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June 25, 1943
11:50 a.m.

FINANCING

Present: Mr. Bell
 Mr. Smith
 Mr. Gamble
 Mr. Graves
 Mr. Thompson

H.M. JR: Where are these executive orders? (Draft of Treasury Department Order handed to the Secretary by Mr. Gamble, copy attached.)

MR. GAMBLE: This order is one that has been prepared by Mr. Graves and checked by Mr. Bell and Mr. Thompson. It has been checked.

H.M. JR: (Reading) "Treasury Department Order No.48, dated March 2, 1943, is hereby amended to read as follows:

"1. There is hereby created in the Treasury Department a United States Treasury War Finance Committee, under the direction of an Assistant to the Secretary, who will serve as Chairman of the Committee and will function with the operating title of National Director. Other members of the Committee will be designated from time to time by the Secretary. The Committee will act in an advisory capacity to the National Director in the formulation and execution of plans for the sale of Government securities."

That isn't the way I want it.

MR. GRAVES: That is the same arrangement we had when the War Finance Committee was set up in March - that language.

H.M. JR: I don't like that. I am going to be Chairman of the Committee, see? I want to change this.

- 2 -

I don't like the idea of the committee business, anyway. I mean, I don't want to appear - I don't want it as a Committee.

MR. BELL: That is what you have announced, that there will be a War Finance Committee.

H.M.JR: It is a section, Dan.

MR. BELL: Later on it is explained that this group is the War Finance Staff and maybe that is what you want there and leave the committee idea--

H.M.JR: I don't like this setup. We haven't got anything like this in the Treasury. We have a division - what do you call Internal Revenue?

MR. BELL: Bureau.

H.M.JR: Well, are they all bureaus?

MR. THOMPSON: Bureaus and divisions.

H.M.JR: I would much rather say "There is hereby created in the Treasury Department a division to be known as United States Treasury War Finance" - or something like that. I mean, I just don't like the committee idea.

MR. BELL: You have a committee now under Order 48.

H.M.JR: Pardon?

MR. BELL: You have a War Finance Committee under Order 48.

MR. GAMBLE: This was just made to conform to that but it can be changed. It doesn't have to remain the same.

H.M.JR: If there is going to be a committee, then I want to be chairman and then I want Bell as assistant chairman, and if you want to do it this way - and you (Gamble) will be the director.

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Now, I am talking sort of positive, but I am more than pleased to discuss it.

MR. GRAVES: I was assuming that we had the War Finance Committee.

H.M.JR: If you people think there should be a committee instead of a division, then I would like it my way. I mean, I will be chairman, Bell will be assistant chairman, and Gamble will be the director. If you want it as a division, then Mr. Gamble will be head of the division.

MR. GRAVES: We do both here.

MR. BELL: Yes, you do both. Why wouldn't it be better to start this off by changing the name of the War Savings Staff to War Finance Staff? Then say that the War Finance Committee - work that in--

MR. GRAVES: That is rearranging the order of it but preserving the War Finance Committee.

MR. BELL: I think so. That is set up so it conforms to your telegram and your War Finance Committee in the State.

H.M.JR: If you do it my way, I am chairman, Bell is assistant chairman, and Gamble is director. Otherwise, it leaves Bell in a sort of a nebulous position.

MR. BELL: Well--

H.M.JR: No, no, I am not trying to - I haven't time these days to - I want to be always polite, but I haven't time, always, to take an hour to say something, and I think you would have to then have a paragraph explaining Bell, and Bell is definitely to be your superior, you see, Ted.

MR. GAMBLE: This provides for that.

H.M.JR: Can I just talk it out with all these experts on Government procedure? I think you can carry out my wishes.

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MR. BELL: I think we can get it.

H.M.JR: (Continuing) "2. With the approval of the Secretary, the National Director shall formulate plans for the sale of Government securities and shall supervise the execution of such sales programs as may be determined upon."

Well, now, I don't like the second paragraph. I don't like anything in here! (Laughter)

MR. GRAVES: That, too, is taken right out of Order 48.

H.M.JR: I don't like it. I think, if I may suggest it--

MR. BELL: We changed that around.

H.M.JR: I think that if you are going to have a committee, then let the committee formulate the plans; then you don't have to say with my approval. Then it is up to the director to carry them out.

Talk up, Ted.

MR. GAMBLE: Well, I--

H.M.JR: I think it is up to the committee to formulate the plans and then it is up to you to carry them out.

MR. GAMBLE: That is what a committee is for. Otherwise, there is no point in having a committee. If you are going to have a committee they should have some function or else they just sit there for window trimming.

H.M.JR: If you are going to have a committee, and you are going to say this, then it is up to the committee to formulate the plans and it is up to the director to supervise the execution of these programs.

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MR. BELL: That is all right. This one ties into number one. You say, "The Committee will act in an advisory capacity to the National Director in the formulation and execution of plans."

H.M.JR: Well, I don't like it. I don't like the way it is here.

MR. BELL: If you are going to be chairman of the committee, then you can't act in an advisory capacity, I don't think.

H.M.JR: I think it is up to the committee - we will go very carefully - the committee will formulate the plans and they will be carried out and supervised by the director. If you decided to have a committee, that is the way to do it. If it is just going to be a division, then it is up to the division head to carry out the plans. I don't care which way you go.

Anybody in disagreement?

MR. THOMPSON: I think, in view of your feelings, that a division would be a better setup, and then you, as Secretary, would decide the policy and the division head, who would be Ted, would carry it out.

H.M.JR: I don't care. You can go either route just as long as you don't go this way.

MR. THOMPSON: Then you wouldn't need to put it in the order at all. Establish a division and the director of the division would carry them out.

H.M.JR: Personally, I don't care about having a committee. I mean, what will happen is - just to give you an example - here I am every minute of my time trying to do a week's work in three days. I go over there with this committee of Fred Vinson on stabilization - don't take this, Mrs. Dennis.

(Discussion off the record.)

I think it is much better to have Ted Gamble responsible for this War Finance selling organization - create a division. Now, what Mr. Bell said to me this morning - what he would like to have - he would like to meet twice a week with you (Gamble) and your staff. Now, that is no committee. I mean, there is no committee. You bring in your staff. He meets twice a week and he tells me the days and if I like to join them - I hope once a week to meet the way I did the other day. During the drive he wants to meet every day. That is the way I visualize it - you and your staff.

Now, the committee - what is the committee?

MR. BELL: It is a nominal thing, certainly, there is no question about it.

H.M.JR: But I believe in giving a fellow responsibility.

MR. GAMBLE: I think the division is the best setup. I agree with what Mr. Thompson said. I think it is the best because we thoroughly understand--

MR. GRAVES: I only did it this way because it was done this way before.

H.M.JR: Well, that doesn't make it right. There were other reasons. There were other circumstances before.

Will I have to read the whole thing through?

MR. GAMBLE: No, we will change it.

MR. GRAVES: I suggest you read the last paragraph.

H.M.JR: Do you?

MR. BELL: I think, going back to Fred's point the other day on this financing we are doing - tying it in with that May 27 statement - I think we have got to do a little work here on that.

H.M.JR: Work on it?

MR. BELL: I say, we have to do a little work to see that we are not changing that too completely and causing some confusion, because we did say that there would be a War Finance Committee, I think, in that statement. We certainly said it in the telegram that we sent to all the Federal Reserve banks and State chairmen.

MR. SMITH: You could probably do that in the first paragraph the way we did this. We just said "regular Treasury financing" and threw people off the track. (Laughter)

H.M.JR: (Reading) "5. The War Savings Staff, created by Department Order No. 39, dated March 19, 1941, as amended, will hereafter be known as the United States Treasury War Finance Staff, both at national headquarters and in the several States. The War Finance Staff will perform such functions connected with the promotion of the sale of Government securities as may be required by the National Director. The War Finance Staff in each State shall include the Chairman of the United States Treasury War Finance Committee for such State, with such other officers and employees as the Secretary of the Treasury may designate or appoint upon the recommendation of the National Director."

I don't get that. I don't see why we have to say that in this at all.

MR. GRAVES: Because, as I understand it, what Mr. Gamble is doing and wanting to do is to make the chairman actually an operating executive official.

H.M.JR: But I don't think that that should be in this order. I think that this order - I have got my nerve with me going up against these experts - my feeling is, this order should confine itself to setting up a division with Gamble at the head of it, then if we want to get out something on how the States should be set up, then get out a separate order on setting up the State organization.

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This should be confined to setting up Gamble so he can operate; then subsequently if he wants to get out another order stating how the States should be set up, let's do that. I would like two separate orders. This should be setting up Washington.

MR. GRAVES: Just a couple of sentences.

MR. BELL: I think this will have to be done to take your War Savings Staff into this new setup - give it a name.

MR. GRAVES: That is the last paragraph.

H.M.JR: Yes, but let's set up the Washington division; then if he wants another order setting up the State organization, let's do that.

MR. SMITH: Danny, would there be any possibility if you wanted to keep that War Finance Committee name, to continue that you make the heads of your State finance groups an advisory committee? They will be more or less of an advisory committee.

H.M.JR: Make the forty-eight State chairmen advisory.

MR. SMITH: Supposedly at the Washington level; then create the division which would be an additional thing.

H.M.JR: Make the forty-eight State chairmen an advisory committee to the Secretary.

MR. BELL: To the Secretary?

H.M.JR: Yes.

MR. SMITH: Then call that the War Finance Committee - you said you were going to have a War Finance Committee.

MR. GAMBLE: Have your staff under that.

MR. SMITH: Have your staff under the division.

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MR. GAMBLE: The chairman of that committee and also the active head of the staff - that should be covered in this order.

H.M.JR: I think that is a good idea, make the forty-eight State chairmen an advisory committee to the Office of the Secretary of the Treasury.

MR. GAMBLE: It would give some justification to the title of War Finance Committee.

MR. GRAVES: But you don't want to do that now.

H.M.JR: I would do it when I set up the State order.

MR. GRAVES: There is one thing I think we have to do when we write this order that changes the name of the War Savings Staff. That has to apply in the field as well as in Washington. That much of it, I think, we have got to do.

H.M.JR: All right.

One of the things - I don't want to announce this, though, until you are confirmed.

MR. BELL: Any progress on that? Have you heard anything?

MR. GRAVES: I don't know anything about it.

MR. THOMPSON: Commissioner Helvering told me that Senator George was going to expedite the action.

H.M.JR: I want to sign the thing and settle it so he can show it around here, but I don't want it made public until Harold is confirmed.

MR. BELL: If you make the forty-eight chairmen the War Finance Committee, what are you going to call the State organization?

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MR. GRAVES: That will be the division.

MR. BELL: I think Burgess wants--

MR. GRAVES: ... War Finance Committee.

MR. GAMBLE: That is all right. He can put his State Committee on there. He has his own advisory War Finance Committee for the State of New York.

MR. BELL: He wouldn't want the letterheads printed "War Finance Committee"; it would be "War Finance Staff," or something like that.

H.M.JR: You have something to clear?

MR. GAMBLE: I didn't want to clear anything; I wanted to tell you that the things you have asked me to do have already been done.

H.M.JR: He doesn't want to clear; he just wants to tell - see the way he acts. (Laughter)

MR. BELL: That certainly facilitates matters. (Laughter)

H.M.JR: We don't need an order, do we? (Laughter)

MR. GAMBLE: You asked me about the President's letter. (Memorandum from Mr. Coyne to Mr. Gamble dated June 25, 1943, handed to the Secretary, copy attached.)

H.M.JR: Do you know if anybody used it or not?

MR. GAMBLE: I can't answer that.

H.M.JR: I would be curious. That is swell.



TREASURY DEPARTMENT

WASHINGTON

TREASURY DEPARTMENT ORDER NO. :

Treasury Department Order No. 48, dated March 2, 1943, is hereby amended to read as follows:

1. There is hereby created in the Treasury Department a United States Treasury War Finance Committee, under the direction of an Assistant to the Secretary, who will serve as Chairman of the Committee and will function with the operating title of National Director. Other members of the Committee will be designated from time to time by the Secretary. The Committee will act in an advisory capacity to the National Director in the formulation and execution of plans for the sale of Government securities.

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

3. A United States Treasury War Finance Committee will be established in each State and Territory, and the

FOR DEFENSE

BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

-2-

District of Columbia, under the direction of the National Director. The Committee will act in a supervisory capacity in the execution of plans for the sale of Government securities within the State. Upon the establishment of the War Finance Committee in any State, the State War Savings Committee and the Regional Victory Fund Committees within the State will cease to function as such.

4. A United States Treasury War Finance Committee will be established in each county, municipality, or other political subdivision within each State, as may be determined by the National Director. The local Committee will have charge of promoting the sale of Government securities within the county, municipality, or other political subdivision which it represents, and it will perform its functions under the general supervision of the State War Finance Committee. Upon the establishment of the War Finance Committee in any county, municipality, or other political subdivision, the local War Savings and Victory Fund Committees will cease to function as such.

5. The War Savings Staff, created by Department Order No. 39, dated March 19, 1941, as amended, will hereafter be known as the United States Treasury War Finance Staff, both

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at national headquarters and in the several States. The War Finance Staff will perform such functions connected with the promotion of the sale of Government securities as may be required by the National Director. The War Finance Staff in each State shall include the Chairman of the United States Treasury War Finance Committee for such State, with such other officers and employees as the Secretary of the Treasury may designate or appoint upon the recommendation of the National Director.

Secretary of the Treasury.

Handwritten initials: JS, SA, and subB

June 25, 1943

Ted Gamble

Secretary Morgenthau

I understand that Miss Elliott is starting out, I believe this Saturday, for a week's trip. I would like to set her up in her new job before she starts out so that she could be looking over the people who will come under her under this new assignment. Get the order setting up Miss Elliott in her new job to me before lunch, please. *Finished*

June 25, 1943

Ted Gamble

Secretary Morgenthau

I understand that Miss Elliott is starting out, I believe this Saturday, for a week's trip. I would like to set her up in her new job before she starts out so that she could be looking over the people who will come under her under this new assignment. Get the order setting up Miss Elliott in her new job to me before lunch, please. *Finished*

June 25, 1943
3:28 p.m.

15*

HMJr:today with the President and Madame Chiang. Uh - she told me that the President said that he had hoped we would see Koo - is it? - from London....

Harry White: Koo - Wellington Koo?

HMJr: Well, whoever it - who's over - it isn't Koo....

W: That - who was over here already?

HMJr: Yeah.

W: Kuo.

HMJr: Kuo?

W: Yeah, and Hsi - Hsi Te-mou. They've been here.

HMJr: Well, they - she told me that she just had a message from the Generalissimo. They want to see me about the stabilization. Well, thank God, I knew what it was about because you told me yesterday.

W: Yes.

HMJr: So, I told them - I said, "Well, what you really want is to do away with the Stabilization Board."

W: (Laughs) Yeah. That's their motive - they didn't tell us that, did they?

HMJr: Yeah. I said, "That's what you really want, isn't it?" And she said, "Well, we want you to help us stabilize prices." So, I said, "Well, we'll be glad to see him." So, I'd get word to him - I'll give you a time now - well, I mean - the President made quite a point of it, you see?

W: I see. Well, then supposing I say that you will see him?

HMJr: I'll give you a time right now. Let - how long will it take you to do Ecuador Tuesday?

W: Oh - three minutes....

HMJr: Three minutes?

W:just to say a few words....

- 2 -

HMJr: Well, give the Chinese - why not let's tell them - you can't tell them 3:05, can you?

W: No. Tell them 3:00 o'clock and keep 'em waiting a little.

HMJr: Tell them three o'clock.

W: Three o'clock on Tuesday.

HMJr: Uh - Tuesday. I've got you down for Ecuador Tuesday at three.

W: Three. Yeah. That won't take more than about five minutes.

HMJr: Well, don't get your Chinese and your Ecuadorians mixed up.

W: No. All right. Well, that will be Tuesday at three o'clock we'll see Kuo and Hsi.

HMJr: All right. So I'll see you and Kuo. (Laughs)

W: (Laughs) Coo Coo.

HMJr: Coo Coo (Laughs)

W: Okay.

June 25, 1943
3:30 p.m.

FINANCING

Present: Mr. Bell
Mr. Gaston
Mr. Graves
Mr. Thompson
Mr. Gamble
Mr. Smith
Mrs. McHugh

H.M.JR: Now, how about this order?

(Treasury Department Order No. 50 handed to the Secretary by Mr. Gamble, copy attached.)

H.M.JR: Very good, boys. If I stay here another ten years - God forbid - you never know what will happen. (Laughter)

MR. THOMPSON: Another six years.

H.M.JR: I will try to stick a year and a half.

(Order signed by the Secretary.)

H.M.JR: What else?

MR. BELL: How long are you going to be here?

H.M.JR: I am practically gone.

MR. BELL: We will have one letter down here in a few minutes to go to department heads. I thought maybe you might want to look at it.

H.M.JR: I am practically gone. You say it is or isn't here?

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MR. BELL: It is in the typewriter.

H.M.JR: How long is it?

MR. BELL: A page, single-spaced.

H.M.JR: If they can't get the thing, give it to me in the air - wireless - let the boy practice - seriously.

MR. BELL: Smith saw it. He has passed on it.

MR. SMITH: What is that?

MR. BELL: The letter--

H.M.JR: Well, why bother me? (Laughter)

MR. SMITH: What letter is that?

MR. BELL: The letter to go to heads of departments about the pay-roll savings.

MR. SMITH: Oh, yes.

H.M.JR: Herbert, one little thing, did you have a chance to do anything on that Skouras thing?

MR. GASTON: We were discussing it in my office.

H.M.JR: And I interrupted you.

Well, glad to have met you all. (Laughter)



TREASURY DEPARTMENT

WASHINGTON

June 25, 1943

TREASURY DEPARTMENT ORDER NO. 50:

The War Savings Staff, created by Department Order No. 39, dated March 19, 1941, as amended, will hereafter be known as the War Finance Division of the Office of the Secretary. The War Finance Division will have charge of promoting the sale of securities offered to the public by the Treasury Department. It will perform its functions under the supervision of an Assistant to the Secretary, who will be known as National Director.

Henry M. O'Connell
Secretary of the Treasury.

H. M. O'Connell

FOR DEFENSE



JUN 25 1943

My dear Mr. Thomas:

Thank you very much for your letter of June 9, in which you suggest that in the War Finance Committee organization we give consideration to the establishment of a number of relatively large districts throughout the country, each to be composed of a number of States.

This suggestion will certainly have our most careful study. While the decision has been reached to have our basic organization follow State lines, this does not, as you know, preclude regionalization for purposes of supervision, and I have no doubt that in the end we will reach some such result as you have in mind.

Your helpfulness is much appreciated.

Sincerely,

(Signed) M. Morgenthau, Jr.

Complete file in Diary.
cc of reply to Graves

Mr. Harold B. Thomas,
170 Varick Street,
New York City.

HNG:fns

*PS. Just learned you have some
pills for me. Many thanks.*

HAROLD B. THOMAS
170 VARICK STREET
NEW YORK

June 9, 1943.

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

Dear Mr. Secretary:

I wrote you on the 25th of May about your new bond selling set-up as outlined to me by Ted Gamble. You were kind enough to respond most cordially and graciously on the 28th. In regard to this exchange of correspondence, I would like to make a further comment.

I understand that it has been necessary to give up the original plan of setting up the bond selling organization on Federal Reserve District lines and substituting therefor State lines. Since that seems necessary, I urge you to give consideration to the formation of relatively large districts throughout the country. Each district would, of course, be composed of several states. In this way, you would avoid the problems inherent in trying to have forty-eight states reporting to the Washington office. As you know, large business operations (and bond selling is one of the largest) have found it necessary to organize sales districts and it is in conformity with that experience, that I urge your consideration.

