONS
First quarter.....					
Second quarter.....					
Third quarter.....					
Fourth quarter.....					
TOTAL.....					
Method of delivery.....					
Quantity regularly ordered per delivery.....					
Capacity of storage tank...					

1. Are storage tanks located and piped to receive delivery direct from Tank Wagons or Transport Trucks? (YES or NO) _____ Railroad Tank Cars? (YES or NO) _____
2. Address or location of storage tanks and number of nearest trunk highway _____
3. Address or location of railroad siding, name or ownership, and name of railroad serving same _____
4. Are storage tanks located on property owned by the railroad (YES or NO) _____
5. If storage tanks are not located to receive tank car shipment, what is the local cost per 1,000 Gallons for hauling to storage.....\$ _____
6. If more than one method of delivery is desired for any grade of Gasoline, list the quarterly and total requirements for each form of delivery separately.
7. Furnish all required information in complete detail. Use the reverse side of this form for additional notes, supplementary data, comments, suggestions, or information that may be helpful in negotiating satisfactory contracts.
8. The minimum quantity that the contractor will be required to deliver per order:
 - TW - Tank Wagon..... 100 Gallons
 - SD - Metal Drum..... 1 Drum (50 to 55 Gallons)
 - TT - Transport Truck...?.....3500 Gallons
 - TC - Railroad Tank Car.....Full Carload

* Insert "TW" for Tank Wagon; "SD" for Metal Drum; "TT" for Transport Truck; "TC" for Railroad Tank Car.

DIESEL
FUEL OILProcurement Division
Circular Letter No. 513)ESTIMATED REQUIREMENTS
Fiscal Year 1943Department _____ Bureau _____ Activity _____
Point of Delivery (Town) _____ (County) _____ (State) _____

If the Point of Delivery is not located within the corporate limits of the town or the named county, state the distance and direction from town and name the county _____

Address of submitting office _____

Signature of officer _____ Date _____

- (a) SUBMIT REQUIREMENTS FOR EACH POINT OF DELIVERY ON A SEPARATE SHEET.
 (b) Report all quantities in GALLONS.
 (c) Return this requirement form in duplicate, to Procurement Division, Washington, D. C., as soon as practicable, but not later than January 15, 1942.

	Proposed Federal Specification VV-O-326			Navy Specification	U.S. Army Specification
	Grade 1	Grade 2	Grade 3	7-O-2	2-102
	GALLONS	GALLONS	GALLONS	GALLONS	GALLONS
First quarter.....					
Second quarter.....					
Third quarter.....					
Fourth quarter.....					
TOTAL.....					
Method of delivery.....					
Quantity regularly ordered per delivery.....					
Capacity of storage tank...					

1. Are storage tanks located and piped to receive delivery direct from Tank Wagons or Transport Trucks? (YES or NO) _____ Railroad Tank Cars? (YES or NO) _____
2. Address or location of storage tanks and number of nearest trunk highway _____
3. Address or location of railroad siding, name or ownership, and name of railroad serving same _____
4. Are storage tanks located on property owned by the railroad (YES or NO) _____
5. If storage tanks are not located to receive tank car shipment, what is the local cost per 1,000 Gallons for hauling to storage.....\$ _____
6. If more than one method of delivery is desired for any grade of Gasoline, list the quarterly and total requirements for each form of delivery separately.
7. Furnish all required information in complete detail. Use the reverse side of this form for additional notes, supplementary data, comments, suggestions, or information that may be helpful in negotiating satisfactory contracts.
8. The minimum quantity that the contractor will be required to deliver per order:
- TW - Tank Wagon..... 100 Gallons
 SD - Metal Drum..... 1 Drum (50 to 55 Gallons)
 TT - Transport Truck..... 3500 Gallons
 TC - Railroad Tank Car..... Full Carload

* Insert "TW" for Tank Wagon; "SD" for Metal Drum; "TT" for Transport Truck;
 "TC" for Railroad Tank Car.

Procurement Division
(Circular Letter No. 513)

ESTIMATED REQUIREMENTS
Fiscal Year 1943

Department _____ Bureau _____ Activity _____
Point of Delivery (Town) _____ (County) _____ (State) _____

If the Point of Delivery is not located within the corporate limits of the town or the named county, state the distance and direction from town and name the county, _____

Address of submitting office _____
Signature of officer _____ Date _____

- (a) SUBMIT REQUIREMENTS FOR EACH POINT OF DELIVERY ON A SEPARATE SHEET.
- (b) Report all quantities in GALLONS.
- (c) Return this requirement form, in duplicate, to Procurement Division, Washington, D. C., as soon as practicable, but not later than January 15, 1942.

RESTRICTED EXCLUSIVELY FOR MARINE USE.

Navy Specification 7-0-1

	Special	Grade I	Grade II
			Bunker "C"
	GALLONS	GALLONS	GALLONS

First quarter.....			
Second quarter.....			
Third quarter.....			
Fourth quarter.....			
(TOTAL.....			

Method of delivery.....
Quantity regularly order per delivery.....
Capacity of storage tank.....

1. Are storage tanks located and piped to receive delivery direct from Tank Wagons or Transport Trucks? (YES or NO) _____ Railroad Tank Cars? (YES or NO) _____
2. Address or location of storage tanks and number of nearest trunk highway _____
3. Address or location or railroad siding, name or ownership, and name of railroad serving same _____
4. Are storage tanks located on property owned by the railroad (YES or NO) _____
5. If storage tanks are not located to receive tank car shipment, what is the local cost per 1,000 Gallons for hauling to storage.....\$ _____
6. If more than one method of delivery is desired for any grade of Gasoline, list the quarterly and total requirements for each form of delivery separately.
7. Furnish all required information in complete detail. Use the reverse side of this form for additional notes, supplementary data, comments, suggestions, or information that may be helpful in negotiating satisfactory contracts.
8. The minimum quantity that the contractor will be required to deliver per order:
 - TW - Tank Wagon..... 100 Gallons
 - SD - Metal Drum..... 1 Drum (50 to 55 Gallons)
 - TT - Transport Truck..... 3500 Gallons
 - TC - Railroad Tank Car..... Full Carload

Insert "TW" for Tank Wagon; "SD" for Metal Drum; "TT" for Transport Truck;
"TC" for Railroad Tank Car.

BURNER FUEL OIL
MARINEProcurement Division
(Order Letter No. 513)ESTIMATED REQUIREMENTS
Fiscal Year 1943Department _____ Bureau _____ Activity _____
Point of Delivery (Town) _____ (County) _____ (State) _____

If the Point of Delivery is not located within the corporate limits of the town or the named county, state the distance and direction from town and name the county, _____

Address of submitting office _____

Signature of officer _____ Date _____

a) SUBMIT REQUIREMENTS FOR EACH POINT OF DELIVERY ON A SEPARATE SHEET.

b) Report all quantities in GALLONS.

c) Return this requirement form, in duplicate, to Procurement Division, Washington, D. C., as soon as practicable, but not later than January 15, 1942.

RESTRICTED EXCLUSIVELY FOR MARINE USE.

Navy Specification 7-0-1

	Navy Specification 7-0-1		
	Special	Grade I	Grade II Bunker "C"
	GALLONS	GALLONS	GALLONS
First quarter.....			
Second quarter.....			
Third quarter.....			
Fourth quarter.....			
TOTAL.....			
Method of delivery.....			
Quantity regularly order per delivery.....			
Capacity of storage tank.....			

4. Are storage tanks located and piped to receive delivery direct from Tank Wagons or Transport Trucks? (YES or NO) _____ Railroad Tank Cars? (YES or NO) _____

5. Address or location of storage tanks and number of nearest trunk highway _____

6. Address or location or railroad siding, name or ownership, and name of railroad serving same _____

7. Are storage tanks located on property owned by the railroad (YES or NO) _____

8. If storage tanks are not located to receive tank car shipment, what is the local cost per 1,000 Gallons for hauling to storage.....\$ _____

9. If more than one method of delivery is desired for any grade of Gasoline, list the quarterly and total requirements for each form of delivery separately.

10. Furnish all required information in complete detail. Use the reverse side of this form for additional notes, supplementary data, comments, suggestions, or information that may be helpful in negotiating satisfactory contracts.

11. The minimum quantity that the contractor will be required to deliver per order:

TW - Tank Wagon.....	100 Gallons
SD - Metal Drum.....	1 Drum (50 to 55 Gallons)
TT - Transport Truck.....	3500 Gallons
TC - Railroad Tank Car.....	Full Carload

Insert "TW" for Tank Wagon; "SD" for Metal Drum; "TT" for Transport Truck;
"TC" for Railroad Tank Car.

BURNER FUEL OIL
GENERAL

Procurement Division
Circular Letter 513)

ESTIMATED REQUIREMENTS
Fiscal Year 1943

Department _____ Bureau _____ Activity _____

Point of Delivery (Town) _____ (County) _____ (State) _____

If the Point of Delivery is not located within the corporate limits of the town or the named county, state the distance and direction from town and name the county, _____

Address of submitting office _____

Signature of officer _____ Date _____

- (a) SUBMIT REQUIREMENTS FOR EACH POINT OF DELIVERY ON A SEPARATE SHEET.
- (b) Report all quantities in GALLONS.
- (c) Return this requirement form, in duplicate, to Procurement Division, Washington, D. C., as soon as practicable, but not later than January 15, 1942.

GENERAL USE FOR LAND AND MARINE EQUIPMENT.

Proposed Federal Specification
VV-0-326

	Grade 1	Grade 2	Grade 3	Grade 5-L	Grade 5	Grade 6
	GALLONS	GALLONS	GALLONS	GALLONS	GALLONS	GALLONS
First quarter.....						
Second quarter.....						
Third quarter.....						
Fourth quarter.....						
TOTAL.....						
*Method of delivery.....						
Quantity regularly ordered per delivery.....						
Capacity of storage tank.....						

1. Are storage tanks located and piped to receive delivery direct from Tank Wagons or Transport Trucks? (YES or NO) _____ Railroad Tank Cars? (YES or NO) _____
2. Address or location of storage tanks and number of nearest trunk highway _____
3. Address or location of railroad siding, name or ownership, and name of railroad serving same _____
4. Are storage tanks located on property owned by the railroad (YES or NO) _____
5. If storage tanks are not located to receive tank car shipment, what is the local cost per 1,000 Gallons for hauling to storage.....\$ _____
6. If more than one method of delivery is desired for any grade of Gasoline, list the quarterly and total requirements for each form of delivery separately.
7. Furnish all required information in complete detail. Use the reverse side of this form for additional notes, supplementary data, comments, suggestions, or information that may be helpful in negotiating satisfactory contracts.
8. The minimum quantity that the contractor will be required to deliver per order:
 - TW - Tank Wagon..... 100 Gallons
 - SD - Metal Drum..... 1 Drum (50 to 55 Gallons)
 - TT - Transport Truck..... 3500 Gallons
 - TC - Railroad Tank Car..... Full Carload

* Insert "TW" for Tank Wagon; "SD" for Metal Drum; "TT" for Transport Truck; "TC" for Railroad Tank Car.

BURNER FUEL OIL
GENERALProcurement Division
(Circular Letter 513)ESTIMATED REQUIREMENTS
Fiscal Year 1943Department _____ Bureau _____ Activity _____
Point of Delivery (Town) _____ (County) _____ (State) _____

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Signature of officer _____ Date _____

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
OFFICE OF ECONOMIC STABILIZATION
WASHINGTON, D. C.

May 17, 1943

JAMES F. BYRNES
Director

My dear Mr. Secretary:

The Economic Stabilization Board will meet on May 21 at 11:00.

Mr. Nelson will be present to discuss the report of the Committee on War Models which was established pursuant to a discussion held at an earlier meeting of the Board.

Sincerely yours,

James F. Byrnes
Director.

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



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

May 17, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - Final Congressional action on pay-as-you-go income tax legislation appears likely this week. The House is expected to appoint conferees tomorrow to meet in joint conference with Senate-appointed representatives to reconcile differences between the Senate Ruml Plan and the House Forand-Robertson measure. House Republicans are said to be planning to move that their conferees be instructed to accept the Senate bill, which would virtually assure Congressional acceptance of the Ruml Plan. Failure to succeed in this strategy, however, will probably result in another tax stalemate since the conferees from both houses will include leaders who have consistently fought the 100% forgiveness proposal. Republicans claim to have lined up the necessary shift in voting to instruct House conferees to concur in the Senate measure, but Senator George is said to be still hopeful that his 75% cancellation plan may emerge from the conference. Speculation as to whether the President plans to veto the Ruml Plan in the event it is sent to him is increasing. Those claiming he would veto it, cite unalterable Administration opposition on the grounds forgiving a year's taxes would be inflationary and would inevitably result in eventual loss of revenue, but others believing he wouldn't use his veto power, base their opinion on the Treasury's desire for a withholding tax by July 1 as an anti-inflationary device.
2. Reciprocal Trade Agreements - With Secretary Hull as its first witness, the Senate Finance Committee will consider today the House-approved bill extending for two years the President's authority to enter into trade agreements with foreign powers. Only amendments approved by the House when it passed the bill last Thursday were the provision limiting extension for two instead of three years and the cartel amendment providing that the President may suspend agreements with a country in which an international cartel is operating to the disadvantage of the United States. Senator O'Mahoney

has already served notice that he intends to revive an amendment strongly urged by House Republicans which would have granted Congress the right to veto, within a stated period of time, any trade agreements made. Chairman George of the Senate Finance Committee, however, plans to lead the fight to prevent any restricting amendments being tacked on to the measure in the Senate. He says his committee plans to complete hearings tomorrow and predicts Senate passage by the end of the week.

OFFICE
SECRETARY OF TREASURY

1943 MAY 18 PM 12 16

TREASURY DEPARTMENT

NOT TO BE RE-TRANSMITTED

159
COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 161

Information received up to 7 a.m., 17th May, 1943.

1. NAVAL

During the night of the 15th, one of H.M. camouflaged A/A ships and ROUGH'S FORT each destroyed a F.W. 190 off HARTWICH. A naval minesweeper has been mined off MALTA and towed into harbour. Casualties - 2 killed and 2 missing. One of H.M. Submarines between 2nd and 8th, sank a 2,500 ton ship in PORTOTORRES Harbour, SARDINIA, and 2 small ships in the same vicinity.

2. MILITARY

BURMA. It is reported that the Japanese have withdrawn some of their troops from the BUTHIDAUNG Area owing to supply difficulties.

3. AIR OPERATIONS

WESTERN FRONT. 16th. Escorted medium bombers attacked 2 airfields in Northwest FRANCE. 16th/17th. Aircraft despatched: Sea-mining - 54 (1 missing) Intruders - 51. Northwest GERMANY, BERLIN, COLOGNE, DUSSELDORF and MUNSTER - 19 Lancasters and 9 Mosquitoes (8 aircraft missing), Leaflets - 4. About 17 enemy aircraft operated in 4 phases over the Southeast Coast and LONDON Area. Night fighters destroyed 3 F.W. 190's and probably destroyed a 4th.

BURMA. 14th. Mitchells attacked railway installations West and Southwest of MANDALAY.

4. HOME SECURITY

16th/17th. A few bombs were dropped in LONDON suburbs. Damage confined to house property. 9 persons killed.

May 18, 1943
9:05 a.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Gaston
Mr. Sullivan
Mr. White
Mr. Gamble
Mr. Thompson

H.M.JR: What I was asking for was, I asked Gaston to bring a couple of these fellows up to date on the War Bonds - Treasury versus Federal Reserve. I asked you people to talk it over. I asked Gaston to explain it to you. I asked you to see Burgess and Edwards.

MR. GASTON: Yes, we did.

H.M.JR: Now, here is the situation: Due to the fact that we had to get out a tax statement for the President last night, which some of you may or may not have seen this morning, or heard on the radio, that was written by Paul and Benjamin Cohen - incidentally, I think we have an excellent chance now of going to the Committee. The surprise of surprises is, Walter George was delighted. I had Paul wait at the White House. Then he took it on the Hill himself. He said that that was awfully good.

Well, anyway, as everybody knows, we have had this very serious controversy, and last night Eccles was in here for three-quarters of an hour, but most of the time he spent - you (Bell) can correct me - on how I should apologize for comparing him to John L. Lewis, and this thing, and that thing.

But in the memorandum which they had, which he let me see, they have agreed to what I wanted, namely, that we can pay the people and that we can select them in consultation with them. After we select them, they appoint them, which is all right.

So they agreed that Eccles would come back here at nine-thirty this morning.

- 2 -

The reason I want you people to think about the thing is to get some fresh viewpoints. The thing left me in a very peculiar frame of mind, and that is that if they did agree - which now they have - did I want to do it, the alternative being to use the Federal Reserve System to sell the banks and we do the rest. That is why I wanted the advice of some of you people who could get sort of a fresh view on it.

John?

MR. SULLIVAN: I think you are in too deep now. I think you have to go along with them, and I also think - I mean, I am sure I know less about this than anybody in the room and most everybody in the Treasury, but I would have been against the original proposal. But I think once you had made it you really got into it.

H.M.JR: Which was that, John?

MR. SULLIVAN: Allowing them to run the show.

H.M.JR: You mean even with these provisos?

MR. SULLIVAN: Yes. But I think you are in it now, and I think you have to play along with them.

H.M.JR: Not necessarily.

MR. SULLIVAN: Well, maybe not.

H.M.JR: I am not going to - I won't argue with myself in your presence - I mean, I want your opinion.

MR. SULLIVAN: My first reaction to it was that I thought they were not sufficiently interested in the sale of E bonds, that they might not push them as hard as we would want to push them. I then felt when I heard about the proposal for the appointments - and at that time I thought the discussion was restricted to the staff immediately under the president who was supervising the work throughout the Federal Reserve District - I think if I were president of a Federal Reserve Bank and I was asked to assume the responsibility I would want the right to pick my own people.

- 3 -

It wasn't until yesterday afternoon that I found out that this went all the way down to the State administrators and the staff in the States.

H.M.JR: Well, theoretically it doesn't. I mean, we can go as far as we want, but I think that if we select the District manager and the State administrator that is about as far as we want to go.

MR. GAMBLE: I think Mr. Sullivan meant on the Federal Reserve Bank proposal.

H.M.JR: Not under this plan.

MR. SULLIVAN: I understand that, but I thought in the discussion yesterday morning that the only thing at issue was the immediate staff of the president, the executive manager.

H.M.JR: It goes to selecting the State administrator.

MR. SULLIVAN: I think if I were president of a Federal Reserve Bank I would want to pick my own man if I were going to be responsible.

H.M.JR: They have agreed to let me pick him.

MR. BELL: After those two people are picked, those two people will pick the rest. The president of the Federal isn't going to pick everybody under them.

H.M.JR: You didn't have it in mind to go beyond that?

MR. GAMBLE: No. And I think the thing Mr. Sullivan is raising, if I understood him, was that the payment of these people by the Federal Reserve - all of the employees are to be paid by the Federal Reserve, which was their proposal.

H.M.JR: But this way everybody is going to be paid by the Treasury.

MR. SULLIVAN: I understand that.

- 4 -

MR. GASTON: But Dan suggests a very different proposition from what John is talking about. He said the District man would then pick the rest of the men. That is quite different from having the Treasury pick the rest of the staff.

MR. BELL: I don't believe the Secretary is going to go out there and pick the staff, either.

MR. GASTON: The point is just this: Is the man selected by the president of the Federal Reserve Bank - his assistant - going to go out and say, "We don't want this fellow working for you who is doing good work in War Savings; we will have somebody else"?

H.M.JR: No. They have agreed to let me pick the people. Now, I can go down the line just as far as I want to. I can pick - but I felt that if I picked the manager for the District and the head of the State that that is enough.

MR. GAMBLE: That is as far as you will ever want to go. There may be an exception to that, but--

MR. SULLIVAN: Is it contemplated to make any changes in the State offices?

H.M.JR: Oh, yes.

MR. BELL: I think you might want to see that the people who are now on this work and have done a good job are not dismissed wholesale. But after the organization is once set up, the hiring certainly isn't going to be centered in Washington - if it be a clerk or a stenographer.

But in the first instance I think you want to see that somebody isn't hostile to the War Finance Committee on one side or the War Savings on the other, and because we don't like those people we let them go. I think you want to see that that isn't done.

H.M.JR: Well, I am in this thing. I made my demands. At least I told - not demands - I said, "This is what I will

- 5 -

do; take it or leave it. I can get along without the Federal Reserve System." And I am convinced that I can.

Randolph Burgess said, "You can do it through the banks. You won't get quite as enthusiastic a reception, but you can do it."

P. M. Edwards said, "Do it through the country banks. The country banks hate the Federal Reserve; they don't like them. They don't like the ABA." They say that the Federal Reserve chisels them out of exchange on checks. Is that what it is?

MR. BELL: I think that is a nice way of putting it. It is an old controversy.

MR. WHITE: That particular thing is to the credit of the Federal Reserve System.

H.M.JR: Anyway, he said as far as the country banks are concerned they would much rather work for the Treasury. And he said, "The interesting thing is that one of these men said that all the literature of the ABA - it is always the Treasury. They never mention the Federal Reserve."

MR. BELL: That is right. We have a committee working with us.

H.M.JR: And he said, "You take any country bank, they don't know the Federal Reserve exists on this thing." He also said that you get about ninety-eight percent of the effect, but then by the end of the day he ended up by saying - how did he put it in his southern talk? "You put the horse-whip to them; you were too tough." But he said that they had it coming to them.

But he says, "Now that they are going to give in to you, you can afford to do a little face-saving." He said, "I would like to go along with them and use them. But, they had it coming to them."

MR. SULLIVAN: They both felt that the Federal Reserve would have to be in this thing, I understood.

- 6 -

MR. GASTON: I think we made a mistake in having them both in at the same time.

H.M.JR: You do? What I had Burgess in for was to get the big city banks, and Edwards to get the small country banks. He told me, for instance - this is all in the room here - that the vice president of the ABA, who lives sixty miles from Columbia, South Carolina, who will be the next president, just has no use for the Federal Reserve. And he said that they just love the Treasury.

Now, B. M. Edwards doesn't kid me, because he told me about some other things which they didn't like, not this, but on another Treasury fund. But, of course, what he did, the rascal, was, he got to somebody in the Federal Reserve Board and they told him every little detail that happened in that room. I think the newspapermen know it, too.

MR. BELL: You do?

H.M.JR: I think so.

MR. GASTON: Where did he get it?

H.M.JR: He said, "I have my pipe lines into the Federal Reserve." He hadn't been in town one hour when he had it. He knew all about my stuff with George Harrison, and everything else.

MR. GASTON: I think it is important when we announce this plan that we make it plain we are not turning it over to the Federal Reserve Banks, but that the president of the Federal Reserve Bank, who is the fiscal agent of the Treasury, is acting as your personal representative in charge of the district.

H.M.JR: Harry?

MR. WHITE: Well, Mr. Secretary, from what I have heard in a summary fashion of what has gone on, I would like to say first that I am wholly in agreement with you in your position with respect to not turning the thing over to the banks. From the little I heard of what went on at

- 7 -

the session in which you lashed the banks, I think they had it coming to them, and I personally am glad that you let them have it. I think it puts you in a strong position. I know that others don't agree with me on that, but that is the way I feel. I think for every inch you give those fellows they will take more. They have never been in sympathy with things you have done or things the Administration has done, and they never will be in sympathy. To them the fight is still going on underneath the surface in a very big way, and they saw their chance here to get their foot on something, and they were going at it in a big way to intimidate you, just as some of the comments, it seemed to me, that they made later - Randolph Burgess made later - about a scandal, and we can't afford it, and so on.

Certainly there wasn't going to be any scandal for the Treasury - kind of an implied threat, in my opinion, which he was reflecting that the others were doing. I think there is--

H.M.JR: Scandal?

MR. SULLIVAN: He meant if it came out that there was a break between the Federal Reserve and the Treasury. He said that - the parallel he used was just like the fights going on between WPB and Jeffers.

MR. WHITE: He also mentioned the word - that it would be a scandal. Randolph is a nice fellow and puts the thing in its best light. He is able, and doubtless sincere, but I have the very definite feeling that it would have been a major error, which apparently you saw completely, in letting them have their way, and more than that, in even letting them think they were in a position to intimidate the Treasury.

I don't think there is sufficient appreciation in the Treasury of the difference in the status of the Treasury and the Federal Reserve System. You are so accustomed to doing business with the Federal Reserve System, and you are so accustomed to recognizing that they have an important role in the banking system, which they have and should have, that I think you are apt to forget that a hundred and

- 8 -

twenty-nine million out of a hundred and thirty million neither have any use or know much about them or regard them as a Government agency. To them the Treasury stands for the Government, not the Federal Reserve System.

To the bulk of the people the Federal Reserve System stands for the banks or some particular agency. In support of that I would very much like to have you talk to some people who are lay people the next time you meet them, and sound them out. I have many times, and we are too close to them to understand how the public as a whole feels between the two.

The Federal Reserve System in charge of a drive doesn't mean at all the same thing as the Treasury. The Treasury is the Government. The Treasury represents the Administration. The Federal Reserve System is something very different, and I am very glad that you took the strong position which you did with them.

Now, with respect to where you go from here--

H.M.JR: Could I interrupt you a minute? I want to say something that I have never said before. I think Bell will be particularly interested. This thing with the Federal Reserve wanting to inch in on me isn't something just now.

No less a person than Walter Stewart has warned me repeatedly, "Henry, the Federal Reserve wants to dominate the Treasury." And that is why when he was here he would never go over to the Federal Reserve. He says, "If they want to see me, they have to come here." He said, "I am warning you there is a deep-seated plan to take you over and make you secondary to them." Now, Walter Stewart doesn't say those things lightly. He said it to me at least three times.