Cordially yours,

Harold B. Thomas

H. B. Thomas

and at Aoy's press conference

6/10/43

Maturities on which action should be taken before September 30th

	<u>Amount</u>	<u>Maturity Date</u>	<u>Action recommended</u>
R.F.C. notes	\$ 324 M	7-15-43	To be paid in cash.
Certificates	1,609 M	8-1-43	To be paid from proceeds of C/Is sold. Probably additional funds raised at same time.
Treasury note	279 M	9-15-43	To be paid in cash.
Treasury bond	1,401 M	10-15-43	To be refunded in whole or in part. Should be considered in connection with 3rd War Loan Drive.



TREASURY DEPARTMENT
WASHINGTON

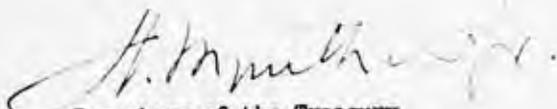
June 25, 1943

Dear Mr. President:

Subject to your approval, I propose to offer for cash subscription, under authority of the Second Liberty Bond Act, as amended, \$2,500,000,000, or thereabouts, of 1-1/2 percent Treasury Notes to be dated July 12, 1943, and to mature September 15, 1947.

The authorizing act provides that notes may be issued only with the approval of the President. Accordingly, I trust that the proposed issue will meet with your approval. It is my intention to make public announcement of the offering on Sunday, June 27.

Faithfully yours,


Secretary of the Treasury.

The President,
The White House.

APPROVED:





June 25, 1943.

Dear Marriner:

As you know, we have been going over the draft of the Executive Order "Regulation of Credit Under National Stabilization Program". At the one meeting which we had in the Office of the Director of Economic Stabilization I stated that I knew that the Board did not have any such thing in mind, but we wanted to make sure that in exercising the powers conferred by this Order they would not in any way interfere with the Treasury in the exercise of its fiscal functions. We suggested at that time that they might want to add a sentence at the end of Section 1 along the following lines :

"None of the powers vested 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."

This was readily accepted by the group, including your representatives.

In further considering the matter the question has been raised as to why this Order should not follow the lines of Executive Order No. 8843, pursuant to which your Board regulates consumer credit by setting up a committee on which the various interested agencies are represented. I talked this over with Ronald Ransom who gave me various reasons why you did not want to set up such a committee. I think we can appreciate those reasons, but I should like to agree upon an informal arrangement between the Board and the Treasury in view of our interest in the whole subject and the fact that at almost every point your regulations are liable to touch some function of the Treasury in its operations. I suggest that the technical staff of the Treasury be permitted to work on the proposed regulations with your technical staff and that we also be consulted from time to time in their operations. I think if this arrangement could be agreed to there would be no necessity for the committee that has been suggested.

Very truly yours,

Honorable Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Washington, D. C.

Agg Durbell

DWB:ew

Prepared by Capt. Kades

6/25/43

PROPOSED METHOD OF PURCHASING FARM PRODUCTS AT PRICES HIGH ENOUGH TO ENCOURAGE PRODUCTION AND SELLING SUCH PRODUCTS TO CONSUMERS WITHOUT INCREASING RETAIL PRICES.

1. The Economic Stabilization Director will issue a directive to the Secretary of Commerce that the RFC, through Defense Supplies Corporation, use its authority pursuant to the Emergency Price Control Act of 1942, as amended, and section 5(d) of the Reconstruction Finance Corporation Act, as amended, to purchase and sell such agricultural commodities defined as critical and strategic materials, in such quantities and upon such terms and conditions (except prices) as the War Food Administrator shall designate. The price at which the agricultural commodities are purchased would be determined by the War Food Administrator and the price at which such commodities are sold would be determined by the Economic Stabilization Director.
2. Existing commitments of the Commodity Credit Corporation can be discharged by it within the limits of its funds now on hand.
3. The administrative staff of the Commodity Credit Corporation could be transferred to Defense Supplies Corporation as a virtually self-contained administrative unit to carry out the new purchase and sale program.
4. Other operations of the character formerly carried out by the Commodity Credit Corporation, such as absorption of processors' losses and foreign purchasing of agricultural commodities, could continue to be carried out through the suggested administrative unit of Defense Supplies Corporation. The objective of mandatory non-recourse crop loans required under existing law to be made available by Commodity Credit Corporation, could be attained through Defense Supplies Corporation by purchase and sale operations.
5. The utilization of this plan is necessarily limited by the availability of RFC funds.

Thomas Lynch's office:

David J. Speck

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUN 25 1943

TO Secretary Morgenthau
FROM Mr. Paul

Captain Kades tells me that you would like to know about the provisions of the Food Stamp Plan bills (S. 1260, H.R. 2997) recently introduced by Senator Lodge and Congressman Herter.

The Plan would apply to articles of food designated jointly by the War Food Administrator and the Surgeon General of the United States. It would be financed out of funds of the Commodity Credit Corporation. Distribution would be through authorized retailers and other distributors of food.

The Plan would utilize the State Welfare agency designated by the Governor of each State to determine eligible persons to receive the food stamps. An "eligible person" under the Plan would be:

(a) Any individual whose family income is not greater than \$1,000, if single, or \$1,200, if married (plus \$100 for each dependent), and whose income is not more than 20% above his income on January 1, 1939;

(b) Any individual 50% or more of whose family income is used to purchase food;

(c) Any private institution or individual who maintains a foster home for children or provides food and shelter for any individual described in paragraph (a) or (b).

The use of the food stamps would be limited to not more than 25%, as fixed by the War Food Administrator, of the value of the total food purchases made by an eligible person.



○

Thomas Lynch's office :

Joseph Filachek and David Speck

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUN 25 1943

Secretary Morgenthau

FROM Mr. Paul

The Senate yesterday continued its debate on the subsidy issue, in connection with the Commodity Credit Corporation extension bill, but reached no vote on any of the various subsidy amendments.

The debate centered on the amendments of Senator Aiken and Senator Clark which have been put forward as substitutes for the Taft-Bankhead amendment, described in my memorandum to you yesterday.

The Aiken substitute amendment is quite complex and does not appear to have much support from the anti-subsidy bloc. Judging from the debate yesterday, I believe that the opponents of subsidies will support the Clark substitute.

The principal effect of the Aiken amendment, besides banning subsidies not specifically authorized by Congress, with limited exceptions, would be to prevent price ceilings on agricultural commodities below a price reflecting to producers the higher of the maximum prices provided by the Stabilization Act of October 2, 1942, or at support prices announced by the Secretary of Agriculture or the War Food Administrator.

The Clark amendment would repeal the authority in section 2(e) of the Emergency Price Control Act for making subsidy payments, but would permit payments to be made to those who have heretofore acted in good faith in reliance upon the announcements as to the roll-back of prices on butter and meat.

Senator George, who was supporting the Clark amendment, offered an amendment to it, which Senator Clark has accepted, to permit the continuance of the subsidy programs with respect to strategic and critical materials and increased costs of transportation resulting from the war emergency.

- 2 -

The Senate will today continue the debate on the various subsidy amendments and it appears that Senator Clark will get a vote on his amendment before the Taft-Bankhead amendment, previously described, can come to a vote.



*Orig given to
Haji - 6/25/43*

June 25, 1943

Secretary Morgenthau

Fred Smith

Not-Very-Much-Progress Report on the Edward Arnold Movie about Inflation:

Danny Bell was under a misapprehension in stating that this picture was sent to us for our OK. It was sent to us with a request that we find ways of promoting it. The bitter truth is that the picture has been made, distributed, advertised widely, and has shown in many of the leading theaters.

It is not likely that we would have luck in trying to recall it at this stage.

I talked to the OWI, and found they had nothing to do with making it, other than OK'ing the script. I talked to Lowell Mellett, who said it was completely an operation by the movie company, without any action on the part of the Government. The idea for the film was cooked up in Hollywood, submitted to Mellett, approved with suggestions by the OPA, and produced without the Government having anything further to do with it.

I think we might write a letter to Howard Dietz reminding him that in the future you should like to see, in time to do something about it, anything that has to do with the Treasury's business.

WHICH REMINDS ME: WHEN DO WE TAKE A LOOK AT THE INFLATION CAMPAIGN PREPARED BY THE COUNCIL? IT WILL ALSO BE TOO LATE TO DO ANYTHING ABOUT THAT IF IT ISN'T DONE SOON. PERHAPS WE COULD SEE IT MONDAY IN NEW YORK.

FS:cf

FS

STANDARD FORM No. 14 A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

JUNE 25 1948

MR HOWARD DIETZ
METRO-GOLDWYN-MAYER
1540 BROADWAY
NEW YORK NEW YORK

I HAVE JUST SEEN YOUR PICTURE ON INFLATION CONSIDER IT DANGEROUS
AND HARMFUL WOULD GREATLY APPRECIATE YOUR KILLING IT

HENRY MORGENTHAU JR

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

June 25, 1943

TO Secretary Morgenthau

FROM Randolph Paul

I saw Senator George yesterday, and among other things, brought up with him the question of his newspaper statement in favor of compulsory saving. He acknowledged the authenticity of the statement; said he had changed his mind from the time he discussed the matter with you, and was convinced that we needed some compulsory saving. I called his attention to the necessity of the September and December drives, and the whole problem of transition in case we should go to compulsory saving, making it clear to him that we had the problem of demoralization of hundreds of thousands of workers on such drives. He acknowledged these difficulties but we did not come to any particular agreement. About all I could do was impress him with our problem.



M

June 25, 1943

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

For your information Senator Vandenberg has sent the Social Security Board a letter requesting various items of information on the receipts, benefit payments, and financial position of the Old-Age and Retirement Insurance Trust Fund.

This is the same kind of information he received last year, and which he used to block the scheduled increase in Social Security payroll tax rates. His request now may anticipate a similar effort this year.

RB

25

June 25, 1943

Dear Frank:

I have your letter of June 19, 1943, advising that Admiral Conard is out of the hospital and has now sufficiently recovered so that he can return to active work, and asking to be advised whether we desire Admiral Conard to resume his duties as Chairman of the Interdepartmental Committee for the Voluntary Payroll Savings Plan for the purchase of War Savings Bonds.

We have been reorganizing our entire set-up to handle the sale of War Bonds and other Government securities, not only here in Washington but in the field as well. This new set-up will be administered by personnel appointed by me and directly responsible to one of my Assistants here at the Treasury. I believe, therefore, that we are now in a position where the Treasury should assume responsibility over the Interdepartmental Committee by the appointment of one of its own personnel and that we can release the services of Admiral Conard so that he may return to duty in the Navy Department.

I appreciate the good work that Admiral Conard has done for the Interdepartmental Committee and thank you for being so generous in loaning him to us when we were short-handed. I shall appreciate it if you will extend to him my personal thanks for his untiring efforts in behalf of the Treasury's War Bond program.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

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

DWB:ew

C O P Y

June 19, 1943

My dear Henry:

I am advised that Admiral Conard who has been in the hospital for the past few months has now sufficiently recovered so he can return to active work.

Prior to his hospitalization Admiral Conard served as chairman of the Interdepartmental Committee for the Voluntary Payroll Savings Plan for the purchase of War Savings Bonds. In this capacity he reported to you for duty.

Will you kindly let me know if you desire Admiral Conard to resume these duties upon his discharge from the hospital?

Yours sincerely,

/s/ FRANK KNOX

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

June 25, 1943

Ted Gamble

Secretary Morgenthau

Please see that instructions go out to the forty-eight states on how to merchandise the President's letter. I want to have each state, as I told you last night, see that a copy of this letter goes into the pay envelope of every worker in the state, whether they are on the payroll deduction plan or not. I want a copy of your instructions to be in my hands before I go to Cabinet at two o'clock, please.

What I want is an actual photostat or a copy of the President's letter with his signature to go to the worker, and if you need another letter signed by the President without the corrections in it, speak to Mrs. McHugh and I'll take it up right away and get the President to sign another letter. But I should think that we could simply re-type the letter and add his signature to it. *Finished*

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE 6/25/43

TO: Mr. Gamble
FROM: Mr. Coyne

This is what happened to the President's letter:

1. A press release was prepared for release at 6 p.m. to all news services.

2. Wires were sent to all radio commentators for release at 6 p.m. or later.

3. Wires were immediately sent to all State Chairmen and remaining State Administrators to give impetus to the payroll savings drive.

4. Arrangements were made to produce 30,000 copies of the letter with a heading entitled "A Message to Every American from the President", to be immediately dupligraphed by the Mailing Division in Chicago and sent to the 30,000 firms on the Tickton list.

5. 250,000 posters in blue and red, size 11" x 14" were put in immediate production by the Western Newspaper Union in Chicago and will be mailed by Saturday, June 26, 150,000 copies to be sent to the firms on the Tickton list (5 copies to each firm) and 100,000 copies to be sent to State Administrators/State Chairmen for distribution to larger plants and plants not covered by the Tickton list.

6. A full-page newspaper ad and a 1000-line adaptation with the same heading as used on the letter sent to firms, will be mailed to all newspapers on our list. These mats should be in the mail by Saturday afternoon. They will be reproduced by the Western Newspaper Union in Chicago.

7. 30 million payroll stuffers in two colors, red and blue, are in production at the Government Printing Office for delivery within two weeks (proofs this afternoon).

8. A three-column mat release will be sent to all company publications and the regular labor press list. The Western Newspaper Union will manufacture mats, using reproduction proofs for company publications, with shipment Saturday.

9. Radio copy and all press material prepared in the immediate future will reflect the President's forthright stand.

10. The Women's publication, "The Home Front Journal", will set forth the letter in facsimile. This publication is out early in July.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 25, 1943

TO Secretary Morgenthau
 FROM Fred Smith *FS*

I have had another discussion with Doubleday-Doran about writing the Treasury story.

I told Mr. Cartmell, the editor, that it was difficult to decide whether such a book could or could not be written; that probably the only practical way to find out whether or not it is possible to write such a book would be to assign a writer for several weeks to try his hand at getting the information and writing the book. I told him that if he wanted the book badly enough to gamble on it, he might make a proposition for me to discuss with you.

His proposition was that he hire a writer who would be suitable to us, agree to invest \$1,500 to \$2,000 to see whether the idea is practical. If we find at the end of a period of weeks that it is impractical, he will call off the writer and charge it up to profit and loss.

With such a proposition as this, it might be an idea to see whether the book can be written. If it can, we are considerably ahead. If it can't, we are not out anything.

What do you think?

*Book will have to be postponed
 at least until end of year.
 Put on shelf for time being.
 (7-27 Smith's ltr to Cartmell)*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
JUN 16 1943

TO Secretary Morgenthau
FROM Randolph Paul

17. M. F. June 25. 1943

For some time past we have been concerned over the functioning of Sam Klaus' office. Its exact sphere of operation and its connection with the office of the General Counsel has never been very clear to me. As you know, he has been operating since October 30, 1941, pursuant to an Order under which you directed that --

"The present functions of Samuel Klaus and of the personnel now working under his direction are hereby transferred to the Legal Division and such functions shall be performed under the supervision and direction of the General Counsel. Mr. Klaus and his staff will engage in such activities as are assigned by Mr. Foley."

In part because I had felt woefully ignorant as to the exact purpose of the setup I inherited, and in part because it seemed to me that whatever its original purpose the situation might stand reexamination, I have held a series of discussions with my principal assistants on the subject. More recently, I appointed a subcommittee of two of the Assistants General Counsel (Messrs. O'Connell and Roth) to explore the situation still further and to discuss with Sam the exact character of his present operations and the exact status of such projects as he now has under way.

Sam's activities over the past months, if not years, have been divided into two general categories; (1) the receipt, coordination, assimilation and distribution of intelligence information received in the Department from the FBI, MID, ONI and other Government intelligence agencies and (2) the undertaking of particular investigation jobs on assignment by the General Counsel.

Secretary Morgenthau, 2.

As to the first, it seems perfectly clear that this operation is one which can very readily be carried on by Mr. Irey's office, and that there is no longer any compelling reason for having it occupy, as it now does, a substantial part of the time of Sam and his staff.

As to the second, Sam's current projects are both in the nature of tax investigations, one of which relates to the activities of the America First Committee and the other to certain German organizations which have in the past enjoyed a tax-exempt status.

Sam's present organization has in it about a dozen people besides himself, all of whom are paid from the Foreign Funds Control appropriation. The expenditure involved in the operation of his office approaches \$50,000 a year, a sum which, particularly in view of the drastic curtailment of appropriations, Foreign Funds can ill afford to continue to pay (this, of course, quite apart from the doubtful justification of this expenditure as relating to the Foreign Funds function).

From our analysis of the situation (and all of my immediate staff are unanimous with me in this -- a judgment in which Mr. Gaston concurs), it seems perfectly clear that:

- (1) Sam's present organization should be broken up;
- (2) His confidential files and function of coordinating intelligence information should be transferred to Mr. Irey;
- (3) Most of his existing organization should be transferred to other work (where they are all badly needed); and
- (4) Sam should be retransferred to the General Counsel's payroll with the understanding that
 - (a) he will complete the revenue investigations now under way to the extent thought desirable by Internal Revenue, and

Secretary Morgenthau,

3.

(b) he will continue to be given such special assignments of work, investigative or otherwise, as the occasion may hereafter demand.

Ordinarily I would not bother you with such a matter as this, but would go ahead and make the indicated changes. However, in view of your Order of October 30, 1941, I thought it necessary to clear the matter with you first.

The matter has been discussed with Sam and, while I would not say he is entirely happy with the result reached, I think he would agree that the portion of his work which relates to the coordination of intelligence information and to the field of so-called subversive activities is, at best, of declining importance. In any event, from the standpoint of the organization I see no escape from what has been suggested.

Unless you disapprove I will proceed to put the changes into effect as of the first of July.



OFFICE OF
THE SECRETARY OF THE TREASURY

June 25, 1943

Dear Miss Thomas:

I am attaching hereto the letter to General Walter B. Smith. Secretary Morgenthau greatly appreciates your taking care of this for him.

Sincerely,

June 25, 1948

My dear General Smith:

I had planned to come to North Africa the latter part of May and had the blessing of President Roosevelt and General Marshall to go ahead and make the trip. However, circumstances arose which made it impossible for me to leave the country, much to my regret.

I have been watching with great interest the successes of our Army in North Africa, and would have thoroughly enjoyed visiting with General Eisenhower and you after the capture of Tunisia.

I still have hopes that sometime between now and September 9th, when we have our next financing, that it will be possible for me to leave the country and convenient for you to receive me, but my plans are still all very much up in the air.

Hoping that you are enjoying the best of health, and with my kindest personal regards to General Eisenhower, I remain

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Major General Walter B. Smith,
United States Army.

ALLIED FORCE HEADQUARTERS
Office of the Chief of Staff

11 April, 1943

Dear Mr. Morgenthau:

Bernstein handed me your note of March 31st immediately on his arrival here. Our invitation to visit North Africa is a continuing one and you will be welcome any time. As a matter of fact, since you mention the first of May, the period between May 1st and May 15th would be a particularly good time for your visit. General Eisenhower has asked me to assure you of his hope that you will come and, of course, I am anxious to see you. I think we can assure you of an interesting visit.

Will you please remember me to Mrs. Klotz.

Sincerely,



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

MEMORANDUM FOR THE SECRETARY.

June 25, 1943.

Mail Report

Mail receipts of the past week were low in quantity, and lacked any comments of special interest. From a correspondent's point of view it was probably one of the slowest weeks of the year.

Only 37 individuals sent Bonds to the Secretary for cashing; a number of these, however, sent from 2 to 6 Bonds in the single envelope. One man sent two \$25.00 Bonds as a gift to the Government.

Of 51 complaints on nondelivery of Bonds, 44 applied to War Department purchases. There was considerable correspondence about nonreceipt of interest and the calling of Bonds, and the usual collection of inquiries about the soundness of War Bonds, etc. The Drew Pearson column drew 8 letters urging that Bonds remain nonnegotiable. A column by Westbrook Pegler was sent by one correspondent who supported Mr. Pegler's attack upon the Treasury very strongly. One other writer sent a copy of his letter to his local newspaper protesting the printing of the Pegler column, and urging the Treasury to answer it promptly and in such a way that this columnist would discontinue his unwarranted attacks.

There were 7 letters urging greater economy, and 1 complaint based on the rumors of laxity in running Japanese internment camps.

The question of taxes is still an important one in the public mind, but letters usually contain specific inquiries, rather than comments. There have been a number of requests for exceptions to be made to the withholding tax, and a number of firms complain of the increased record keeping involved. Many banks are asking that they be made depositories of the funds.

Y. G. Forbush

General Comments

Dr. H. F. Howe, Toledo Clinic, Toledo, Ohio.
I represent the majority of my fellow citizens, in that I have cooperated willingly in the support of our Government. This statement is supported by the fact that I have volunteered for service in the Army, have purchased War Bonds to the limits suggested, have paid my income and other taxes freely, promptly, and willingly, and have supported the Administration in its foreign and domestic policies in every way possible. My patience and my faith in our Administration in Washington are being put to a severe test by the lack of efficiency demonstrated in the management of our domestic affairs. The waste of time, effort and money in the conduct of Government affairs is indeed sinful. What are we to think when we survey the confusion, complicated tax programmes, the failure to stabilize prices, or wages, and the inadequacy of all measures so far produced to control inflation? The answer is either that those in authority are incompetent, or that they are impelled by seemingly wise political motives, rather than inspired and devoted to act for the common good. * * *

R. M. Nelson, Sloan Valve Company, Chicago, Ill. The day after Pearl Harbor we resolved to put all we could into winning the war. We went from one shift to 24 hours, doing it mostly with women - teaching them things they never knew before. We not only upped production of our own product, but we sought other work that was badly needed, and by June were in full production on parts for armored tanks, anti-aircraft guns, fuzes, etc. * * * We have worked on material we never used before. We have pulled prime contractors out of a hole many times. We have voluntarily reduced our price on parts after we came to know how to make them. * * * We have bought machines out of our pocket to do better and more accurate work. We were one of the first to get the Minute Man Flag for War Bonds. We loaned one of

- 2 -

our men as District Sales Manager for the War Bond Drive. We have most of our cash in Government Bonds. With our executives and key men, vacations are unheard of -- hours mean nothing -- the nervous strain has been terrific. All this without the profit motive, as we knew in June, 1942, we would land in the 80% or 90% tax bracket, and we did. We grossed 20% in 1942, but netted 27% less than in 1941. Yet we are told by the Ordnance Department Renegotiator that we grossed too much, and it looks like he will take a big part of it away, although the net will hardly cover the cost. If this doesn't break the spirit of those honestly giving their all to win the war, it leaves very little left to do so.

- 3 -

Favorable Comments on Bonds

Robert Bernheim, Havana, Vedado, Cuba. As an old banker, I must agree with your ideas in the largest manner. It is sure, that when a Bond is nonnegotiable as E Bonds are now, its value does not fluctuate, but once the Bonds become negotiable, prices will be determined by their trading value. There are always "ups and downs" during a long war. It must be eliminated that people lose their money on Liberty Bonds. It must be possible to find a way, that such people who need money, can receive it without selling Bonds on the stock exchange.

Unfavorable Comments on Bonds

Elizabeth K. Spanbauer, Albany, N. Y. * * * The sale of War Bonds is already receiving a dreadful setback. My job is handling payroll deductions for Bonds. * * This week we have been "swamped" by cancellations. Not merely reducing their purchases, but stopping them entirely, and I know it will continue. * * * It is of course due to the fear of the tax to be deducted July 1st. Most of them -- people supposed to be fairly intelligent -- act as if they had never paid an income tax before, and this tax is something new and terrifying. It could be explained to them in simple language -- they have paid their income tax and bought Bonds at the same time, and they can still do it, but someone "important" ought to tell them so before the panic gets worse. Get somebody on the radio -- quick!

Miss Ruth L. Goldsmith, Brooklyn, N.Y. When I bought War Bonds I was told that I must designate an individual as beneficiary. Will you please explain why such a stupid ruling has been made? When the Bond matures, there is less difficulty in locating a beneficiary like the "Salvation Army" than there is in locating "John Smith" who may be dead, or unable to be found. I know two wealthy women who have bought no War Bonds, simply because there is no individual to whom they care to bequeath them. * * * Leaving the Bonds to one's "estate" necessitates making a will and complicates matters.

Mrs. Roberta Williams Burgard, Louisville, Ky. You answered a letter written to the Secretary of the Treasury on April 6th. Therefore I am taking the privilege of writing to you again about the same Bonds, since, in a letter dated April 15th, D. U. Emmert, Capt. Finance Department, requested me to withhold any further communications concerning the nonreceipt of War Bonds, subscribed for by Major John W. Burgard. I feel that two months is ample time for them to have found out

something about the Bonds. I also feel, in this case, the longer they delay locating same, the more difficult it may be to do so. At any rate, I would like to know if they have or are doing anything about it. **

W. R. Tuson, Vice President & Treasurer, The H & W Company, Inc., Newark, N. J. We regret we are obliged to inform you that we will no longer be able to cooperate with you in the preparation of the enclosed reports. (Payroll Savings Reports) As you are doubtless aware, it is almost impossible for us to secure additional office help today. As you are also doubtless aware, the new tax law has put a heavy new burden on our remaining girls. In addition to these troubles, WPB has steadfastly refused to release calculating machines to us, which would go a long way toward solving our difficulties. Under the circumstances, we can see no course open to us but to discontinue all reports that are not absolutely essential.

W. J. Kaufman, Mackenzie Farms, Hampton, N. J. If you're really looking for a radio program that will sell more Bonds, why don't you have your sales department listen to the Sunday evening program, "Man Behind The Guns". If a program sketch like last Sunday's, June 20, can't sell Bonds better than some of the musical programmes you've had, I'll eat a Bond.

- 6 -

Favorable Comments on Taxation

Dixie Tiller, Chairman, Local #78, United Cannery, Agricultural, Packing and Allied Workers of America, CIO, Salinas, Calif. (Night Letter) The seven thousand members of our Union, patriotic working men and women engaged exclusively in the packing and processing of fresh fruits and vegetables in the industrialized agricultural districts of California, vehemently protest being excluded from the twenty percent deduction plan. The cost of living is so high that it is necessary that we spend all we make to keep ourselves alive, and unless the deduction is made at the source, we fear that we will be unable to contribute our share of the money it will take to defeat Fascism. We respectfully urge that you use your good office to the end that we are included in the payroll deduction plan, and notify us of the action taken.

M. A. Long, President, The Atlantic Supply Company, Baltimore, Maryland. We have your circular WT referring to collection of income tax at the source, and particularly want to compliment your Department on the short and concise notice as shown in the box on page 12. This is the clearest description we have seen to ever come from your Department. Most of such descriptions and rules consist of long involved sentences which are so obscure that the poor lawyer who wrote them must have trouble to really know what they mean. The writer is willing to bet that the short description mentioned above was either not written by a lawyer, or was corrected by some one who is not a lawyer.

Unfavorable Comments on Taxation

T. W. Zink, Tazewell, Va. We have just witnessed the spectacle of the rottenest Congress and Senate in my lifetime, (66 years) relieving for about six billion taxes to the 1942 War Profiteers, we find the same defeating everything that would help the majority of people, and giving the taxpayers' money away to the selected few. I was buying a \$50.00 monthly Bond from my employer (N. & W. Railway, Roanoke, Va.), but when I found what Congress and Senate were doing with the money, I stopped that and sold those I had. I have a boy in Africa. We are concerned about him every minute we are awake, and sleep very little on that account, and feel the Congressmen and Senators, at least those that are buying \$30,000.00 farms, are selling the lifeblood of our boys.

Senator Lodge forwards the following letter he has received from James A. Watts, Boston, Mass. As you know, all persons who work for the U. S. Government in the Navy Yards are paid by the Government in check, which is a legal tender for money. * * * On Monday I went to pay the second installment of my income tax with the check that I had, but when I offered the same at the window, was informed that they could not accept it. So when I arrived back from having had the check changed at a local bank, I found that they were accepting personal checks, which I should think are not as valid as a wage check given to U. S. employees. It would be very interesting to know why it is that the Government refuses to accept its own checks for income tax, and yet they will accept a personal check.

Raymond H. Taylor, Chicago, Ill. Relative to this new pay-as-you-go income tax regulation, I am one of those fellows who trusted the Government and paid

their entire 1942 tax bill in full. I have read all the literature I could find and even wrote to the Collector here in Chicago, but so far I find no reply and learn nothing as to what my position is. * * * I have written to Senators and Congressmen as they seem to believe that I will have a refund coming, which if 75%, as in my case, would be \$310.12. But they don't seem to know when, or how I will get it. At the same time, nothing is known about the interest I should receive as the Government is having use of that money for at least a year, if the refund is not due until March 15, 1944. I have an HOLC Government loan, of which I am paid far in advance to the time called for in the loan. I pay interest as is due on the loan, and it is reasonable that I should have the same interest rate from the Government as I am paying to the Government. It's just fair play and let us say, American. If you can pass this to the proper department that can pass this credit to the HOLC, to be applied upon my account, say within a reasonable time, I in turn would let the interest, which is reasonably due me, drop as paid in full. * * *

John H. MacMurdy, MacMurdy & Company, Investments, N.Y.C. I am indeed sorry to bother you with what will seem to you a very trivial matter, but I can get no satisfaction from the proper source to which I have been writing many times. We have a claim for tax rebate on Western Union Ticker Service amounting to \$86.57 to recover from 1936 to January 31, 1940. * * * Repeated inquiries made by us to Washington to the Internal Revenue Bureau have been referred to the office of D. S. Bliss, Deputy Commissioner, eliciting the reply that "The claim referred to is receiving the consideration of this Bureau". As I am closing up my firm, it is very embarrassing not to have this matter cleaned up, and I would be very grateful if you would see whether some action is possible. I hate to think what my fate would be if I owed money to the Government since 1940 and it is now 1943!

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G. A. Reynolds, Vice President, Armor Products, Inc., N.Y.C. Time, paper, money and tempers can be saved, and constitutionality can be preserved by recognizing that "For Export" on a Bill of Lading is adequate evidence that a shipment is for export to make it unnecessary for shippers for export to fill out all sorts of forms for the Internal Revenue Bureau, in order to exempt the 3% Transportation Tax which needlessly plagues exporters under present procedure. Can't some intelligent action be taken to relieve our overburdened, undermanned force who are spending half their time today on all sorts of Government forms?

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

June 25, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Subsidies - Both the Senate and the House meet today at 11 o'clock to consider the Administration's price roll-back subsidy program, which in both houses is at stake in amendments to similar measures extending for two years the life of the CCC. Although it is generally conceded that there is little hope of defeating the anti-subsidy amendment in the House, Administration leaders are expected to make a last-stand fight in the Senate. But even here, Senator Bennett Champ Clark's proposal to repeal the section of the 1942 Price Stabilization Act authorizing subsidies, is said to be gaining in popularity. Yesterday Senator George modified the proposal, with Clark's approval, to permit transportation and metal subsidies. Another amendment slated for Senate consideration today is the Taft proposal for a limited subsidy program of \$500,000,000 for the RFC and \$175,000,000 for the CCC. The OPA subsidy program was also threatened yesterday in the House Agriculture Committee's vote to transfer all OPA food price and rationing powers to War Food Administrator Davis.
2. Deficiency Appropriation Bill - The Senate stood firm yesterday in its refusal to accept the House amendment to the Urgent Deficiency Appropriation Bill, banning use of any of its funds for the payment of salaries to three federal employees accused of subversive activities. After a month of bickering, Senate conferees had finally agreed to the amendment when they became convinced the House would not pass the measure without it. The House is scheduled to reconsider Senate action today, with every indication pointing to their continued insistence on this amendment, which has been denounced as unconstitutional and prejudiced. If the bill is thus hopelessly deadlocked, hundreds of federal employees will continue to be deprived of their pay checks.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 25, 1943

TO Mr. Thompson
FROM Mr. Hays

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of September 1942.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under Way, and the Names of Persons Working on Each for the month of September 1942

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. Memoranda were prepared on recent changes in prices and yields of Government securities, and were transmitted to the Secretary on September 5, 11, 18, and 25. Two tables and a chart were attached to each memorandum. - Mr. Haas, Mr. Sandelin, Mr. Kroll, Mrs. Grossman, Miss Parker, Miss Strahl.
2. Yields on public marketable securities issued by the United States Government and by Federal agencies were computed daily on the basis of over-the-counter closing quotations. A daily table and a weekly table with comparative data for earlier periods were prepared. A chart for each issue was kept up to date showing daily price and yield figures with comparative monthly data since 1935, since the date of issue, or since the date first traded. In addition, yields were computed daily on five high-grade corporate securities, three municipal securities, and two British Government issues. - Mr. Kroll, Mr. Moody, Mrs. Grossman, Miss McCoy, Miss Strahl.
3. A maturity calendar was prepared as of September 25, covering all issues of direct and guaranteed bonds, notes, and certificates of the United States. - Miss Lagos.
4. Two tables, "Possible New Treasury Issues", based on closing bid prices of September 5, and "Subscriptions to Certificates of Indebtedness, Classified by Type of

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Investor" were prepared in connection with the September financing for use at a meeting in the Secretary's office on September 8. - Mr. Murphy, Mr. Sandelin, Mr. Conrad, Miss Lagos.

5. A table, "Possible New Treasury Issues", based on closing bid prices of September 8, was prepared in connection with the September financing. - Mr. Sandelin, Mr. Conrad.
6. A memorandum was prepared on the October financing, and was transmitted to the Secretary on September 28. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Tickton, Mr. Sandelin, Mrs. Wolkind.
7. In response to the request by the Secretary on January 21, 1941, that measures be taken to obtain information to assist in carrying through the financing program, arrangements were made to obtain the necessary statistics on the holdings of each issue of the public debt and of guaranteed securities by the various classes of holders. - Mr. Haas, Mr. Tickton, Mrs. Barnes, Mr. D. J. Leahy, Mrs. Wolkind, Miss Westerman, Mrs. Cambron, Mrs. Merkin, Miss Wood.
 - (a) Supervision was given in the preparation by the Statistical Unit of the Division of Loans and Currency of tables showing the information as of August 31, received from banks and insurance companies. The tables were transmitted according to instruction by the Secretary. - Mr. Tickton, Mrs. Barnes, Mr. Leahy, Miss Westerman, Mrs. Cambron, Mrs. Merkin, Miss Wood.
 - (b) Tabulations were prepared, and were transmitted on September 29, to the Federal Reserve Banks of New York and Philadelphia, showing holdings of each issue of Government securities in their respective districts, as of July 31. - Mr. Tickton, Mr. Leahy, Miss Westerman.
 - (c) A tabulation was prepared, and was transmitted on September 29, to the Board of Governors of the Federal Reserve System, showing Government securities owned on July 31 by banks. - Mr. Tickton, Mr. Leahy, Miss Westerman.

- (d) Monthly tables and charts were prepared, showing as of June 30, changes since June 30, 1941, in holdings of Government securities for the major classes of investors by type of security. - Mrs. Wolkind.
 - (e) A memorandum was prepared, showing coverage of various classes of investors included in the Treasury survey. - Mrs. Wolkind.
 - (f) A memorandum was prepared on the absorption of the public debt. - Mrs. Wolkind.
 - (g) New letters were sent out to the banks and insurance companies requesting comparable data as of September 30. - Mr. Tickton.
3. At the request of the Secretary on May 12, 1941, arrangements were made to prepare current statistical reports on the sales of United States savings bonds, series E, F, and G, and Postal savings stamps, on the basis of reports by the Treasurer of the United States, the Federal Reserve Banks, and the Post Office Department. The reports prepared during September were transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Reagh, Mr. Tickton, Mr. Brown, Mr. Leahy, Mr. Kroll, Mrs. Grossman, Miss Wender, Miss Schmidt, Miss Strahl, Miss Andrulonis.
- (a) Daily tables:
 - (1) Dollar volume of bonds sold in September, by series.
 - (2) Comparison of daily sales of bonds for August and September.
 - (3) Comparison of daily sales with the September quota, taking into account the daily and monthly trends.
 - (4) Comparison of September sales of bonds, series E, with sales during July and August.
 - (5) Comparison of September sales of bonds, series F and G, with sales during July and August.

- (6) Comparison of September sales of bonds, series E, F, and G, with sales during July and August.
- Mr. Reagh, Mr. Brown, Mr. Kroll

(b) Other tables:

- (1) Supervision was given in the preparation by the Statistical Unit of the Division of Loans and Currency of monthly tables, showing sales of bonds, series E, for August, by States, cities, and counties, classified by sales agent and denomination. On September 9, Mr. Reagh completed a trip made for the purpose of explaining to officials of the Federal Reserve banks the revised procedure of reporting sales of bonds, series E, on a quarter-monthly basis. Further instructions were given to the Federal Reserve Banks in telegrams dated September 17, 21, 23, and 25. - Mr. Reagh, Mr. Leahy.
- (2) Estimated number of units of bonds, Series E, and percent of dollar volume sold, by denominations and months, May 1941-August, dated September 15. - Mr. Reagh, Mr. Brown, Mr. Kroll, Mrs. Grossman, Miss Strahl, Miss Andrulonis.
- (3) Per capita sales of bonds, series E, by States, May 1941-August, dated September 16. - Mr. Reagh, Mr. Brown, Mr. Kroll, Mrs. Grossman, Miss Strahl, Miss Andrulonis.

9. At the request of Mr. Graves, two tables for August, one on the sales of war savings bonds, series E, F, and G, by States, and the other comparing the sales of bonds by States with the established monthly quotas, were prepared, and were transmitted to him. - Mr. Leahy.
10. In further response to the request of Mr. Graves on April 1, 1942, quotas for each county in the country for savings bonds, series E, F, and G, for October were prepared. Revised quotas for September were transmitted by the War Savings Staff to the State Administrators on September 3. Mr. Reagh, Mr. Kroll, Mrs. Grossman, Miss Lund, Miss Strahl.

11. In further response to the request of Mr. Graves on February 10, 1942, supervision is being given in the tabulation by the Statistical Unit of the Division of Loans and Currency of pledges for the purchase of savings bonds, series E, and savings stamps, in Oregon. - Mr. Reagh, Mr. Kroll, Miss Strahl.
12. In response to the request of the Secretary on December 15, 1941, arrangements have been made to obtain monthly reports from corporations on the progress of the payroll savings plan for savings bonds, series E. The information is edited and prepared as a basis for the analyses listed below. - Mr. Haas, Mr. Tickton, Mr. Youel, Mr. Keats, Mr. Seligman, Miss Wender, Mrs. Barnes, Mrs. Cambron.
 - (a) Technical supervision was given the Statistical Unit of the Division of Loans and Currency in preparing the basic information as of August 31, received in response to letters sent out to approximately 23,000 corporations. - Mr. Tickton, Mr. Youel, Mr. Seligman, Mrs. Barnes, Mrs. Cambron.
 - (b) Weekly tables were prepared, showing the number of organizations with payroll savings plans, Government and private, classified by type, size, and State, together with the number of employees eligible to participate. Tables were transmitted according to instructions by the Secretary. - Mr. Tickton, Mr. Youel, Mr. Seligman.
13. In further response to the request of the Secretary on December 31, 1941, weekly tables were prepared from data wired by the Federal Reserve Banks, showing the number of agents qualified to issue series E, savings bonds, by type of agent and Federal Reserve districts, for September 5, 12, 19, and 26. - Mr. Tickton, Mr. Kelenson, Miss Wender.
14. In further response to the request of the Secretary on April 27, 1942, for use in the "Chart Room", weekly charts were prepared on the status of payroll savings plans in each of the 48 States and in the District of Columbia; daily charts were prepared on sales and quotas for war savings bonds by Federal Reserve districts. - Mr. Tickton, Mrs. Wolkind.