You remember the times they invited him to come over there. He never would go. He said, "I will not go. I don't want to be there and have them say, 'Walter Stewart agreed to such and such a thing.' I won't do it." I am saying it because I doubt whether he can ever come down here on account of not being well. But he warned me again and

- 9 -

again to look out for the Federal Reserve. He was the first economist for the Federal Reserve. But I am just telling you that.

MR. BELL: I think Walter didn't want to argue with them, and that is the reason he didn't want to go. I saw him over there a couple of times, and he wouldn't open his mouth. I was there a couple of times to argue this Reserve position, and Walter was just an observer; he didn't want to get in on it. But when we came back he always had something to say.

H.M.JR: Anyway, that is what he advised me.

MR. BELL: I know how he felt.

H.M.JR: Did he ever tell you that?

MR. BELL: Not in those words. He always told me that he didn't trust them.

H.M.JR: That he didn't trust them?

MR. BELL: Yes, and he never could get along with Eccles. He never liked Eccles' approach to a problem.

H.M.JR: Well, anyway, I just wanted to throw that in at this stage. Go ahead, Harry.

MR. WHITE: The question is, where to go from here. Undoubtedly the cooperation of the presidents of the Federal Reserve is highly desirable. They undoubtedly have better entrance knowledge and facilities to tap the big money. I don't think they are in a position to refuse that cooperation on any terms that you give them.

I do think, however, that they can and would sort of pull their punches so that the results aren't good. Their hearts wouldn't be in it in the sense that they are more concerned with the struggle or with being personally picked than they are with seeing a big bond issue go over. Therefore, I think in the main it is desirable to have things

- 10 -

run on the surface as smoothly as possible. But I wouldn't give them the thin edge of a dime so far as actual control was concerned any more than you absolutely have to. As the nominal head, fine - give them whatever O.K.'s they feel are necessary, and give them nominal positions, but I wouldn't relinquish either the actual control or the close supervision as to what is going on.

I think, unfortunately, the thing is too big for you to delegate as much of the task or as much of the responsibility to other agencies as you would like. You just have to keep it pretty much under your hand. Seek their cooperation, but I wouldn't recede an inch so far as any important transfer of responsibility or authority to those agents is concerned. And if they didn't give you their full cooperation, I would fight them back in the many ways that are available. That is my personal feeling.

H.M.JR: When these things are over, I am always surprised at my nerve, because I am very weak afterwards. I also had the nerve yesterday to tell the President to send this message. It is the same idea; it is the same crowd.

MR. WHITE: It is the same fight, but a different facet of it, that is all.

H.M.JR: The same financial crowd. I mean, that one statement in that thing - if the Ruml plan had gone through this man - was it twenty weeks they would have gained in capital - what was it?

MR. SULLIVAN: The fellow with the small income gained four weeks' pay, and the other fellow gained twenty weeks' pay.

H.M.JR: Which would absorb all the increased taxes since '39.

Well anyway, this is the way I feel: I am going to ask Bell and Gamble and Gaston to stay when Eccles comes at nine-thirty because I want all three of them satisfied as well as myself. It gets down pretty much to what kind

- 11 -

of a statement - they have agreed to everything now that I have asked for. If we didn't ask for enough, then it is our fault.

MR. GAMBLE: It is our fault.

H.M.JR: But we keep talking about confidence and this thing, and that thing. Well, I can do the graceful thing, having gotten what I wanted, see, without receding from my position.

MR. SULLIVAN: I think that now you are in it you have to go whole hog on that.

H.M.JR: Without receding I can say some pretty things.

MR. SULLIVAN: That is right.

H.M.JR: I can get T. V. Soong down here to say it for me in Chinese and translate it into English. He may know how to say these things after centuries of face-saving. (Laughter) But I am not sorry. As a matter of fact, all week end I was feeling very much this way, that if they said, "Yes," I would say, "No."

MR. THOMPSON: I know in World War I we didn't have a very continuous and smooth channel with the Federal Reserve. We had a lot of fighting back and forth. Mr. Leffingwell, I know, had many strong arguments with Governor Strong of the Federal Reserve of New York, and the Treasury wasn't pushed around by them. They at times tried to push us a little bit.

My first love has always been the Federal Reserve System because I grew up with it and helped to establish it.

H.M.JR: Well, you have lived that down. (Laughter)

MR. THOMPSON: Yes, but I think--

H.M.JR: But they did have the same trouble?

- 12 -

MR. THOMPSON: I don't know if it was the same trouble.

MR. BELL: Yes, the same trouble, fighting, and the Treasury maintained its position and did its job. It used the banks to put over its drives.

H.M.JR: I have talked to the President about this twice. I stayed behind yesterday and told him enough to let him know, and I got his complete backing. I told them, "I can do this without the Federal Reserve, but they can't get along without me."

MR. WHITE: I think Ted told Burgess that yesterday.

MR. GAMBLE: We discussed that, and I think Burgess agreed.

MR. WHITE: It was his opinion that they could do it without the Federal Reserve Banks. I mean, it was Ted's opinion, as I understood it. Of course, Burgess disagreed, and Bill Edwards seemed to disagree, but not too strongly.

MR. GAMBLE: They agreed that we would end up with ninety-nine percent of the same people no matter which way we went to do this job. Wasn't that the impression, Herbert?

MR. GASTON: Yes. Edwards seemed to agree with Burgess that there would be great value in having the Federal Reserve Banks in the organization.

H.M.JR: Well, it is funny about Edwards. Down at Columbia, South Carolina, he made a speech in front of my wife and my son, "Go ahead without them, and this is the way to do the thing" - and they were both there and heard him - "and the country banks don't like them, you see." Then he came up here and talked to somebody in the Federal Reserve and said that I used the whip on them but they had it coming to them. He said, "You were too tough on them, but now be nice to them." (Laughter)

MR. WHITE: I got the impression that his whole discussion was to demonstrate how well it worked in his area

- 13 -

without the active participation of the banks, but his conclusion didn't seem to fit his general discussion.

MR. BELL: You mean the Federal Reserve Banks? He doesn't mean the private banks.

MR. WHITE: No, no. They apparently were very active. I gather there was some discussion or thought of removing the task of getting the money from the banks - the bank money from the regular drive. I feel that that would be a highly desirable thing.

H.M.JR: I have practically crossed that bridge.

MR. WHITE: You have crossed it?

H.M.JR: Practically. Everybody agrees that we should go after the bank money separate.

173

THE SOUTH CAROLINA NATIONAL BANK

CENTRAL OFFICE

COLUMBIA, S.C.



B. M. EDWARDS
PRESIDENT

May 18, 1943

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

Dear Mr. Morgenthau:

I am always happy when given the opportunity to help you in any way, and I do hope that you will call on me in every instance where I can do any good. I was glad to be in Washington and talk with you yesterday, and I am delighted that everything turned out all right. I sincerely hope that you did not gain the impression that I did not fully approve of your attitude and the handling that you have given the matter in question in its entirety.

The people in America and, as a matter of fact, the peoples in all the allied countries are looking to you to finance this war, and certainly that responsibility is yours. It is the privilege of all others to assist you in this great and most important undertaking, and, as I told you yesterday, it is "your show" and it is your obligation to secure the necessary appropriation to carry on and no one individual and no group of persons have any right to make any demands as to how you shall run the job. You were definitely right in everything that you have done and my admiration for you has certainly not been impaired by the fact that you "stuck to your guns", and I am of the opinion that your doing so will prove to be to the best interest of the effort.

With my sincere regards and best wishes, I am

Sincerely yours,

B. M. Edwards

P. S. -

After talking with you Sunday I was thinking of the situation and on the train I wrote out a memorandum. Some of it may sound foolish and maybe it is too long for you to read, but anyway I am sending a copy of it for your files, because I wanted you to know that I really began thinking of your problem as soon as you acquainted me of the situation.

BME

Memorandum

Your situation is comparable to a Baseball game. Prior to last December you were in the Minor League with a perfect score. Then in December you really stepped up into the Majors, and you have been to bat twice and your batting average is 1000% plus - and you have driven the ball over the fence for a "Home Run" on both occasions. All during your days in the Minors, the Federal Reserve folk were on the side lines cooperating and encouraging you, and they have, from the beginning, been of great help, but when you moved up into the Majors they consider that they became, in a way, your Manager and Coach. I believe they feel that your success has been due to their effort, support and ability. In other words, they gave you the signals as to what to do and you did it and ascended to fame and glory. (Maybe they want to claim it.) In the meantime, you had other folks and other organizations playing on your team or otherwise working with and for you. When the game was scheduled for last month, these particular folks were made subservient to the newly constituted managers; namely, the Federal Reserve fellows--and, if I correctly understand the situation, the Federal Reserve wants all of this group "blotted out" as an operating unit, with possibly the right to absorb and take into their outfit any part they choose to use. I take it for granted that the Federal has demanded the right of selecting the paid workers, including executives, and will also expect full reimbursement by the Treasury for all out of pocket expense incurred and that it will be your obligation to get from Congress the necessary appropriation to meet the bill. I understand the Federal has laid down some rather definite demand, such on the order of "taking charge" of Treasury financing with rather large authority. What is the motive behind it all? Could it be:

1. They say a smart man sometimes retires at the pinnacle of his glory. The "Mighty Casey" was a great ball player and a hero, until that eventful day when he struck out in the last half of the ninth and lost the ball game. Could it be that these Federal folks would like to "lay down the bat" while they are sure of a perfect record? Do they foresee trouble coming in putting over some of our coming drives, and have they laid down demands they hope you may not meet and let them out or at least relieve them of all except the "Bank" purchase part of the program; or
2. Is it something in the nature of a "political" move maybe for the purpose of building up with Congress and the country as a whole the importance and indispensability of the Federal Reserve System? In other words, would they like to pay to the world, "We did it" and "The administration and the country could not have done it without us, and therefore we are indispensable."

An old negro servant once told me: "Cap'n, dis ole world is lak a geese and as you pass through it you better be pickin' some feathers for yourself from dat old geese, because if you don't do it, nobody is gwine do it for you and you is goin' to find yourself sleepin' on shucks."

Could we blame these Federal folks for "putting water on their own wheel". Now as to your best way of meeting this situation -

- 1st. I see no good reason for materially changing the April arrangement.

The plan and program have proven to be workable. Of course, we want to build up and enlarge the committees, personnel and workers, and such certainly is no impossible task--in fact, it can be easily done, but if the Federal will not go along and stick out for their demands, then your easy way would be to pass it on to them with the admonition that the job is theirs and such is their responsibility. But, after all, you can't pass on your obligations; the country is looking to you and the United States Treasury to finance the war; or

2nd. If you choose to set up an organization outside the Federal, I am sure that you will have the full support of everyone. Not one banker out of a hundred is influenced by or considers that he or his institution is working for the Federal. They recognize only ~~the~~ the United States Treasury as a matter of fact, 90% of the smaller country banks dislike the Federal Reserve System. The A.B.A. is supporting the Treasury, not the Federal, and the same is true with the State Bank Associations. Everyone in the organization now set up so considers, and you will not lose 2% of the present line-up if the Federal drops out.

I would not under any circumstances split the effort and allow the Federal to handle only the Bank subscription or allotment portion. Such is not necessary; the Bank portion, whatever it happens to be, will be set sooner, and if separated it might cause confusion and banks and bankers could misinterpret the arrangement and gain the impression that they had done their part by subscribing through the Federal for their own portfolio and that nothing more was expected of them. I would definitely oppose such a separation. If the Federal will not work and pull with the team and you decide to manage it, you will probably have to set up a paid organization somewhat along this line:

1. A national director in Washington with the necessary staff and assistants, including publicity.
2. A man in each head office of the Federal Reserve District, and possibly an assistant in each Federal Reserve Branch.
3. A state manager in each state and probably several regional managers in each state. Some of these regional managers may be named as voluntary workers.
4. Regional chairmen, county chairmen, city chairmen and others are now and will continue to serve on a voluntary basis.

You already have some paid personnel in the War Savings Staff. A reasonable additional amount of money would provide the necessary organization.

May 18, 1943
10:35 a.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Gaston
Mr. Graves

H.M.JR: This thing has taken an entirely different twist. I was very quiet this morning, but if they think they are going to tell me who I can appoint as sales manager here, they are crazy.

MR. GASTON: I tried to bring that out. Eccles maintains that that was just simply his own idea.

H.M.JR: It isn't. Look what Bell says. Bell says that they suspicioned us, and they don't want this thing.

MR. BELL: After they went away Saturday they talked about who would be Robbins successor, and somebody said that it was obvious Ted would be because he was present at the meeting, and they thought, "Well, that is just the War Savings Staff again that we have to deal with."

H.M.JR: Well, I agree with Herbert. I think the whole thing - I don't think I am seeing things under the bed. They want to say who can run the thing here, and I started in January 1940 or February 1940 to build this War Savings Staff. By and large I have a good staff.

As Ted says, there are sixteen States that he would like to change the heads of. That is a third.

Dan, just take the thing - you take New York. If they had to pick the men, they would pick this fellow - who is this man's name?

MR. GAMBLE: Perry Hall.

- 2 -

H.M.JR: They would pick Perry Hall to run it. I can't stand for Perry Hall. I can stand for Perry Hall, let's say, being in charge of the bank team, maybe. Burgess put the thing very well yesterday. He said, "You have one group there selling the banks, which is fine; but your industrial group has been very weak. You made a start, but you never developed it."

He said, "In your industrial group there should be the top people like Dubinsky, Sidney Hillman, and people like that. They have never been given a chance. That side is very weak."

He said, "A fellow like Perry Hall could go ahead and handle the bank head of it, but on the other side you want an entirely different group."

I mean, Perry Hall is what he is. He talks about selling wads of stuff when they wanted to have it down to twenty-five or a hundred dollars, F and G.

MR. BELL: A hundred dollars.

H.M.JR: Well, I am not scared. I am not going to be worried. I could get this thing set up, and I can travel around this country. I can talk to State banking organizations; I can talk to State organizations wherever they are. I can get the support, and I can do this thing without the Federal Reserve.

MR. BELL: I think you can build an organization, certainly, that will do this job.

H.M.JR: I have had a talk with Ted, and I have satisfied myself that he can be tough, that where the people aren't right we will get rid of them. One of the things that I would want to do is, I would want to invite somebody in like Leffingwell as an adviser down here. I mean, somebody on that type who would come in and show them that the financial community is with us. And this Judge Florence Allen - is that her name? This is the first time the Treasury has been brought to the people so they understand what it is all about. These people forget. I

- 3 -

mean, they think that they are doing it for the Federal Reserve. They are not; they are doing it to win the war. There are enough respectable people in this country who will help me put this thing across.

Allan Sproul keeps writing Bell and me that we don't know anything about it. What the hell does Allan Sproul know about the thing? He keeps writing these letters all the time.

MR. GASTON: They seem to have a great fear that we want to force the War Savings organization into dominance on this thing. That seems to be what Eccles is reflecting.

On the other hand, we fear - and we think with pretty good reason - that what they are proposing is to take a new broom and sweep clean and eliminate and suppress any part in it by the War Savings organization.

Now, maybe there is a middle ground. Maybe they can convince us and we can convince them. Maybe they can convince us that they don't want to liquidate the War Savings organization completely. Maybe we can convince them that we don't want to force the War Savings organization into dominance in the thing. And maybe there is a middle ground of agreement there.

MR. BELL: I think there is suspicion on both sides. We have to eliminate suspicion and go to work and build an organization if we are going to keep them together.

MR. GAMBLE: Don't you think we have the framework to do that?

MR. BELL: Yes, I do.

MR. GAMBLE: The proposal to them is the framework.

MR. BELL: I think so. The plan he submitted has that framework; but after hearing the discussion on each side, I think unfortunate words were used in both of the memoranda.

- 4 -

H.M.JR: Let me ask you people - you play poker?
Mr. Eccles came in this morning--

MR. BELL: Not successfully. (Laughter)

H.M.JR: Mr. Eccles came in here this morning and he decided that he was going to bluff me and I had to go around and sell myself to each one of the twelve. Then he saw he couldn't bluff me, so he went out, turned around, and came back and said, "Now as far as I am concerned I want the Federal Reserve and the Treasury to get together."

MR. BELL: No, I think he had some of the first part of that in mind last night. He couldn't offer the whole story. I heard through Buffington - and he got it through somebody else - that Eccles really made a very strong plea Saturday. He told these fellows, "You just can't allow this thing to stop, this cooperation with the Treasury."

I was told that Eccles really made a very strong plea for an attempt here on the part of the Federal presidents to get together. He said that it was damned important that the Federal Reserve System be in this financing. He said, "I think the Treasury needs us, and I think we need the Treasury." That is the way he put it to the Board, as Buffington got it.

MR. GASTON: I think that Eccles and probably the presidents got a misconception. They apparently got the idea that we didn't want to come to an agreement with them, we wanted to go on with the State organization and not have the Federals in it, and, therefore, we were presenting it in impossible terms and didn't want an agreement. Now, that is a silly notion, and they ought to get it out of their heads.

It would have been a perfectly silly thing for us to do, for us to propose a plan including the Federal Reserve Bank presidents if we didn't want to go ahead on that. It would have been much simpler to just tell them, "Thank you for what you have done, but we think another form of organization will work better, and we are going to set it up on State lines."

- 5 -

H.M.JR: Look, I made the proposal, and I did it with all sincerity. My gawd, how I had to work on you (Gamble) to get you to agree to it.

May 18, 1943
10:36 A. M.

HMJr: Hello.

Operator: Mr. Cowles is in a Senate hearing and she doesn't know how soon he'll be back.

HMJr: Oh. Is that his secretary?

Operator: Yes.

HMJr: Let me talk.

Operator: All right. Go ahead.

HMJr: Hello.

Secretary: Good morning.

HMJr: This is Mr. Morgenthau.

S: Yes.

HMJr: Originally Mr. Cowles asked whether he and Chet LaRoche and Rogers could see me Wednesday, and I said I wouldn't be here - hello?

S: Yes.

HMJr: Hello.

S: Yes.

HMJr: Well, now I find I will be here tomorrow morning.

S: Uh huh.

HMJr: Is Mr. LaRoche still coming down?

S: Yes, he is. I don't know just what time he'll get here.

HMJr: Well, could you call him up in New York and find out?

S: Yes, I could. What time could you see him, Mr. Secretary?

HMJr: Well, I - I would say - I could give you either ten or eleven.

S: Oh, you couldn't - I think at first they wanted sometime in the afternoon.

HMJr: Yes, and then they....

-2-

S: Could you arrange that?

HMJr: No, I can't do that.

S: Ten or eleven. All right.

HMJr: And if LaRoche needs a priority to come down, we can help him.

S: All right, sir. Thank you very much for calling.

HMJr: And I would like to see them. Should I - how about if I'd call LaRoche? Or do you want to do it?

S: Uh....

HMJr: Well, you've got three people. You've got your - your boss and

S: And Mr. Rogers....

HMJr:and Mr. Rogers and LaRoche.

S:and LaRoche.

HMJr: And you call him up and you say that I'd consider it a favor if he could do it in the morning.

S: All right. Thank you very much, and I'll let you know what time.

HMJr: Yeah. Will you - and when you call back ask for Mr. FitzGerald.

S: All right, sir.

HMJr: If you please.

S: Thank you. Goodbye.

May 18, 1943
10:47 A. M.

HMJr: Hello.

Operator: Mr. Rouse. Go ahead.

HMJr: Hello.

Robert Rouse: Good morning, sir.

HMJr: How are you?

R: Pretty well, and I hope you are.

HMJr: I'm fair. I tried to get hold of Allan Sproul and they tell me in his office and in his home that he's at a hospital.

R: That's right.

HMJr: Do you know how long he'll be there?

R: I think probably only another day or two.

HMJr: Well, the reason I'm calling -- and I thought you could use your judgment about getting the message to him -- Eccles said that Sproul wanted to see me.

R: Right.

HMJr: Now, confidentially, I have to be in New York from Thursday on because Mrs. Morgenthau is going to have a major operation....

R: Oh, oh.

HMJr:so I'll be up there for several days. After - I wouldn't want to see him Thursday, but Friday or Saturday I could see him.

R: Fine.

HMJr: And whenever you think it's the right time, you get that word to him.

R: I will.

HMJr: And then - would he be back in the bank Friday or Saturday?

R: Well, I expect that he will.

HMJr: Yeah.

R: I left him Saturday night - that was - he had that plan.

HMJr: Is there anything serious wrong with him?

R: No. He hasn't - he's had progressively, I think, a little more trouble with his stomach and so on over a period of time, and of course, it's part of the strain of the whole situation, a nervous tension.

HMJr: Yeah. Well, he and I both.

R: I think we're all going through something of that sort, eyes and so on.

HMJr: Well....

R: He doesn't think it's anything serious, but he wants to be sure.

HMJr: Well, could you let Bell know when Sproul will be available? Whether he'd be available either Friday or Saturday?

R: Right.

HMJr: And then Bell will know where I am and he can get in touch with me.

R: Fine.

HMJr: Please.

R: Thank you very much.

May 18, 1943
11:20 a.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Gaston
Mr. Gamble
Mr. Buffington
Mr. Fleek
Mr. Bryce

H.M.JR: What I would like to ask you gentlemen is a couple of questions. I would like to talk to you - to go back when you first came down here representing the Investment Bankers, and not as a part of the present Treasury organization, if you can detach yourselves, you see. Is that possible?

MR. BRYCE: Yes, I am detached, and John can easily get that way, I am sure.

MR. FLEEK: We can talk as private citizens on this thing.

H.M.JR: I would like to just talk to you. That is why I asked Mr. Bryce because he was very helpful, and George can get in on the conversation, please.

I would like to go back to the period when you people first helped me with the Investment Bankers and the Stock Exchange, and so forth and so on. What I am going to say is in the deepest confidence because it would be unfortunate if anything got out, although I imagine you know what I am going to talk about.

I have run head-on into a collision with the Federal Reserve Bank presidents in trying to set up this one organization. I think I am right; they think I am wrong. All I am trying to do is, in setting up this new organization, I think the Treasury has the responsibility and should keep it.

- 2 -

I want to make use of every man, woman, and child in the United States that will help sell bonds. I need them. They were fine, by and large, during this last campaign. They were wonderful - the people.

But in this thing with the Federal Reserve, as I say, I have run into this head-on collision. I am trying to get together with them. I don't know whether I can or not. I was kind of discouraged after Mr. Eccles left here this morning. Mr. Eccles says he is trying to get them together. I don't know whether it is possible or not, but we are still trying and there is no open break.

But what I want to know is this: Supposing we can't get together and we try to set up an organization on a State basis, trying to find the best people in each community - going back to what you have heard me say again and again, that it is more important to me how they are sold than in getting the money. You have heard me on that. I don't know whether you have or not, Mr. Fleek, but you (Bryce) have.

MR. BRYCE: Yes.

H.M.JR: And the point is, I want to sell them in a way that the people sell themselves, so when they buy them they are going to keep them, and they feel in their hearts they are doing something to win the war. That is the important thing - much more important, from my standpoint, than it is to just go out and sell a lot of securities.

I think you have heard me on it.

MR. FLEEK: Don't you feel that was done in April, Mr. Secretary?

H.M.JR: By and large.

MR. FLEEK: In the Fourth District I can say that from experience.

H.M.JR: By and large. Unfortunately, I had some very unfortunate personal experiences. I was the one who was

- 3 -

attacked and it has made me - well, I mean, I got back here on a Monday after the drive closed and one of the Federal Reserve presidents wrote me a letter and just took all the pleasure out of what we had done. I hadn't even sat here - couldn't even roll it around in my mouth and enjoy the flavor before I get a letter, and he takes it upon himself to tell me this, that, and the other, and it isn't the first time. There were certain things that happened certain places - certain groups - so I mean, I haven't been the aggressor.

All I am trying to do is, I want to take the initiative in selecting the people and let the Federal Reserve presidents have the refusal, and they want it the other way around. But the thing cuts very deep.

Now, what I want to get down to is this: Supposing after I made - Mr. Bell and I, Mr. Gaston and Mr. Gamble have made every honest effort we possibly can to get together with these people and then we fail - supposing we go ahead and set up the best State organizations we can, taking the best people from both organizations and selecting whoever is the best person to do this thing and carry out this spirit that I want. The Federal Reserve would be out with the exception that they would most likely sell the bank - the bank securities - and we would have, most likely, the sale of bank securities separate from the drive. I don't think they belong in the drive.

MR. FLEEK: No, they don't belong in the drive, anyway.

H.M.JR: No, they would be separate, but we would do that through the Federal Reserve Banks, I think, and have the securities separate - the bank securities separate from the drive and let them do that. Mr. Eccles originally suggested that before we started on this drive. Am I right?

MR. BELL: The April drive, yes.

H.M.JR: What I want to know is - talking now for the groups that you originally represented, and the Federal Reserve is out of the picture - can I count on those groups to help the Treasury?

- 4 -

MR. BRYCE: I am going to speak first, John. I am the rustiest one here. I am speaking as a private citizen. In other meetings that I have had in this office I was the liaison officer, which I am not now. I was under John Fleek's regime. So I am only speaking as an individual.

H.M.JR: I brought you back because you and I always got along very well.

MR. BRYCE: I appreciate your saying that.

H.M.JR: You did a swell job and I felt that you and I looked at things in the same way.

MR. BRYCE: I appreciate your saying that because I feel that way about it.

H.M.JR: I felt Mr. Fleek did, and that is why I sent for him, not as representing Cleveland, but for what he stood for before. I mean, that is why I asked you rather than somebody else to come down.

MR. FLEEK: I appreciate that very much, Mr. Secretary.

H.M.JR: You ask me any damned thing you want and I will answer both of you, and George, too. I don't care what it is on this question, you just ask me.

MR. BRYCE: I think, and I am sure you do, that it would be a great pity if we couldn't get the thing worked out with the Federal Reserve System. I am sure that you feel that way just as much as I, a private citizen, do.

H.M.JR: I do.