15. In further response to the request of the Secretary on June 23, a summary and table covering operation of the payroll savings plan in selected industries were prepared, and were transmitted to him on September 28. - Mr. Tickton, Mr. Youel, Mr. Kelenson, Mr. Keats, Mr. Parsons, Miss Wender, Mrs. Cambron, Mrs. Karr, Miss Schmidt.
16. In further response to the request of the Secretary on August 4, press release material was prepared consisting of tables and charts summarizing sales of savings bonds and the operation of the payroll savings plan through August. - Mr. Tickton, Mr. Youel, Mrs. Wolkind.
17. In further response to the request of Mr. Graves on July 8, memoranda dated September 1, 8, 14, 21, and 28, were prepared, showing the operation of payroll savings plans in companies where deductions have reached 10 percent of the payroll. - Mr. Tickton, Mr. Youel, Miss Wender.
18. In further response to the request of the Secretary on July 29, a memorandum and a table were prepared on information received from corporations concerning the time taken for delivery of a war savings bond purchased under the payroll savings plan. - Mr. Tickton, Miss Westerman.
19. A geographic breakdown of industry data in connection with the payroll savings plan was completed. - Mr. Parsons.
20. At the request of Mr. Peters of the War Savings Staff, a report was completed on September 8, summarizing the operation of the payroll savings plan in the companies which are members of the Aeronautical Chamber of Commerce of America. - Mr. Tickton, Mr. Youel, Miss Wender.
21. A memorandum dated September 9, was prepared on proposed methods of issuing bonds to persons participating in the payroll savings plan. - Mr. Tickton.
22. At the request of the Secretary on September 16, a list of companies obtaining the best results under the payroll savings plan was prepared, and was transmitted to Mr. Gamble on the same date for use in a press release. - Mr. Tickton.
23. At the request of Mr. Duffus of the War Savings Staff on September 24, a list of the largest issuing agents for war savings bonds was prepared, and was transmitted to him on the same day. - Mr. Youel.

24. At the request of Mr. Graves on September 9, a table was prepared on the estimated number of savings bonds, series E, issued in August, and was transmitted to him on September 10. - Mr. Tickton.
25. At the request of Mr. Masters on September 16, a table was prepared, and was transmitted to Mr. Graves under date of September 29, listing the corporation issuing agents in Connecticut. - Miss Wender.
26. A tabulation was prepared of railroad issuing agents. - Miss Wender.
27. In connection with the victory tax, and possible compulsory savings, tables and charts were prepared showing the taxes for various income groups and estimating their effect on the purchase of war savings bonds under payroll savings plans. - Mr. Youel.
28. At the request of Under Secretary Bell on September 11, a letter was prepared for his signature, and was transmitted to Congressman Patman on September 14, concerning the propriety of individuals' taking out insurance policies in lieu of war bonds. - Mr. Murphy.
29. A report dated September 15, was prepared concerning a trip made to Chicago for the purpose of investigating the statistical position on redemptions of war savings bonds. - Mr. Youel.
30. At the request of Under Secretary Bell on September 9, a letter was prepared for the signature of the Secretary, and was transmitted to Mr. Frank E. Tripp, General Manager of the Gannett Newspapers, Elmira, New York, on September 14, concerning a plan for a noncallable and noncashable 40-year bond at 4 percent for financing the war. - Mr. Turner.
31. A letter was prepared, and was transmitted to Mr. Purcell, Chairman of the Securities and Exchange Commission, on September 12, explaining the Treasury's view concerning a plan, submitted by the Securities and Exchange Commission, for the purchase of United States Government bonds by the public on a margin basis. - Mr. Murphy, Mr. Turner.
32. At the request of Mrs. Betts of the War Savings Staff on September 17, two proposed paragraphs are being prepared for use in answering the question "Have bank deposits increased or decreased one way or another because of the influence of war bond and stamp sales?" asked by the Advertising Manager of the National Cash Register Company. - Mr. Turner.

33. In further response to the request of the Secretary on July 28, 1941, tables dated September 15, were prepared, summarizing sales from January through August 1942, of Treasury tax notes, series A and series B, by type of purchaser, and denomination. - Mr. Tickton, Mr. Kelenson.
34. At the request of Mr. Buffington on September 9, a memorandum was prepared, and was transmitted to him on September 11, transmitting a tabular description of the revised tax savings notes. - Mr. Turner.
35. At the request of Mr. Kilby on September 10, a review was made of an official circular for tax savings notes for release on September 14. - Mr. Murphy.
36. At the request of Mr. Buffington on September 18, figures were prepared, and were transmitted to him on September 22, on the daily sales of tax notes. - Mrs. Wolkind.
37. At the request of Mr. Buffington on September 22, a memorandum was prepared, and was transmitted to him on September 23, submitting an explanatory paragraph to be used in connection with the table on the last page of the official circular for Treasury tax notes, series C. - Mr. Murphy.
38. At the request of Mr. Buffington on September 22, a telegram for the signature of Under Secretary Bell was prepared, addressed to the presidents of the twelve Federal Reserve Banks requesting information on sales of Treasury tax notes, series C, for the following ten days and every week thereafter. - Mr. Tickton.
39. Two tables, "Total Tenders for Treasury Bills, by Federal Reserve Districts" and "Tenders for Treasury Bills Accepted by Federal Reserve districts", were prepared as of August 31, and were transmitted in a memorandum to Under Secretary Bell on September 14. - Mr. Murphy, Mrs. Wolkind, Miss Cummins.
40. Further progress was made in the study requested by the Secretary on December 6, 1941, of the sources of funds for Government borrowing. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Turner, Mr. Mayo.
 - (a) A memorandum dated September 15, was prepared on the reconciliation of the May 11 and the September 15 editions of table I of the study on sources of funds for government borrowing. - Mr. Mayo.

- (b) A meeting was attended in Under Secretary Bell's office on September 16, with representatives of Tax Research and Monetary Research, Mr. Stewart, and Mr. Viner, for the purpose of discussing the inflation problem. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Tickton.
- (c) A memorandum and figures were prepared, showing the gross national product and a comparison between supply and demand, for a meeting in Under Secretary Bell's office on September 17. - Mr. Lindow.
- (d) Two meetings were attended in the Secretary's office on September 17, for the purpose of discussing material prepared by the three Research Divisions with respect to the fiscal situation in 1943 and subsequent years. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Tickton.
- (e) For a meeting with the Secretary on September 20, tables were prepared, in cooperation with the Divisions of Tax Research and Monetary Research, on probable price rises which would occur if no steps were taken to control inflation. Copies of tables I and II and the summary to table II on sources of funds for government borrowing were also prepared for this meeting. - Mr. Lindow, Mr. Mayo.
- (f) Tables were prepared, in cooperation with the Division of Tax Research and Monetary Research, on forecasting financial developments on the basis of certain assumed price changes. These tables were used in a meeting in Under Secretary Bell's office on September 23, and were later revised and transmitted to the Secretary. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Tickton, Mr. Daggit, Mr. Leahey.
- (g) A study is being made of the sources of funds available for borrowing by the British Government comparable to the study in progress in this country. - Mr. Murphy.
- (h) Charts on inflation are being prepared for the President. - Mr. Murphy, Mr. Lindow, Mr. Turner.

41. At the request of Under Secretary Bell, agenda, memoranda, and minutes were prepared in connection with the Treasury-Federal Reserve meetings held for the purpose of discussing financial policy. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Sandelin, Mr. Turner.
- (a) A letter concerning Mr. Stewart's proposal that the Treasury ask the Board of Governors of the Federal Reserve System for a study of the distribution of existing excess reserves was prepared for the signature of Under Secretary Bell, and was transmitted to Mr. Eccles on September 14. - Mr. Murphy, Mr. Turner.
 - (b) At the request of the Secretary on September 3, a memorandum was prepared transmitting wires received from the St. Louis and the Boston Federal Reserve Banks on proposed changes in tax notes, and was transmitted to him on September 4. - Mr. Murphy.
 - (c) Minutes on the Treasury-Federal Reserve Meeting of September 1 were completed, and were transmitted to Under Secretary Bell on September 15. - Mr. Turner.
 - (d) A memorandum is being prepared on questions raised as the result of the Treasury-Federal Reserve meeting on September 30. - Mr. Lindow.
42. At the request of Mr. Gaston, agenda, memoranda, and minutes were prepared in connection with a series of meetings held for the purpose of discussing wartime financial problems. - Mr. Murphy, Mr. Lindow, Mr. Turner.
- (a) Minutes were prepared on the meeting with Mr. Gaston on August 28, and were transmitted to him on September 14. - Mr. Turner.
43. Agenda, memoranda, and minutes were prepared in connection with the meeting of the Secretary's advisory group on September 2. - Mr. Haas, Mr. Murphy, Mr. Turner.
- (a) Agenda were prepared concerning Treasury bills, tax notes, and the September financing. - Mr. Murphy.
 - (b) A table was prepared on the estimated absorption of the increase in Treasury bills, April 30 - August 31, 1942. - Mr. Turner.
 - (c) Notes were prepared on the meeting of the Secretary's advisory group on September 2, and were transmitted to Under Secretary Bell on September 29. - Mr. Murphy.

44. The following material was prepared for use at a meeting with the Secretary on September 3. - Mr. Haas, Mr. Murphy, Mr. Turner.
- (a) A memorandum was prepared summarizing the conclusions of the Secretary's advisory group. - Mr. Murphy.
 - (b) A table was prepared on the revised estimate of absorption of the increase in Treasury bills, April 30 - August 31, 1942. - Mr. Turner.
45. The following material was prepared in connection with the Secretary's testimony before the Senate Finance Committee on September 3. - Mr. Haas, Mr. Murphy, Mr. Tickton.
- (a) A memorandum was prepared on the inflationary effect of sales of government securities to banks. - Mr. Haas, Mr. Murphy, Mr. Tickton.
 - (b) An answer was prepared to the question "How do you propose to finance the deficit without inflation?" - Mr. Haas, Mr. Murphy, Mr. Tickton.
 - (c) A memorandum was prepared on the Vandenberg letter. - Mr. Murphy.
46. At the request of the Secretary on September 16, a memorandum was prepared on war finance and inflation, and was transmitted to him on September 17. - Mr. Murphy.
47. At the request of the Secretary on September 18, a memorandum was prepared on a program for war finance and inflation control, and was transmitted to Under Secretary Bell at a meeting on September 23. - Mr. Murphy.
48. In response to the requests of Mr. Buffington on August 17, 25, and 29, and on September 1, a review was made of a revised proposed circular on United States certificates of indebtedness, and was transmitted to him in a memorandum on September 2. - Mr. Murphy, Mr. Turner.
49. Discussed with Mr. Amos Taylor of the Department of Commerce on September 25, estimates of tax-exempt securities held by foreigners. - Mr. Lindow.
50. At the request of the Secretary on September 17, a memorandum was prepared on the Patman plan and other methods of borrowing from the banks at no interest or less than the market rate, and was transmitted to him on September 20. - Mr. Haas, Mr. Murphy.

51. At the request of Under Secretary Bell on September 13, a memorandum was prepared, and was transmitted to him on September 24 on a suggestion by Mr. W. F. Miller, Vice President of the Citizens' Union National Bank, Louisville, Kentucky, that commercial banks accepting subscriptions to Treasury issues be permitted to discontinue providing Federal Reserve Banks with the names of the individual subscribers. - Mr. Tickton.
52. At the request of Mr. Upham on September 5, a letter was prepared and was transmitted to him on September 19, containing data for the Comptroller's Annual Report on total par value of direct and guaranteed obligations held by mutual savings banks on June 30, by States. - Mrs. Wolkind.
53. In further response to the request of Mr. Buffington on April 6, a memorandum and tables were prepared on prospective new capital issues, and were transmitted to him on September 15. - Miss Parker.
54. At the request of the Secretary on November 3, 1941, arrangements were made to obtain certain information on the progress of the programs under Lend-Lease, the Maritime Commission, and the Army Air Corps. - Mr. Haas, Mr. Wagner, Mr. Mayo.

A chart was prepared, showing appropriations, allocations, obligations, and disbursements, for Lend-Lease purchases, through July 31, and was transmitted to the Secretary on September 8. - Mr. Wagner, Mr. Mayo.

55. In connection with Mr. Lickert's survey, an investigation is being made of income, savings, and spending patterns in the city of Buffalo. - Mr. Daggit, Mr. Wagner, Miss Spiegel, Miss Washabaugh.
 - (a) Ten tables were brought up to date or revised on September 15, for use in connection with the Buffalo survey. Three additional tables were distributed on September 2. - Mr. Daggit, Miss Spiegel, Miss Washabaugh.
56. At the request of Mr. Heffelfinger on September 1, a memorandum was prepared, and was transmitted to him on September 19, suggesting revisions in figures on the District of Columbia municipal financing. - Mr. Conrad, Mr. Kroll.

57. In further response to the request of Mr. Blough on August 22, a memorandum was prepared transmitting two tables on securities sold by the Port of New York Authority and by the Triborough Bridge Authority for the Port of New York Authority test case on September 30. - Mr. Sandelin.
58. At the request of Mr. Blough on August 29, memoranda were prepared on the spread in yield between high-grade corporate and municipal bonds, and on the methodology used in deriving the Treasury estimates of the ownership of state and local government securities, for use in the Port of New York Authority test case. These memoranda were transmitted to Mr. Blough on September 18 and 30, respectively. - Mr. Murphy, Mr. Lindow, Mr. Sandelin, Mr. Conrad, Miss Parker.
59. At the request of the Secretary, tables were prepared on aircraft and tank deliveries. - Mr. Tickton.
60. At the request of the Secretary on September 29, a memorandum was prepared on aircraft engines. - Mr. Tickton.
61. At the request of Mr. Cairns on September 17, a memorandum was prepared, and was transmitted to him on September 22, stating the Treasury's views on whether the contents of the pamphlet, "A Monstrous Scandal", by T. J. Priestly, Jr., which attacked the credit of the United States, are demonstrably false. - Mr. Murphy, Mrs. Miller.
62. At the request of Under Secretary Bell on September 15, a review was made of Mr. Rupert's report on S. 2540, and was transmitted to Mr. Tietjens on September 16. - Mr. Murphy.

II. Projects or studies under way

1. A study is being made of the relative interest costs of short- and long-term borrowing. - Mr. Turner.
2. A study is being made of the effect of the maturity, call period, coupon, premium, and size of issue on the prices and yields of United States securities. - Mr. Conrad.
3. A memorandum is being prepared on a negotiable security for continuous sale. - Mr. Murphy.

4. A study is being made of developments in the reserve position of the banks. - Mr. Turner, Miss Klepper.
5. Historical tables are being prepared which will present various data on new Treasury notes and bonds and on new guaranteed issues. - Mr. Conrad.
6. A study is being made of war-financing measures of belligerent nations in the present war. - Mr. Sandelin, Miss Parker.
7. A study is being made of the postwar effects of a large volume of demand debt. - Mr. Murphy, Mr. Lindow.
8. A study is being made of present and past opportunities for securing a high return from Government securities by selling at the end of profitable yield periods rather than holding them to maturity. - Mr. Conrad.
9. A study is being made of bank earnings beginning with fiscal 1928. - Mr. Shields, Mr. Turner, Mrs. Behrens, Miss Klepper.
10. At the request of the Secretary, a memorandum is being prepared on the progress of payroll savings plans in the rubber industry. - Mr. Tickton.
11. A memorandum is being prepared for the Secretary on 3-month certificates of indebtedness as a substitute for Treasury bills. - Mr. Tickton.
12. In further response to the request of the Division of Tax Research on March 30, cooperation is being given in preparing a report on tax-exempt securities. - Mr. Murphy, Mr. Lindow, Mr. Conrad.
13. In response to the request of Mr. George F. Milton, Consultant, War Savings Staff, on March 23, a complete file of tables is being prepared giving the history of sales of savings bonds, E, F, and G. - Mr. Reagh.
14. In response to the request of Mr. Bartelt on April 13, a memorandum is being prepared on revisions of the Daily Treasury Statement, Annual Report, and Public Debt Statement. - Mr. Murphy, Mr. Tickton, Miss Eyre.
15. In response to the request of Under Secretary Bell on June 3, a memorandum is being prepared on the question of whether a 10-30 year 2½ percent bond would sell on the basis of a 10-year bond with quotations reasonably stable. - Mr. Murphy, Mr. Turner.

16. A study is being made of a proposal for a special tabulation and analysis of reports of bank holdings of United States obligations submitted by the National Bureau of Economic Research on June 17. - Mr. Turner.
17. In response to the request of Mr. Kuhn and Mr. Schwarz on June 22, a memorandum is being prepared with respect to data to be checked in the proposed manual to be used by Government agencies in the President's program to fight inflation, entitled "The Battle Against Rising Living Costs", submitted by the OWI. - Mr. Mayo, Mr. Turner.
18. At the request of Mr. Broughton on July 6, a memorandum is being prepared on modifications to a proposal to change the Circulation Statement. - Mr. Murphy, Mr. Turner.
19. A study is being made of the Government security market. - Mr. Shields, Mr. Wagner.
20. A memorandum is being prepared on the report by the New York money market subcommittee in regard to Treasury financing. - Mr. Tickton.
21. At the request of Mr. C. A. R. Wardwell, Chief of the Current Business Analysis Unit of the Commerce Department, a review is being made of the article "Alternatives in War Finance." - Mr. Murphy.
22. At the request of Mr. Buffington on August 3, an analysis is being prepared of suggestions contained in letters from private individuals concerning changes in new issues or outstanding Government securities. - Mr. Sandelin, Miss Parker.
23. At the request of Under Secretary Bell on August 14, a memorandum is being prepared on Mr. White's proposal for a non-interest-bearing Government security. - Mr. Turner.
24. At the request of Mr. Graves on September 29, a tabulation is being prepared of the answers to the 23,000 letters sent out to corporations to ascertain the number which have reached the 10 percent goal under the payroll savings plan. - Mr. Youel.
25. At the request of Mr. Graves, letters are being prepared to the Federal Reserve Banks transmitting the new circular on savings bonds. - Mr. Tickton.

26. At the request of the Secretary on September 17, a review is being made of Mr. Shield's tables on the impact of war finance on the banking system. - Mr. Turner.
27. A memorandum is being prepared on possible methods of allocation of securities to banks. - Mr. Wagner.
28. A memorandum is being prepared showing the expansion of the banking and currency system possible under existing statutes. - Mr. Turner.
29. A memorandum is being prepared on the progress attained in securing a wider distribution of Treasury bills. - Mrs. Wolkind.
30. A memorandum is being prepared on means employed by foreign governments to maintain the market for their securities. - Mr. Sandelin.
31. Manuscript of a proposed book "How to Finance the War" is being reviewed at the request of the War Savings Staff. - Mr. Lindow, Mr. Mayo.
32. Meetings are being held with Mrs. Betts of the War Savings Staff for the purpose of giving her additional information for her article on war savings in Great Britain and Canada. - Mr. Sandelin.
33. At the request of Miss Tomkins of the War Savings Staff on September 12, an article on hoarded money, entitled "Slacker Dollars", is being checked. - Mr. Turner, Mrs. Miller.
34. At the request of Mr. Cake of the Bureau of Accounts, a review is being made of data concerning United States Government finances for inclusion in the next edition of Moody's Manual. - Mr. Conrad.
35. A paragraph is being prepared for inclusion in the directory of the Twentieth Century Fund, New York City, concerning organizations conducting research on postwar planning. - Mr. Tickton, Mrs. Wolkind.
36. Minutes are being prepared on a luncheon meeting called by Under Secretary Bell on September 29 for the purpose of hearing a discussion by Mr. Lauren W. Casaday, Treasury attache in London, on rationing and price control in Great Britain. - Mr. Tickton.
37. At the request of Mr. Shea on September 14, a study is being made of S. 2755. - Mr. Murphy.

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38. At the request of Mr. Shea on September 30, a study is being made of S. 2781 and H.R. 7593. - Mr. Murphy.
39. At the request of Mr. Graves on September 23, arrangements are being made for a sampling study for estimating the total number of persons owning Savings Bonds. - Mr. Reagh.
40. A study is being made of Canadian experience with redemptions of bonds. - Mr. Lindow, Mr. Sandelin.
41. A tabulation is being prepared showing for one month detailed purchases and sales by the Federal Reserve System of Government securities, listed by issues. - Mr. Lindow, Mr. Sandelin.

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period September 1942 through June 1943. The statement was transmitted to the Bureau of Accounts. - Mr. Delcher.
2. The regular monthly summary comparison was prepared, showing estimated receipts and actual receipts in August 1942, on the daily Treasury statement basis. - Mr. Delcher.
3. The regular monthly detailed comparison was prepared, showing estimated and actual receipts in August 1942, based on the collections classification. - Mr. Delcher.
4. In connection with the revenue bill of 1942, H. R. 7378, a number of revenue estimates, listed below, were prepared at the request of Mr. Paul, Mr. Tarleau, and the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Jorgensen, Mr. Lusk, Miss Allen, Mr. Delcher.
 - (a) Studies were prepared, and were transmitted in a memorandum to Mr. Paul on September 3, in connection with the revenue effect of the sales tax. - Mr. Daggit, Mr. Smith, Mr. Jorgensen, Miss Spiegel, Miss Washabaugh.

- 13 -

- (b) Estimates were prepared for various methods of raising \$5 billions additional revenue with specified income tax bases, exemptions, and credits, and were transmitted to Mr. Blough in memoranda on September 5 and 9. - Mr. Kelly.
- (c) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on September 2, of the increase in revenue if personal exemptions and credit for dependents were lowered, if the post-war credit on this increase were to be refunded to the taxpayer at the lowest bracket rates on which he paid taxes, and if a proposed spending tax scheme were adopted. - Mr. Kelly, Mr. Smith.
- (d) An estimate was prepared at the request of Mr. Blough, and was presented verbally to the Senate Finance Committee on September 14, on the revenue effect of a higher cigar tax schedule. - Mr. Kelly.
- (e) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on September 10, of the yield of proposed Treasury income tax schedules A and B and rates of the Revenue Bill of 1942 with specified exemptions and dependent credit applied to the Senate base. - Mr. Kelly.
- (f) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on September 10 of the Revenue effect of the suggested formula for implementing medical expense deduction, in the case of separate and joint returns of husbands and wives. - Mr. Smith.
- (g) A summary was prepared of the revenue effect of the Revenue Bill of 1942, as revised by the Senate Finance Committee through September 14, 1942, compared with the yield of the present law and with the yield of the bill as passed by the House of Representatives July 20, 1942, and was transmitted in a memorandum to Mr. Paul on September 15. - Mr. O'Donnell, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Jorgensen, Mr. Lusk, Miss Allen, Mr. Delcher.
- (h) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on September 18, of the revenue loss resulting from the reduction of the withholding rate for nonresident aliens and for foreign corporations. - Mr. Leahey.

- (j) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on September 23, of the revenue yield of the proposed estate and gift tax rate schedule T, with specified comparisons. - Mr. Lusk.
- (j) An estimate was prepared and submitted at the request of the Chairman of the Senate Finance Committee, showing the revenue effect of the corporation proposals of the Senate Finance Committee through September 14, 1942. - Mr. Leahey.
- (k) Two tables were prepared, and were submitted on September 30, at the request of Mr. Stam, of the estimated number of taxable returns under the individual income tax law at estimated 1942 levels of income and the estimated revenue yield of the Revenue Bill of 1942, as revised by the Senate Finance Committee through September 25. - Mr. O'Donnell, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Jorgensen, Mr. Lusk, Miss Allen, Mr. Delcher.
- (l) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on September 21 of the yield of proposed surtax rate schedule L in comparison with the present law and the Senate Finance Committee revision. - Mr. Smith.
- (m) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on September 30 of the yield of proposed estate tax schedules under present exemptions and under a \$60,000 exemption. - Mr. Lusk.
- (n) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on September 30 of the number of persons filing returns under the Victory Tax, the number of employees from whom the Victory Tax will be withheld, and the number of refunds of excessive tax withheld. Similar estimates were prepared and were transmitted in the same memorandum of the number of employees from whom income tax would have been withheld in 1943, and the number of refunds of excessive tax under the House Bill. - Mr. Smith.

II. Projects or studies under way

1. In connection with the revenue bill of 1942, H.R. 7378, a number of revenue estimates, listed below, are being prepared at the request of the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Jorgensen, Mr. Lusk, Mr. Delcher, Miss Allen.
 - (a) An estimate is being made of the revenue which would result if the Canadian corporate tax system were substituted for the present system in this country. - Mr. Smith, Mr. Lusk.
 - (b) An estimate is being made of the total revenue and increase over the existing law which would result from the adoption of the British individual and corporate income and excess-profits tax structure. - Mr. Smith, Mr. Lusk.
 - (c) An estimate is being prepared of the increase in revenue under the present and the proposed rates from adoption of (1) the Wood Plan and (2) mandatory joint returns. - Mr. Smith.
 - (d) Estimates are being prepared of the yield from a specified withholding tax; a compulsory savings tax; and a specified war consumption tax. - Mr. Kelly, Mr. Smith.
 - (e) Estimates are being prepared of the revenue effect for 1941 and 1942 of granting taxpayers permission to set up, retroactively from January 1, 1941, inventory reserves against possible inventory losses. - Mr. Leahey.
 - (f) Five classes of estimates are being prepared for a 10 percent flat rate tax on individual spendings in excess of \$500 for a single person, \$1,200 for a married couple, and \$400 for each dependent. - Mr. Smith.
 - (g) Estimates for capital gains and losses are being prepared with specified breakdowns, for individuals and corporations, separately, under three plans involving different conditions. - Mr. Leahey, Mr. Smith.
 - (h) An estimate is being prepared of the loss in revenue which would result from the substitution of a four-year carry-forward of net losses for the present two-year carry-forward under certain specified conditions. - Mr. Leahey.

- (i) An estimate is being prepared of the revenue loss if advances made by the Government on contracts are treated as borrowed capital, in the same way as Government-guaranteed loans made by banks to contractors. - Mr. Leahey.
- (j) An estimate is being prepared of the revenue loss which would result if corporation income and excess profits taxes were limited to an effective rate of 80 percent of surtax net income before deducting the adjusted excess-profits tax net income. - Mr. Leahey.
- (k) An estimate is being prepared of the revenue effect of the following proposal for corporations with fiscal years ending in 1942: computation of the tax at 1941 rates with an additional surtax at 14 percent, and an additional excess-profits tax at 30 percent, imposing a fraction of this additional tax in proportion to the number of months after May 1 in the corporation's fiscal year. - Mr. Leahey.
- (l) An estimate is being prepared of the post-war credit on corporation income and excess-profits taxes, with the offset for debt relief and for the general contingent reserve. - Mr. Leahey.
- (m) Estimates are being prepared for raising \$5 billions additional revenue by specified forms of spending taxes, and sales taxes. - Mr. Smith.
- (n) Estimates are being prepared of the increase in revenue from corporations under the proposed plan, in comparison with the plan originally proposed to the House Ways and Means Committee, and the plan as revised during the Executive Sessions of the Ways and Means Committee. - Mr. Leahey.
- (o) An estimate is being prepared of the excess-profits net income for one taxable year, if the excess-profits net income for the taxpayer in any taxable year in the base period is less than 50 percent of the average of the excess-profits net income for the remaining taxable years in the base period. - Mr. Leahey.
- (p) Estimates are being prepared on the number of loans, the number of compulsory lenders and the amount of compulsory loans under a proposed compulsory lending plan, assuming certain specified conditions. - Mr. Smith, Mr. Kelly.

- (i) An estimate is being prepared of the revenue loss if advances made by the Government on contracts are treated as borrowed capital, in the same way as Government-guaranteed loans made by banks to contractors. - Mr. Leahey.
- (j) An estimate is being prepared of the revenue loss which would result if corporation income and excess profits taxes were limited to an effective rate of 80 percent of surtax net income before deducting the adjusted excess-profits tax net income. - Mr. Leahey.
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- (l) An estimate is being prepared of the post-war credit on corporation income and excess-profits taxes, with the offset for debt relief and for the general contingent reserve. - Mr. Leahey.
- (m) Estimates are being prepared for raising \$5 billions additional revenue by specified forms of spending taxes, and sales taxes. - Mr. Smith.
- (n) Estimates are being prepared of the increase in revenue from corporations under the proposed plan, in comparison with the plan originally proposed to the House Ways and Means Committee, and the plan as revised during the Executive Sessions of the Ways and Means Committee. - Mr. Leahey.
- (o) An estimate is being prepared of the excess-profits net income for one taxable year, if the excess-profits net income for the taxpayer in any taxable year in the base period is less than 50 percent of the average of the excess-profits net income for the remaining taxable years in the base period. - Mr. Leahey.
- (p) Estimates are being prepared on the number of loans, the number of compulsory lenders and the amount of compulsory loans under a proposed compulsory lending plan, assuming certain specified conditions. - Mr. Smith, Mr. Kelly.

- (q) An estimate is being prepared of the revenue effect of the Senate Finance Committee's action requiring that a mutual insurance company pay the higher of (a) a tax at regular corporate rates of net investment income with the usual deductions for tax-exempt income, or (b) a tax at the rate of one percent on gross investment income plus net premiums received minus dividends to policy holders. - Mr. Leahey.
 - (r) An estimate is being prepared comparing the OPA figures of corporation profits before and after taxes. - Mr. Leahey.
 - (s) An estimate is being prepared of the revenue effects of the amendment relating to renegotiation of war contracts. - Mr. Leahey.
 - (t) Estimates are being checked on the taxable returns and the net income in excess of exemptions. - Mr. Smith.
2. At the request of Mr. Bartelt on June 23, estimates are being prepared for fiscal 1943 and 1944 of (1) tax collections under title VIII, Social Security Act, or Federal Insurance Contributions Act; (2) tax collections from carriers and their employees; and (3) amounts to be deposited in the Unemployment Trust Fund. - Mr. Smith, Miss Allen.
 3. Rough estimates are being prepared with respect to proposals for averting inflation, covering individual income tax, spendings tax, and Social Security taxes. - Mr. Leahey, Mr. Smith.
 4. Studies are in progress for revenue estimates on the proposed tax on transportation of property. - Mr. Daggit, Miss Spiegel, Miss Smith, Miss Washabaugh.
 5. Studies are in process to take into account revisions or to improve methods of estimating revenues on certain alcoholic beverages and tobacco products, securities, gasoline, transportation of persons, admissions, and coin-operated devices. - Mr. Daggit, Miss Spiegel, Mr. Colclough, Miss Smith, Miss Morris, Miss Washabaugh.

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Economic Conditions Related to Fiscal
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business situation were prepared, and were transmitted to the Secretary on September 8, 14, 21, and 28. Mr. Haas, Mr. Daggit, Mr. Chevraux, Miss Ziegler.
 - (a) Total construction awards by months, January 1940 to date. (Chart in memorandum of September 21.) Mr. Daggit, Miss Washabaugh.
 - (b) Farm wage rates and cost of goods bought by farmers by years 1925-1941, and by months July 1941 to date. (Chart in memorandum of September 21.) - Mr. Daggit, Miss Spiegel, Miss Morris.
2. Confidential data on new orders and sales received from four companies are tabulated and charted currently and are combined into an index of new orders. - Miss Washabaugh.
3. Memoranda on employment under the Work Projects Administration were prepared on September 8, 14, 21, and 28. - Miss Washabaugh.
4. Compilations were made of daily quotations on selected commodities, and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, and exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevraux.
5. In further response to the request of Mr. Leon Handerson of July 19, 1941, charts on commodity prices and cost of living were transmitted to him on September 1, 8, 15, 22, and 29. - Mr. Daggit.

II. Projects or studies under way

1. Basic business forecasts are being prepared tentatively for fiscal 1943 and 1944 on Department of Commerce salaries and wages, BLS payrolls, and wholesale prices, FRE index of industrial production, bank debits, and Standard Statistics Index of 402 stocks. - Mr. Daggit, Miss Spiegel, Mr. Colclough, Mr. Smith, Miss Morris, Miss Washabaugh.

2. In connection with the basic forecasts, studies are being made for forecasts of the cost of living and income payments indexes. - Mr. Daggit, Miss Spiegel, Mr. Cololough, Miss Smith, Miss Morris, Miss Washabaugh.

Actuarial Problems

I. Projects or studies completed

1. The Government Actuary received and signed, as a member of the Board, the following letters prepared by Mr. Buck, Chairman of the Board of Actuaries:
 - (a) A letter transmitted on September 28 to Mr. Fisher, Chief of the Retirement Division of the Civil Service Commission stating the effect of S.2688 on the liability of the Civil Service Retirement and Disability Fund. - Mr. Reagh.
 - (b) A letter transmitted on September 28 to Mr. Fisher giving the estimated cost of amending the Civil Service Retirement Act if H.R. 7209 were passed. - Mr. Reagh.
2. Voluntary reports on S. 2738 and H.R. 7534 were declined in memos to Mr. Shea on September 10 and 23, respectively. - Mr. Reagh.

II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. The valuation is well under way. - Mr. Reagh, Mr. Brown.
2. At the request of the State Department on July 14, an estimate is being prepared of the appropriations for fiscal 1944 under Section 26(m) of the Act of April 24, 1939, requiring that the Treasury Department prepare an estimate of annual appropriations to be made to the Foreign Service Retirement and Disability Fund. - Mr. Brown, Mr. Kroll, Mrs. Grossman.

3. Several years ago a committee was organized for the purpose of studying ways and means to extend retirement benefits to all Government employees regardless of Civil Service status. The working committee has again become active and is attempting to draft legislation to coordinate provisions of the Social Security Act with the Civil Service Retirement Act. Considerable work has been done, but the committee has not yet agreed upon a report. - Mr. Reagh, Mr. Brown.
4. At the request of Mr. A. R. Pilkerton, Auditor of the District of Columbia, a quinquennial actuarial valuation is being made of the Policemen's and Firemen's Relief Fund of the District of Columbia. This valuation is being made by the Treasury Department in accordance with the 1942 District of Columbia Appropriation Act, approved July 1, 1941. - Mr. Reagh, Mrs. Grossman.
5. At the request of the Division of Tax Research, several conferences have been attended with members of the Division of Tax Research, the Legal Staff of the Bureau of Internal Revenue, and the Legislative Counsel regarding proposed changes in the tax laws relating to pension trusts and the taxation of insurance companies. - Mr. Reagh.

Other projects or studies

1. Publications

- (a) All the material submitted for the September issue of the Treasury Bulletin was reviewed and edited. - Mr. Lynch, Miss Eyre.

The following tables were prepared for the September issue:

1. Ownership of Government securities as of June 30, summarizing data from the monthly survey. - Mr. Tickton, Mr. Leahy.
2. Sales of United States savings bonds since May 1941. - Mr. Kroll, Mrs. Grossman, Miss Strahl.
3. Sales of Postal savings stamps since May 1941. - Mr. Kroll, Mrs. Grossman, Miss Strahl.

4. Over-the-counter closing quotations of public marketable securities issued by the United States Government and by Federal agencies. - Mr. Kroll, Mrs. Grossman, Miss Strahl.
 5. A review was made of a table prepared for the September Treasury Bulletin on the characteristics of United States Government obligations available for continuous sale or issued from time to time to include new tax notes. - Mr. Sandelin.
- (b) For the publication Prices and Yields of Public Marketable Securities Issued by the United States Government and by Federal agencies, computations were made and copy was prepared for the August issue. - Mr. Kroll, Miss McCoy, Mrs. Grossman, Miss Strahl.
- (c) The editing of the data for the Annual Report of the Secretary of the Treasury for fiscal 1942 is in progress. - Miss Westerman.

Articles are being prepared for the Annual Report as follows:

1. War savings bond program, article and charts. - Mr. Youel.
2. Expenditures. - Mrs. Wolkind.
3. The annual estimate of the volume and distribution of outstanding tax-exempt securities and absorption of increases in the public debt. - Mr. Conrad.
4. Estimates of receipts. - Mr. O'Donnell, Mr. Leahy, Mr. Kelly, Mr. Smith, Mr. Jorgensen, Mr. Lusk, Miss Allen, Mr. Delcher.

2. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Mr. Turner, Miss Ziegler, and other members of the staff in appropriate fields of work.

During September 531 letters were received in the Division and 535 were handled as required.

3. Charts

Charts are prepared and continuously brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas.

SECRET 86✓

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. STETTINIUS, JR.
ADMINISTRATOR

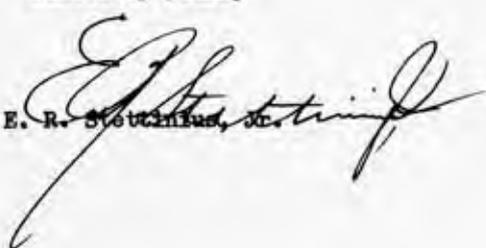
June 25, 1943

The Honorable Henry Morgenthau
Secretary of the Treasury
Room 280, Treasury Department
Washington, D. C.

Dear Mr. Secretary,

Attached hereto is your personal and
private copy of the report on the status of
the Soviet Aid Program, as of May 31, 1943.

Sincerely yours,


E. R. Stettinius, Jr.

Attachment

*Bulletin returned
at request of
Stettinius 5/30/43*

Treasury Department
Division of Monetary Research

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Date 6/28/43 194

To: Miss Chauncey

For the Secretary - Mr. White
said the Secretary will know what it
is.

L. Shanahan

MR. WHITE
Branch 2058 - Room 214½



DEPARTMENT OF STATE
WASHINGTON

June 25, 1943

My dear Mr. White:

I am enclosing the latest revised list of persons who might be considered for Area Directors under the terms of the President's letter of June 3, 1943, to the Secretary of State.

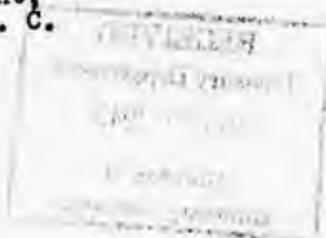
Sincerely yours,

Charles E. Wyzanski, Jr.
Charles E. Wyzanski, Jr.

Enclosure:

Copy of revised list
dated June 25, 1943.