MR. BRYCE: But I also feel that the people in this country are tremendously patriotic and they are getting the feel of it more and more. I think your crucial time was your Second War Loan drive. I mean, it looked kind of black - how was it going to work? It was a huge success, and I think that you can be sure that the industry, which I am not speaking for - I am giving you my personal opinion - will stand by you and do a job.

- 5 -

I think they will be terribly disappointed if there is anything that develops between you and the Federal Reserve, and I am sure they had no feeling that there was any chance of that.

I know some of the background of all this and I know just what you are driving at; that you want to get yourself in the position you should be in to run this thing as you have done, and it has been done well. There has been criticism of this and that, but you are getting the money and the country is all for it, and they are all set for a drive this fall.

I have always felt that it was terribly confusing having two organizations. We have talked that out for a year or so. I felt that I had the point of view of both of them because I started with War Savings and helped organize for you the Victory Fund Committee. I know the men intimately that were selected in the executive manager's job. I think it is a great crowd of men.

And yet, as you go out in the country, as I go back to New York, my own partners don't know, today, the difference between what the Victory Fund crowd is doing in New York, and the War Savings. That is bad and it can possibly be done away with. I think the whole success of what you are contemplating depends on the statement you just made, that if you are going out - and I am sure you mean to - and if the men working with you actually get the best men in each State, I think that you can roll it beautifully.

H.M.JR: I mean that with all--

MR. BRYCE: I still hope the Federal Reserve will be in the picture, but I think you have to have the best man in each State, no question about it, so he will have the standing - prominent citizen of the right crowd with him, whether War Savings, Victory Fund, Salvation Army--

H.M.JR: Or Boy Scouts or Women Volunteers.

MR. BRYCE: He has to command the respect of the people.

- 6 -

H.M.JR: I don't give a damn what his standing was heretofore - and I am talking for these people associated here with me - I want the best man, and I think I have demonstrated it, I don't care what party he belongs to. I think I can say this, if no one else will say it for me, that there has been no party politics in this organization.

MR. BRYCE: You let me in the room. I am a Republican. You have always let me in, so that is proof. (Laughter)

H.M.JR: I don't know--

MR. FLEEK: I voted for Mr. Roosevelt the first term.

H.M.JR: That is good enough, (laughter) as far as politics goes, but as far as selling securities is concerned it is all right. The test is whether you voted for him for the third time, but that is something else. (Laughter)

MR. FLEEK: I might stop there. (Laughter)

H.M.JR: But if we are going to set - as I said, Eccles - last night I thought everything was lovely. He had a memorandum written up where they had agreed to what I had asked for; then something happened over night. I don't know what it is and there is a complete change of front. Mr. Bell was with me. He saw the memorandum and it was everything we wanted. It was just a question of doing a little face-saving. Now the situation is different.

All I am saying is that I just want to know that if this thing - and after making an honest effort to get together with them, we can't, do you feel that - going back by States and saying, "Now, gentlemen, I want you to help me get started this time." We will have at least three months' start instead of three weeks, to plan this thing, and so forth and so on. Talking just as a private citizen, how do you feel?

MR. BRYCE: I feel that you can get away with it. I think it would be a terrible shock and all that, and I don't think it is going to happen.

- 7 -

My feeling about it is that you can confidently, in your negotiations with the Federal Reserve feel, if it all goes to pot you can still put it over. That is the way I feel as an individual. I would still be terribly disappointed if it didn't work out, and I am sure the country would, but they aren't going to let you down. They have to get this money and they are set for it and you will get it.

MR. BUFFINGTON: Mr. Secretary, bearing on what Jerry says, you may recall a meeting when we organized the Victory Fund Committee in which Dr. Stewart was present. I first suggested to you--

H.M.JR: Dr. Walter Stewart?

MR. BUFFINGTON: Yes, he was here in the office and I first suggested to you that the securities industry be made available to the War Savings Staff, which Mr. Graves felt at that time he didn't want.

We had practically set this thing up in this office on a basis of the security industry leading the show, and you and Dr. Stewart walked out that door when the statement was made that the Federal Reserve presidents would be window dressing, and you came back from talking with Dr. Stewart and said no.

I think it was Sproul that spoke up and said he didn't want to be window dressing, he wanted to have the responsibility. Following that meeting in December, or before the December drive, we had a meeting in your luncheon room at which you asked about the possibility of merging the two organizations, and at that time Harold Graves said that the War Savings Staff did not have a sales organization, that they had nothing to contribute to a December drive. I think you were there. I know Dan was there at that luncheon.

H.M.JR: That doesn't sound like Harold Graves.

MR. BELL: He certainly said he didn't have a sales organization, that his organization was a promotional organization.

- 8 -

MR. BUFFINGTON: Now, as we have gone further into this drive under the leadership of the Federal Reserve, I have been pleased, and I only know what I am told by these men in the field who are doing the job, that in the main, the banks were carrying a tremendous part of this load of distribution. They had a selfish interest in seeing as much as possible of these securities sold outside of the banking system. And that has continually increased, as I understand it. Many of those people in the commercial banks who are taking the lead are War Savings people and Victory Fund Committee people.

At that time I think both Fleek and Bryce and I assured you that if you did decide to throw that effort in with the War Savings you could count upon the complete cooperation of the securities industry. Is that not right?

MR. FLEEK: I think so.

MR. BUFFINGTON: As this thing developed I have been of the impression that the reason you wanted to tie to the Federal Reserve System was because you were depending so largely on the commercial banks, who have a selfish interest in getting these securities. As time has gone on, it seems to me that there is evidence, at least, coming to me more and more that the commercial banks have a selfish interest in assisting you to sell as many of these securities as possible outside the banking system in order that they do not have to take them.

It is my judgment that the thing can be done either way; on a State basis or Federal Reserve basis. I personally feel that you will get a lot more cooperation from the commercial banks in the country through a Federal Reserve setup, because they are accustomed to deal with the Federal Reserve banks, than you will get on a State basis. But I have never had any doubt in my mind but what the securities industry will give you their undivided and complete cooperation, whether on a State or Federal basis.

H.M. JR: I have had a representative of the big banks of New York here and one from the smaller banks, and what

- 9 -

they say is, that if I go through the Federal Reserve there will be more enthusiasm. One of them said I will get about ninety percent, the other said about ninety-eight percent as much results if we deal directly with them. I mean, the fact is that the American Bankers Association and ourselves have got the most friendly relationship. All their literature is always "the Treasury."

As a matter of fact, the smaller commercial banks, they tell me - so-called country banks, of which there are around ten thousand - they said we would get better results if we dealt directly rather than through the Federal Reserve, because they always felt the pressure of the Federal Reserve to drive them into the system. But these two men I had in said it would be better from the Federal Reserve, but that I would get from ninety to ninety-eight percent as good if I did business with them direct.

MR. BUFFINGTON: To conclude my two-cents worth - I only have taken what I have heard from the districts over a period of a year in what the commercial banks have meant and have produced in this bond-selling campaign.

I think, John, that you--

MR. BRYCE: We both got in ahead of you, John.

MR. BUFFINGTON: What the commercial banking system under the Federal Reserve leadership means to this project is worth a lot more than what I say. I can go on about what I am told in talking to them.

H.M.JR: I would like to hear from Mr. Fleek.

MR. FLEEK: I may talk too long for you, Mr. Secretary.

H.M.JR: I have got all the time you have.

MR. FLEEK: I go back to the time we were first here right after Pearl Harbor and through the whole history of this experience. I can put myself back there perfectly well as entirely outside of any work I have been doing since the first of November. I also know a lot more about it than I did then.

- 10 -

Anything I say, Mr. Secretary, I would like to say as one American citizen to another, and not as in the staff at all.

H.M.JR: No, no.

MR. FLEEK: Mr. Fleming has had my resignation since the day I took the job, and he has it now.

H.M.JR: No, no, I asked you to go back to the original just on a straight man-to-man basis.

MR. FLEEK: Right. You wouldn't want to hear anything I said unless you knew I was telling you what I thought.

H.M.JR: I wouldn't have asked you to come down otherwise.

MR. FLEEK: I think you will get the cooperation of the securities industry - I can't speak for them, I am not an official any more - in whatever you do. I think it would be a tragedy of the first water not to have the Federal Reserve System, in its district setup, in the show, inasmuch as, as Jerry has said, I think it would shock certain elements.

Things are going, and they have been organized now for two drives. We learn by experience. I don't know about the background of the incidents you mention, which must have been very unfortunate. I know nothing about that.

I look at this something along this line, Mr. Secretary. You have twelve divisions that just performed a good job on that basis. It seems to me it would be too bad if you can't get together with those twelve divisions rather than going back to the old State Militia basis - if that is a fair comparison.

H.M.JR: It is all right. I won't argue with you about it.

- 11 -

MR. FLEEK: What I mean is this, that you have got the thing mobilized, the county chairman, county committees, this and that and the other thing, and they have been pointing up towards certain regimental leaders and bringing aids up to the division. I believe that you can handle those because you have to depend upon the bankers, in my opinion, down through the country. You have got to get the grass roots by way of the commercial banks, and that heads up better through the Federal because of the general procedure over a period of years. Of course, you get a tremendous amount of valuable contact that comes from that sort of thing.

Now, it can be done, anyway. It will be done better - I would make the margin a little wider between ninety and ninety-eight - the spread would be wider because a tremendous job will have to be done to get reset on another basis, and it will be rather difficult.

For example, in the Fourth District Mr. Fleming is far from just a figurehead. He spends over half his time in the month prior and during the drive on these things. He is tremendously helpful. If I had the job of either one State - certainly of the district, a hundred and sixty-nine counties - without that prestige, without the setup, without the office that is there, it would be very difficult to get awfully good men to get out and work hard. They work terribly hard and it is very helpful.

More than that, you have to do things rapidly; even with four to six weeks' prior notice, there is a tremendous amount to be done quickly.

Fleming, for example, went to his board and they immediately voted for the War Finance Committee fifty thousand dollars which would cover items that wouldn't be reimbursable in any way. That is a tremendous advantage when you are trying to run something and get it done in nothing flat. The pressure of time is perfectly terrific - printing and shipping instructions, and getting things moving. So it would be awfully hard to do it.

- 12 -

I am trying to look at this thing perfectly impartially. If I had the job - if you were to ask me to take any kind of a job in the new setup, how much greater the problem would be if we couldn't get the Fed presidents tied into it. They are immensely helpful.

H.M.JR: I agree with you. I am not arguing with you. I agree with you, and I made them what I thought was a fair offer in the sense that I simply felt that the President, holding me responsible, the Congress holding me responsible, and in the eyes of the public I am the responsible officer - and nobody on the Federal Reserve Board argues about that - that I couldn't find myself in the position - which is what they really wanted - I would go to Congress and get the appropriation and turn the money over to them, and turn the responsibility over to the twelve Federal Reserve presidents, and I would sit here, and the only thing that would happen to me was, if something went wrong I would get blamed.

I can't turn this thing over lock, stock, and barrel to the twelve Federal Reserve presidents, and that is practically what they asked for. I just can't do it. It is very nice, but I wasn't brought up that way, to turn my responsibility over to other people.

MR. FLEEK: Don't you think they feel their direct responsibility to you, Mr. Morgenthau?

H.M.JR: Yes, they do, but--

MR. FLEEK: I am sure Mr. Fleming does, and as far as working anything out is concerned, he wants to work it out the best way it can be worked out. I can't speak for him.

H.M.JR: I am not going to leave a stone unturned, you see, but the way I feel is this - unfortunately, this thing has begun to leak. A man came in to town yesterday that I asked to see. He had been here one hour. He went over to the Federal Reserve Board - he is a banker - and they told him the whole thing, soup to nuts. How many more people they have told, I don't know.

- 13 -

I begged the Federal Reserve not to say anything to anybody until this thing was settled because I said, "I am sure we can get together" - and I am doing everything possible to do it without vacating this chair, because I am responsible. I mean, I am very sincere in what I said. I don't want the President or General Marshall to have to worry about the financing and they don't have to, and I want to keep it that way, but I can't just turn this thing over lock, stock, and barrel to the twelve Federal Reserve presidents, particularly where a couple of them are rather antagonistic. I can't say I will do business with ten of them, but I won't do business with two of them. A couple of them are like granite. I just haven't got the energy any more to break them down.

I mean, I just can't sit here for fifteen hours a day trying to break these fellows down to do the thing. Now, it is a question of do I trust them. Yes, but on the other hand, they have got to trust me.

Well, anyway, as far as trying to get together, we are always going to continue to try to do it, but I figure that by next week I have got to let these various organizations know where we stand. We have to make an announcement. So if the next drive is September, that would be three months--

MR. BELL: Yes, a little over three months.

MR. FLEEK: We will need every bit of three months, Mr. Secretary.

H.M.JR: And particularly if we have to go it alone. If I can get the Federal Reserve on my terms, fine; if I can't get it, will people like yourselves, as private citizens, still say, "We will pitch in and help the Treasury"?

MR. BRYCE: You don't have to worry about that.

MR. FLEEK: You don't in the securities industry. We don't have any such volume of people, of course, as you need; you have to depend upon leadership in the States and in the counties.

- 14 -

H.M.JR: I understand.

It may seem a very short conversation to keep you here for a day and a half, but for me it is a very important conversation.

MR. FLEEK: Mr. Secretary, I don't want to leave the impression with you, by any stretch of the imagination, that by having the men in the securities business come through you will get what you need to get and what you should get by getting the Federal Reserve System tied into this, because there aren't enough of them. In my humble opinion, it would be most helpful to get this thing worked out, and I certainly sincerely trust it can be.

MR. BRYCE: If you get the right fellow in each State, you will get along all right. That is important.

MR. FLEEK: I don't go quite with you on that, Jerry, because possibly this morning I am the person in Washington who has had more experience in drives than anybody else you know. I have been in two of them and I really think - I may say this entirely outside of the present discussion as to the pros and cons, or one side or the other, that it is the most heartening thing in the world to see how the American people pitched in to sell these bonds and to buy them in this April drive. It is a marvelous drive. I am delighted that I had some small part in it.

H.M.JR: You had a very important part in it, Mr. Fleek. It was almost tragic in my case. There wasn't a happier man in this country, and I walked in this office Monday morning and they threw a bucket of cold water in my face. That is what happened to me. I never had a chance to enjoy this thing.

MR. FLEEK: It was the most enjoyable thing I ever did.

H.M.JR: I never had a chance to enjoy it.

MR. BELL: Don't you think you would get that enthusiasm on a State setup? I understood you to say speaking for the securities industry, but don't you think that would permeate all the way down through the organization?

- 15 -

MR. FLEEK: You have your organization set up. One hundred and sixty-nine counties is a lot of people and they are in for the duration, very likely. They want to be; many of them can't be on account of the time. The men get bitten by this thing, get it in their spirits, and they can't keep away from it. But I am just thinking, Dan, if you could keep the thing on the track, then you won't have to do something else. But the next three months - we need every bit of time in the next three months to do this job and not to reset this thing and get into arguments. This is no time for feuding and hating people and that sort of thing.

H.M.JR: I don't hate "nobody."

MR. FLEEK: I wasn't referring to you.

H.M.JR: But there is no financial organization, like the Mutual Savings Banks, the ABA, that I am not at peace with. There are no pending problems between us, are there?

MR. BELL: None that I know of.

H.M.JR: I don't know of a single pending problem that we have any friction about at the moment, and I think that while these organizations - it was an enormous job for us - I think we helped you a little bit, too.

MR. FLEEK: Certainly.

H.M.JR: I think it was the first time somebody ever offered you a hand without a thistle in the palm.

MR. FLEEK: It was fine; the national situation, the national publicity, the cooperation between the War Savings Staff and the others - I think it was a grand example of a national patriotic urge - perfectly beautiful.

H.M.JR: And I have no thistle in my palm, now. But I just want to keep control of the organization; that is all there is to it.

- 16 -

Well, I wanted to know how you fellows felt. I think I know now. I agree with you - I would like to have the Federal Reserve in the picture, but frankly, on the one hand they say it is my responsibility, and on the other hand they don't want to give it to me. They want to take it away from me.

MR. FLEEK: I don't know what--

H.M.JR: They want to take it away from me.

MR. FLEEK: I don't know what may have occurred, Mr. Secretary, but I can only speak for our own district where I worked hard and long and enjoyed it. But there is no feeling there that there isn't direct responsibility to the Secretary of the Treasury. It is a question of delegating the authority down through the districts and the counties.

H.M.JR: Well, the last drive they had me flat on my back talking organization for three weeks before we went in the drive, so by the time we went into it, I was practically exhausted. Now, the day after this drive they start at me right over again. I am going to get this thing fixed between now and the first of June, so help me, so that the people will have three full months to get ready - three full months with no friction or whatever else, and whatever sore spots, if there are any due to this thing, can die out.

MR. FLEEK: I can say this, Mr. Secretary, that as far as the Fourth District is concerned, we wanted to wait and see what you had to say about it. You were giving the orders.

H.M.JR: Well, gentlemen, that is all I wanted to know. We are just talking as fellow citizens. I appreciate your coming down.

MR. BRYCE: Glad to come down.

H.M.JR: We are going to work from now until next week to see if this thing can be straightened out; then, if it can't, we will move very fast.

- 17 -

MR. FLEEK: I certainly hope it can be.

H.M.JR: We are doing everything we can.

MR. BELL: Yes, sir, putting most of the time on it and doing nothing else.

May 18, 1943
11:57 A. M.

HMJr: Hello.

Operator: Mr. Smith. Go ahead.

HMJr: Hello.

Fred
Smith: Hello.

HMJr: Fred?

S: Yeah.

HMJr: When are you going to begin to come down here
regularly? You son of a gun.

S: This week.

HMJr: What?

S: I'm leaving tonight again, and I will have to have -
I will have to take Monday off next week to finish
up, that's all.

HMJr: Well, now, this is what - the reason I'm calling you.
I - I'm going up to New York tomorrow....

S: Yeah.

(Remainder of conversation not recorded)

May 18, 1943
3:33 P. M.

203 ✓

Russell
Leffingwell: Hello, Mr. Secretary.

HMJr: How are you?

L: Fine, thank you. How are you, sir?

HMJr: I'm pretty well.

L: Only pretty well?

HMJr: Well, a little bit tucked out, but that's all right.

L: Oh, I'm sorry.

HMJr: It's part of the game.

L: I'm sorry.

HMJr: Mr. Leffingwell, a number of times you offered to help me.

L: You bet.

HMJr: Now, this is one of the times I'm going to take you up....

L: All right, sir. Good.

HMJr:if you've got a couple of minutes.

L: Yes, all the time you like.

HMJr: I'm having a little of the trouble that I think that you had, according to some of the people around here during the last war, between ourselves and the Federal Reserve on this bond selling.

L: Uh huh.

HMJr: I understood that you and Mr. Strong had a little - some troubles.

L: We always settled them.

HMJr: What's that?

L: We always settled them.

HMJr: Well, we're trying to settle them now. It's a question of - oh - setting up one organization, and I think they want too much authority and I might lose control, and I'm still hoping that we're going to be able to come together. But in case we don't, you see? Hello....

L: Yes.

HMJr:and from my - this is all confidential....

L: Surely.

HMJr:from my - last night I thought from my talk with Mr. Eccles that we were - it would be easy to get together. This morning, I find something happened to him over night and it looks much more difficult. Now, the purpose that I am calling up is this. Oh, I don't know, a year or so ago, Mr. Potter got together all - William C. Potter.....

L: Yes, indeed.

HMJr:whom I take it that you know fairly well.

L: Indeed I do.

HMJr:got a lot of these - the - the bank presidents together and formed a sort of a committee....

L: Yes.

HMJr:in which they said they'd go all out to help the Treasury, but they did it through Allan Sproul.

L: Yeah.

HMJr: Now, what I'm wondering -- and this is sort of delicate-- is this. If we can't get together and we have to set up an organization separate, you see, outside, to do this selling of bonds, what I want to find out is, would these New York banks, who have been very, very helpful to us, you see, would they help the Treasury directly, you see? Not going - if we had to by-pass the Federal Reserve.

L: Oh, gosh. That's terrible.

HMJr: Well....

L: Of course, I - I - gosh, that's really terrible.

HMJr: Well, it's - it's - I'm not seeking it, you see?

L: No.

HMJr: And I - I hope - I - I'm going to do everything possible to get together....

L: Yeah.

HMJr:but if - it's getting to the point that we can't get together, I - I want to be a little foresighted.

L: Can't you get - can't you get them - well, I think it would break down the whole machine. You see, the ability of the New York banks to do their part of the job

HMJr: Yeah.

L:depends upon the support of the Federal Reserve System.

HMJr: Yeah.

L: Now....

HMJr: Well....

L:they want to go all out, and they will go all out....

HMJr: Yeah.

L:but the fact that the Federal Reserve Bank as fiscal agent.....

HMJr: Yeah.

L:being also their daddy, and able to finance them if they need help.....

HMJr: Well, maybe.....

L:is such an important part of the machine.....

HMJr: Yeah.

L:that I should dread beyond all measure.....

HMJr: Yes.

L:any break between you and the Federal.

HMJr: Well, let me explain what I - a little more what I have in mind. As a matter of fact, this suggestion was made by Eccles - hello.....

L: Yes.

HMJr:before this last drive, and that is the - the selling of securities to the banks would continue through the Federal Reserve....

L: Yeah.

HMJr:but the selling to the public would be outside - done outside.

L: Yeah.

HMJr: So the banks would still get the support of the Federal as far as the - the purchase of their own sec..... - of securities for their own accounts.

L: Yeah.

HMJr: You see?

L: Yeah.

HMJr: But it's - it's to be the selling to the public and on that the banks don't need anything from the Federal Reserve.

L: Yeah.

HMJr: Do I - do I make the thing much clearer?

L: You do. Yeah, that helps, but gosh, it just terrifies me to think of your falling out.

HMJr: Well, I - I - I frankly haven't sought it, but they-in my opinion they inched in on me - and inched in on me so that it gets down to a question that I really would lose the direction of it, and I - I.....

L: Well, you mustn't lose the direction of it.

HMJr: Well, that's - that's what I - that's all I want to keep, is the direction.

L: Of course, you do.

HMJr: But....

L: Well, now, can't we be more helpful in avoiding
(cont'd.)

L: that crisis, instead of by trying to figure out how we'd build our - our fences if - if it broke down?
(cont'd.)

HMJr: Well, here - Sproul sent word to me by Eccles he wanted to see me all alone....

L: Yeah.

HMJr:and I sent word back to him that I'd be glad to see him alone.

L: Yeah.

HMJr: And he's in a hospital having a couple of days check-up. But, confidentially, I have to come up to New York because Thursday Mrs. Morgenthau is going to a hospital for a major operation....

L: Oh, gosh. I'm so sorry.

HMJr: ...and - so I'll be around New York for several days, and as soon as Sproul comes out of the hospital -- and heretofore, he and I have gotten along....

L: Oh, you'll get on all right with Sproul.

HMJr:we've gotten along very well -- but I was thinking if we don't, you see....

L: Yeah.

HMJr:on the financing outside of the banks. That's what I'm talking about.....

L: Yeah.

HMJr:I mean the selling to the public.

L: Yeah.

HMJr: Can I count on the New York banks to do for me what they did in this last drive?

L: Yeah. Well, I - I- of course, my - my own feeling is.....

HMJr: Yeah.

L:that - that - my personal feeling is that this is our country and whatever has to be done has got to be done and it's going to be done.

HMJr: Yeah.

L: But I can't overestimate the blow which I think it would be to the success of your operations if - if you fell out with the Federal Reserve Banks. Now if.....

HMJr: Well, it was....

L:anybody.....

HMJr: I'm not going to fall out with them.

L: I know. Well, if they fall out with you. (Laughs)

HMJr: I mean - I - I think....

L: When - when are you coming up to New York?

HMJr: I'll be coming up tomorrow night.

L: Well, now....

HMJr: And I've got - I have an office on the seventh floor of the - of the Customs House Building....

L: Uh huh.

HMJr:you know, the one downtown.

L: On the seventh floor of the Customs House Building?

HMJr: I think it's the sixth or seventh floor.

L: You - you wouldn't like to come and stay at my house, would you?

HMJr: It's terribly nice of you. I've taken a room in the hospital.

L: Oh, you have.

HMJr: We're going to Doctor's Hospital. That's awfully sweet of you, but I've - I've taken a room right in the hospital.

L: Yeah. Well, that's nice. I'm awfully sorry about this blow to you.

HMJr: Yes.

L: I - I - I - I can't think of anything more disturbing than with the burdens you carry.

HMJr: Supposing...

L: I suppose you're anxious about her..

HMJr: Supposing you turn this thing over in your....

L: Let me turn it over in my mind.

HMJr:and - because the thing I don't want - I don't want to start, you know, rumors.

L: No, it isn't going to start rumors, and I'm not going to - I - I - I should like to - I should like to get hold of Bill Potter at the right time....

HMJr: Yes.

L:and talk to Tom Lamont and George Whitney. But essentially.....

HMJr: Yeah.

L:I want most of all to talk to Allan Sproul.

HMJr: Well, you'd better let me talk to him first, I think.

L: All right. To talk to all of them?

HMJr: No, I mean to Sproul.

L: Sproul, first.

HMJr: I think - yeah - well, I mean I told Sproul as soon as he got out of the hospital I'd talk to him, you see?

L: Yeah.

HMJr: And I - as long as he's asked to see me alone.....

L: Yeah.

HMJr:I think I'd better have my first talk with him, and then if we fall apart....

L: That makes sense.

HMJr: What?

L: That makes good sense.

HMJr:because I don't want him to think that I can't - that I need a - somebody to get us together when he's sent - and it's very obvious, I think, what he wanted - I don't think he quite frankly, wanted Eccles present, you see?

L: I see.

HMJr: Because the message was he wanted to see me alone.

L: Yeah. Let me - let me go back to what you said at the beginning about my troubles in the last war.

HMJr: Yeah.