Mr. Harry D. White,
Assistant to the Secretary,
Treasury Department,
Washington, D. C.



June 25, 1943

REVISED LIST OF SUGGESTED AREA DIRECTORS1. APPLEBY, PAUL

Under Secretary of Agriculture. Formerly publisher of newspapers in Montana, Minnesota, Iowa and Virginia; also formerly Executive Assistant to the Secretary of Agriculture.

2. BAKER, JOHN EARL

Relief executive, particularly familiar with China, having been adviser on railway management to Chinese Ministry of Communications; Director, American Red Cross China Famine Relief; Manager, Chinese-American Wheat Syndicate; Director, American Red Cross in China; Director of the Bureau controlling the Burma Road.

3. BALDWIN, CALVIN BENHAM

Administrator, Farm Security Administration. Formerly assistant to the General Foreman of the N. & W. Railway; Manager and owner, Electric Sales and Service Company; and various posts in the Department of Agriculture.

4. BENSON, ELMER AUSTIN

Formerly Governor of and Senator from Minnesota; also formerly cashier, Farmers and Merchants State Bank; Minnesota State Commissioner of Securities; and Minnesota State Commissioner of Banks.

5. BRAATOX, BJNAHE

Now head of the Scandinavian Division, OWI. Economic authority with respect to Scandinavia and specialist in connection with organizational problems in the economic and labor fields. He has command of Norwegian, French and German, and some acquaintance with Spanish and Italian. He is regarded by Henry G. Leach, William Batt and Arthur Sweetser as one of the best fitted men for the post of Area Director for Norway. Although he was originally connected with the Second International in Zurich, he moves now in what might be

-2-

regarded as conservative circles, according to Jessup.

6. CLAYTON, WILLIAM L.

Assistant Secretary of Commerce. Cotton factor; head of Anderson, Clayton and Company.

7. FURNESS, EDGAR

Now Provost of Yale University, with a command of several Near Eastern languages.

8. GRAHAM, FRANK

Now member of the War Labor Board; President of the University of North Carolina. Formerly Chairman of the Committee to frame the Social Security Act.

9. HILL, HARRY

Formerly head of the American Express Company in Greece; recently author of several detailed studies of the economy of Greece which have been prepared for and utilized by the BEW; not yet an American citizen, but a British subject; regarded as especially qualified for Greece because of his many years of contact with the economy, banking and commerce of the area.

10. HOOVER, CALVIN BRUCE

Now at the BEW; author of numerous books on Russia and Germany; formerly Dean of the Graduate School of Duke University; economic adviser to the Department of Agriculture; President of the Southern Economic Association; and consultant to various federal commissions.

11. HUNSAKER, JEROME

Now head of the departments of mechanical and aeronautical engineering, Massachusetts Institute of Technology, and Chairman of the Technical Aviation Board for the Navy. Formerly Assistant Naval Attaché at London, Paris, Berlin and Rome; Vice President of the Bell Telephone Laboratories, and Vice President of the Goodyear Zeppelin Corporation; regarded as having unusual general ability and common sense.

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12. JAY, NELSON DEAN

Now with the American Red Cross. Formerly partner, Morgan and Cie., Paris; President of the American Hospital of Paris.

13. KING, STANLEY

President of Amherst College. In the last war he was a member of the committee on supplies of the Council of National Defense, and special assistant to the Secretary of War; formerly chairman of the Massachusetts Commission on Stabilization of Employment.

14. McCOLLESTER, PARKER

Partner, New York law firm of Lord, Day and Lord. Specialist in taxation and corporate problems.

15. SEILEY, ROBERT

Now British representative of General Motors Corporation. Prior to the war he was head of General Motors Manufacturing and Assembly Plant at Stockholm, where more than one thousand persons were employed. He speaks fluently all the Scandinavian languages and is supposed to have especial administrative ability.

16. STURGES, WESLEY A.

Now in North Africa in connection with civilian economic activities. Formerly professor of law at Yale Law School; Executive Director of Distilled Spirits Institute, Incorporated; and impartial arbitrator in numerous different activities.

17. SZYMCZAK, MENG S.

Now member of the Board of Governors of the Federal Reserve System. Formerly Vice President of Chicago banks; Director of Building and Loan Associations; Clerk of Superior Court of Cook County; Comptroller, City of Chicago; and professor in subjects ranging from mathematics to ethics.

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18. TAYLOR, WAYNE C.

Now Under Secretary of Commerce. Formerly investment banker; special adviser to the President on foreign trade; and trustee of the Export-Import Bank, and Assistant Secretary of the Treasury.

19. WEDDELL, OSWALD

(Suggested by Mr. Harry White of the Treasury - No data in Who's Who.)

20. WELLS, HERMAN B.

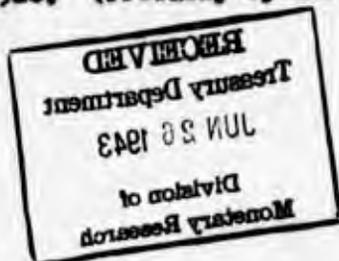
Now President of Indiana University. Formerly on the faculty of the universities of Wisconsin and Indiana, and Chairman of the Board of Directors of the Federal Home Loan Bank of Indianapolis.

21. WILEY, JOHN C.

Formerly held various diplomatic posts, including in recent years Counselor of Embassy, Moscow, 1934; Consul General, Antwerp, 1935-1937; Consul General and Counselor of Legation at Vienna, 1937; Consul General, Vienna, 1938; American Minister to Latvia and Estonia, 1938-1939.

22. WILLIAMS, JOHN H.

Now Dean of the School of Public Administration at Harvard and Vice President of the Federal Reserve Bank of New York. Formerly United States delegate to the Preparatory Commission of the World Monetary and Economic Conference, 1932-1933; and Westinghouse Professor in Italy, 1925-1926. (Probably speaks Italian)



SA/F:CHW, Jr.:MJC

JUN 25 1943

My dear Mr. Ambassador:

This is in reply to your letter of June 17, 1943, informing me that the Chilean Ministry of Finance has designated Mr. Fernando Illanes, First Secretary of the Embassy, to take part in the informal conversations on international monetary cooperation.

The Treasury welcomes the opportunity to discuss with Mr. Illanes the manner in which the United Nations and the countries associated with them can work together to help assure monetary stability after the war. Arrangements have been made for the discussions with Mr. Illanes to begin on Monday, June 28, 1943.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

His Excellency
The Ambassador of Chile
Washington, D. C.

Orig. File ret'd to Dr. White
Photostat File in Diary

By Messenger *Saunders* 6/30

EMB/jm
6/24/43

EMBAJADA DE CHILE
WASHINGTON

17 June 1943.

My dear Mr. Secretary:

Acting under instructions from my Government, I have the pleasure to bring to your notice that the Chilean Ministry of Finance has authorized the First Secretary of the Embassy, Mr. Fernando Illanes, who occupies himself here with the economic and financial matters in which my Government may be interested, to take part in the informal conversations being conducted in Washington on post war monetary and economic stabilization.

Mr. Illanes has been directed to get in touch with the proper office of the Treasury Department in order that he may participate at the proper time in the indicated conversations.

With the assurances of my high esteem believe me,

Sincerely yours,



The Ambassador of Chile

Michels

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

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 206

Information received up to 7 A.M., 25th June, 1943.

1. NAVAL

SOUTHWESTERN APPROACHES. 24th. Aircraft from escorting carrier of home-bound convoy shot down 1 of 2 Focke ulf aircraft shadowing the convoy.

BLACK SEA. Russian Naval aircraft sank 8 small ships with troops and supplies in KERCH STRAITS on 7th. 2 E-boats also sunk on 10th. A cargo ship hit at THEODOSIA on 15th.

2. AIR OPERATIONS

WESTERN FRONT. 24th. Escorted medium light and fighter bombers attacked targets at FLUSHING, ST. OMER, YAINVILLE and also 4 airfields in North FRANCE. Casualties: Enemy 11, 2, 14; Allied 6, 0, 1.

24th/25th. Aircraft despatched: WUPPERTAL - 630 (34 missing); Intruders - 19; leaflets FRANCE 7; DUISBURG 4; sea mining 4. At WUPPERTAL bombing and fires reported very concentrated around aiming point which was centre of ELBERFELD.

CHINA. 21st. 15 escorted Mitchells (B 25) attacked targets 150 miles southwest of HANKOW.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, June 27, 1943.
6-25-43

Press Service
No. 37-24

Secretary of the Treasury Morgenthau today announced a regular Treasury offering designed to raise additional funds in advance of the Third War Loan Drive, which is scheduled to start in September. The securities being offered are 1-1/2 percent Treasury Notes of Series A-1947. They are offered, through the Federal Reserve Banks, for cash subscription at par and accrued interest, in the amount of \$2,500,000,000, or thereabouts. The books will be opened on Monday morning, June 28, for the receipt of subscriptions. There will be no restrictions as to the basis for subscribing for this issue.

The notes will be dated July 12, 1943, and will bear interest from that date at the rate of 1-1/2 percent per annum, payable on a semiannual basis on September 15, 1943, and thereafter on March 15 and September 15 in each year until they mature on September 15, 1947. They will not be subject to call for redemption prior to maturity. They will be issued only in bearer form with interest coupons attached, in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the notes now offered shall not have any exemption, as such, under Federal Tax Acts now or hereafter enacted. The full provisions relating to taxability are set forth in the official circular released today.

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions from banks and trust companies for their own account will be received without deposit, but subscriptions from all others must be accompanied by payment of 2 percent of the amount of notes applied for.

- 2 -

Subject to the usual reservations, subscriptions for amounts up to and including \$100,000 will be allotted in full, and subscriptions for amounts over \$100,000 will be allotted on an equal percentage basis, to be publicly announced. Payment for any notes allotted must be made or completed on or before July 12, 1943, or on later allotment.

The text of the official circular follows:

UNITED STATES OF AMERICA

1-1/2 PERCENT TREASURY NOTES OF SERIES A-1947

Dated and bearing interest from July 12, 1943 Due September 15, 1947

Interest payable March 15 and September 15

1943
Department Circular No. 716

Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT
Office of the Secretary
Washington, June 28, 1943.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for notes of the United States, designated 1-1/2 percent Treasury Notes of Series A-1947. The amount of the offering is \$2,500,000,000, or thereabouts.

II. DESCRIPTION OF NOTES

1. The notes will be dated July 12, 1943, and will bear interest from that date at the rate of 1-1/2 percent per annum, payable on a semiannual basis on September 15, 1943, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1947, and will not be subject to call for redemption prior to maturity.

2. The income derived from the notes shall be subject to all Federal taxes, now or hereafter imposed. The notes shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys.

5. Bearer notes with interest coupons attached will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. The notes will not be issued in registered form.

6. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be

- 2 -

allotted thereon, prior to the closing of the subscription books. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit. Subscriptions from all others must be accompanied by payment of 2 percent of the amount of notes applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, subscriptions for amounts up to and including \$100,000 will be allotted in full, and subscriptions for amounts over \$100,000 will be allotted on an equal percentage basis, to be publicly announced. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before July 12, 1943, or on later allotment. In every case where payment is not so completed, the payment with application up to 2 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

Copies of this letter with enclosures went to the following:

- Atty. Gen. Francis Biddle
- Postmaster Gen. Frank C. Walker
- Sec'y of Interior Harold L. Ickes
- Sec'y of Agriculture Claude R. Wickard
- Sec'y of Commerce Jesse H. Jones
- Sec'y of Labor Frances Perkins
- Rep. John W. McCormack
- Rep. Joseph W. Martin, Jr.
- Speaker Sam Rayburn
- Sen. Robert F. Wagner,
- Sen. Walter F. George
- Vice President Henry Wallace
- Sec'y of State Cordell Hull
- Sec'y of War Henry L. Stimson
- Rep. Henry B. Steagall
- Rep. Robert L. Doughton

Files to Mr. Thompson.

June 25, 1943

My dear Mr. Secretary:

You may be interested in this bulletin on bond redemptions. There has been much misunderstanding and misinterpretation of Treasury figures on this score, and you are entitled to have the facts.

The attached War Finance Bulletin is prepared for the information and guidance of the chairmen of our State War Finance Committees. It provides a means of keeping these groups in closer touch with the Treasury Department, and, through the contact it develops with my office, it keeps the Treasury Department in closer touch with people in the field.

From time to time we may forward copies of this bulletin to you so that you may keep informed on the progress of the bond program.

Sincerely,

(Signed) H. Morgenthau, Jr.

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

Enclosure

FS:mif

WAR FINANCE BULLETIN

Office of the Secretary of the Treasury

Issue No. 1

June 19, 1943

Redemptions of Savings Bonds

A lot of loose, uninformed talk on the subject of Savings Bonds redemptions has crept into the news. The effect has been to create in some quarters an impression that redemptions have become a menace to the success of the voluntary savings campaign. Nothing could be farther from the truth. Here are the facts.

Between May 1, 1941, when United States Savings Bonds Series E, F and G were first issued, and May 31, 1943, cash receipts from the sale of these issues have exceeded \$17½ billions. Cumulative redemptions for this period amounted to \$700 millions -- or only 4 percent of sales. In other words, about 96 percent of the funds invested in these securities since they were first offered for sale is still invested in them.

The record on Series E -- the people's bond -- is almost as good -- a notable achievement indeed when one takes into consideration the kind of money these bonds in large part represent. Between May 1, 1941 and May 31, 1943, sales of Series E bonds amounted to \$11.3 billions.

Information Service for State War Finance Committees

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Cumulative redemptions have amounted to \$623 millions -- or only 5.5 percent of sales. About 94.5 percent of the funds received from the sale of E bonds, therefore, is still invested in those securities.

The figures for monthly redemptions are even more heartening, and indicate there is no substance to the talk about the growing magnitude of the redemption problem. Last March redemptions for E, F and G bonds taken together amounted to 87/100 of 1 percent of the securities outstanding; in April they amounted to 61/100 of 1 percent; and in May to only 58/100 of 1 percent. The figures speak for themselves.

There will be an appreciable increase in redemptions in June, but the reason will be the same as for the increase in March -- i.e., the necessity of making a payment on the 1942 Income tax.

Redemptions of War Bonds for the first 5 months of 1943 have increased over those for the corresponding period of 1942. But this is to be expected. Most of the increase has been due to the larger volume of securities outstanding. It has not been due to a growing widespread desire to cash in Savings Bonds.

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With Pay-as-you-go in effect starting July 1, there will be less need to cash in Savings Bonds to meet quarterly Income tax payments. The vast majority of taxpayers will soon be current. Others will have smaller quarterly instalments to pay. This should result in reducing considerably the number of redemptions for tax payment purposes.

The fear has been expressed in some quarters that Pay-as-you-go will cut into bond purchases and increase the number of redemptions. This should be a temporary phenomenon and should pass as soon as individuals become accustomed to the new tax-paying system. The new Withholding tax is not really a new tax at all. It is not a tax in addition to existing taxes. It is simply a change in the mechanism of collecting taxes. The ability to forego saving for taxes from now on should make it all the more easy to save for other things -- War Bonds, for instance.

-oOo-

June 22, 1943

MEMORANDUM TO THE MEMBERS OF THE
STATE WAR FINANCE COMMITTEES.From: Henry Morgenthau, Jr.,
Secretary of the TreasuryOn September 9th we will launch the Third War Loan Drive.

I am calling this to your attention now because of the magnitude of the job ahead. If we are to succeed, it is essential that we start now to shape our organization. We have no time to lose.

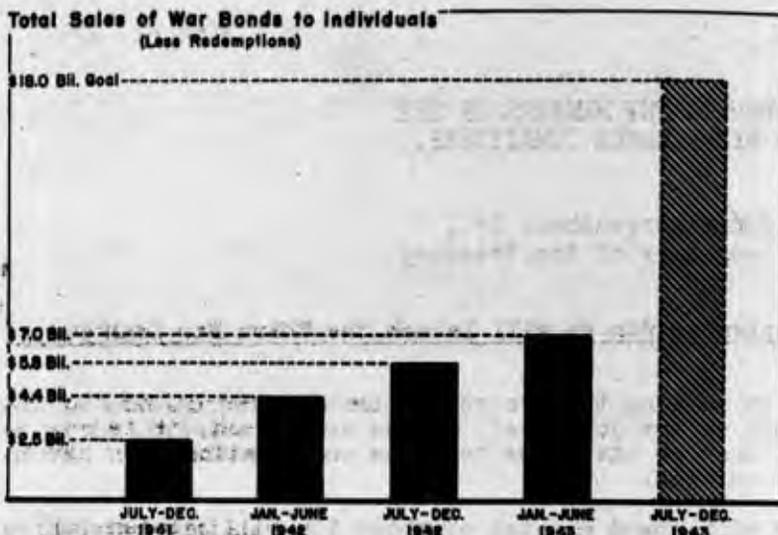
We will spend a total of about \$52 billions between July 1st and the end of the calendar year. Right now, today, it is costing \$240 millions a day to equip our men and take care of other necessary war expenditures. This is nearly \$100 millions a day more than we were spending last year at this time.

During the last half of the year, it will be necessary for us to get far more from the people than ever before. Unless we are able to get more taxes before the end of the year, we are going to have to sell more than twice as much in bonds to individuals as we did in the first half of the year.

Asking you to take on the job of getting twice as much money from individuals may look as though we are setting an impossible task; but it is possible.

Unquestionably, the money will be there. It will be available in the approximately \$23 billions of savings of individuals, who will be earning \$72 billions during the last half of the year. We are going after the greatest portion of these savings, because it is necessary for us to get this money either through bonds or taxes not only to finance the war, but to protect ourselves against inflation.

The accompanying chart shows the size of the job we have ahead of us. We more than met the requirements of this plan for the first part of the year, and we will still be ahead of the program at the end of June. Therefore, we are more than meeting our quotas. The large jump in the July-December period below will be made possible by a large increase in expected national income (from \$64 billions in first half to \$72 billions in last half) and the increasingly critical shortage of goods to buy.



I am sure we will be able to swing this tremendous job if we all work together, and I have good reasons for my confidence. First, we have proved we have the will to do it. During the Second War Loan Drive in April, we asked individual investors to buy \$2½ billions worth of bonds, and they bought \$3½ billions. We asked insurance companies, corporations, and other large investors for \$5½ billions, and they invested nearly \$10 billions. We asked for volunteers to take over the job of selling bonds to their friends and neighbors, and more than a million men and women in the United States became voluntary bond salesmen. We asked for advertising support, and magazines, newspapers and business people gave us millions of lines.

When the final score was in, we found that all the forces working together in the Second War Loan Drive had produced almost as much as the total amount raised during all of the five bond drives in World War I.

Selling the huge amount in bonds called for in our new program will require a larger and even more efficient sales force than we have ever had before. We will have to sell bonds to nearly every man, woman, and child in America. We will have to promote the sale of bonds 24 hours a day, and solicit -- and follow up these solicitations -- from house to house, from bench to bench in factories, and from desk to desk in offices. We need the cooperation of all the people everywhere -- especially the unstinted, enthusiastic cooperation of labor and management, for to do the job ahead we must not only increase the results of the payroll savings plan, but sell more extra bonds every payday, to more people in more plants.

When I say that our bond goal is twice as much as in the first six months, that doesn't mean that every family is

going to have to set aside arbitrarily twice as much. Under the voluntary plan, we leave it to families themselves to decide how much they can spend for bonds. Families with heavy pre-war commitments, mortgages and insurance, and so on, may not always be able to afford twice as much as before. But folks who are earning more than their usual amount of money will be able to invest even more, and it is the job of the sales organization to see that they do.