L: It really boiled down to very little. Of course, then Strong and I had lots of.....

HMJr: Yeah.

L:differences of opinion, but we never - he and I never were on the verge of falling out about anything.

HMJr: I see.

L: What - what did happen -- and I think this may be what is in your - in your mind -- was that at the outset.....

HMJr: Yeah.

L:the Board in Washington asked me to send my directions to the Federal Reserve Banks through them.

HMJr: Oh.

L: Well, now, I said, "I won't do that....."

HMJr: Oh.

L: "....The Federal Reserve Banks under the Act are fiscal agents of the United States...."

HMJr: Yeah.

L: ".....and as that agent the - the Treasury of the United States will give them their directions."

HMJr: Well, I laid - I've laid that ghost sometime ago. It came up with - with me several times. I'll tell you, mine is a little bit different. Hello?

L: Yes.

HMJr: You - your - this fiscal agency thing, we've established that, you see?

L: You have got that established?

HMJr: That's - that's established. We had that fight - it's come up two or three times, but that is not the fight right now.

L: Yeah, I see.

HMJr: The fight right now is that - that I suggested that we combine our - our forces and have one organization.....

L: Yeah.

HMJr:but I said I would like to select the executive manager and the state manager in consultation with the President of the Federal Reserve and subject to his final approval.....

L: Yeah.

HMJr:but I wanted to take the initiative in selecting the fellow rather than having him settle it....

L: Yeah.

HMJr:and I think....

L: Well, of course, in my day, we didn't do that. We let them do it.

HMJr: Well, that's - that's what the fight is over.....

L: I see.

HMJr:and I got a little excited.....

L: Yeah.

HMJr:and I thought that they were crowding me too much.....

L: Yeah.

HMJr:because I said once the fellow was selected, if they didn't like him they could hire or fire him.....

L: Yeah.

HMJr:but I wanted to take the initiative instead of being a rubber stamp.

L: Yeah.

HMJr: Now, you see what it gets down to. If they take the initiative, it practically turns the whole thing over to them.

L: Well, I - I - I - I did - McAdoo and I did it the other way. We - we did try to decentralize things.....

HMJr: Yeah.

L:and we let the Governors name their Liberty Loan Committees....

HMJr: Yeah.

L:in each District and they hired their executive managers....

HMJr: Yeah.

L:or didn't hire them, but appointed them....

HMJr: Yeah.

L:and we just issued our orders to the fiscal - Federal Reserve Bank as fiscal agent.

HMJr: Yeah.

L: But we also did what - something like - like what you had. We had Lou Franklin down there in Washington. He was the Treasury head of the Liberty Loan Organization....

HMJr: Yeah.

L:so that on a lot of - of selling mechanism....

HMJr: Yeah.

L:he issued orders to the Liberty Loan Chairman....

HMJr: Yeah.

L:or Liberty Loan Agents, but we got along all right on that once we'd settled the question which you have settled again, of the fiscal agency.

HMJr: Well, the fiscal agency thing is settled.

L: Yeah.

HMJr: It's just this question. If we're going to put the War Bonds and the Victory Fund together under the leadership of the President of the Federal Reserve -- and that's what I'm asking them to do, you see?

L: I see. You want to consolidate the two organizations?

HMJr: I want to consolidate the two, but when they're consolidated, I want to take the initiative, as I put it, in consultation with them as to who should head this thing....

L: Yeah.

HMJr: ...and if they didn't like the fellow, they didn't have to take him.....

L: Yeah.

HMJr:and after they had him they could fire him if they - without recourse to me.....

L: Yeah.

HMJr:and it's a little bit on - on the pattern of what the Army does. General Marshall selects all the personnel through the Corps Area, but the Corps Commander....

L: Yeah.

HMJr:once they're selected, he - he leads them.....

L: Yeah. Still I - I think I'd stay where you are and that I'd put the responsibility on the Federal Reserve Bank.

HMJr: Well, I'm willing to do it with that one provider. Now, last night, I was under the - they showed me a memorandum they'd agreed to it.

L: Uh huh.

HMJr: Now, this morning something's happened, which I don't know, and it seems that they've changed.

L: Yeah.

HMJr: Now, I'm just - as I say, I want to get this thing settled in the next week....

L: Yeah.

HMJr:so we can lay our plans for the next drive.....

L: Yeah.

HMJr:and I - I - my own feeling -- I've tested some other places -- is that they feel that - that it - it's the Treasury and we've got to raise the money and when we ask the people to do it, they'll do it, that's all. I'd like - I don't want any break.

L: Well, I - I think that - of course, this first question you asked me about what the banks will do.....

HMJr: Yeah.

L:I - it's awfully hard for me to answer that, except with a half-way answer. I just think that you've got to come to an understanding with them....

HMJr: Yeah.

L:with the Governor, because I think the - that to remove the thing after the record of the last war and of a year and a half of this war....

HMJr: Yeah.

L:to take it out of the Federal Reserve Banks and set it up outside would result in - in a great weakening of confidence, and I think it would be a disaster. Now that doesn't....

HMJr: Well....

L:mean that everybody won't do the best they can. I - I'm sure everybody will do the best they can....

HMJr: Yeah.

L:but I think it would be a disaster.

HMJr: Well, I think....

L: I think we just have to....

HMJr: Well, Mr. Leffingwell, I may have to face it, and I am facing it right now.

L: Yeah.

HMJr: See?

L: Yeah.

HMJr: And you - you think about it.

L: I'll think about it. I'll think about it, and, Mr. Secretary, you get over to - you get over here tomorrow night.

HMJr: Yeah.

L: Then you go up to - you go up to....

HMJr: The hospital.

L:the hospital and stay there.

HMJr: Yeah.

L:and you'll be down at the Customs House.....

HMJr: By maybe Friday and Saturday.

L:Friday or Saturday.

HMJr: Yeah.

L: You'll have your mind a good deal on Mrs. Morgenthau's condition the first day or two.

HMJr: That's true, but it's - it's one of those things which they tell me....

L: Yeah.

HMJr:ninety-nine out of a hundred times it goes all right.

L: Oh, well, they do?

HMJr: Yes.

L: Oh, well, that's good.

HMJr: Oh, no, it isn't....

L: It isn't something that.....

HMJr:it's something that she's - she's picked the time. It wasn't - it isn't an emergency.

L: It isn't any emergency.

HMJr: No.

L: But it's a major operation.

HMJr: It's a major, but it's....

L: But it - but it's the kind of thing that is - is - generally....

HMJr: She's been putting off for - she's been putting it off for a couple of years.

L: Yeah, I see. Well, that's - that's - then - then - then you really will - aside from the strain that's inevitable in those things, why, you'll be able to give your attention to this.

HMJr: Yeah.

L: Now, I can't help thinking - I mean - I - I'm keeping you a long time, but this is so vital.

HMJr: No, you're not. I'm keeping you.

L: I - I have - I have got to make up - or we've got to make up our minds, shall I try to say anything to Potter before you've had your talk with Sproul?

HMJr: Well, I - I - I guess we'd better not, because Sproul might feel I was trying to force his hand.

L: I....

HMJr: What do you....

L:I think if - if - as he's asked to see you alone....

HMJr: Yeah.

L:I think I agree with you.

HMJr: Yeah.

L: It's probably better for me just to turn this over in my mind....

HMJr: Yeah.

L:and perhaps if you permit, speak of it to Lamont and Whitney....

HMJr: That's all right.

L:and then hold myself in readiness when you get over here....

HMJr: Yeah.

L:to meet any call that you give me.

HMJr: That's right.

L: All right, sir.

HMJr: Thank you.

L: Good luck to you.

HMJr: Thank you.

L: All right.

May 18, 1943
4:07 P. M.

HMJr: I just wanted to say I really enjoyed working with you yesterday.

James Byrnes: Well, that's fine, and the boys did good today, didn't they?

HMJr: They certainly did.

B: They came through in great shape and they - they felt much better in winning. It'll give them a little more pep for other fights.

HMJr: That's right.

B: (Laughs) Sam was feeling fine. He just thought that they got some boys to agree not to vote and to appear....

HMJr: Hmm.

B:and he said two or three did that and two or three changed....

HMJr: Yeah.

B:and up to this time, you know, they haven't had much - the fellows - much success in getting fellows to go down the line and fight.

HMJr: Yeah.

B: We'll all have to get together with him and help him out some.

HMJr: Well....

B: It's....

HMJr: It's - it's too bad that we've always got to drag the President in, but....

B: Yes. That's terrible. It....

HMJr:but it worked.

B: Well, I always feel ashamed of myself when we do, but sometimes it - it just can't be helped. He's the only fellow who can pull out.

- 2 -

HMJr: And this strengthens his hand.

B: Hmm?

HMJr: This strengthens his hand.

B: Oh, yes, it strengthens - now they'll work out something.....

HMJr: Well, I enjoyed working with you.

B: Well, thanks. Henry?

HMJr: Yes.

B: Before those fellows get back in on this thing, they you don't mind my telling you about another trouble up there?

HMJr: No, go right ahead.

B: There's a fellow - there's Tunnell of Delaware.

HMJr: Who?

B: Tunnell of Delaware.

HMJr: How do you spell that?

B: T-u-n-n-e-l-l.

HMJr: Yes.

B: Well, he wrote me a letter last week, and telephoned me insisting that I send it to the President. He - he had a complaint that would be funny.....

HMJr: Yeah.

B:if it wasn't serious.....

HMJr: Yeah.

B:because I noticed he voted against - he - he voted against your bill.....

HMJr: Yeah.

B:at the time, and I wondered if he had just gone off the beat.

HMJr: Yeah.

- 3 -

B: He complained, first, about Paul McNutt, that Paul had appointed a Republican in Delaware.

HMJr: Yeah.

B: Then he said, "Of course".....telling me - writing to me - he said, "Of course, you know what Henderson did before he left in O.P.A."

HMJr: Yes.

B: Then he said he asked Agriculture - the Secretary - about appointing a man who was recommended by the Board for a position in connection with the Federal Land Bank, and after the Board had recommended him they wouldn't appoint him.

HMJr: Yeah.

B: Then, he said, "I asked the Treasury about helping me with the Collector of Internal Revenue and I could do nothing there."

HMJr: Yeah.

B: Then, he said, "Finally....." -- this was - this is the funny part -- he said, "Finally," he said, " a Republican Senator came in my office and he saw some pictures on the wall, and he asked me why I didn't get a picture of the President autographed, that he had one....."

HMJr: Yeah.

B: "....so I wrote the President a letter asking him if I - if he'd be good enough to honor me by sending me a picture, and his secretary wrote back and said it was against the rules." (Laughs)

HMJr: Good God!

B: (Laughs) It - I - I - when I sent it over I told the President that I'd be damned if he shouldn't send the fellow a picture.....

HMJr: Yeah.

B:if he couldn't get anything else....

HMJr: Yeah.

B:that if - if Wickard - if McNutt and the Treasury and somebody else - he had about four, but he wound up with the picture.

HMJr: I see. Well, that's.....

B: So I thought sometime ask your boys to look it up and see what it's about.

HMJr: Tunnell?

B: Yeah. Because the first - first time after I got that letter that I noticed him voting....

HMJr: Tunnell of Delaware.

B: Tunnell of Delaware. Up to this time....

HMJr: I'll do it.

B:he's voted a hundred percent for the President....

HMJr: Yeah.

B:and that's what he put in the letter. He said, "I have voted for the Administration on every occasion, but here's - here's what...."

HMJr: I'll tell them to....

B: ".....it's done to me."

HMJr: Right.

B: And if you can soften him up in some way, you're - so I can get the - get the conference support back in there.....

HMJr: Yeah.

B:he might be....

HMJr: I'll put them right on it, Jimmy.

B: You look for his name there. I noticed he voted wrong.

HMJr: Okay.

B: Goodbye.

HMJr: Thank you.

May 18, 1943
5:15 p.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. White
Mr. Paul
Mr. Gaston
Mr. Sullivan
Mr. Gamble
Mr. Currie

H.M.JR: Well, there is nothing much more on this Federal Reserve. Have I seen you people since Eccles left me?

MR. GASTON: Has he been back again?

H.M.JR: No. I mean since this morning. Do you want to take five minutes and tell them what happened this morning?

MR. GAMBLE: Yes. Mr. Eccles came over to report a little further on the results of the conference of the presidents of the Federal Reserve Banks. This is this morning's meeting - to report further with respect to the conferences with the presidents following their last meeting.

He said that they were apprehensive of the kind of organization that the Secretary wanted, and they didn't feel that the selection of these men was something - they were not sure they wanted to relinquish that. They weren't sure they wanted to relinquish the right to appoint State managers, and that one of the things that gave them some concern about it was the Washington leadership, that if the program was going to be run from Washington by myself or Mr. Graves - they mentioned Mr. Graves and I by name - that they had a feeling that it was going to be a furtherance of the War Savings philosophies, and that they felt that

- 2 -

Mr. Gaston and I had been planning this - were on the preparation of this plan for the single sales organization and that we were anti-Federal Reserve Bank, and that that was about the size of it.

He said that the men had all gone home. The three who seemed to offer the most opposition were Mr. Peyton from Minneapolis, Mr. Sproul of New York, and Mr. Day from the Twelfth District on the Coast.

They believed that if the Secretary were willing to go around and meet with these people, that he perhaps could convince them to the contrary.

The Secretary said that he didn't want to be placed in the position of having to sell them this idea. He said that if they didn't want to accept it as a group that he didn't want to spend thirty days trying to sell each member of the twelve banks the idea of accepting his plan and then find that because one or two of them didn't accept it that they were all out at the end of that time.

He did agree, however, that he would discuss it with Mr. Sproul over the week end - the problem in New York - feeling that Mr. Sproul is perhaps the most influential member and one to whom most of them looked for leadership.

That is about the story.

H.M.JR: Well - you interrupt me, will you, Bell? Eccles was certainly in his dealings with me - he was different in his dealings because - you had an hour and a half when he came in this morning, and didn't you feel he was a different man?

MR. BELL: Yes, I felt that he approached the thing a little differently, but, on the other hand, I felt that he hadn't told you the full story yesterday afternoon, that he was telling you only the preliminary part of it. He didn't have time enough to tell you the whole story. I felt that.

MR. GASTON: He came in here with a scowl on his face, and I got the very definite impression that he was chagrined or annoyed at finding Ted Gamble and me here. I think that

- 3 -

if he had met you alone or with you and Dan he would have adopted a different attitude.

H.M.JR: The reason for having you people in is, I have to carry you along with me. I mean, as things move I can't subsequently send for you and say, "Does this satisfy you?" I mean, the time to say it is when the thing is happening. I think that is the way to work. If I want to see Paul - and then if Blough or Surrey has some idea afterwards, it is too late. I mean like yesterday when we were deciding whether we should recommend a veto or not. If those fellows had had some other ideas - you make up your mind as you go along and hear the arguments, and I can't always repeat what is said.

If I did it over again I would do it, but then he goes out of the room after pushing me around and saying that I have to go around all over the country and try to satisfy these people. Then he comes back in the room and says, "Now, we have just got to keep together" - but this idea that I am going around and try to plead with each one of the twelve Federal Reserve Bank presidents is just crazy.

MR. BELL: You can't do that, that is a cinch.

H.M.JR: And I am very much discouraged as to the outcome, but it is like this thing we did yesterday. A person has to do the thing that he thinks is right. What we did yesterday - we did what we thought was right, and were lucky enough for the President to win. I think what I am doing is right.

I want you people to keep informed. I have asked you to come in because I would like your advice as we go along. He (Currie) can keep the President informed as we go along.

MR. GAMBLE: I have the feeling after that meeting, Mr. Secretary, that one of the things that prompted Mr. Eccles to come back in the room was that he felt a little better about the whole arrangement after listening to Mr. Gaston and after a few remarks that we all made. And it is entirely possible that the situation after he spent some time with

- 4 -

Mr. Sproul - I think they are reading a lot of things into this agreement that don't exist.

H.M.JR: We were just chatting here, just joking, but after seeing this speech that Beardsley Ruml has just made as chairman of the Federal Reserve of New York, it is not beyond the realms of possibility. After all, he is the chairman of the Board of the Federal Reserve of New York. He is Mr. Sproul's superior. Mr. Ruml did tell Mr. Paul that if it was the last thing he did he was going to get Morgenthau. He said that if it was the last thing in the world that he did he was going to get me.

I am just sitting here, and it may not be beyond the realm of possibility that Mr. Ruml has put the heat on Mr. Sproul. Do you think that is crazy?

MR. CURRIE: No.

MR. SULLIVAN: I don't know Sproul, but I don't think, what little I have seen of him, he looks like the kind of fellow who would take anything like that. I don't know him well.

H.M.JR: I don't know, but there are some awful funny things happening.

MR. PAUL: I sat on the Board with Sproul a good many times, and I certainly would say that he doesn't take his ideas ready-made from Ruml. But anybody might be somewhat influenced by another person.

MR. GAMBLE: I spent an hour and a half with Mr. Fleek.

H.M.JR: Tell them who Fleek is.

MR. GAMBLE: Fleek is the executive manager of the Treasury War Finance Committee in the Fourth District - Cleveland - and is very close to Mr. Fleming, the president.

H.M.JR: And former president of the Investment Bankers of America.

- 5 -

MR. GAMBLE: He said that there was certainly nothing in this plan that couldn't be worked out in this District.

MR. BELL: He agreed to that?

MR. GAMBLE: Yes. The only difference - when he finally agreed, it was a very small compromise on their part, that the State of Ohio - they have four regional managers - four area managers, and a couple of War Savings and a couple of Victory Fund people, and they have no State manager for Ohio. But he saw no problem.

He first seemed to be - not opposed to it, but he said it would be a very small compromise on their part to agree we could superimpose over the whole organization in the State of Ohio a State organization with such leadership as we finally decided upon.

H.M.JR: Well, I want to keep you people posted. I am going up to New York, as you know, tomorrow. And when Sproul is ready, I will see him. I will let you know.

As I said a little while ago, this may be what looks like a defeat in the sense of having them withdraw from giving us their support. It may be a victory, but I can't go around with my hat in my hand - I don't have to - and I don't believe there is a president of a commercial bank in the United States who isn't going to help us in the Third War Loan.

And I will tell you in the room here, as I told the President - this was when I saw him a week ago Thursday - I said, "Now, the Comptroller of the Currency is all right, but you are going to have to help me with Leo Crowley, because if this gets to a fight, you see, we might as well talk - I mean, I need the two bank examination agencies. One is FDIC and the other is the Comptroller of the Currency. And if I am going to fight there aren't going to be any rules. I mean, I am going to fight, and I am just going to - I will use every instrument I have at my disposal."

MR. GASTON: How would it be if we just proceeded to organize this thing by Federal Reserve Districts without any announcement whatever, but take it district by district; and if you can come to an agreement with the president of the Federal Reserve Bank under which he is willing to serve,

- 6 -

then you appoint him chairman for that district, and then you go on to another district; and if he doesn't agree, then you appoint somebody else. Just take it district by district and organize it on a regional basis without any announcement that it is to be the presidents of the Federal Reserve Banks or there is to be anything.

MR. BELL: Like Eccles said this morning, he didn't want eight banks in and four out. He wanted them in as a system so there wouldn't be any reflections cast upon any particular district. That is the reason Eccles wanted the Secretary to see, particularly, the three men who felt the worst about this.

H.M.JR: You see, Herbert, one of the troubles is, there are sixteen split States between these Federal Reserve Districts. It is a very cumbersome thing to do it on a State basis. I mean, if we go in ourselves into sixteen split States it is a very cumbersome thing.

MR. GAMBLE: If you went in independently, you would stick to State lines, I believe. After talking this all over and talking with people you have talked to, I think they are completely reconciled to the acceptance of your plan. I think that all the rest of this is just a little horse trading. I think there are personalities injected into it. I think there were a few bruised feelings, but it is my opinion that they have completely reconciled themselves to this arrangement, and they will, with a little sparring around, come to an agreement to work under your plan.

MR. CURRIE: I don't think they can really hold out on you in this. You are Secretary of the Treasury, and in wartime this is your responsibility. They cannot refuse to work, except under your terms. As you say, you take the responsibility if it is a failure; they don't.

H.M.JR: Eccles says that. They say so; they all say that. But they want to go in and pick the fellow to run it and then put it up to me to say that I don't like him. I am saying that I am going to pick the fellow, and they can say whether they don't like him.

- 7 -

MR. WHITE: But the issue before the public would be a little broader than that, which puts them in a position that they cannot back out of. The issue before the public is that they won't play along because they can't run the drive. Now they can't take that kind of a position; it is impossible.

H.M.JR: And I am saying in this room that if there is a split I am going to be dirty as hell, and I am not going to bother too much what my remarks are, believe me.

MR. WHITE: I don't think you have to be dirty, because it is all on your side. The only one who has to be dirty is the man who is on the wrong side.

H.M.JR: I want to get together. I can get together with them tonight, and I can get together with them any night for the next seven nights. If they won't do it in the next seven nights and they want to fight, believe me, they are going to get it. And believe me, in wartime, I as representative of the President of the United States with the power that he will delegate to me as his representative - Commander in Chief - have all the cards. Is that right?

MR. CURRIE: That is right.

H.M.JR: As his representative.

MR. CURRIE: That is right.

H.M.JR: I don't want to fight; I want to get along. But if they are going to fight, I am telling you people I am going to fight, and I am going to fight just as dirty as hell.

Well, anyway--

MR. BELL: I think we ought to make every attempt to get together some way. I don't know how it can be done.

H.M.JR: Dan, was I quiet this morning?

MR. BELL: There was nothing wrong. I think your going to see Allan Sproul is certainly a concession - going

- 8 -

up there and not bringing him down here is another concession.

H.M.JR: I am going up because my wife is going to the hospital. I will be there.

MR. WHITE: I would be too busy to see him if I were going to New York.

H.M.JR: No.

MR. WHITE: I don't know why the Secretary of the Treasury should call on the Federal Reserve of the District to get him to join him in a bond drive. It doesn't make sense to me.

H.M.JR: He is coming down to the Customs House to see me. I have my own suite of offices, and I am sending two girls to go up to New York from here. There is a suite of offices in the Customs House.

MR. BELL: What you are doing is right, particularly in view of the fact that you told Eccles this morning that you would do that. I think it is an excellent thing to do.

H.M.JR: I have told Bob Rouse.

Harry, when this is through I want the feeling that I have not left a stone unturned, that I made every effort to get along with them, and it is they who are going to withdraw.

MR. GAMBLE: It is a little bit of face-saving for the System, as well as Sproul, too.

H.M.JR: I am willing to do the face-saving publicly as long as I don't have to give up anything.

MR. GAMBLE: That is right.

MR. BELL: And Eccles wants the Federal Reserve System in this with the Treasury. I am satisfied of that.

- 9 -

MR. GASTON: I think you can iron this thing all out with Sproul and Eccles. Without going further, I think you can.

H.M.JR: I think on the Hill the Treasury is very much more popular - it may not be saying much - than the Federal Reserve, but at least that is what I think.

MR. SULLIVAN: I think that is right.

H.M.JR: We represent the public, and they represent the bankers. That is a good slogan, Herbert. (Laughter)

MR. SULLIVAN: That is the way it shapes up in the mind of the fellow on the street.

H.M.JR: All right, now we will keep each other posted. I need all the brains - just one other little thing so that you know, I had Buffington in. I told him you (Gamble) were going to run the show, and I wanted to know whether he would stick. He couldn't give me "yes," or "no."

I said, "George, I am counting noses; I want to know who is with me." He is going to let me know tomorrow.

I just want to let you know that I am counting noses - not here, but down the line. And if anybody wants to quit, it is an awfully good time to quit. It is the same as when Wayne Taylor quit because he didn't want me to supply the French with airplanes. He didn't think it was my business as Secretary of the Treasury to assist the French Government to get airplanes, and he put it in writing.

MR. BELL: These fellows who put things in writing--
(Laughter)

H.M.JR: And he is Under Secretary of Commerce, and it is in writing.

MR. SULLIVAN: You can get a good price for that some day.
(Laughter)

MR. GASTON: You might be interested to know that Wayne went down the line with me on all the controversial subversive activity cases. He voted with me on a split board.

- 10 -

H.M.JR: Well, I am glad for that, Herbert.

MR. WHITE: Did you vote on the right side, Herbert?

MR. GASTON: I hope I did. (Laughter)

H.M.JR: I asked George Buffington if he wouldn't sit down with Ted, and he said that it was useless.

MR. BELL: Really?

H.M.JR: I said, "Won't you please sit down with Ted?" I have asked Ted about George, and Ted said, "I can work with him."

Now if you want to send for the two, O.K.

MR. BELL: No. I just thought Ted was sitting down with everybody around.

H.M.JR: Well, I asked him to do just that, but I am in a funny--

MR. BELL: If he doesn't want to, I wouldn't urge it.

H.M.JR: I said, Dan, "Will you sit down with Ted?" I made my speech to the Federal Reserve; I got it off my chest. Then I said, "I am doing everything I can to be conciliatory."

MR. GASTON: In that connection, the Minnesota Bankers Association is very anxious to have you come out and address their annual meeting in June.

H.M.JR: Well, that is the kind of thing that I am going to have to do.

MR. GASTON: I think it might be a good thing.

May 18, 1943

MEMORANDUM FOR THE SECRETARY'S FILE:

Sunday, May 16, 1943, I received a telephone call from Senator LaFollette "reporting" that he had had a great many expressions of opinion on the Hill that the President should veto the Ruml plan; and that if he did not do so, a great many members who had fought and voted for the bill would be let down and would be hard to organize into another tax or another fight. This opinion was along the line of several other expressions of opinion, including one by Senator Maybank in a telephone conversation with me on Saturday and also with expressions of opinion by Chairman Doughton and Representative Cooper. Transcripts of telephone conversations with the last two mentioned are attached hereto. I understand that Representative Disney also felt likewise, although I had not talked with him personally.