As you know, many people with larger than usual wages are already putting high percentages of their pay into bonds. In some cases, where more than one member of the family is working or where the head of the family has a war job at good pay, the percentage of War Bond buying is running to half, or more, of the family income. Many women in war jobs, with husbands working, are investing 100 percent of their pay in War Bonds. Those aren't isolated cases by any means. In April I visited one war plant where 23 percent of the total payroll was going into bonds.

During the coming months we are going to be faced with a few new hurdles, but I believe they are chiefly temporary, and I think they will be offset by the enthusiasm that will come with the invasion of Europe. The withholding tax, at the moment, seems to be a great threat, but in the opinion of most people experienced in bond selling, its bark may prove to be worse than its bite. The Victory Tax was greatly feared before it was levied, but sales did not suffer as anticipated. Similarly, we do not expect the new method of collecting Income and Victory taxes will have a serious effect upon sales.

We may have increased taxes before the end of the year, although it is not likely that a new tax bill can be enacted before this Fall, and it should not be retroactive.

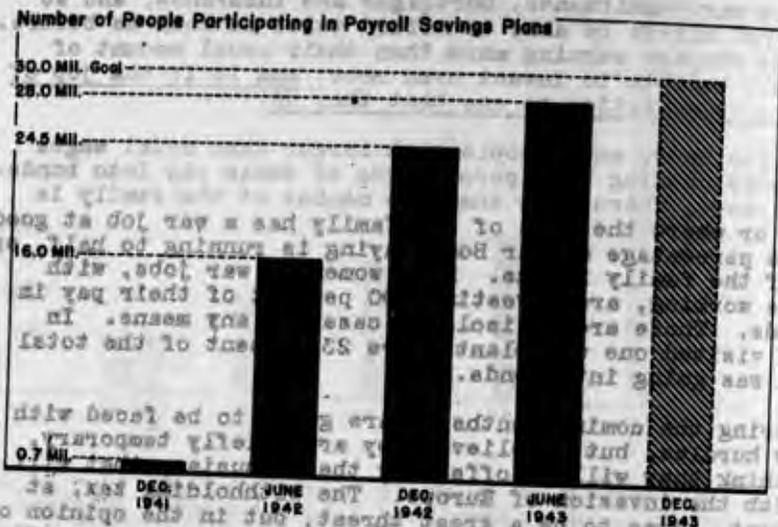
I know that nobody likes high taxes, but this is war, and I sincerely believe that taxes ought to be large enough to pay a large share of the war costs. Taxes should cover something like half of our war expenses. They're not covering nearly that much now. On the other hand, we can't get much more than half the money through taxes because, on such a huge scale, taxes can't be levied with fairness.

The same holds true for compulsory savings, and that's why the Treasury policy, in which the President concurred in his press conference on June 11, is to rely upon bond sales for the remaining amount. Bonds are flexible. They allow for the personal obligations which some may have, which may be entirely different from the obligations of others.

Now, how are we going to raise twice as much money from individual investors in the next six months?

First, we must expand the payroll savings plan. It should produce month-in and month-out at least 50 percent more than at present. Whether it will produce so much de-

penda squarely upon Labor and Management working together to make the payroll plan work at top efficiency in every plant in the nation.



The Third War Loan, starting September 9, will aim at raising the largest amount of money from individuals that any drive has raised in the history of the world. Our goal for individuals in this September drive will be to get a substantial part of the necessary money.

In a subsequent drive, and during the four months in which there are no war loan drives, through payroll savings and other continuing sales, we will aim to get the rest of the goal set for individual investors.

I don't believe this is too much to ask of the American people. The incomes received by all of us will be so much greater than the sum total of all the things that we can buy that money will be at hand to purchase the necessary bonds and still pay taxes, life insurance, mortgage obligations, doctors' bills, and to make all the rest of the necessary expenditures.

We know now what this war is going to cost this year. We know about how many planes and tanks and ships we'll need. We know approximately how many men we will have in our armies and how much equipment we'll have to provide for them.

We know those things because our days of guesswork are over. We know exactly what we are going to do and how we're going to do it. From now on, we are going to do the planning -- and the attacking. And I fervently hope that we can continue to work out our financing plans together and keep them on a voluntary basis. But, in the final analysis, that is up to you and the American people.

Wm. W. W. W.

June 26, 1943

TO: HAROLD N. GRAVES
SUBJECT: WEEKLY REPORT FROM WAR FINANCE DIVISION

NATIONAL ORGANIZATIONS

Labor Section

Attached is a copy of a resolution passed by the American Newspaper Guild (CIO) in convention June 14-16 at Boston. The delegates were enthusiastic about the plan "Figure It Out Yourself," because it places the responsibility for the amount of purchases directly upon the worker himself and does not set an arbitrary figure which the individual must meet. (Attachment No. 1)

Attached is a marked copy of "The Guild Reporter" showing settlement of the story which first raised the question of wage increases for employees who voluntarily

WJ
6/26/43

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NATIONAL ORGANIZATIONSLabor Section (Continued)

buy more than 10% in War Bonds. (Attachment No. 2)

The War Bond tour on the Northern Pacific Railroad has been completed. During the trip, some 8,500 employees were personally contacted by the officials. Preliminary reports show that there has been a large increase in payroll deduction authorizations on this road.

Trade Association Section

A special mailing has been sent to the trade association list, enclosing copies of charts on the sales and redemptions of United States Savings Bonds.

At a meeting of the joint War Bond Committee for the Unionized Section of the Hosiery Industry on June 17, in Philadelphia, the committee decided unanimously to institute an intensified campaign to raise payroll deductions to at least 12% of the aggregate payroll.

Fraternal Section

Reports from the Executive Secretary of District Grand Lodge #6, show that the \$10,000,000 B'nai B'rith War Bond drive, which will close June 30, has already been over-subscribed \$2,500,000.

Returns on the Cosmopolitan International drive have been very slow. The tabulation at this time shows

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NATIONAL ORGANIZATIONSFraternal Section (Continued)

\$8,697,466 in War Bonds sold by 15 clubs with a total membership of 727.

Inter Racial Section

Through contacts made with the Y.W.C.A., Y.M.C.A., Urban League, and the Courier office, a Negro Women's War Bond Committee has been organized in Pittsburgh. A list of one hundred women's organizations of various types was compiled and turned over to the chairman of the newly created committee for future contact.

FIELDWomen's Section

A special Molly Pitcher Tag Day program is being prepared for women's colleges. An article was prepared for "National News" of American Legion Auxiliary about Molly Pitcher Tag Day.

The Molly Pitcher Tag, which is to be used for Molly Pitcher Tag Day on August 4, has just come off the press and is now being distributed. (Attachment No. 3)

An order has been put through for 50,000 copies of the poster entitled "For Baby's Future, Buy War Bonds." This will be used in the baby promotion to be sponsored during August and September.

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FIELDWomen's Section

During July and August focus is to be placed on Payroll Savings. A special letter is being sent to State women leaders on the importance of stressing work in this field during these two months. The Payroll Savings project for women will also be featured in the July "Home Front Journal."

Retail Section

The Walgreen Drug Company's May report indicates that sales of War Bonds and Stamps amounted to \$116,753.20.

Peoples Drug Stores, Inc., report over-the-counter sales for the entire chain on Bonds and Stamps, during May of \$24,050.20.

Payroll Savings Section

Attached is a list of companies reported as having achieved the goal of 10% or more during the past week. (Attachment No. 4)

Education Section

Plans have been laid for a Fall jeep campaign and have been announced through Field Memorandum #638. The campaign has been planned as a result of recommendations from school administrators and educational chairmen who felt the Spring Jeep Campaign provided an impetus to school War Savings sales. A special Jeep Poster will be included in

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FIELDEducation Section (Continued)

the September issue of the Teachers Bulletin.

In addition to the sales campaign to be inaugurated with the opening of school, plans are being made for a concentrated drive on the problem of War Savings investments by working students and on the project of family budgeting to increase War Savings investments of the entire family group.

Agricultural Section

Income received by farm people has more than doubled since 1939. Supplies of articles and services farm people buy have decreased. As a result, most farm people, like most city workers, have more money to spend than ever before in history, but less to spend it for. The result: billions of dollars idle, inflationary money.

Listed below are increases in farm income since 1939, including estimates for 1943 made by the Agricultural Section:

	Gross	Cash	Net
1939	\$10,564,000,000	\$8,864,000,000	\$4,430,000,000
1940	11,003,000,000	9,106,000,000	4,573,000,000
1941	13,848,000,000	11,743,000,000	6,324,000,000
1942	18,628,000,000	16,177,000,000	9,480,000,000
1943	22,500,000,000	19,000,000,000	11,500,000,000

Nearly \$2 billion was left over from 1942 farm income after all expenditures by farm people. Because farm

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FIELDAgricultural Section (Continued)

income promises to be even higher in 1943 and supplies of things farm people buy will be still scarcer, this figure will undoubtedly be much higher by the end of 1943.

Motion Pictures and Special Events Section

The War Activities Committee for the Motion Picture Industry has thrown its full weight behind the special July promotion, "The Shangri-La" War Bond drive. Shangri-La Ads are now appearing in all of the motion picture trade papers. (Attachment No. 5)

Theatres throughout the country will run a special "Shangri-La" trailer prepared by National Screen Service, at no cost to the Treasury.

Universal News #197 carried the following release on War Bonds:

HOUSTON, TEXAS - Ex cowboys and cowgirls from the Texas plains engage in a "round-robin" at the Houston Shipbuilding Corp. as they launch the S.S. Sidney Sherman, its 200th ship. Then they stepped up and bought \$2,000,000 in War Bonds to pay for it.

Arrangements have been made by the Special Events Section through the National Bowlers for Victory League to have Bond applications and Stamps at all of the 10,000

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FIELDMotion Pictures and Special Events Section (Continued)

bowling establishments throughout the country and a special campaign will be launched during the Third War Loan among the 16 million bowlers in the United States.

The National Theatre Conference, representing leading community theatres throughout the country, is planning an organization to promote a nationwide series of "Theatre for Bonds" campaigns.

Contract has been let for the production of a one-reel sales training film titled "Seven Fighting Words" to be used by the Retail Section for meetings of retail sales people engaged in selling Stamps and Bonds. Film will be completed about August 1, and will be ready for distribution shortly thereafter. It will be available in 16mm for store meetings and in 35mm for morning meetings in theatres, etc.

The Two-Man Jap Sub, touring the nation in the interest of War Savings, visited the following towns during the past week: Pittsburgh and Washington in Pennsylvania; Sistrerville, Parkersburg, Spencer and Charleston in West Virginia.

Through special arrangements with the Army Air Forces, the Memphis Belle, the veteran Flying Fortress and her crew are being made available for War Bond participation in the following cities: Memphis, Nashville, Bridgeport, Hartford, Boston, Pittsburgh, Detroit, Akron, Cleveland,

FIELD

Motion Pictures and Special Events Section (Continued)

Dayton, Las Vegas, Kingman, Roswell, San Antonio, Harlingen, Laredo, Oklahoma City, Mobile, Fort Myers, Sebring, and Washington, D. C.

The Memphis Belle is due in Washington, D. C. on or about August 2. After a 30 day furlough for the crew, it is likely that War Savings can borrow them from the Army Air Force for another brief tour before they are assigned to duty again.

Field Memoranda

Recent Memoranda sent to the Field include numbers 636, 637, 638, 639, 640, 641, 642 and 643. (Attachment No. 6)

PRESS, RADIO AND ADVERTISING

Advertising Section

The first insight into continuing newspaper advertising cooperation has now been received in the form of a study prepared by the Advertising Checking Bureau. The Advertising Checking Bureau had previously prepared a complete report of newspaper lineage contributed to the Treasury during the 2nd War Loan. The present study covers the period between May 16th and May 31st.

This study shows that 1,227 daily and Sunday newspapers printed War Bond advertising during that period (no check was made of weekly newspaper space). Of the 4,144,361 agate lines of advertising, from every State in

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PRESS, RADIO AND ADVERTISINGAdvertising (Continued)

the Union, the District of Columbia, and Hawaii, 66% of the space was in page advertisements; 24% were five column ads; 6% were three column ads, and 4% appeared in 6, 4 and 2 column advertisements.

On the basis of this study, it is evident that the daily newspaper space allotted to the Treasury program exceeds a million dollars a month.

A preliminary Third War Loan meeting was held with the Advertising Council in New York this week. The conference included discussion of the theme and slogan for the campaign and recommendations will be made to the Treasury Department during the forthcoming week.

New publications are being added daily to our General Magazine Campaign. Among those which have requested plates during the past week are Esquire, Travel, Dell Publications, New York Times Magazine, This Week, Columbia, Forbes, and several smaller publications.

During the week of June 14 we received 108 War Bond mentions and 5 complete ads, giving a total of 113 in the attached list of magazines. (Attachment No. 6A)

Our returns on Ad No. 11 "THIS YEAR'S BONDS ARE TO WIN" showed a larger circulation than any previous Business Publication advertisement during the preceding year.

PRESS, RADIO AND ADVERTISINGAdvertising Section (Continued)

The totals as prepared by the Promotional Research Section are listed in Attachment No. 7.

Our Farm Publication program has hit a new circulation peak. Advertisement #9 titled "I'M GOING TO BUY THIS \$1000 TRACTOR FOR \$750" is the first of the new farm series. It was carried in 36 national farm magazines with a total circulation of 10,815,996. Advertisement #7 titled "OUR GOOD EARTH - KEEP IT OURS", which was issued last year, was carried in 29 national farm magazines with a total circulation of 7,604,167. Advertisement #8, titled "IT'S MACHINE GUNS TODAY - MACHINES FOR YOU TOMORROW" was carried in 26 national farm magazines with a total circulation of 8,943,057.

Attached is a miniature of the new 24-sheet outdoor billboard poster which ties in to the new phase of the Payroll Savings Plan. This is titled "FIGURE IT OUT YOURSELF". (Attachment No. 8)

Attached is a photoprint of a 24-sheet outdoor poster prepared by the Ranier Brewing Company of San Francisco, California. (Attachment No. 9)

Attached is a photoprint of a painted bulletin titled "THIS IS YOUR 2ND FRONT - BUY WAR BONDS". (Attachment No. 10)

Attached is a photoprint of a poster in the lobby

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PRESS, RADIO AND ADVERTISINGAdvertising Section (Continued)

of the First National Bank of Saint Louis titled "YOU BUY 'EM - THEY'LL FLY 'EM". (Attachment No. 11)

A list of the national advertisers who have indicated their desire to cooperate with the Treasury in the placing of corner sheet posters on their regular 24-sheet billboard panels is attached. (Attachment No. 12)

Through the cooperation of the Owens-Illinois Glass Company, War Bond copy is being painted on approximately five million new milk bottles. The estimated use is thirty-five trips per bottle.

Radio Section

The letter to Secretary Morgenthau from President Roosevelt emphasizing the voluntary payroll savings plan as "the greatest single factor we now have in protecting ourselves against inflationary spending", was telegraphed to radio network commentators, newscasters and radio news services for broadcast June 24 and 25.

Eddie Cantor will be Master of Ceremonies on a special broadcast on George M. Cohan's birthday, July 4, 1943, over the Mutual Broadcasting System network 3:30-3:45 P.M. The occasion is the launching of the Liberty Ship to be christened GEORGE M. COHAN. The program, emanating from the Fairfield-Bethlehem Shipyards in Fairfield, Maryland, is one of the highlight stunts in Baltimore's summer War Bond campaign.

PRESS, RADIO AND ADVERTISING

Press Section (Continued)

James Cagney paid tribute to the newsboys of America on a special broadcast on June 23, 7:30-7:45 P.M. over the National Broadcasting Company Network. The occasion was the annual convention of the Newspaper Circulation Managers at Cleveland, Ohio.

Rouben Mamoulian, noted stage and screen director, will be the first guest director of the "Saturday Night Bondwagon" heard over the Mutual Broadcasting System network Saturday, June 26, 10:15-10:45 P.M. Mamoulian will direct his own interpretation of Walt Whitman's poem "I Hear America Singing". Mamoulian's presentation will inaugurate a series of noted directorial contributions. Wilbur Evans, radio baritone, will be heard on the program.

Radio Station WISN, Milwaukee, Wisconsin, ran a full page ad in the Milwaukee Sentinel on Sunday, June 13, 1943, to publicize the "Treasury Star Parade" series of programs. (Attachment No. 13)

Uncle Don, heard 6:00-6:30 P.M. over radio station WOR, New York, held his Saturday, June 19th broadcast at an outdoor gathering in behalf of the sale of War Bonds.

Bobby Hookey, five-year-old star of "Rocking Horse Rhythm" program heard over the Mutual Broadcasting System network Sundays, 10:45-11:00 P.M. helped boost Bond sales when his program emanated from New York's War Bond Square recently.

The Sports Broadcasters Association, whose member-

- 13 -

PRESS, RADIO AND ADVERTISINGRadio Section (Continued)

ship consists only of broadcasters and radio station staff members, will compete with Long Island Stars in New York in a softball game for the benefit of the War Bond Campaign.

Press Section

Attached is a recent pulp magazine carrying a War Bond poem. (Attachment No. 14)

The July issue of Jack and Jill carries a War Bond song on its inside front cover and a short story based on the War Bond theme. (Attachment No. 15)

The July issue of "World At War" which carries War Bond mentions is attached. (Attachment No. 16)

Attached is a copy of a promotion book issued in connection with the Shangri-La campaign of the Retail Section for July. Copy went to 17 thousand movie theatres and approximately the same number of retail stores. (Attachment No. 17)

A copy of a special issue of the U.S. Defense Agent News, produced at the annual meeting of the international circulation managers association in Cleveland, June 21, is attached. This issue was distributed to every daily newspaper circulation manager in the country. (Attachment No. 18)

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PRESE, RADIO AND ADVERTISING

Press Section (Continued)

Attached is a copy of Puck's Weekly (Circulation 6,053,000) which is now carrying the War Bond underbars. (Attachment No. 19)

The NEA Syndicate has requested permission to run the underbars regularly. This supplement reaches 700,000 families.

OFFICE OF EXECUTIVE DIRECTOR

Promotional Research Section

Attached is the analysis of newspaper carrier sales as of June 24, 1943. (Attachment No. 20)

Thomas Lynch's office

Memo discussing control features
prepared by Allison Rupert and
Miss Kathryn McDuff.

Covering memo prepared by Mr. Lynch.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

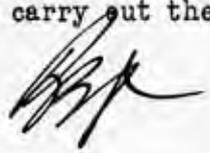
DATE
JUN 26 1943

TO Secretary Morgenthau
FROM Mr. Paul

The attached memorandum discusses the major control features of the 1943 crop program of the Department of Agriculture, under the Soil Conservation and Domestic Allotment Act, as amended, and title III of the Agricultural Adjustment Act of 1938.

The application of benefit payments and penalties under the current program appears to be directed toward restriction of production only with respect to cotton and tobacco. For these crops the program announced to date provides for deduction from benefit payments for exceeding acreage allotments and imposition of penalties for exceeding marketing quotas.

These conclusions are based upon the public documents which were available to us and have not been checked at the source. It is the best information that can be obtained short of checking with the officials who carry out the program.



Current farm controls are predicated primarily on two Acts of Congress: Title III of the Agricultural Adjustment Act, as amended (U.S.C., title 7, secs. 1281-1407), and the Soil Conservation and Domestic Allotment Act, as amended (U.S.C., title 16, secs. 590g-590q). Each of these Acts authorizes acreage allotments. Pursuant to each Act, separate (although interrelated and interdependent) programs are administered. The acreage allotment system is the primary administrative basis for such programs. The same acreage allotment may be the basis for programs under both Acts. However, a specific acreage allotment may be pertinent with respect to the program under one Act and not pertinent with respect to the program under the other Act.