Also, on Sunday, Ben Cohen called me on the phone with respect to strategy on the Ruml bill. He expressed the tentative opinion that the President should not only veto the bill, but should warn the Congress of his intention to do so. We arranged for a conference Monday morning to discuss this subject further, and Ben came to my office for this conference, which was attended by Louis Shere and myself.

At this conference we discussed the subject at some length, expressing the fear that because of the constituency of the conference committee, a conference would make things worse and would probably lead to the 75% George plan. Cohen argued that we had this same conference committee to face whenever we tackled the problem, and said he hoped something better than the 75% plan could be worked out -- possibly something in between the House bill and the principle of straight percentage forgiveness of tax all along the line, which underlay the George plan (75%). In the course of this conference we gave Mr. Cohen a copy of a memorandum prepared by the Division of Tax Research, copy of which is attached hereto.

- 2 -

As soon as possible after the Cohen conference, Mr. Shere and I commenced preparing a draft of a veto message which was dictated largely from the memorandum referred to above. I took this draft to luncheon with the Secretary. In the course of the morning, the Secretary had called to my attention telephone conversations he had had with Justice Byrnes and Congressman Doughton. Apparently Justice Byrnes had called the Secretary and told him that I was in favor of a veto. Around 1:00 o'clock, just before we went to luncheon, the Secretary talked again over the telephone with Byrnes and Byrnes apparently suggested that the Secretary take me, and he would take Ben Cohen, to a conference with the President at 2:45. At luncheon, I discussed the problem in general with the Secretary, but he had no chance to go over the draft I had with me. I particularly explained to the Secretary who was for and against a veto and told him about the telephone conversation with LaFollette and others. In the course of the morning Jere Cooper had expressed himself vigorously in favor of a veto and Lauch Currie had also told me he thought the President should veto the bill. Gerhard Colm had expressed to Roy Blough his belief that there should be no veto.

The Secretary decided in favor of a veto at lunch. Immediately after lunch, the Secretary called Bell, Gaston, and Sullivan to his office and asked them for their opinion. Sullivan, first consulted, spoke in favor of a veto. Gaston then expressed himself as being on the other side, though not very firmly, and Bell expressed himself as being against a veto.

We went from there to Justice Byrnes' office where we discussed the matter further and went over a draft of notes on a veto warning prepared by Ben Cohen and a draft of veto message prepared by Shere and myself. Everybody, including Justice Byrnes, definitely said that he was in favor of a veto. Byrnes stated this in response to a direct question by me.

- 3 -

The meeting then decided that some notice should be given in advance. Byrnes particularly urged this course of action on the basis of his experience as a legislator. I warned that the possible effect would be the adoption of a 75% plan, but the Secretary agreed with Byrnes and Cohen on this point.

We then went to the President's office where we saw him around 3:00 o'clock and spent almost a half hour with him. The President read Cohen's draft of message to Congress, which was handed him by Byrnes, and also my draft veto message which was handed him by Byrnes. He hoped we had spoken in 10-cent words and Byrnes thought that the words were probably 25-cent words. After reading Cohen's statement, the President said that even he could understand the issue. After reading my draft veto message, he said he liked the first passage through the top of the second page and the last part of Cohen's draft. Copies of these two drafts are attached hereto. He suggested that we combine the two into a letter from him to Congressman Doughton and Senator George.

In the course of the conversation, the President asked a number of questions about the Rum1 plan. The inequity of the windfall provisions was pointed out to him, particularly by Byrnes and Cohen who brought up the case of Emil Schram. He had worked in 1939 for a \$10,000 salary, and was now making \$75,000 as President of the Stock Exchange. The conversation then veered to people like Barbara Hutton and the President seemed clearly to understand that people with steady income got full benefit from the Rum1 plan while people whose incomes increased, even though not definitely on account of the war, suffered discrimination.

The President asked a number of other questions. He asked particularly about the revenue effects. I explained to him that on account of the higher 1943 income levels, the plan would produce more revenue in the fiscal year 1944 though there would be a drop later. He did not seem particularly concerned about this aspect of the problem. He

- 4 -

noted particularly the statement in the third paragraph of my draft of the veto message which pointed out that the fact that upper income groups may pay just as many dollars into the Treasury in 1943 on account of their liability for that year does not detract from their enrichment. We also explained to him there was real enrichment in the upper income brackets, upon whom additional taxes could not be imposed. The President did not seem to have any disinclination to veto the bill, though apparently he had not decided on the point when the conference began. He asked if Congress could pass the bill over his veto and we told him we did not think so.

After the conference with the President, I returned, and with Shere and Surrey drafted a combination of the Cohen and Paul drafts. Cohen then came to the office and we re-drafted my draft. In the middle of this conference I took the then current (practically final) draft into the Secretary's office and read it to him and Marriner Eccles and some other person. The Secretary expressed himself as satisfied with the letter, after noting that it contained a reference to the Treasury insistence on pay-as-you-go since 1941, which had been one of his suggestions for the letter. Marriner Eccles also expressed approval of the letter.

Ben Cohen and I then went over the letter with Justice Byrnes in his office. He made no changes. Ben Cohen and I then went to the President's office and General Watson secured the President's signature on both letters. We then went to Early's office and he called up Doughton and George, reading the letter to George and securing from both of them permission to issue the letter to the Press from the White House.

Surrey and I then took the two letters to the Hill. We delivered Doughton's letter to him first and he read it in my presence. He expressed general approval, although he made one or two remarks to the effect that it sounded a good deal like the House bill. However, he was very glad to have the letter.

- 5 -

When we delivered the original of the letter to George, he expressed himself more freely than usual. He first stated agreement with the criticism of the windfall provisions and said that Taft and Vandenberg were considerably worried by these provisions, especially the second windfall provision. He recognized immediately that the letter was more along the lines of the House bill, and we urged that any compromise in conference should recognize the principles of the House bill. He did not commit himself on this point, but generally recognized its validity. He expressed the definite opinion that the President's letter meant that there would be a conference, saying that the House would be "crazy" now to vote this Carlson-Ruml plan without a conference.

George also expressed one opinion which he asked us not to carry any further. He said that his mind had been running lately along the line of withholding provisions in the present bill with the elimination of all abatement provisions, the idea being that abatement provisions could later be inserted in the Revenue bill. We expressed strong approval of this idea. George asked us not to say anything about this as he would like to bring it forward at the best time in conference. I noticed in this morning's Post that "a prominent Democrat" had made a suggestion along these lines with the request that his name be not divulged. We told George that Disney was strongly in favor of such a plan as he had mentioned.



Doughton
transcript

Mr. Paul's conversation with Cong. Doughton at 9:30 May 13, 1948

D: How are you feeling?

P: A little tired of taxes but feel pretty good.

D: Do you think you are going to get out of the Senate what you want, or a little more?

P: I don't know.

D: I know you don't know - I asked you what you thought.

P: I think we are going to get licked.

D: And get the Ruml plan? Where do you think we are confidentially?

P: Confidentially, I am afraid the House will keep the bill away from conference.

D: I mean a little higher up. What will come out if we sent that Ruml plan up to the President?

P: I don't know what the President will do. Here's what I am thinking. I think the President certainly ought to issue a statement. I think the President will be in a terrible spot if he vetoes it because after that everything that happens - everytime the price of butter goes up it will be blamed on that.

D: How can they do that?

P: They will say it is because you blocked pay-as-you-go. The Republicans will all say the President blocked pay-as-you-go and if you had pay-as-you-go you wouldn't have inflation.

D: Why doesn't he make a fight? That's what I tried to get the leadership to do.

P: That would be fine. But you know how busy the President is. I think he did call a couple of people to urge them to fight it. I think he called Connally.

D: Connally made a fine speech, I read it this morning.

P: I think the President asked him to do that. I don't know what he's going to do. He is in a terrible spot.

-2-

- D: I don't think so. Where do you think we would be with respect to the other tax bill if he approved that? I am not going to try to advise the President - and I would do it very humbly and with much trepidation, diffidence and hesitation - but where do you think we would be if he let that become law with respect to the new tax bill and an issue in the Fall campaign. The Republicans would have a campaign fund to split and we couldn't do a thing.
- P: I don't think he ought to sanction it.
- D: It's the same thing, if he has a chance to do it and doesn't.
- P: Maybe you are right. I think it is a difficult question.
- D: After the fight we have led, here's the Administration throwing away \$9 billion and we would be foolish enough to go out and make a futile fight to raise \$16 billion. We would be the laughing stock of the country. Our boys wouldn't want to start; if they did they wouldn't get anywhere. I am not sanctioning the tax bill. We would just let that go today until a happier day or a more propitious day.
- P: There won't be any propitious day. If we don't get it this year we won't get any.
- D: You might as well try to climb the Washington Monument. That's my personal opinion. And some of the boys have taken the same position.
- P: Suppose he did fight, what do you think would happen?
- D: We would know where we were then. We would at least have an issue to go on. And we could say we haven't thrown away any money. Not just deliberately throw away \$9 billion.
- P: Do you think it would help us on the new tax bill?
- D: If anything would, that would. There is no use of our standing up and getting shot at like we have and then have the Administration lie down on us. If a few of the Democrats want to lie down and go to bed with the Republicans all right but I am not foolish enough to absolutely destroy myself when I know I am not going to get anywhere. Our boys are tired and they have worked awfully hard on this.
- P: Then you are definitely of the opinion that the President ought to veto it?

-3-

D: I haven't said that.

P: Well, if you were the President would you veto it?

D: I wouldn't hesitate a quarter of a second.

P: It is a difficult problem. We put up a long fight and I don't know how we could have fought any harder.

D: You have done fine.

P: You have too. You fought like a tiger.

D: I have been bombarded from a lot of my constituents on this.

P: The more I see of the tax business the better it is to have the censure of those big taxpayers.

D: You are making enemies that way and not getting any where. That's not very comforting. When do you think they will have a final vote?

P: I think tomorrow. I think Connally is going to make another speech.

D: Did Clark speak yesterday?

P: I don't think so. Danaher spoke for Ruml.

D: What Democrats are going to speak for it besides Clark?

P: Lucas will. I will tell you who is on the other side - LaFollete is going to speak against it.

D: What about Bailey?

P: I haven't been able to get him. Hill is going to speak against it. I want to see Byrd.

D: I hope he will speak against it, not that it is going to change the votes but it will make a record. I feel in good company with those men. I would rather be with them and lose than with the other crowd and win.

P: I would too.

Cooper
transcript

Mr. Paul's conversation with Jere Cooper, 12:06, May 17, 1943

P: I wanted to get your reaction to the question of veto.

C: I think the President ought to veto it, that's what I think.

P: What do you think about his making some statement?

C: Oh no. I wouldn't make any statement ahead of time at all, but I would have the strongest, hottest veto message, and as soon as it got there I would slap it right on it. I don't know how we can hope of having another tax bill if that Rum1 plan goes thru. I told you that.

P: I know, but I wanted your reaction because I wanted to present these reactions to the Secretary.

C: As loyally and as strongly as I have helped lead the fight and have been the main source of strength for the Treasury and the Administration in the Committee, I thought I ought to tell the Secretary and the President of how I feel about it. I don't think we can have another tax bill if the Rum1 plan becomes law. It doesn't make sense to forgive \$8 or \$10 billion now and then come forward in a few weeks with a tax bill to try to raise twice as much.

P: All right, Jere, that's pretty definite.

C: That's the way it looks to me. What do you think about it?

P: The more I consider it, the more I think he should veto it. It's the right thing to do. There would be a certain amount of letting down of the fellows who fought for him. Finally, I think it is politically the best thing to do in the long run.

C: I agree with you on those points exactly. We are going to have the fight on it tomorrow. They are going to take the bill from the Speaker's Table, disagree to the Senate amendments and agree to send it to conference. My guess is they will agree to take it from the Speaker's Table on a preferential motion to concur in the Senate amendments, and if that is done there won't be any conference.

P: How do you think the vote will come out?

-2-

- C: I have been in conference all morning.
- P: Were you at the Speaker's conference? What is his reaction?
- C: He thinks we ought to make the fight and send it to conference.
- P: Haven't most of the Democrats left town?
- C: We are going to try to get them back here. The fight comes up today about taking Goodman and Watson off the payroll, the fellows over there with Federal Communications Commission.
- P: Oh yes, I know what you mean.
- C: The committee appointed them to investigate and they decided they ought not to be kept on the payroll. That fight comes up today. That will mean that all of the Democrats concerned with that will be here today. The Majority Leader, the Speaker and the Whip are going to hold them over tomorrow and get the other Democrats in here tomorrow and we think we have a good chance to defeat the Republican motion to concur in the Senate amendments. If that motion is made, I assume Knutson will make it and he will have control of an hour's time. They can move the question any time within the hour. And I think Doughton can get him to agree to give us half of the time. Some of us will have to be ready to speak three or five minutes against that Senate bill. I wanted you to get me up some stuff.
- P: I will get to work on it and call you back.
- C: Call me at the Democratic Cloakroom in the House. I will be there the rest of the afternoon. I have to have some pungent, concise points to make against the Senate bill in the short time I have.
- P: Anything critical of the bill.
- C: Something very pungent and right to the point; about a half dozen direct punches. I will have to have that as early as possible.
- P: All right. I will get it to you by 4 o'clock.

Tax Research
draft

Draft of Statement for the President on the Ruml-Carlson Bill

On January 6, 1943, I submitted my Budget Message to the Congress, recommending a program for \$16 billion of additional collections and suggesting that taxes be placed as far as feasible on a pay-as-you-go basis. Fourteen weeks later, on May , 1943, the Congress sent to me for signature a bill providing a pay-as-you-go system for the individual income tax and canceling a year's taxes.

In my Budget message I stressed the urgency of a vigorous fiscal program. Forceful revenue measures are needed both to finance this war, the costliest of all wars, and to help hold the line against impending inflation. We cannot finance a \$100 billion-a-year war program without more taxes and saving. We cannot afford to let excess purchasing power beat down the barriers to price rises which have been erected under our stabilization program.

We must levy higher and still higher taxes so long as this costly war continues. Under the stress of war, those taxes will inevitably reach far down into the income scale. To help American taxpayers adjust themselves to the financial sacrifices of war and to make their heavy taxes easier to pay, I have urged that the individual income tax be put on

- 2 -

a pay-as-you-go basis. This step, in aiding the taxpayer, will also improve the certainty of Government revenue.

I fully approve of those sections of the Bill now before me which put the taxpayer on a pay-as-you-go basis. I refer, of course, to the provisions for collection-at-source and current payment of the income tax.

This Bill eliminates the one-year lag in income tax payment. No longer will millions of our citizens suffer embarrassment or even hardship by reason of overhanging taxes when there is a general shrinkage in national income. Under the Bill, taxes will rise and fall as income rises and falls, and will stop when income stops. This is all to the good.

Further, by collecting taxes at source from wages, this Bill does for the little taxpayer what he will not, or in some cases cannot, do for himself. It budgets his taxes by withdrawing them from his pay envelope. It relieves nearly three-quarters of our taxpayers of the difficult problem of providing for quarterly lump-sum payments. This, too, is a substantial improvement in our income tax system.

I am gratified also to find in this Bill additional relief to the millions of men and women in our armed forces.

- 3 -

Offsetting these commendable features of the Bill is its provision for full forgiveness of a year's taxes. I cannot endorse this provision. It conflicts with my conception of justice and equity. It ignores the enormous pressure for revenue. It misjudges the American taxpayer. It does not fit the temper of the times.

In general, cancellation of a year's taxes is completely out of harmony with the revenue objectives for total war. It foregoes the right to tax the income for a year in which war activities raised the national income to the unprecedented height of \$___ billion. This Bill, in developing a pay-as-you-go program for the income tax, loses sight of "pay-as-you-go" in the broader sense, namely, paying for the war as we go. It leads taxpayers to expect tax relief at a time when the war effort demands tax increases.

I firmly believe that this Bill misjudges the willingness and ability of American taxpayers to pay wartime taxes. The majority of American taxpayers feel their 1942 tax to be a debt they already owe to their government. I cannot believe that they wish to escape this debt.

Moreover, income and saving are at the highest levels in history. Many of the goods which taxpayers would ordinarily

- 4 -

buy are no longer available. These facts convince me that American taxpayers are fully able to pay heavy taxes. With patriotic willingness backed by dollars-and-cents ability, this is no time to cancel a full year's taxes.

I am fully aware that the Congress has not undertaken cancellation for cancellation's sake. But I am equally aware that cancellation upsets the traditional principle of ability-to-pay. By remitting taxes according to our steeply progressive rate scale, it results in unjust and discriminatory enrichment of thousands of taxpayers in the upper income groups. Tax rates for such taxpayers are already so high that their enrichment will largely go tax-free. Taxpayers in the upper income groups will thus participate most in the gain from tax cancellation and will participate least in the subsequent tax-rate increases. The gift conferred upon them by tax forgiveness is not only large, but permanent.

For the average citizen, on whom cancellation confers a relatively small gain but whose tax rates are capable of much expansion, the situation is reversed. His gift is small and is likely to be temporary.

In granting a large gift to income groups on whom future tax increases cannot be ratably imposed, and in granting a

- 5 -

small gift to those subject to the heaviest tax increases, cancellation of a full year's taxes results in gross inequity.

The so-called anti-windfall provisions of the Bill do not go to the heart of this basic inequity. Although they will reduce the total amount of forgiveness from \$__ billion to \$__ billion, the reduction will be made in an inequitable way. It will be made at the expense of people who have been dislocated by the war as much as it will at the expense of those who have been enriched by war profits. Basing forgiveness on the lower of 1942 and 1943 incomes makes fluctuation in income, not war profits, the test of unjust enrichment.

Part of the reduction in forgiveness will be made at the expense of persons whose diligent efforts bear fruit for the first time during 1942 and 1943. I cannot endorse provisions which fail to differentiate between just and unjust gains.

I am informed that this Bill will make a small contribution to expected revenues during the fiscal year 1944. By speeding up payments it adds \$__ billion to expected collections, and by limiting forgiveness it adds another \$__ billion of revenue. This small addition to collections cannot be counted a virtue in the face of the Bill's serious inequities.

- 6 -

I feel that the need for current payment and collection at source is so imperative that I must permit this Bill to become law. But I am convinced that it pays an unconscionably high price in revenue and equity for achievement of this goal. I find it impossible, therefore, to underwrite the Bill with my signature.

In permitting it to become law I must express my urgent hope that the Congress, in its further action on the 1943 revenue program, will reduce the high price this Bill exacts for pay-as-you-go.

Ben Cohen's
draft of letters

copy of Ben Cohen's draft of letters to Senator George and Cong. Doughton.

Dear Mr. Chairman:

I am eager, as I am sure the whole country is eager, to put our taxes at the earliest possible moment so far as feasible, on a pay-as-you-go basis. Certain adjustments to ease the transition are necessary and proper.

But in war-time when additional taxation and savings must be asked from the great mass of our people, I cannot sign a bill which under the guise of easing the transition to a pay-as-you-go basis cancels out taxes on the upper income groups which bear little or no relation to their ability to adjust themselves to a pay-as-you-go basis.

Under the proposed Senate bill, taxpayers in the upper income groups will participate most in the gain from tax cancellation and will participate least, proportionately, in subsequent tax or savings increases. The gift conferred upon them is not only large but permanent.

For the average citizen, on whom cancellation confers a relatively small gain but whose tax or savings rates are capable of much expansion, the situation is reversed. His gift is small and is likely to be temporary.

- 2 -

In granting a large gift to income groups on whom future tax increases cannot be rateably imposed, and in granting a small gift to those subject to the heaviest tax or savings increases, cancellation of a full year's taxes results in gross inequity.

The so-called anti-windfall provisions of the Bill do not go to the heart of this basic inequity. Although they would reduce the total amount of forgiveness, the reduction would be made in an inequitable way. It would be made at the expense of people whose businesses have been dislocated by the war as much as it will be at the expense of those who have been enriched by war profits. It will also be at the expense of many people whose incomes have increased since 1940 not because of the war but because they have just arrived at their greatest earning capacity. Those who have always been rich get the greatest windfall and they are untouched by the anti-windfall provisions of the Senate bill.

I am writing you so that you may know my views before the conference starts in the hope that a bill may be worked out in conference that I can conscientiously sign. I have not insisted on any particular form of easing the transition

- 3 -

to a pay-as-you-go basis because I have wanted to do everything that I reasonably can do to facilitate our putting our taxes on a current basis. I believe that there should be substantial adjustments to ease the transition. But there are limits beyond which I cannot go. I cannot acquiesce in the elimination of a whole year's tax burden on the upper income groups at the same time that I am calling for an increase in taxes and savings from the mass of our people.

Paul's
draft of veto

B



I regret that I am obliged to veto this bill. The bill contains certain provisions putting taxpayers on a pay-as-you-go basis by means of collection at the source and current payment of the income tax. These provisions would help hold the line against inflation. The bill also gives gratifying additional relief to millions of men and women in our armed forces. I regret to veto a measure containing these two important provisions.

I am compelled, however, to veto this bill because it provides for the cancellation of a whole year's taxes. This cancellation will result in a highly inequitable distribution of the cost of the war and in an unjust and discriminatory enrichment of thousands of taxpayers in the upper income groups. Such groups will be enriched by the cancellation of taxes already owing by them.

- 2 -

A man with an income of \$2000 a year receives a cancellation of taxes equalling less than four week's income after taxes; a man with an income of \$100,000 receives a cancellation of taxes equalling 20 month's income after taxes. The latter has cancelled more than all war taxes increases since 1939, and thus avoids financial contribution to the war effort.

The fact that the upper income groups may pay just as many dollars into the Treasury in 1943 in payment of their liability for 1943 does not detract from their enrichment nor change the result that they have permanently escaped tax on 1942 income.

In my Budget Message to the Congress of January 6, 1943, I recommended a program for \$16 billion of additional

- 3 -

collections. A program of such proportions must inevitably reach far down into the income scale. Tax rates for taxpayers in the upper income groups are already so high that no substantial additional taxes can be imposed upon these groups. The effect of the remission contained in this bill will therefore be a transfer of a substantial part of the cost of the war from the upper income to the middle and lower income groups upon whom tax increases must be chiefly imposed. Others, including those now on the battlefronts, will have to shoulder the burden from which our most fortunate taxpayers have been relieved.

The inequity involved in the cancellation of a year's taxes is all the greater when the tax is cancelled for a year of war activity which has raised the national income

4
- 4 -

to unprecedented heights and which has enabled unprecedented savings on the part of taxpayers. Except as it may be required to avoid the hardship involved in transition to a pay-as-you-go tax system, I can not believe that forgiveness of taxes is desired by the majority of patriotic American taxpayers. I believe that American taxpayers are anxious to pay their full share of the cost of the war. In an effort to remove the obvious injustice from cancelling taxes on war profits, so-called anti-windfall

- 5 - (a)

provisions were included in the bill. These do not, in my opinion, make it acceptable. Although they will reduce the total amount of forgiveness from \$9.8 billion to \$8.5 billion, this reduction is made in a highly inequitable manner. It will be at the expense of taxpayers who have been dislocated by the war as much as it will at the expense of those who have been unjustly enriched by war profits. Basing forgiveness on the lower of 1942 and 1943 incomes makes fluctuation in income, not war profits, the test of unjust enrichment. Moreover, part of the reduction in forgiveness will be made at the expense of persons whose diligent efforts first bear fruit in 1942 and 1943. Provisions which thus fail to differentiate between just and unjust gains

- 6 -

do not redeem the bill. They merely increase the scope
of the injustice and substitute one inequity for another.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

May 18, 1943

Beardsley Ruml is developing a Messiah complex. The Treasurer of R. H. Macy & Co., and the best non-Secretary of the Treasury we have ever had, said today, according to the ticker, that --

" * * * even if an adequate fiscal and monetary policy were established it could not be made 'operative or effective' under present organization of the Federal Government.

"He told the American Society of Planning Officials that the administrative branch of Government should be changed to provide for 'cooperation of Government and singleness of policy' in respect to the Federal Budget, Federal lending at home and abroad, credit and monetary policies under jurisdiction of the Federal Reserve System, creation and refunding of Federal debt now managed by the Treasury, the tax program and possibly the activities of the Securities Exchange Commission.

"A similar situation, Ruml said, exists in Congress, which 'is handicapped both by organizational and procedural difficulties and also by grossly inadequate staffing of its technical service.

"Ruml also recommended collaboration on policies of expenditure and taxation between the Federal Government and State and local Governments."

This might be a bigger bite than even Ruml can chew.

R.P.

May 18, 1943.

Dear Mr. Meyer:

Thank you for your letter of May 13.

It was a pleasure to see you and Mr. Evans at our home, and I am glad to have your further report on the local situation. I can see that you have gone to a great deal of trouble to prepare this for me, and it has been most helpful in giving me the background, as well as in outlining suggestions for the future.

With cordial regards, and thanks again for your letter,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Richmond F. Meyer,
Chairman, District #6,
War Savings Staff,
Poughkeepsie, New York.

GHF/dbs

File in Diary
(Showed to Gamble)



TREASURY DEPARTMENT
WAR SAVINGS STAFF

OFFICE OF STATE ADMINISTRATOR

May 13, 1943

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

Dear Mr. Secretary:

Thank you again for asking me to your home last Monday morning. It was a welcome opportunity to personally congratulate you on the tremendous success of the Second War Loan Campaign; to discuss with you some of the phases of that campaign; and to enjoy the warm hospitality extended by you and Mrs. Morgenthau. I know Mr. Evans joins me in these expressions.

Your keen interest in the local conduct of the Second War Loan Campaign is so evident that I felt you might wish to have a copy of the District report which we went over together. An extra copy of this report has been typed up, - together with a supplement written yesterday, - and is sent you herewith. You will note that I have written in ink, on the report, the occupation of each of the county leaders.

It is hoped that the very potent sales force created under the War Finance Committee, by merging ~~with~~ the War Savings Committee and the Victory Fund Committee and adding new talent, can continue. This combination certainly proved its worth by rolling up the staggering sales figures, and it would be a pity to allow such a group to disband or to drift apart. A few of the advantages of a united war finance group are:

1. A unity of purpose can best be promoted by a unity of command.
2. Elimination of all chance of duplication of effort.
3. Less confusing to the public.
4. Talents of committee members compliment each other and many special talents are under single leadership to be directed in the most profitable fields.





TREASURY DEPARTMENT
WAR SAVINGS STAFF

OFFICE OF STATE ADMINISTRATOR

Honorable Henry Morgenthau, Jr.

May 13, 1943

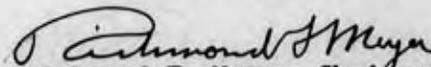
Having given further thought to the question of a closer relationship with the Federal Reserve System may I venture to state that such relationship during April, in my humble opinion, was healthy and beneficial, and that a continued and even closer tie-up with the Federal Reserve System would result in much good.

Whatever the decision on the future set up of the War Finance Organization, it is urged that such decisions come soon, for the huge army of volunteer workers anxiously await word of their status, particularly in reference to leadership.

It is hoped that you do not think me too presumptuous in presenting suggestions. My place in the scheme of things is relatively humble and I'm only trying to express a few simple thoughts of a volunteer worker.

My kindest regards to you and to Mrs. Morgenthau.

Respectfully yours,


Richmond F. Meyer, Chairman,
District #6, War Savings Staff.

RFM:mmb
Enc.



REPORT
ON
SECOND WAR LOAN CAMPAIGN
IN
COUNTIES OF DUTCHESS, ORANGE, PUTNAM, SULLIVAN AND ULSTER
(Comprising upper part of Region Six of Second Federal Reserve District)
or
(District Six of the War Savings Organization)

Early in March, 1943, word was received that the then forthcoming Second War Loan Campaign was to be conducted by a War Finance Committee which was to comprise the combined personnel of the already existing War Savings Committee and the Victory Fund Committee in the various areas. On March 15th the Chairman of District Six of the War Savings Committee was advised of his appointment as Vice Chairman of the newly created War Finance Committee for Region Six of the Second Federal Reserve District, being particularly assigned to take charge of organizing and administering the War Finance Committees in the Counties of Dutchess, Orange, Putnam, Sullivan and Ulster. Immediately steps were taken to bring together the members of the War Savings Committees and the Victory Fund Committees under unified leadership, and by March 25th executive groups of the new War Finance Committees were established in each county, with chairmen as indicated below:

Dutchess County:-	Mr. Paul J. Miller Mr. John R. Evans Mr. Sherwood Robinson Mr. Wm. Maloney III Mrs. Harry Hill Mrs. Edward Conger	Co-Chairman Co-Chairman Vice Chairman Vice Chairman Vice Chairman Vice Chairman	County Treasurer Banker Banker Banker Home wife Home wife
Orange County:-	Mr. Wm. E. Cross Mr. John Sammis Mr. George Jennings Mr. Fred Keefe Mrs. Amy B. Crist	Co-Chairman Co-Chairman Vice Chairman Vice Chairman Vice Chairman	Manufacturer, Hudson Banker Manager - Fabrics Manager - Newburgh Home Dist. Supt. Schools
Putnam County:-	Mr. Leland Ryder Mrs. C. M. Gunnison	Chairman Vice Chairman	Banker Housewife
Sullivan County:-	Mr. Andrew Ewing Mr. Donald Albee Mr. Joseph Fersch Mrs. E. Cole	Chairman Vice Chairman Vice Chairman Vice Chairman	Manager, Electric Co. Sales, farm equipment Banker Home wife
Ulster County:-	Mrs. Howard Lewis Mr. W. H. Van Etten	Co-Chairman Co-Chairman	Home wife Banker

The leaders above listed were very successful in the matchmaking processes culminating in the happy wedding of the War Savings committee member and the Victory Fund committee member. The honeymoon stage brought some agreeable readjustments that resulted in a happy family relationship during the first month of marriage, and this relationship is now so firmly established as to endure as long as desired.

(Note: - Mrs. Meyer says the above paragraph is poor. I agree)

With the leadership, help and guidance of State Administrator Nevil Ford and members of his staff, Upstate Chairman Edward Letchworth, Deputy Administrator Alonso Adams, and Executive Secretary Edward Hanyen of the old Victory Fund Committee, the District embarked on the Second War Loan Campaign held in April; though the official starting date was April 6th, all county committees in the District started their campaigns on or before April 1st.

There was some variation in the detail set-up of the respective county organizations, but in generalizing for the District the plan of organization was as follows:-

War Finance Committees were established in each city and in each township, and in every case the personnel of the War Savings Committees and the Victory Fund Committees was included. General instructions were given to the town and city committees, but almost full autonomy was delegated to these committees in developing their respective programs.

In the smaller towns, villages and rural communities the campaigns were conducted on a broad general basis, with the men and women committee members working in closely coordinated groups through Granges, Churches, Fraternal Organizations, Schools, Boy Scouts, Girl Scouts, Parent Teachers Associations, Farm Bureaus, Merchants, etc. Only in a few instances was there a so-called house to house canvass conducted, due to lack of time to prepare for such procedure.

In the larger communities and cities, the program was generally in charge of a county vice chairman who coordinated the work delegated to the Women's Committee, the Payroll Committee, the Schools Committee, the Publicity Committee (Radio and Newspaper) and General Activities.

The over all work by the women is worthy of the highest praise and indicates the desirability of using woman-power to even greater extent. The women are indispensable in carrying on the detail office work. Further, working as committees, particularly in the larger communities, the women have proved their ability to organize bond selling in the myriad of clubs, civic groups, fraternal organizations, patriotic societies, churches, schools, hospitals, smaller retail establishments, etc. These women's committees enlisted the full support of such groups by inducing each organization to set up its own bond selling committee; to establish a quota that would buy a certain machine of war; and to run a campaign within that organization to top that quota. The coverage of such a plan is practically as complete as a house to house canvass, to reach people who have money to invest in bonds, and the inducement of organizational pride is a strong pulling force.

The Payroll Committees in the larger communities concentrated on inducing groups of employees to set quotas for the purchase of a particular machine of war, such quotas to be over and above the regular payroll allotment already in effect. With such objectives many employee groups raised surprisingly large extra funds for bonds. In other cases the committee strove to get payroll plan participants to buy at least one extra bond in April. Together with these special features there was a continued effort to get more firms to adopt the Payroll Plan and to improve plans already installed.

As for publicity in District Six, it can be said that the newspapers and the radio stations gave 100% cooperation. They not only used most of the releases from national and state headquarters, but gave complete coverage on all local activities. Of course the degree of local coverage varied with the degree of attention given to the matter by local publicity committees. Not only did this publicity appear in the news reports and news columns, but it was made an important part of sponsored advertisements. When not overdone to the point of burdening the sponsors, these advertisements are very effective.

As for general activities, there was the usual run of rallies, which contributed to the general over all result.

With considerable stress placed on reaching the small buyer, it is encouraging to see that this effort bore fruit. It is our belief that the sale of "E" Bonds reflects the degree of participation of the small buyer. The figures now at hand indicate that the sale of "E" Bonds during April far exceeds the sale during any other previous month.

Each community conducted feature promotional efforts, a resume of which undoubtedly appears in the respective county reports. In this general report, however, without meaning to reflect on the features of the other counties, we wish to draw particular attention to the "Back Your Buddy" campaign carried on by the Poughkeepsie newspapers and the Beacon newspaper. In Poughkeepsie, Radio Station WKIP participated in this "Back Your Buddy" campaign. In our opinion the "Back Your Buddy" feature had the greatest single influence in selling the small buyer. The actual number of transactions or sales made by the papers and the radio station are probably only a small part of the total number of transactions resulting from such promotional activity.

It is our feeling that the general plan to have communities and organizations within communities establish quotas representing the cost of some machine of war created an incentive that developed more sales than would otherwise be possible. The interesting part about this setting of quotas is that the community or organization established the quota itself, and in most every case we observed that such quotas were most ambitious. Also, in nearly every case such quotas were exceeded before the campaign came to a close, in spite of which the committees in charge continued their efforts to overrun their quotas as much as possible.

In retrospect, it is our feeling that the cooperative effort of the members of the old War Savings Committees and the old Victory Fund Committees under the single leadership of the War Finance Committee made available the most potent sales force ever created for the sale of War Bonds and government securities. It is our belief and hope that this combined organization should be allowed to survive and grow, so its usefulness will be available for the continued sale of War Bonds and for the promotion of the next big drive, whenever it comes.

There were a few hitches, such as lateness of supplies and instructions, and some slight confusion as to the relationship between the headquarters of

the War Savings Staff and the Victory Fund Committee, but to us these are merely minor organizational difficulties which can be overlooked because of the suddenness with which the campaign was sprung. Such difficulties can certainly be smoothed out between now and the next campaign.

It would be most helpful if a prompt decision could be made relative to the future of the War Finance Committee, for the question on the mind of every worker is: "Where do we go from here?" This very question was expressed unanimously at our district meeting in Newburgh last Wednesday. Our answer was: "Let's stick together as we are; continue the promotion of "F", "F" and "G" Bonds; extend the Payroll Plan to new firms and improve plans already established; and in general publicize and promote the War Bond program." We have a unity of purpose which can be best served by a unity of command.

The availability of even limited funds to be used principally for clerical help in conducting the campaign just closed was of inestimable value, for it made the office routine work very smoothly, thus giving the various committee chairmen an opportunity to devote their time to real sales promotion rather than to straightening out office snags. Speaking quite bluntly, it seems inconsistent that funds for conducting government security sales can be made available through the Federal Reserve Bank whereas such funds cannot be made available through the War Savings Staff. We are convinced that the expenditure of a few hundred dollars on clerical help enabled our committee chairmen to develop extra bond sales amounting to several hundred thousand dollars. It is hoped that some way can be found to give even minimum financial assistance to county chairmen for clerical help. Perhaps by continuing the close association of the War Savings Staff with the Victory Fund Committee such financial help can be made available.

The sales figures speak for themselves, all of which figures are, of course, obtainable at State Headquarters. For the district, the quota was \$11,600,000, exclusive of commercial bank purchases, and as of the close of business May 1st Federal Reserve reports indicated sales were \$25,600,000. It is known that this final figure will increase at least one and a half million dollars when all sales have been recorded. Please don't think us boastful if we venture to say that we are mighty proud of this record, the entire credit for which goes to the respective county committees and the large group of loyal volunteer workers.

On this subject of sales figures, it is our feeling that a uniform system of simplified reports can be developed for the use of each county chairman. Such a system is in use by a few counties and could be used more extensively. Of course, this entails some clerical work, which all chairmen are not equipped to handle. Here is another instance where a minimum of paid help could be of great assistance.

SECOND WAR LOAN REPORT - UPPER REGION SIX

Page 5.

In closing, we all wish to express our thanks for the privilege of serving our government in this important part of the war program. Further we are thankful for the association with and the help received from the various headquarters staff leaders and workers.

Respectfully submitted,

Richmond F. Meyer
 Richmond F. Meyer, Vice Chairman
 War Finance Committee

May 7, 1943

Region 6 of Second Federal Reserve District

SUPPLEMENT TO SECOND WAR LOAN REPORT
 UPPER REGION SIX

Another thought, which we meant to include in our original report is that a type of program be developed to increase sales to the small buyer. A few suggestions to accomplish this end are as follows:

1. Withhold publicity on sales to large buyers.
2. Withhold sales to large buyers until near the end of the special campaign.
3. Conduct a campaign solely for the small buyer over and above the steady effort on existing payroll savings and other day-to-day sales.

Another item we meant to mention in the original report is, of itself, very small, and on the other hand, indicative. On Thursday, May 6th, a telegram was received from the War Savings Headquarters, relative to Secretary Morgenthau's talk over the Columbia Network that same evening. A similar telegram was received from the Victory Fund Headquarters, - certainly a needless duplication. Many county chairmen would wish to have just a small percentage of the money spent nationally on this duplication (if this did occur nationally) to spend for some very much needed clerical help.

Reports at hand indicate that the sale of "F" Bonds during the period April 1st through May 8th were as follows:

Dutchess County	\$1,230,975
Orange County	981,637
Putnam County	64,106
Sullivan County	508,031
Ulster County	488,156

Without meaning to reflect on Orange County, which is larger and has greater resources than Dutchess County, the figures indicate that the extra effort put into the sale of "F" Bonds in Dutchess County brought in very desired results. Dutchess County spent a few hundred dollars of the budget allotted to it for clerical help, and it is our feeling that these few hundred dollars were well spent. It takes considerable circularizing and numberless systematic phone calls, together with well kept card records, to attain better results, and experience has been that the detail involved is best handled by paid help, principally because such persons adhere to regular hours and are subject to strict supervision.

Respectfully submitted
Richmond F. Meyer
 Richmond F. Meyer, Vice Chairman

May 12, 1943

May 18, 1943.

Dear Dan:

Thank you very much for your letter of May 4. I was much interested in what you said of the situation in the San Francisco area, and appreciate your comments and your statements as to the present improved outlook.

It was good to see you, and I too wish that we might have had more time together. I so much enjoyed talking with Ellie on the telephone before I left, and hope that on my next trip we may have a chance for a real get-together.

With best wishes,

Sincerely,

(Signed) Henry

Mr. Daniel E. Koshland,
c/o Levi Strauss and Company,
S. E. Corner Battery and Pine Streets,
San Francisco, California.
GMF/dbs
GMF/dbs

File in Diary
(Showed to Gamble)

LEVI STRAUSS AND COMPANY

INCORPORATED

271

NEW YORK
40 NORTH STREET

LOS ANGELES
724 S. LOS ANGELES STREET

S. E. CORNER BATTERY AND PINE STS
SAN FRANCISCO, CALIF.

May 4, 1943

CABLE ADDRESS
"NIELMAS"
WESTERN UNION CODES
BENTLEY'S

FACTORY
SAN FRANCISCO

Dear Henry,

It was indeed a great pleasure for me to renew our old freindship, and I only hope that we will see each other again when there is more time to have a real chat.

I was, of course, troubled by your account of San Francisco's actions during your visit here, and took the time to make some discreet inquiries in the hope that a constructive suggestion might be offered for the future. From all that I have been able to ascertain so far, the real trouble lay in the personnel of the Victory Loan Staff. Mr. Day, who is a fine and honorable gentleman, was evidently imposed upon, and the men who were employed proved to be very poor organization and campaign directors and workers. Bond salesmen and capable advertising men are not necessarily fitted for a task of magnitude, and the result in San Francisco at least was mismanagement and lack of co-ordination. Your criticism or warning of the lag in Northern California was very timely and stirred up the action, which resulted in the successful outcome which has, since your departure, grown to great proportions. I have learned that the arrangements were such that you could not have been given the accurate figures at any time during your stay here. (*Poor communications set-up*)

On the other hand, I am told that the volunteer organization of the War Savings Staff here is an excellent one but was never consulted as to the Victory Loan Campaign. They were given a program by incompetents and did their best to be helpful.

I am quite sure of the statements made above, and now hazard the guess that these mediocre people on the Victory Loan Staff tried to cover their shortcomings by setting the trap, which fortunately you eluded.

As you said yourself, the main thing was to get results, and they were obtained the hard way. I have written to you in the hope that it may be easier next time. Do give my fondest love to Ellie and any of the children who might be around.

Sincerely yours,

Dan.

The Honorable Henry Morgenthau, Jr.
2434 Belmont Road
Washington, D. C.

RELIABLE MERCHANDISE SINCE 1850

Regraded Unclassified

May 18, 1943

Herbert Gaston
Secretary Morgenthau

Why, with just nothing to do all day, Peabody couldn't get out that circular that Fred Smith designed in a couple of days is beyond me. I don't want you to be bothered with it. Turn it over to Gamble and let him handle it. I just want to raise two points: (1) Would it be considered a speech - as you know there's something about not being allowed to mail out a speech under the law; and (2) I don't want it generally mailed to Congress. After it's ready tell Gamble just to come to me and I'll tell him which members of Congress to mail it to. It's silly to bother you with a thing like that, and Peabody had all day to clear it with O.W.I. but he didn't. *Finished -*

May 18, 1943.

Dear Mr. Montague:

I am writing to express my gratitude to you for making Stuart Peabody's services available to the Treasury Department for the period of the Second War Loan Drive.

My thanks are personal as well as official. Stuart has rendered fine service to his country and it has been a pleasure to me to work with him, to enjoy his help and to benefit from his suggestions.

I hope you will agree that I may call on him for advice now and then in connection with the work that still lies ahead of us.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Theodore G. Montague
President, The Borden Company
350 Madison Avenue
New York, New York.

File in Diary
Initialed cc to Gaston

May 18, 1943.

Dear Mr. Francis:

In view of Mr. Robbins's determination to retire as National Director of Sales in the Treasury's War Finance organization I have accepted his resignation, as I told him, only with the greatest regret. He has consented to the condition, with which I hope you will agree, that he will be available from time to time in the future to advise me.

Bill's services have been of very great value during the Second War Loan Drive which we have just completed. He deserves a large share of credit for the extraordinary success of the drive and he has been able to contribute ideas as to organization and method from which we will continue to derive benefit in the financing operations that lie ahead.

Both personally and officially I desire to express to you my lasting gratitude for your generosity in making his services available to us.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

Mr. Clarence Francis,
President, General Foods Corporation,
250 Park Avenue,
New York, New York.

File in Diary
Copy to Robbins
Initialed copy to Gaston

May 18, 1943

Herbert Gaston
Secretary Morgenthau

Helen and Janet's brother, Robert Crawford, who works in the Collector of Customs in the Port of New York has told them that his name is coming to Washington for an increase in salary. O'Keefe is sending it up from New York. I wish you would look into it.-- they're all excited about it -- and let me know, because if he has been recommended I would like to see that he gets the increase. *Finished*

R 20 - 276 ✓
Lansing of
War Contracts

May 18, 1943.

My dear General:

We are naturally interested in the preparation of plans for termination of Government war contracts, both because of budgetary implications, and the possible effect on general business conditions. Sound policy with respect to such contracts would go a long way toward helping maintain a high level of prosperity after armistice; while an unwise policy will do much to help initiate a post-war depression.

When the war ends, the United States is likely to be spending about \$9 billion a month on war expenditures; of this, at least \$6 billion a month will represent the production of armaments and supplies which are absolutely of no use in peace time.

Combat equipment — army, air and navy — whether 10 per cent or 90 per cent processed, is likely to have in the main only scrap value when the war ends. With Germany, Japan and Italy defeated — and their navies either destroyed or confiscated — the only countries having navies worthy of comparison will be the United States and England. Surely, under those circumstances, there would be no justification for completing aircraft carriers, submarines and battleships just because work on them had been started. Work on naval equipment could be suspended until political developments made clear what is to be done about relative strength of navies. Similarly with production of military and air-arm equipment. The victorious Allies will have infinitely more supplies and equipment than could possibly be needed to maintain order in Europe — no matter how disturbed the political situation there will be.

The only possible justification there would be for continued production of armaments after Germany, Japan and Italy are defeated is the danger of an imminent outbreak of another major war. If, as final defeat of the Axis draws near, the international political situation warrants, in the opinion of the appropriate authorities, the belief that another major war in the near future is probable, or even possible, then plans for quick termination of war contracts would simply become inoperative. Such a decision

- 2 -

can be made only at that time and needs no prior measures for its successful execution. If, however, in the judgment of the appropriate authorities, the defeat of the Axis powers brings no danger of an imminent major war, then continued production of most armaments ceases to have any justification. Intelligent preparedness under such circumstances would seem to consist in the maintenance of stand-by plants, in the operation of pilot-plants, and in a generous program of research, and not in the accumulation of an additional few months' supply of equipment.

Instant termination of war contracts — the day appropriate authorities believe the war emergency over — has two great advantages:

1. Government expenditures will at once be cut to less than half, and
2. Producers of war goods will be stimulated to convert their plants and their organizations to peace time production as rapidly as possible. Raw material, skilled labor, machine and plant capacity, and transportation services will with one stroke be made abundantly available for peace time conversion and production.

Notwithstanding the importance of these two advantages, a policy of instant termination of war contracts would be most unwise unless adequate provision for workers is to be made ahead of time. Sudden termination of contracts would throw out of employment directly and indirectly some ten to fifteen million workers. The demobilization of service men in the United States would aggravate the situation. Such mass disemployment would have catastrophic economic, political and social potentialities.

Unless satisfactory measures are adopted ahead of time to make some provision for workers thrown out of employment upon termination of contracts, there will be a strong demand that we taper off war production rather than stop it at the end of the war. It will be recalled that after the last war, the War Department was under considerable pressure from a number of interested groups both inside and outside the Government to slow down the rate of contract cancellation. In fact, the production of many utterly useless items was continued far into 1919, largely in response to this pressure.

- 3 -

Spending 15 to 25 billion dollars to keep men employed turning out so much junk would represent an inexcusable waste of the people's money. It would be the worst kind of boom-doggling. It is far worse than leaf raking. At least leaf raking doesn't use up raw material, machinery and power. This same amount of money spent in connection with a positive program for post-war industrial reconstruction and rehabilitation would not only achieve the production of goods which are socially desirable but would speed the transition to full peace time employment.

Not only will a policy of tapering-off production prove expensive, but it would be certain to slow up reemployment, give rise to numberless opportunities for discrimination in favor of large or favored producers, and force government economies in the very fields where additional expenditure would be probably most desirable.

Nonetheless, despite the high economic cost of a program of tapering-off war production, the pressure for such a program is likely to be overwhelming if to the ordinary pressures for continuation of war production -- political as well as economic -- there is added the strong opposition of organized labor to a program which would throw millions of workers out of jobs without adequate provision being made for assistance to them during the period of their unemployment.

It is vitally important, therefore, that measures designed to cushion the shock of sudden disemployment be made an integral part of the Army's plans for termination of contracts. The Army should regard that phase of the problem as much their responsibility as termination of contracts. Just what should be done for the disemployed is a matter that needs to be canvassed with appropriate agencies. Whether assistance to the workers should take the form of a generous dismissal wage borne partly or wholly by the Government, or whether it should be incorporated into an improved system of unemployment compensation needs to be worked out. The important thing is that the Army should throw its weight and influence now behind some proposal designed to reasonably compensate the disemployed workers as part of its program of termination of contracts.

I hope that you regard this whole matter of sufficient importance to warrant setting up in your organization a special unit charged with the specific task of preparing the details of a plan for the termination of war contracts. You may already have done this. It is not enough, however, merely to formulate plans for terminating the contracts; it is essential that that group cooperate with other interested agencies in the Government toward the objective of obtaining legislation dealing with the labor end of the problem.

I am sure you recognize that there is an awful lot of work to be done before the whole business can be tied up in a ribbon awaiting possible use at the end of the war, and I think it would be unfortunate if we waited until the end of the war was definitely in sight before pushing the matter energetically. It would be then too late to get the necessary legislation in time to make termination of contracts immediately upon cessation of hostilities a feasible program.

Appended is a memorandum prepared by Mr. Wixsevell and Mr. Friedman of this Division outlining some of the phases of the problem. You are doubtless familiar with all the points made, but you suggested you were interested in seeing it.

Sincerely,

(Signed) H. D. White

Brigadier General Edward S. Greenbaum,
Assistant to the Under Secretary of War,
Pentagon Building, Room 3E732,
Arlington, Virginia.

Attachment

HDM:dmh
5/28/43.

THE TERMINATION OF WAR CONTRACTS

AT THE END OF THE WAR

I. General Economic Considerations

At the end of the war the government will be spending at the rate of \$6 billion per month on armaments and supplies which are of little or no use in peacetime. The problem of this paper is to discuss how this production, valued at nearly half of our national income, may be terminated in the manner most conducive to an orderly transition to peacetime production. Two general questions must be answered: (1) Is it better to terminate all contracts for unneeded munitions and supplies immediately with the armistice or to taper off war production gradually? (2) How can termination be accomplished in a way which will facilitate the speedy and efficient conversion of industry to peacetime production?

The following paragraphs deal with the general economic considerations which must govern the decisions with respect to this general problem.

A. Employment

One of the considerations which comes to mind immediately is the effect of the termination of armaments production on employment. A large volume of unemployment immediately after the war would have serious consequences for the reconversion of industry to peacetime production, especially if steps were not taken to maintain consumer purchasing power. Extensive unemployment would have an adverse effect

- 2 -

on business confidence, which is vital to the continued production of raw and semi-finished materials in anticipation of future demand and to the rapid conversion of war plants. Moreover, the political, social and economic consequences of demobilizing our armed forces in the face of widespread unemployment would be disastrous.

A certain amount of temporary unemployment is, however, both necessary and inevitable. A return to peacetime production will necessitate a reallocation of manpower. A policy of keeping workers in war plants until they find a job in a peacetime industry would slow down the process of transition. Many peacetime industries will be unable to pay the same wages that are paid for much the same type of work in war plants. Workers should be given the incentive to seek employment in civilian goods industries by immediately releasing them from employment in war plants with perhaps the payment of a dismissal wage or a liberal unemployment insurance allowance.

B. Post-war Inflation

During the last war prices reached their peak levels not during 1917 or 1918, but in 1920, many months after the Armistice. It is believed by many economists that the danger of inflation will be greatest immediately after the war, particularly if war expenditures remain high and the controls on the civilian economy are entirely removed. Tremendous inflationary pressures will develop unless war expenditures are reduced drastically at the end of the war. Even if direct controls such as rationing and the allocation of materials are maintained for some time after the war, once the patriotic appeal is removed adequate

- 3 -

enforcement may be almost impossible to achieve. Moreover, the same incentive to save and the willingness to be taxed will no longer exist.

The best insurance against post-war inflation is a rapid expansion in the output of consumers' goods. This expansion can be encouraged by releasing men and resources formerly employed on war contracts for the production of civilian goods.

C. Fiscal Policy

It is desirable for obvious reasons that Federal expenditures be reduced as rapidly as is consistent with the maintenance of full employment. Large outlays will still have to be made for the payment of dismissal bonuses for demobilized troops and to provide Federal assistance for the reallocation of manpower and the reconversion of industry to peacetime production, not to mention contributions which we may want to make to the reconstruction and rehabilitation of other countries. There will be no need therefore for continuing war production in order to permit a tapering off of public expenditures. Such expenditures will not only be more productive but they will be more effective in accomplishing the purpose of maintaining employment and purchasing power if they are made in connection with a positive program for post-war industry reconstruction and rehabilitation.

D. The Settlement of War Contracts

Industries that have been entirely converted to war production will have most of their working capital tied up in the production of war materials. At the end of the war the flow of materials through the

- 4 -

manufacturing process to finished goods and thence to be exchanged for cash will be suddenly interrupted. Contractors will be left with raw materials and partly finished products on hand or committed for and a large volume of accounts payable. Although their working capital will be tied up in large inventories, cash needed to effect an immediate reconversion to peacetime production will be large. Without an immediate cash settlement of a substantial portion of the government's obligations for outlays made by contractors in connection with the terminated contracts, many concerns will not be able to convert rapidly, if indeed, they are able to convert at all. We must not allow the settlement of these contracts to drag on for two or three years as was very often the case after the last war.

- 5 -

II. Probable Situation at End of World War II

It is expected that war output will reach its peak by December 1943 at which time war expenditures will be running at an annual rate of about \$100 billion. The annual rate of output of combat munitions will be approximately \$70 billion by December 1943, a breakdown of which is given in Table I. War expenditures on non-munitions items, e.g., food, clothing, etc. will amount to \$10 billion per annum and the value of construction will be about \$8 billion per year. It may be assumed that this level of war output will be maintained during 1944 and probably until the end of the war in Europe at least.

A. The Volume and Nature of War Contracts

In order to deal with the problem of transition to a peacetime economy it is necessary to have some idea of the volume and nature of war contracts outstanding at the end of the war. The pattern of war production will almost certainly change with both the progress and the length of the war. Indications are that this war which is being fought over a wide area throughout the world is not likely to terminate on all fronts at the same time. To the extent that this situation results in a more gradual demobilization of industry and personnel, the total volume of contracts outstanding at the close of hostilities everywhere will be smaller.

The volume of contracts outstanding at the end of the war will also depend upon how long the war lasts for the reason that a portion of the war expenditures represents capital items which when completed will not

Table I
Annual Rate of War Output
(Billions of dollars)

	<u>December 1942</u>	<u>December 1943 ^{1/}</u>
Total War Expenditures	74	99
A. Combat Munitions	43	70
1. Aircraft and equipment	16	36
2. Ground Ordnance and signal equipment	13	17
3. Naval and Army vessels, equipment and ordnance	11	13
4. Merchant vessels	3	4
B. Non-munitions (clothing, food, etc.)	10	10
C. Construction (industrial facilities and military establishments)	15	8
D. Other (pay of personnel, etc.)	6	11

^{1/} These estimates are based on a fourth-quarter forecast published by the War Production Board in Statistics of War Production, March 1943. They have been adjusted for the amounts by which these forecasts generally exceed actual deliveries.

Table II

Funds, Commitments and Deliveries for War Output
June 1940 - December 1943
 (Billions of dollars)

	<u>Funds</u>	<u>Commitments</u>	<u>Deliveries</u>	
	<u>June 1940</u> <u>to</u> <u>Dec. 1942</u>	<u>June 1940</u> <u>to</u> <u>Dec. 1942</u>	<u>June 1940</u> <u>to</u> <u>Dec. 1942</u>	<u>June 1940</u> <u>to</u> <u>Dec. 1943</u>
Aircraft	59	49	12	39
Ground Ordnance and Equipment	35	25	8	23
Nonmunitions	34	24	10	21
Naval and Army Vessels and Equipment	37	30	10	24
Merchant Vessels	7	7	3	7
Construction	36	30	20	31

Treasury Department, Division of Monetary Research

- 6 -

need to be replaced for the duration of the war. For example, the construction of industrial facilities which amounted to \$6.6 billion in 1942 should be a negligible item after the middle of 1944. The volume of naval vessel contracts outstanding at the end of the war will also be a function of the length of the war.

From June 1940 to the end of 1942 commitments including contracts, letters of intent, purchase orders and other transactions on which definite action for procurement had been taken for the purchase of munitions, the construction of plant facilities and military installations, and the purchase of non-munitions items for war purposes amounted to \$165 billion. (See Table II) Of this amount \$63 billion worth had been delivered by the end of 1942 and \$145 worth will have been delivered by the end of 1943. Cash appropriations and authorizations for these items over the period from June 1940 through December 1942 amounted to \$208 billion, or \$43 billion more than present commitments. If we assume that additional commitments during 1943 will amount to \$43 billion, unfulfilled commitments for these items during 1943 will amount to \$63 billion. This is probably a minimum figure since new commitments minus cancellations in 1943 will probably exceed present appropriations and authorizations. On the other hand, the spread between deliveries and contracts is not likely to be as high after 1943 since commitments for many of these items cover schedulings through 1944 and beyond.

If the war is terminated in 1944, commitments for construction should be negligible and undelivered contracts for naval vessels might be expected to be reduced. Present schedulings provide for the total amounts of many items which will be required on the assumption that the

- 7 -

war ends in 1945 or 1946. We might reasonably expect undelivered contracts to be less than \$55 billion by the end of 1944. During World War I, War Department contracts were 8 months ahead of current requirements. With expenditures on munitions and supplies running at \$80 billion annually and assuming that contracts will always be at least 6 months ahead of requirements, it is doubtful whether the value of undelivered orders could ever fall much below \$40 billion.

B. The Cost of Terminating Contracts at the End of the War

When contracts are terminated it is necessary for the government to reimburse contractors for expenses incurred in good faith in the execution of contracts on which delivery has not been made. The cost of terminating \$55 billion in war contracts is difficult to estimate. Perhaps not more than half of this amount will represent goods in process or stocks of raw materials and finished products in the hands of producers at the end of the war. Items such as aircraft, combat vehicles, warships, ammunition, artillery and other ordnance items, will present the greatest problem from the standpoint of liquidating facilities and partially finished products. Merchant ships, naval auxiliaries and army transports can be converted to peacetime uses even at a fairly advanced stage of production. Partially completed warships will have to be dismantled or, if possible, converted into merchant vessels.

Non-munitions items such as food, clothing and automobiles which are on order or in the process of fabrication may be transferred to civilian markets with relatively little change and at a small cost of settlement to the Government. A portion of the food and clothing on order will be needed for use by the armed forces after the war is ended.

- 2 -

However, judging from World War I experience surplus stocks already in the hands of the military forces are likely to be very great. Much of the non-munitions materials either on order or in the form of surplus stocks could be turned over to relief agencies abroad.

The amounts paid to contractors on the cancelled portions of contracts at the end of World War I amounted to \$530 million or about 14 percent of the face value of the cancelled portions. Judging from World War I experience immediate cancellation of \$55 billion in contracts at the end of the present war will involve an outlay of about \$7 billion for the settlement of the unfinished portions of these contracts. The net cost of terminating non-munitions contracts will probably be small, perhaps less than \$1 billion. In the case of aircraft and ground ordnance and equipment, products in the hands of manufacturers at various stages of completion may amount to as much as \$10 or \$15 billion. Raw materials can be resold for a fair price, but partially finished goods will have only scrap value. Additional sums will have to be paid for various expenses incurred by firms holding undelivered contracts such as engineering and research costs and other overhead items.

C. The Economic Effects of the Termination of War Contracts

Contracts which the government will want to terminate or drastically reduce at the end of the war involve an annual expenditure of about \$80 billion, including non-munitions items. The output of combat munitions including aircraft, ground ordnance and equipment, naval and army vessels and equipment and merchant vessels will represent an annual value of \$70 billion. It is the termination of production of these items which will present the greatest problem from the standpoint of the economy as a

- 9 -

whole. Unlike the case of non-munitions production, the facilities and partially completed products cannot be utilized immediately in turning out civilian goods for which there is a ready market.

How will the cancellation of war contracts affect employment? Table III shows the distribution of manpower at the end of 1943 based on War Manpower Commission estimates. Some 10.5 million workers in the munitions industries will be directly affected by the termination of war contracts in the sense that this number of workers would cease to work on war contracts at the end of the war. In addition to the workers in munitions industries, perhaps 3 million workers in non-agricultural industries essential to the war will also be directly affected. The total direct and indirect effects of the termination of war contracts upon employment will depend upon the speed with which industry can be reconverted and upon the maintenance of consumer purchasing power and business confidence. A high level of consumers' demand might prevent even temporary unemployment of workers in the non-munitions industries working on war contracts. It is also possible that a considerable portion of the workers in the munitions industries will not be released from employment even for a short period. Although conversion to the production of consumer goods will take a few months, in many instances production in the earlier stages can be continued by producing for stock in anticipation of future demand. Thus the production of semi-finished steel and aluminum products can be continued after the demand for munitions has ended.

Table III

Manpower Distribution in 1943
(Millions of employees)

	<u>December 1942</u>	<u>December 1943</u>
A. Armed Forces	6.4	10.7
B. Agriculture	8.9	8.9
C. Essential Non-Agricultural Industries ^{1/}	7.7	8.0
D. Munitions Industries ^{2/}	8.7	10.5
1. Aircraft and parts	1.6	2.4
2. Shipbuilding	1.6	2.1
(a) Naval and Army vessels	1.1	1.4
(b) Merchant vessels	.5	.7
3. Ordnance	1.7	2.3
4. All other munitions	3.8	3.7
E. Other Industries	26.6	23.4
F. Unemployed	<u>1.5</u>	<u>1.0</u>
Total Labor Force plus Armed Forces	59.8	62.5

^{1/} Processing of food and kindred products; lumber, metal mining; anthracite and bituminous coal mining; petroleum production and drilling; transportation; telephone and telegraph; electric and gas utilities; Government war agencies; including War and Navy Departments, excluding manufacturing establishments (see Note 1); Office for Emergency Management, including War Production Board and War Manpower Commission; Office of Price Administration, etc. Other industries, such as construction, that may be considered essential are not included. These industries are not included because they are expected to decline and will provide some of the workers needed in expanding industries.

^{2/} Manufacturing industries primarily devoted at the present time to the manufacture of war equipment and supplies other than food and clothing. The employment shown in the table includes employees working on non-war work in these industries. The following industries are included: Ordnance and accessories, including products of Government manufacturing establishments; transportation equipment, including shipbuilding, aircraft, railroad cars, and locomotives; automotive industry; iron and steel; and their products; non-ferrous metals and their products; electrical machinery; other machinery; rubber products; chemicals, explosives; ammunition; professional and scientific instruments; photographic equipment; optical goods; fire extinguishers; and petroleum refining.

Treasury Department, Division of Monetary Research

- 10 -

Apart from any indirect effects, a minimum of 7 million men will probably be released from employment immediately upon the termination of war contracts. In arriving at this minimum figure it is assumed that some of the workers in the non-munitions industries are laid off and that a portion of the workers in munitions industries which also produce for the civilian market, e.g., iron and steel and petroleum refining will be unaffected. Thus, assuming that within two years after the war the armed forces are reduced from 11 million to, say, 2 million men, industry will have to absorb at least 16 million workers in the two year period following the war if unemployment is to be avoided.

If all munitions contracts are terminated immediately at the end of the war, Government expenditures will be reduced by approximately \$70 billion annually. Whether or not we are able to maintain a national income of, say, \$150 billion a year in the immediate post-war period will depend upon two conditions: (1) the ability of civilian demand to compensate for the reduction in governmental demand; and (2) the speed with which industry is able to make the transition from wartime to peacetime production.

There is no question but that the potential consumer and business investment demand in the post-war period will be capable of replacing the reduction in governmental demand. A national income of \$150 billion would normally result in consumer expenditures of about \$120 billion annually and gross private investment including net exports of at least \$35 billion. Actual civilian consumption at the end of 1943 will be running at the annual rate of \$82 billion and gross private investment will probably be negative. A return to peacetime production and buying would therefore mean an increase in consumer and investment demand of \$70 to \$75 billion annually.

- 11 -

The large volume of accumulated savings, together with the removal of rationing and wartime restrictions should result in an abnormally large consumer demand in the immediate post-war period. Moreover, the necessity for reconversion of industry to peacetime production will tend to stimulate private investment over what it would normally have been.

This potential demand will become actual in the post-war period provided the transition from wartime production is made quickly and consumer purchasing power is maintained. The procedures followed in the termination and liquidation of war contracts at the end of the war will have a substantial effect on both civilian demand and the speed and efficiency with which industry is converted to peacetime production.

III. A Suggested Program for the Termination of War Contracts

A. Cancellation Clauses in All War Contracts

1. A uniform termination clause should be established for use in all government contracts for war materials setting forth in detail the method of determining compensation for costs incurred by contractors in connection with terminated contracts, and a formula for the determination of profits to be paid contractors on the undelivered portion of such contracts. In this connection it should be noted that a draft of a uniform contract cancellation clause has recently been prepared by the Procurement Policy Board consisting of representatives from the Army, Navy, Treasury and Maritime Commission and the War Production Board. It is expected that this proposed clause, or one similar to it, will eventually be adopted by all government procurement agencies.

- 12 -

2. The principles of cost accounting should be standardized in order to reduce the area of potential disagreement and litigation to a minimum.

B. Prompt Settlement of Terminated Contracts

1. The settlement of claims arising out of contract obligations should be prompt and uncertainties reduced to a minimum. Machinery should be set up for partial payment of contract obligations within one month after the termination of a contract. Contractors might submit a tentative estimate of the amount owed by the government, on the basis of which the government would make a partial payment. Final settlement could be delayed until a complete investigation and audit had been made.

2. Plans for a prompt settlement of terminated contracts should include provision for subcontractors. Subcontracting in some war industries is carried out to several stages, i.e., there are secondary and tertiary subcontractors. One proposal is for the government to deal directly with the subcontractors, taking over the contractor's obligation to the subcontractor instead of compensating the contractor directly for settling his commitments to the subcontractor.

C. Dismissal Wages

The immediate release of 7 to 10 million workers at the end of the war is important not only for its direct effects but because of its indirect effects on employment and the conversion to peacetime production. Various measures for dealing with this problem should be explored including the use of dismissal wages. It may be desirable, for example, to provide for the payment of dismissal wages in termination clauses by giving

- 13 -

recognition to the validity of claims arising out of their payment. A claim covering dismissal wages for employees of the DuPont Corporation was approved by the War Department after the last war. Some Price Adjustment Boards have recently allowed dismissal wages as a cost item where dismissal wage arrangements have been provided for in contracts with unions.

D. An Announced Policy of Immediate Contract Termination

In addition to setting up the legal machinery for contract cancellation and providing for a rapid settlement of terminated contracts, procurement agencies should make a definite announcement of policy to the effect that all contracts for war production will be terminated with the armistice. The advantage of announcing this policy beforehand is two-fold:

1. It will serve notice on concerns with war contracts that they must convert to peacetime production as rapidly as possible after the armistice is signed if they expect to stay in business.

2. It will make clear to those agencies responsible for post-war planning and the carrying out of measures which will aid in the transition to a high level of peacetime production that war plants are not going to continue to operate for some months after the war has ended.

E. Disposal of Surpluses

At the termination of the war, steps should be taken to relax civilian shortages by reducing deliveries of non-essentials for the armed forces to bare necessities and by disposing of government surpluses as soon as possible. Government agencies such as the Commodity Credit Corporation should take over stocks in the hands of manufacturers reserved

- 14 -

for the government. Orderly markets and reasonable prices should be maintained and guaranteed to producers so that the transition to production for civilian markets will not occasion any decrease in output.

F. Other Measures

There are many other measures which can be taken to aid in the transition to a peacetime economy. Such measures include technical and financial assistance to war plants converting to civilian production, selected governmental investments, and measures which will maintain consumer purchasing power during the period of transition. Such programs have been adequately discussed in the recent report of the National Resources Planning Board on post-war planning.

These measures will not be the responsibility of the procurement agencies. This work will, however, be greatly aided and the transition to a peacetime economy accomplished more rapidly and efficiently if the above recommendations with respect to the termination of war contracts are carried out by the procurement agencies.

- 15 -

APPENDIX I

CANCELLATION OF CONTRACTS IN WORLD WAR I

World War I ended suddenly and at a time when military schedules and commitments called for greatly increased production in 1919 over what was produced in 1918. Although the Armistice terminated the need for war materials, plans for an orderly transition to a peacetime economy were almost wholly absent. The War Department had no generally accepted or standard termination clauses nor was the problem of employment and re-allocation of manpower and resources taken into account. Administrative machinery for a prompt settlement of contracts so as to maintain the liquidity of industrial firms was also lacking at the end of World War I.

A. The Volume of Uncompleted Contracts at the End of World War I.

At the time of the Armistice the War Department had outstanding some 24,000 contracts calling for production valued at more than \$7.5 billion. Of this amount about \$3.8 billion represented unfulfilled contracts. The total cost required to effect a settlement of these undelivered commitments including the amounts paid for deliveries on these contracts made after November 11, 1918, was \$700 million. Of this amount \$600 million was required to settle outstanding contract obligations for ordnance items. Only a portion of the \$700 million was paid for unfinished articles and the settlement of other claims not arising out of the delivery of finished products. The actual cost of liquidating that part of the undelivered contracts was \$530 million, the remainder being spent for products completed after the Armistice. Of the \$3.8 billion in uncompleted contracts

- 16 -

outstanding on November 11, 1918, \$1.8 billion represented Quartermaster Corps contracts and the bulk of the remainder were ordnance contracts.

The cost of terminating contracts made by the Quartermaster General which were not completed either before or after the Armistice amounted to about 5 percent of the total volume of these contracts. About 15 percent of the value of the contracts outstanding at the time of the Armistice was completed after the war. The cost of unfinished articles in the hands of the producers represented about 18 percent of the total value of contracts outstanding. The cost of termination was 22 percent of the value of the unfinished articles in the hands of producers at the time the contracts were suspended.

In the case of ordnance contracts, the cost of terminating the contracts both as a percentage of the total value of the unfulfilled contracts and of the cost of unfinished articles in the hands of manufacturers was considerably higher. This is to be expected since in the case of partially finished tanks and guns the salvage value is likely to be smaller than in the case of partially completed clothing, feed and automobiles.

The Navy cancelled without liability to the government \$26.4 million worth of contracts and adjusted others in which the cancelled portion amounted to \$46.4 million at a cost of \$10.8 million. This cost covered materials and stocks taken over by the government, plants taken over or amortized, and no-profit prices allowed on work in process. Although some of the contracts for the construction of destroyers and auxiliary vessels were cancelled, the ship construction program was completed after the war for the most part as scheduled.

- 17 -

Roughly three-fourths of the merchant ship building program was completed after the war. To June 30, 1941, the Shipping Board and Emergency Fleet Corporation had expended \$3.2 billion for ships, shipyards, transportation facilities and other productive assets.

3. Cancellation Policies

Immediately after the Armistice the War Department sent out notices to all contractors requesting them to suspend production on their war contracts. Suspension was only temporary and later on all contractors were permitted 30 days post-armistice production at the rate of the month ending November 9, 1918, and those who exercised this option were allowed to make deliveries over the period to June 30, 1919. For example, contracts of the Edgystone Rifle Works were tapered off until February 1919. The War Department stated that manufacturers should be allowed to continue temporarily the production of certain types of articles to avoid financial loss although the selection of the articles would depend upon government interest as well.

Although all contracts were suspended, not all of them were cancelled. Reinstated contracts included those for "stock" materials, and those for items which were very near completion. The reason given for allowing items which were 75 percent or 80 percent completed to be delivered according to contract was that the government lost less by completion than it would have lost by accepting partially finished products. This point of view is difficult to understand however in the case of munitions which soon become obsolete and for which there was no immediate use.

- 14 -

Before cancellation was undertaken the War Department invited the War Industries Board and the Department of Labor to review all proposed cancellations. These agencies were to advise concerning cases wherever cancellations would severely disrupt industry or cause extensive unemployment or other labor disturbances. This arrangement did not operate very effectively, however. On several occasions the Department of Labor protested to the War Department that its cancellation schedules did not take into account the effects on employment. In fact, by December 18, the War Department ceased to take the advice of other agencies in its handling of contract terminations. There appears to have been relatively few cases where cancellation was post-poned in order to avoid labor disturbances.

C. The Settlement of Terminated Contracts

During World War I as at the present time there was no uniform or generally accepted termination clause used in war contracts. Some contracts contain^{ed} no cancellation clause whatsoever while others had termination clauses which failed to define clearly the conditions under which settlement could be made. Two months before the end of the war the War Department developed a standard termination clause. The cancellation provisions of this clause as applied by the Ordnance Department may be summarized as follows:

1. The government could cancel whenever the Chief of Ordnance thought it necessary;
2. In event of cancellation, the government would pay the contractor for articles delivered, for expenditures

- 19 -

- incurred toward completion of the contract, for depreciation or amortization of plant and facilities;
3. At the government's option, the contractor would assign subcontracts to the government after cancellation;
 4. The government could take over the contractor's plant and complete the contract after either cancellation in the public interest or breach of contract by the manufacturer.

In order to expedite the settlement of contracts as readily as possible, the government provided for payment of at least 75 percent of a tentatively agreed upon reimbursement, leaving the other quarter for subsequent determination after reexamination and review. Ordinarily, settlement of contractor's claims would have fallen to the U.S. Court of Claims. However, the magnitude of the problem and the need for speed in settlement led to the development of special adjustment machinery. District offices conducted preliminary investigations of contractors' post-war claims and determined tentative awards. Findings of the district offices were reviewed first by the Ordnance Claims Board and then by the War Department Claims Board. While this review progressed contractors could appeal from the tentative awards. After War Department Claims Board approval, however, the tentative awards became final awards. The latter were incorporated into cancellation agreements replacing the original contracts. When the cancellation agreements were signed, the contractor no longer had any recourse against the government; but the government could reopen the claim in order to recover overpayments whenever they were discovered.

- 20 -

During the war many contracts had been entered into without the completion of the legal requirements for all government contracts. Military supplies completed under these informal contracts were accepted and paid for during the war. After the Armistice, however, the government was no longer under pressure to secure supplies and manufacturers with unfinished contracts which did not satisfy all the legal requirements discovered that they did not have valid contracts and that the government would not accept further deliveries. According to a ruling of the Comptroller of the Treasury in November 1918, the War Department was prevented from recognizing claims under such informal contracts. The Comptroller also ruled that the government could not allow the contractor to complete such commitments unless the government clearly required the product involved. In order to cope with this situation Congress finally passed the Best Act which was approved by the President on March 2, 1919. This Act permitted all contractors who had written evidence of the government's intent to make a contract to submit claims before June 30, 1919, for amounts owed them under these contracts.

D. The Problem of Surpluses

The end of the war not only found the Army with large contracts for future deliveries but also with huge surpluses of both munitions and non-munitions items accumulated to take care of the needs of a greatly expanded army with a 3,000 mile supply line. For example, canned food surpluses of the Army and Navy totaled about \$135 million as late as July 1919. In spite of rapidly rising food prices and civilian shortages, the Army maintained a policy of withholding surpluses from the market in

- 21 -

response to a request from the canning industry. This policy was not abandoned until July 1919, when the government responded to consumers' complaints regarding high prices and decided to sell its surpluses on the open market.

Not only were large surpluses of consumers' goods withheld from the markets but there were many flagrant cases of wasteful abandonment and destruction of these commodities. Thousands of bales of cotton were allowed to rot in exposure to rain and sun and thousands of automobiles and trucks were permitted to deteriorate without protection from the elements.

E. Conclusions Regarding World War I Experience

1. At the time of the Armistice this country was even less prepared for peace than it had been prepared for war in the spring of 1917. No consistent policy was followed with respect to the termination of war contracts. In some cases contracts for munitions and other supplies no longer needed were continued for two or three months after the Armistice. The result was a tremendous waste of resources and public funds. On the other hand such production on war contracts as was permitted after the Armistice was not properly planned with a view toward facilitating the transfer to peacetime production. Such war production as was continued should have been concentrated in those industries where interference with reconversion to civilian production was least.

2. In spite of the rapid contract cancellation within a few months after the Armistice, employment was sustained during the immediate post-war period at a relatively high level. With proper planning and perhaps

- 22 -

the use of dismissal wages and resettlement grants, there is every reason to believe that the employment problem could have been handled without any continuation of war production after the war had ended. In fact, it might be argued that the completion of work under adjusted war contracts was partly responsible for the post-war inflation in 1919 and 1920.

3. The government did not provide for the rapid settlement of contracts terminated at the end of the war. There were protracted delays while administrative procedures were developed and manufacturers with informal contracts experienced even further delays until the Rent Act validated such commitments. The result of this situation was that many firms were left without sufficient liquid capital to finance reconversion to peacetime production.

RFM:ISF:mww

5/27/43

/2/43

MAY 18 1943

Dear Eleanor:

I have your letter of May 7, 1943, enclosing a letter from Mr. W. W. White, Newark, Ohio. Mr. White is troubled about the plight of small independent business men who are faced with difficulty in obtaining labor. He suggests the creation of a volunteer organization, unified under a Washington command, of people who would work full or part time in these local enterprises in return for payment in War stamps and bonds, or in credit as a contribution to the Red Cross. He believes that under such a scheme persons who would not be interested in paid employment in the usual sense might be induced to make their services available to business men who cannot obtain help.

I appreciate the increasingly difficult problem facing many independent businesses under present war conditions in securing the employees necessary for continuing in operation. While their problem has been overshadowed by the more critical need for maintaining employment in essential industries and on farms, it perhaps deserves more attention than has heretofore been given it. Many of these enterprises are highly important in maintaining war-working families at their greatest effectiveness.

Mr. White's plan would seem to offer some promise of bringing out an appreciable number of additional workers, and I feel that it is worthy of further study by one of the agencies directly concerned. From the Treasury's point of view, I am not impressed with its possibilities as a means of increasing bond sales. Weighing against the plan is the fact that it would need to be conducted as a nation-wide patriotic movement, with all the organization and administration this would involve, and such a movement would probably not be acceptable unless it were broadened to recruit labor for war industries as well as for civilian business.

Affectionately,

(Signed) H. Morgenthau, Jr.

Mrs. Franklin D. Roosevelt,
The White House.

Orig. file in Diary.
Photo file to Haas' office
By Mess. Bundy 5:20 5/18/43

MD:cm 5/18/43

47205

THE WHITE HOUSE
WASHINGTON

May 7, 1943.

Haus -

Dear Henry:

I am enclosing a copy of
a letter from Mr. W. W. White, of
Newark, Ohio. I will appreciate
having your reaction to his plan.

Affectionately,



WHITE'S STUDIOS

Hudson Avenue at Church Street

NEWARK, OHIO

May 3, 1943.

Mrs. Franklin D. Roosevelt,
The White House,
Washington, D. C.

My dear Mrs. Roosevelt:

I have been told that if the contents of a letter addressed to you have any merit, the letter will receive your able consideration. I am writing concerning the closing of small businesses resulting from scarce and inefficient help, and offer a suggestion for heading off a crisis.

You are, of course, aware of the hardships the war has brought on small businesses (and by small I mean those Main Street institutions employing from one to a half-dozen or more people). The disruption of normal business routine together with the inability of store owners to function efficiently because of daily employe-turnover is such a serious handicap that thousands of owners will close their doors before the end of 1943.

Most of them will be beyond draft age, and many will be unsuited to war plant employment. Most will be compelled to salvage whatever they can from their stocks and fixtures, lose a built-up clientele and established location, and then face the prospect of starting from scratch after the war at an age when most of them will be unable to withstand the rigorous competition of a new business.

I believe that owners of civilian businesses are the real home-front soldiers; their struggle for survival is against overpowering odds. I believe that, as a group, they are more loyal patriots than any other one group of workers because they have a stake in American economy. Few of them will cry out against the insurmountable difficulties they are meeting for fear of appearing to injure the war effort. So their daily adjustments and long working hours are taxing their strength and ingenuity without end.

In all war employment areas, demands on stores, restaurants, laundries, theaters, small offices (insurance, law and other non-war-connected pursuits), etc. have been accelerated to unprecedented limits. And this very demand will contribute (more because of labor scarcity than scarcity of materials) to the closing of many businesses.

Employees, now largely youngsters, oldsters and riff-raff not wanted by the war plants, refuse to work 12 or 14 hours for much less pay than is available in a war plant, and the owners and their families cannot endure constant overtime work indefinitely. So the business must close, the Treasury loses hundreds or thousands of dollars per year on each closed store (in income and other taxes). Not only will this produce a serious setback in post-war civilian economy, but it likewise contributes to a weakening of home front morale, as practically every individual is putting in more extra hours per week by depending upon many services offered by these stores, thus saving their own home time. As the war progresses, and more war employment makes the situation still more acute, a general collapse of small businesses is certain to follow.

My purpose in writing to you is to offer what I believe to be a possible solution. There is in America a huge army of potential part-time workers who because of home responsibilities, age or state of health, or who either because they are not financially in need of a weekly paycheck, or because they have deep-seated convictions against manual employment in a war plant, would never adapt themselves to a regular job in war industry.

The majority of this group are, of course, women. Most of them though willing to put forth an endless amount of effort in club or civic projects, would be most reluctant to take on work with a salary attached. It is from this source that the Red Cross, the War Savings staff, etc. draw their volunteers, although there are still many thousands of housewives, mothers and people working at six-and-eight-hour jobs who could give a variable number of hours each week. Most small civilian businesses, I believe, could then survive under a system of part-time employees.

Intelligent individuals such as this must BELIEVE in any cause to which they bend their efforts, and the further removed from the dollar-motive the work is, the greater the interest of such a

group is likely to be. In brief, if these individuals could be unified under a Washington command and named as a volunteer organization, each member could devote his or her stipulated amount of time wherever assigned to serve, receiving the usual pay for that job in (1) either war savings stamps or bonds, or (2) as a Red Cross contribution.

To those who are sensitive to the thought of accepting a highly-paid war job and yet would be even less likely to take employment in a store or office, the stigma would be removed under the volunteer organization. Thus a major economic calamity might be averted, and each volunteer would be helping to relieve a critical need of their fellow-citizens at home. Members of such an organization might wear some kind of identifying insignia, but would perform the same duties as their co-workers.

There would be a two-fold benefit to the Treasury Department: (1) heads of businesses would necessarily keep a large stock of war savings stamps on hand to pay workers, and (2) millions more in government securities would result than might have been sold otherwise.

I have offered my services four times to the armed forces, but was rejected because of hernia. Now I am resigned to the fact that I must ride out the storm in my civilian business. Many financially-able business men are simply closing their doors in the face of these odds for the duration, but those of us who cannot take our investment and responsibilities so lightly, are facing a trying period, indeed.

Mrs. Roosevelt, I have tried to present the facts as accurately as possible. I hope you will give some consideration to the "employment-bureau" plan outlined, for I believe it is workable.

Loyal Americans who appreciate the necessity of saving from the scrap heap as much of pre-war America as possible will be serving both a patriotic and civic end, in volunteering for service. And I believe that what appears feasible in this city of 40,000 people and numerous war plants would work equally well over the nation.

Respectfully yours,

/s/ W. W. White

HY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

May 18, 1943

FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - As the House prepares today for another decision on the Ruml Plan, President Roosevelt again voiced his opposition to "the elimination of a whole year's tax burden on the upper income groups during a war period." Such an action he considered inexplicable in the face of the need for more revenue and unfair to "the mass of our people" who would have to pay for this "unjust and discriminatory enrichment of thousands of upper bracket taxpayers," who, the President said, citing figures to prove it, would thus "escape financial contribution to the war effort." But despite the hint of veto in the Presidential letters to Chairman George of the Senate Finance Committee and Chairman Doughton of the House Ways and Means Committee, House Republicans appeared determined to follow their previously planned strategy. Representative Martin said the minority would move that House conferees receive specific instructions to report back, from a joint conference with the Senate, a bill providing 100% forgiveness of a year's income taxes. Although Martin maintained confidence in having secured a necessary shift in votes to succeed in this maneuver, Speaker Rayburn said yesterday that Democrats would be able to marshal enough support to gain some form of a compromise measure.
2. Miscellaneous - With the tax issue effectively holding the spotlight, other controversies on Capitol Hill seemed relatively of minor significance but continued to flourish nevertheless. Secretary Hull again went to bat for the Administration's trade agreement program in testimony before the Senate Finance Committee yesterday. The House Military Affairs Committee was the scene of a spirited verbal battle between columnist Drew Pearson, Louisiana Congressman Morrison, and Chairman May on Pearson's charge that Morrison received a "juicy commission" for aiding a constituent in a mysterious boiler deal. The House Appropriations Committee

banned use of any of the funds in the Interior Department's Appropriation Bill for payment of the salary of Morse Lovett, Lt. Governor of the Virgin Islands, who along with Goodwin P. Watson and William E. Dodd, Jr., of the FCC, is accused of "subversive activities" by the Kerr subcommittee. In the House itself an amendment passed to the urgent deficiency bill prohibits the President from allotting any part of the \$89,000,000 Emergency Fund included in the act to the National Resources Planning Board and the Farm Security Administration. Both agencies have received stringent Congressional criticism before and have been denied funds in other bills already passed by the House.

MAY 18 1943

Dear Mr. Lehman:

Your letter of May 11, 1943 concerning the remittance of additional funds to Madrid for the relief of French refugees has been taken under advisement.

On May 5 we licensed the transfer of an additional \$300,000 to Madrid to be made available through the American Embassy at Madrid for the financing of maintenance and evacuation expenses of French refugees proceeding to North Africa. We believe that this is the \$300,000 referred to in your letter. I am informed that this transfer was approved after we had been orally advised of the favorable recommendation of your office.

I appreciate your informing me that your office has been cooperating closely with Ambassador Hayes in his work with the French refugees from Spain. In view of your interest you may be sure that your office will be consulted before final action is taken on similar matters.

With reference to the request for the transfer of \$800,000 mentioned in your letter, I also do not have knowledge as to the necessity for these funds and, therefore, like yourself, would rather not take a position on this matter.

Sincerely 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.

Photo file in Diary
Orig. file to White

HW:WT:IS:efs 5/14/43



DEPARTMENT OF STATE
OFFICE OF FOREIGN RELIEF AND
REHABILITATION OPERATIONS

WASHINGTON, D. C.,

May 11, 1943

My dear Mr. Secretary:

A copy of the cable sent to you by Mr. Murphy and Colonel Bernstein has come to my desk.

I thought it might be helpful for you to know that this office has been cooperating very closely with Ambassador Hayes in his work with French refugees in Spain. As you know, French refugees continue to come over the border between France and Spain daily and Ambassador Hayes evidently needs more money than he has at his disposal.

I should like to recommend therefore that you approve the request for the additional transfer of \$300,000 for maintenance and evacuation expenses of French refugees to North Africa from Spain. I have no knowledge as to the necessity for the \$200,000 request and therefore do not wish to take a position in respect to this matter.

Sincerely,

Herbert H. Lehman
Director

The Honorable,

Henry W. Morgenthau, Jr.,
Secretary of the Treasury.



Treasury Department
Division of Monetary Research

Date 8/9/43 1943

To: Miss Chauncey

From: L. Shanahan

Returned for your records.

Mr. White did speak to the Secretary about this matter and appointments were arranged with a number of the foreign representatives.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 18, 1943

TO Secretary Morgenthau
FROM Mr. White

In your letters to the Ministers of Finance you wrote:

"After you and your experts have had opportunity to study it, you may wish to send one or more of your technical experts to Washington to give me your preliminary reaction to the draft proposal, and to discuss with our technical experts ..."

The representatives who have been sent here expected and hoped to see you so they would at least be able to report back that they have done so. I don't think any substitute would be satisfactory.

Mr. Bulhoes, the representative especially sent here from Brazil to discuss the proposal, is through with his discussions here and has a letter from the Minister of Finance to you which he would like to deliver in person if possible. (Incidentally, after our discussions he said, in response to an inquiry from me, that he favors our plan on the whole and would recommend to his Minister of Finance adherence to our proposal, with some minor changes.)

Mr. de Iongh, the Dutch delegate, who also was sent here to discuss the proposal, is eager to meet you; I presume he is anxious to be able to say that he has talked with you.

Mr. Soriano, who is Secretary of Finance of the Commonwealth of the Philippines, is through with his discussions here and has informed us that he would support our plan. He is likewise eager to see you.

I hope you will find it possible very soon to set aside a few minutes for each of the above three delegates.

The Mexicans and Norwegians are next on our list.

*White speak to me
1 Mr 2*

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 18, 1943

TO Mr. White
FROM Mr. Southworth *EAB*

Subject: Parliamentary Debate on Post-War International Currency, May 12, 1943.

1. Sir Kingsley Wood expressed the government's desire to approach the problem with an open mind. He emphasized that something along the lines of the American program for voting quotas might be equally suitable for the clearing union. He held that, while the international unit should not be separated from gold, it would not be wise to limit the expansion of trade by the rate of expansion of gold production and that creditor countries should assume some responsibility for more freely admitting imports. He considered the two-way convertibility of the Unitas as a possibly radical difference in the British and American proposals which have many points in common.

2. In the debate which followed, the strongest criticism of the U. S. proposal was the contention that it involves a return to the gold standard with all its restrictionist and deflationary consequences.

The second criticism was that the plan fails to put enough pressure on creditor countries.

In the allusions to the American gold stock, the speakers failed to mention the part played by capital flights in the movement of gold to the U. S.

While there was surprisingly little criticism of the American proposal on the score of voting rights, some anxiety was expressed concerning the possibility of an Anglo-American financial hegemony over the world.

Sir George Schuster insisted that the two proposals should not be treated as rival plans, but that cooperation between the United States and the British Commonwealth were essential to the success of any satisfactory economic set-up for the world. He stated further that he was not afraid of the U. S. following a contractionist policy.

3. The press reaction indicated a somewhat less conciliatory spirit than that of the Chancellor, reiterating the usual criticisms as to gold, voting, and creditor countries. The Times in an editorial held that too little attention had been given to the American proposal for rationing a scarce currency which would have the actual effect of rationing American exports. Other points emphasized in the popular press were that the American proposal, unlike the British, envisaged the abandonment of exchange controls; that it failed to place corrective pressure on creditor countries; that the Chancellor had not "put the flag" on the British plan and that it was expected that there would be a conference of Finance Ministers to deal with the problem.

(Cable No. 3349, May 14, 1943)

MAY 18 1943

My dear Mr. Secretary:

Consideration has been given to your letter of April 28, 1943.

There has been an apparent misunderstanding about the exact steps the British Treasury intends to take with respect to the currency situation in Tripolitania. The British Treasury intends to use overprinted British Military Authority pound notes designated in lira instead of Italian lira notes with special overprint for circulation in Tripolitania. Such a procedure would release Italian lira currency in the area for use elsewhere in accord with stated British intentions.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State.

Photo file in Diary

Original file to White

Stamped "confidential" on envelope

Dr. White



DEPARTMENT OF STATE

WASHINGTON

STRICTLY CONFIDENTIAL

In reply refer to
EA 800,515/627

April 28, 1943

My dear Mr. Bell:

Note has been taken of the various pieces of information conveyed by your letter of April 24, 1943 as regards which you may find the following comments useful:

(1) It is gratifying to learn that the British Government agrees that they will not use British Military Authority pound notes in Tripolitania, but instead will use lira notes with special overprinting.

(2) The information contained in your second and third paragraphs concerning the views of the Allied Governments-in-exile as to the type of currency to be used in the event of entry into their territories and the plans of the British Government, seem to me tentatively to warrant acceptance. However, before the Department could definitely commit itself, it would wish to hear the views of both the Treasury and the War Department fully; and it may be that judgment must be reserved until the facts of any particular situation are more fully established. Mr. Herbert Feis, the Adviser on International Economic Affairs of the Department, will remain available for further discussion of these questions with yourself and the War Department.

(3) I agree with the Treasury's reply to Sir Frederick Phillips regarding the participation of Mr. Casaday. I presume that the British Treasury fully understands that all of these matters require joint decision, and that they will not proceed except in agreement with us.

Sincerely yours,

The Honorable
Daniel W. Bell,
Acting Secretary of the Treasury.



DEPARTMENT OF STATE
WASHINGTON

April 10, 1943

My dear Mr. Secretary:

Mr. Fels and Mr. Livesey have informed me of your request for an expression of opinion in regard to the reported British plan for withdrawing Italian lire from circulation in Tripolitania and replacing it with British military authority notes overprinted with the word "TRIPOLITANIA".

As I understand it, this would contemplate formal action of some sort on the part of the British authorities requiring the complete conversion of outstanding lire into the new British currency. It would seem to mean that for all practical effects, Tripolitania would have only one currency, and that expressed in sterling as the unit.

If my understanding of the suggestion, as I have just set it forth, is correct, I doubt it is advisable, and I am not convinced of its necessity. There would be, as far as I can tell, no objection to the use by the British of a special military currency designated for use and circulation in Tripolitania; such currency is being used both by ourselves and the British in North Africa at the present time. The enforced substitution, however, of a currency expressed in sterling for all Italian currency might give rise to misunderstanding. It furthermore seems to run contrary to the general principle by which I believe the various departments of this Government are in agreement that resort should be had as soon and as fully as possible to the use of local currencies in reoccupied areas.

I should be obliged if you would let the British Treasury authorities know of this opinion provided the basis of it seems to you clear and adequate.

Sincerely yours,

Cordell Hull

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

APR 24 1943

My dear Mr. Secretary:

In accordance with the request made in your letter of April 10, the British Treasury has been informed of your views on the currency situation in Tripolitania.

At a recent conference in the Treasury, Sir Frederick Phillips of the British Treasury reported to Mr. Bell and Mr. White that his Government was agreeable to the suggestion that British Military Authority pound notes should not be used in Tripolitania. The British Government now proposes to use lira notes with special over-printing.

Sir Frederick Phillips also stated the views of his Government on other questions concerning which I had requested information and which will be of interest to you. He said that his Government still felt that the Allied Governments-in-exile would object to the use by friendly invading forces of any currency other than currency they were preparing or local currency.

It was further stated that British military forces intended during the initial stages of military invasion operations to use local currency previously acquired. Such local currency would be supplemented by E.M.A. notes. The British Government, upon re-examination of the matter, had no fears with respect to the reception that would be accorded British troops using the local currency.

Sir Frederick Phillips inquired, on behalf of his Government, whether Mr. Casaday should participate in discussions which were to take place between the British Treasury and the Governments-in-exile, following the British Treasury's request for the views of the exiled governments on currency matters relating to military occupation. He was informed that inasmuch as these matters were currently being discussed and considered here, and inasmuch as we have already requested the Governments-in-exile for their views, we saw no need for Mr. Casaday to participate in the London conversations.

Very truly yours,

(SIGNED) D. W. BELL

Acting Secretary of the Treasury

The Honorable,

The Secretary of State.

WHT:DL
4/29/43



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

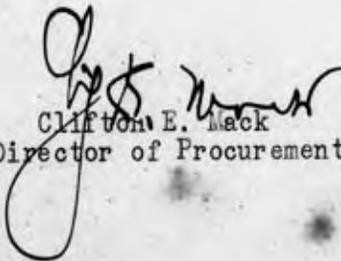
SECRET

May 18, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended May 15, 1943.

The procurement of the supplies required for the Arctic bases is progressing satisfactorily, and the present indications are that the requirements will be at the West Coast ports within the specified sailing dates in order that deliveries may be made at destinations during the short open season.


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 15, 1943
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$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)	\$2594.6 (2551.7)	\$1433.5 (1416.6)	\$1005.7 (987.0)	\$ 42.1 (41.8)	- -	\$113.3 (106.3)
Requisitions Cleared for Purchase	\$2505.3 (2442.3)	\$1388.1 (1364.6)	\$ 966.6 (946.4)	\$ 41.5 (41.5)	- -	\$109.1 (89.8)
Obligations (Purchases)	\$2395.4 (2355.9)	\$1359.4 (1341.8)	\$ 908.4 (888.3)	\$ 41.3 (41.2)	\$5.6 (5.6)	\$ 80.7 (79.0)
Deliveries to Foreign Governments at U. S. Ports*	\$1049.3 (1036.1)	\$ 765.2 (757.5)	\$ 254.9 (249.7)	\$ 17.6 (17.6)	- -	\$ 11.6 (11.3)

*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 8, 1943.

May 18, 1943

CONFIDENTIAL - For use of U.S.A. Treasury only.

DATA ON THE FINANCIAL POSITION OF THE
NETHERLANDS, NETHERLANDS EAST INDIES,
SURINAM AND CURACAO

I. ASSETS BELONGING TO GOVERNMENT AND CIRCULATION BANKS

NETHERLANDS:

non-blocked gold	{	Canada.....	\$ 41,150,000.00
	{	England.....	\$ 4,000,000.00
	{	U.S.A.....	Amount known to U.S.A. Treasury

Balances in \$ known to U.S.A. Treasury.

Balances in Sterling.....£ 27,400,000.00

NETHERLANDS EAST INDIES:

non-blocked gold	{	Canada.....	\$ 13,850,000.00
	{	Australia.....	\$ 42,800,000.00
	{	South Africa.....	\$ 21,400,000.00
	{	U.S.A.....	Amount known to U.S.A. Treasury

Balances in \$ known to U.S.A. Treasury.

Balances in Sterling.....£ 8,400,000.00

Handed to Mr. White by Mr. Crena de Iongh in Mr. White's office, May 19, 1943.

SURINAM:

non-blocked gold { Canada.....\$ 1,000,000.00
(U.S.A.....Amount known to U.S.A. Treasury
Balances in Sterling.....L 400,000.00

CURACAO:

No gold outside U.S.A.
Assets in U.S.A. known to U.S.A. Treasury.
Sterling.....L 1,800,000.00

II. ESTIMATED OUTLAYS

NETHERLANDS:

DOLLARS

Running expenses next six months.....\$ 6,915,000.00
of which, for the Navy.....\$ 5,319,000.00

Apart from that, it is estimated that the following amounts will
be necessary:

For ships for the merchant marine.....\$ 8,000,000.00
For the Department of Trade,
Industry and Shipping.....\$ 50,000,000.00
For the Department of Transportation,
Waterways & Roads.....\$ 48,000,000.00

STERLING

Running expenses next six months.....£ 8,158,000.00
of which, for the Navy.....£ 5,526,000.00

NETHERLANDS EAST INDIES:

DOLLARS

Running expenses next six months.....\$ 6,915,000.00
of which, for Dutch Flying Camp
in Jackson, Mississippi.....\$ 4,500,000.00

Other expenses cannot yet be estimated.

STERLING

Running expenses next six months.....£ 1,020,000.00

It is further estimated that the income of the Netherlands Merchant
Marine, now chartered by the United Nations, about covers the costs, so
that no surplus is expected from that source.

D. Graa de Iongh.

C O P Y

326

GH

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

New Delhi

Dated May 18, 1943

Rec'd 9:45 p.m.

Secretary of State,
Washington.

PRIORITY

350, May 18, 6 p.m.

Two new anti-inflationary measures are announced today by the Government of India. (Reference mission's despatch No. 85, May 4):

(One) Total of 80% to business profits has hitherto been taken by state in income and super taxes (13-1/3%) together and excess profits tax (66-2/3%). Under new ordinance firm will deposit with Government an additional 13-1/3%, leaving only 6-2/3% excess profits immediately available. The extra 13-1/3% contributed by assessee will be refunded one year after the war plus 2% interest. Government at the same time will contribute 6-2/3% which will be released to firm three years after the war or earlier if assessee officially establishes real need.

Government revenues from excess profits tax have hitherto suffered as a result of payment by firm of large bonuses to officers and employees. Government will henceforth prescribe "reasonable" bonuses in consultation with individual firm affected.

Another loophole will be closed by the Government (?) "reasonable" inventories for tax purposes. At present many firms are carrying inflated inventories as a means of reducing or avoiding tax liability.

Immediate revenue will accrue to Government as a result of new administrative tax collection procedure established by same ordinance. In future firms will pay promptly estimated (repeat estimated) amount of excess profits liability prior to adjustment of disputed items and final determination of tax. Firms are protected by 5% penalty against the Government in case tax liability is overestimated. Heretofore no tax was paid until all claims and disputes were adjusted with the result that total of about one billion rupees ~~xxxxxx~~ really owed to the Government have been outstanding sometimes for as long as eighteen months constituting serious inflationary factor.

(Two) New defense of India rule (NO. 94A) gives Government control over securities and exchanges to prevent mushrooming of uneconomic or undesirable enterprises, to prevent recapitalization of existing firms as tax evasion measure and to encourage purchase of Government bonds.

Under the new rule Government approval is required for offer, issuance, renewal or repayment of any security in British India or anywhere by firms incorporated in British India. Issues not approved by the Government may not be advertised or traded.

Government committee will pass on applications for new industrial securities from the point of view of war effort and sound long term economic development of country.

The Government will make arrangements in immediate future for application these new measures to Indian states.

MERRELL

EMB

FROM: American Mission, New Delhi
TO: Secretary of State, Washington
DATED: May 18, 1943
NO.: 350

STRICTLY CONFIDENTIAL

You are advised that the Government of India today announced two new anti-inflationary measures. (Please see the Mission's despatch of May 4, 1943, no. 85).

(One.) The state has hitherto taken a total of 80% of business profits in income and super taxes of 13 1/3% together and excess profits tax of 66 2/3%. A firm under the new ordinance will deposit an additional 13 1/3% with the Government leaving immediately available only 6 2/3% excess profits. One year after the war the extra 13 1/3% which the assessee contributed will be refunded with interest of 2%. At the same time 6 2/3% will be contributed by the Government which amount will be released to the firm three years after the war or earlier if real need is officially established by the assessee.

Hitherto Government revenues from excess profits tax have suffered as result of a firm paying large bonuses to officers and employees. From now on the Government will prescribe "reasonable" bonuses in consultation with the individual firm affected.

The Government (F) "reasonable" inventories for tax purposes will close another loop hole. Many firms are carrying inflated inventories at the present time as a means of reducing or avoiding tax liability.

As result of new administrative tax collection procedure established by the same ordinance, immediate revenue will accrue to the Government. In the future, prior to adjustment of disputed items and final determination of tax, firms will promptly pay an estimated (repeat estimated) amount of excess profits liability. 5% penalty against the Government protects firms in the event that tax liability is over estimated. Prior to this ordinance no tax was paid until all disputes and claims were adjusted with result that about one billion rupees really owed to the Government have been outstanding sometimes for as long as eighteen months which constituted a serious inflation factor.

(Two.) Control over securities and exchanges to prevent mushrooming of enterprises which are uneconomic or undesirable, to prevent recapitalization of existing firms as a measure of evading taxes and to encourage purchase of Government bonds, is given to the Government by the new Defense of India rule (no. 94A).

Government approval for offer, issuance, renewal or repayment by firms incorporated in British India of any security in British India or elsewhere is required under the new rule. Issues which the Government has not approved may not be advertised or traded.

The Government committee will pass on applications for new industrial securities from a point of view of war effort and sound long term economic development of the country.

- 2 -

In the immediate future arrangements will be made by the Government for applying to Indian states these new measures.

MERRILL

eh: copy
5-21-43