Generally speaking, Agricultural Adjustment Act programs are characterized by the following features: acreage allotments, parity payments, and marketing quotas. Whether parity payments are made depends on, first, whether there is a margin between parity and the market price plus the production adjustment allowance rate, and, second, whether appropriation is made therefor.

Generally speaking, the Soil Conservation and Domestic Allotment Act programs are characterized by the following features: (1) production adjustment allowances are paid to cooperating farmers. These allowances constitute a benefit payment for planting specific crops in accordance with acreage allotments. In the case of each crop the normal yield from the allotted acreage of the particular farm is determined by Department of Agriculture regulations on the basis of standards specified in the statutes. The announced rate of payment for the particular crop is

multiplied by the normal yield. The result is the amount of the adjustment allocable to the particular crop. The total production adjustment allowance for the particular farmer is the total of the indicated amounts for each of the planted crops for which benefits are announced subject to certain deductions and limitations. (2) Pursuant to this Act conservation payments are made to encourage certain soil building practices. They are computed on the basis of the acreage affected, the tonnage of fertilizer used, etc.

The production adjustment allowance is subject to conditions and limitations as follows:

1. A deduction of \$15 is made for each acre by which the sum of the acreage planted to war crops is less than 90 percent of the farm war crop goals. Bulletin ACP-1942, Revised, defines war crops as follows: "In any area war crops shall be the crops and land uses designated by the Agricultural Adjustment Agency for which the 1943 goal is substantially greater than the production which would otherwise be expected under war conditions".
2. Deductions are made for exceeding acreage allotments of certain crops.
3. Certain deductions are for failure to observe good farming practices, e.g., for failure to take prescribed action to prevent erosion, \$1.00 an acre.
4. There is a \$10,000 limitation on production adjustment allowances and production practice payments pursuant to Soil Conservation and Domestic Allotment Act programs.

A description of the principal features of the 1943 crop program follows:

WHEAT & CORN

- A. There is no national acreage allotment for the purposes of Title III of the Agricultural Adjustment Act.
1. There are no marketing quotas and hence no penalties for marketing in excess of quotas.
 2. Restricted production of 1943 crops presumably will not be a condition for parity payments.
- B. There is a national acreage allotment of 55,000,000 acres for wheat and 43,423,000 acres for corn (in the commercial corn-producing areas) for the purposes of the Soil Conservation and Domestic Allotment Act program.
1. The rates of production adjustment allowances are 9.2 cents per bushel for wheat and 3.6 cents per bushel for corn.
 2. There is no deduction applicable for exceeding the acreage allotment.
 3. There are applicable the deductions specified for failure to meet 90 percent of the farm war crop goals, and for failure to observe good farming practices.
- C. It does not appear that the present program tends to restrict production. In fact, it should have the effect of increasing production, particularly where the crop is a "war crop" (see paragraph 1 above).

COTTON

- A. For the purposes of Title III of the Agricultural Adjustment Act there is a national acreage allotment of 25,550,276 acres (excluding the acreage reserve for new growers). Marketing quotas have been or will

- 4 -

be established. (See 8 F.R. 49; id. 8031.)

1. Penalties are applicable for marketing cotton in excess of quotas. (See U.S.C., title 7, sec. 1348 and 8 F.R. 49, id. 8031.)
 2. Production in compliance with acreage allotments presumably will be a condition for parity payments, if any.
- B. The same acreage allotments are applicable for the purposes of the Soil Conservation and Domestic Allotment Act.
1. The rate of production adjustment allowances is 1.1 cents per pound.
 2. The deduction applicable for exceeding the acreage allotment is ten times the payment rate for each acre planted in excess of 110 percent of the allotment.
 3. There are applicable the deductions specified for failure to meet 90 percent of the farm war crop goals, and for failure to observe good farming practices.
- C. The present program tends to restrict production.

TOBACCO

- A. For the purposes of Title III of the Agricultural Adjustment Act acreage allotments and marketing quotas have been or will be established.
1. The penalty for marketing tobacco in excess of quotas is 10 cents per pound in the case of flue-cured, Maryland, or burley tobacco and 5 cents per pound in the case of all other kinds of tobacco (see U.S.C., title 7, sec. 1314).

2. Production in compliance with acreage allotments presumably will be a condition for parity payments, if any.

B. The same acreage allotments are applicable for the purposes of the Soil Conservation and Domestic Allotment Act.

1. The rates of production adjustment allowances are set forth in the attached table.

2. Deductions are applicable for exceeding the acreage allotments. Deductions are at varying rates (generally speaking, approximately ten times the rate of payment - see ACP-1943 Bulletin, Revised, page 16).

3. There are applicable the deductions specified for failure to meet 90 percent of the farm war crop goals and for failure to observe good farming practices.

C. The present program tends to restrict production.

RICE

A. For the purposes of Title III of the Agricultural Adjustment Act there is a national acreage allotment of 1,320,000 acres. It does not appear that marketing quotas have been established.

1. In the absence of quotas no penalties will be applicable for marketing in excess of quotas.

2. Production in compliance with acreage allotments presumably will be a condition for parity payments, if any.

B. The same acreage allotments are applicable for the purposes of Soil Conservation and Domestic Allotment Act.

1. The rate of production adjustment allowances is 2 cents

- 6 -

per hundred pounds.

2. There is no deduction applicable for exceeding acreage allotments.
3. There are applicable the deduction specified for failure to meet 90 percent of the farm war crop goals, and for failure to observe good farming practices.

PEANUTS

There is no national acreage allotment for the purposes of Title III of the Agricultural Adjustment Act or for the purposes of the Soil Conservation and Domestic Allotment. There are no marketing quotas and hence no penalties for violation of quotas. There is no production adjustment allowance. (See 8 F.R. 8044.)

Peanuts are a war crop, the production of which is encouraged.

POTATOES

Payments for increasing production will be made with respect to Irish potatoes and commercial truck crops for fresh consumption. Payment for each crop will be made on the acreage in excess of 90 percent and not in excess of 120 percent of the farm crop goal (with certain exceptions relative to very small farms). The rates of payment are: for Irish potatoes 50 cents per pound times the normal yield, and for commercial truck crops \$50.

The \$10,000 limitation on payments pursuant to the Soil Conservation and Domestic Allotment Act programs are not applicable with respect to Irish potatoes and truck crop payments.

TOBACCO

Burley	<u>0.4</u>	Virginia Sun Cured	<u>0.5</u>
Flue-Cured	<u>0.4</u>	Cigar-Filler, Type 41	<u>0.3</u>
Dark Air-Cured	<u>0.7</u>	Cigar-Filler and Binder (except types 41 and 45)	<u>0.5</u>
Fire-Cured	<u>1.2</u>	Georgia-Florida, Type 62	<u>0.7</u>

25

June 26, 1943.

Dear Mr. Payer:

For the Secretary, I am acknowledging your letter of June 18, transmitting a copy of Mr. Donald M. Nelson's June report to the President on production performance against materials and equipment commitments of the Second Russian Protocol. Mr. Morgenthau appreciates your sending the report to him and will study it with a great deal of interest.

Sincerely yours,

(Signed) H. S. Klotz *ms*H. S. Klotz,
Private Secretary.

Mr. E. A. Payer,
Director, Foreign Division,
War Production Board,
Washington, D. C.

GEF/dbs

WAR PRODUCTION BOARD

WASHINGTON, D. C.

June 18, 1943

IN REPLY REFER TO:

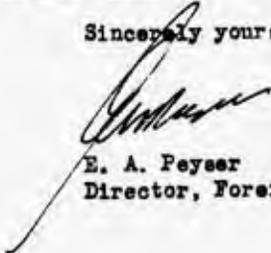
Mr. Henry Morgenthau
Room 280, Treasury Department
Washington, D. C.

My dear Mr. Morgenthau:

I am transmitting for your information a copy of Mr. Donald M. Nelson's June report to the President on production performance against materials and equipment commitments of the Second Russian Protocol.

I would appreciate any comments you may wish to make in regard to either the report itself or the performance record to date.

Sincerely yours,



E. A. Peyser
Director, Foreign Division

Attachment



WAR PRODUCTION BOARD

WASHINGTON, D. C.

June 16, 1943

IN REPLY REFER TO:

C
O
P
Y

My dear Mr. President:

The accompanying tabulation shows the progress made during May, and during the eleven months ending May 31, towards fulfillment of Second Protocol materials and equipment production programs for the Union of Soviet Socialist Republics.

Outstanding developments brought out by the tabulation are the continued large deliveries of industrial equipment, a further sharp increase in cable deliveries, and the beginning of the fulfillment of the power program.

As of May 31, a total of approximately two hundred and six millions of dollars of industrial equipment, exclusive of power generating equipment, has been made available for the U.S.S.R. since the beginning of the Second Protocol period. This compares with a Protocol requirement of one hundred and sixty two millions of dollars for the same period. At the present time, monthly deliveries of practically all types of equipment are several times as large as during the first months of the Second Protocol. It is because of this acceleration that the War Production Board has felt itself in a position to recommend guaranteed Third Protocol industrial equipment commitments considerably greater than Second Protocol commitments.

Deliveries of cable in May exceeded 15,000 short tons. These shipments, together with correspondingly large shipments during the past two months, brought cable deliveries to within 59% of total Second Protocol commitments. Especially noteworthy is the present situation in regard to electric power cable (Item 74) and miscellaneous copper cable and wire (Item 74A). Most of the orders for items in these categories were not placed until late in 1942 or early in 1943. Because of the enormous size of the cable program and the difficult nature of many of the items included, it appeared unlikely that more than a fraction of the program could be completed during the few remaining months of the Second Protocol period. Through energetic measures on the part of the Copper Division, the Foreign Division, and Treasury Procurement, however, schedules were

**SECRET**

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- 2 -

worked out with manufacturers which have made possible completion to date of fifty-three percent of the power cable commitment and sixty-one percent of the copper cable and wire commitment. Further, very large shipments are being made in June. As a result of this, it is expected that more than eighty percent of both commitments will be fulfilled by June 30th.

The Second Protocol power program, though formulated as early as May, 1942, was not finally approved and put under requisition until October and November, 1942. After this, several months were required for engineering before production could be begun. Ordinarily, eight to ten months more would have been required for deliveries to begin on an appreciable scale. Because of the urgency of the program, however, the Power Division, with the assistance of Treasury Procurement, undertook to secure completion of the greater part of the program before June 30, 1943. Extensive surveys were made of plant facilities and of available stocks of critical components. In spite of innumerable problems arising from peculiarities of specifications, urgent domestic requirements, and shortages of materials, the program was quickly placed on a solid basis. Where possible, units and components intended for domestic consumption were diverted to the Russian Program. Where diversions were not possible, numerous domestic programs were drastically delayed or curtailed. In several instances, the entire facilities of manufacturers were turned over to the Russian Program. To break bottlenecks in the case of certain critical items, numerous AAA ratings were secured and several special directives issued. As a result of these measures, substantial deliveries began to be made in late March of this year. Since then, a marked acceleration has been taking place. As of the end of May, the original program was about one-third complete. By June 30, it is scheduled to be more than two-thirds complete.

Production of other materials and equipment items continues to be generally satisfactory.

Respectfully yours,

/s/

Donald M. Nelson

The President
The White House
Washington, D. C.

Attachment

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134

STATUS OF MATERIALS AND EQUIPMENT PRODUCTION PROGRAMS UNDER THE SECOND RUSSIAN PROTOCOL, AS OF JUNE 1, 1943

(MAY DELIVERY DATA SUBJECT TO REVISIONS)

SECRET 134
Disseminate Permissible Under Espionage Act

Protocol Item No.	Item	Unit	2nd Protocol Production Program	Made Available at Mill in U.S.A. May 31, 1943	Made Available at Mill in U.S.A. July 1, 1942 - May 31, 1943	Percent of 2nd Prot. Program Completed as of June 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of June 1, 1943 To Satisfy 2nd Protocol Prod. Program	Comments
			1/	2/	2/	3/			
NON-FERROUS METALS									
1 & 2A	Aluminum (Ingot and Duralumin)	S.T.	36,690	4,480	43,406	118	128	(6,716 Excess)	Deliveries of all non-ferrous metals, which are high on the Soviet priority shipping list, are ahead of Protocol requirements.
4	Nickel (Metal and Contained)	S.T.	7,800	703	8,580	110	120	(780 Excess)	
5	Molybdenum	S.T.	4,000	134	4,216	100	109	(216 Excess)	
6	Copper (Metal and Contained)	S.T.	(134,400)	(7,799)	(116,082)	(86)	(93)	(18,318)	
7	Rolls Copper (Copper Base Alloys Only)	S.T.	109,411	4,400	103,480	95	103	5,931	
8	Magnesium	S.T.	0	336	1,680	-	-	(1,680 Excess)	
9	Zinc	S.T.	29,000	3,500	34,618	119	129	(5,618 Excess)	
11	Copper Goods and Tubes	S.T.	15,148	290	15,413	102	111	(265 Excess)	
10	Nickel-Chrome Wire	S.T.	538	111	505	94	102	33	
19	Mercury	S.T.	300	0	896	299	325	(596 Excess)	
89	Lead	S.T.	8	33	41	513	558	(33 Excess)	
90	Tin	S.T.	2	0	2	100	109	0	
51	Foil								
A	Aluminum	S.T.	95	0	93	102	111	2	
B	Tin	S.T.	52	0	52	100	109	0	
C	Nickel	S.T.	1	0	2	200	217	(1 Excess)	
92	Habbitt Metal	S.T.	4	41	105	2,625	2,853	(107 Excess)	

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Item
No.

Item

Unit

2nd
Protocol
Production
Program

Made Available
at Mill in U.S.A.
May 1, 1943 -
May 31, 1943

Made Available
at Mill in U.S.A.
July 1, 1942 -
May 31, 1943

Percent of
2nd Prot.
Program
Completed
as of
June 1, 1943

Ratio of
Actual
Deliveries to
Prot.Sched.
(Prot.Sched.-100)

Balance to be
Produced
as of June 1, 1943
To Satisfy
2nd Protocol
Prod. Program

Comments

NON-FERROUS METALS (Continued)

93	Cadmium	S.T.	100	12.5	167.5	167	203	(87.5 Excess)
94	Cobalt	S.T.	144	0	168	117	127	(24 Excess)
	Total Non-Ferrous Metals Excluding Item 6 (Copper)	S.T.	203,293	14,040.5	213,444.5	105	114	(10,151 Excess)

See preceding page for comments.

FERRO-ALLOYS

12	Ferrosilicon	S.T.	9,408	0	5,062	54	59	4,346
13	Ferrochrome	S.T.	5,376	45	2,618	49	53	2,758
55	Ferrophosphorus	S.T.	4	0	4	100	109	0
56	Ferrivanadium	S.V.	2	0	2	100	109	0
57	Ferrotungsten	S.T.	2	0	2	100	109	0
	Total Ferro-Alloys	S.T.	14,792	45	7,688	52	57	7,104

Deliveries of ferrosilicon and ferrochrome continue under suspension, with Soviet consent, because of excessive seaboard stocks. Requirements for other ferro-alloys were spot requirements and these have already been satisfied.

HIGH PRIORITY ALLOY STEEL

16	Polished Drill Rods	S.T.	60	0	63	105	114	(3 Excess)
B	High Speed	S.T.	45	0	49	109	119	(4 Excess)
C	Other Alloy	S.T.						
17	High Speed Tool Steel	S.T.	3,400	212	3,243	95	104	157
18	Tool Steel	S.T.	700	63	648	93	101	52
B	Alloy K12	S.T.	650	56	606	93	101	44
C	Alloy K12M	S.T.	6,700	587	5,898	88	96	802
D	Alloy - Other	S.T.						

Alloy tubes, stainless bars, and one or two other items continue behind Protocol requirements. Other high priority alloy items are up to or ahead of Protocol requirements.

SECRET
Restrictions Prohibited Under Espionage Act

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Protocol Item No.	Item	Unit	2nd	Made Available	Made Available	Percent of 2nd Prot. Program Completed as of June 1, 1945	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of June 1, 1945 To Satisfy 2nd Protocol Prod. Program	Comments	
			Protocol Production Program	at Mill in U.S.A. May 1, 1945 - May 31, 1945	at Mill in U.S.A. July 1, 1942 - May 31, 1945					
			1/	2/	3/					
HIGH PRIORITY ALLOY STEEL (Continued)										
19	Cold Finished Bars X Electric Furnace or O.H. Alloy	S.T.	10,635	685	9,378	88	96	1,257		
20	Hot Rolled Alloy Bars & Billets	S.T.	95,000	5,666	88,063	93	101	6,937		
23	Stainless Steel									
A	Sheets	S.T.	2,200	1,074	1,982	90	98	218		
B	Strip	S.T.	350	0	287	82	89	63		
C	Hot Rolled Bars	S.T.	800	42	413	52	57	387		
25	Steel Wire									
A	Ball Wire (Alloy)	S.T.	1,344	233	889	66	72	455		
B	Alloy ASTM 232	S.T.	2,400	363	2,102	88	96	298		
C	Alloy 4140	S.T.	1,200	165	992	83	90	208		
27	Steel Alloy Tubes									
A	Stainless 18-8	S.T.	2,200	90	667	83	90	1,533		
B	4-6% Chrome	S.T.	15,500	959	8,434	54	59	7,066		
C-W	Carbon .5% Mn.	S.T.	6,300	73	3,825	62	68	2,415		
F	S.S. Ball Bearing Tubes	S.T.	5,400	97	798	15	16	4,602		
28	Stainless Wire	S.T.	2,000	84	1,931	97	106	69		
29B	Other Alloy Wire	S.T.	2,600	214	2,768	106	116	(168 Excess)		
Total High Priority Alloy Steel			S.T.	159,484	10,593	133,096	83	90	26,388	
OTHER ALLOY STEEL										
14	Armor Plate	S.T.	13,440	0	839	6	7	12,601		
21	Cr-Si-Mn Billets	S.T.	95,000	0	59,494	63	69	35,506		
Total Other Alloy Steel			S.T.	108,440	0	60,333	56	61	48,107	

See preceding page for comments.

The commitment for armor plate has been cancelled at the request of the U.S.S.R. Deliveries of shot steel (cr-si-mn billets) continue under suspension, with Soviet consent, because of excessive sea-board stocks.

SECRET
Restrictions Prohibited Under Espionage Act

Regraded Unclassified

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SECRET
 (When Published Under Espionage Act)

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Protocol Item No.	Item	Unit	2nd Protocol Production Program	Made Available at Mill in U.S.A. May 1, 1943 - May 31, 1943	Made Available at Mill in U.S.A. July 1, 1942 - May 31, 1943	Percent of 2nd Prot. Program Completed as of June 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of June 1, 1943 To Satisfy 2nd Protocol Prod. Program	Comments
			1/	2/	2/	3/			
HIGH PRIORITY CARBON STEEL									
10	Bimetal (Coomer Glad Strip)	S.T.	20,000	450	18,491	92	100	1,509	
15	Polished Drill Rods	S.T.	125	0	114	91	99	11	
	A Plain Carbon								
18	Tool Steel	S.T.	3,400	146	2,894	85	93	506	
	A Plain Carbon								
19	Cold Finished Bars	S.T.	10,000	2,384	6,731	67	73	3,269	
	D S.O.S. Bullet Core								
	F S.A.S. 1015-1050 & Other Plain Carbon	S.T.	20,000	2,639	12,288	61	66	7,712	
25	Steel Wire	S.T.	12,000	581	9,411	78	85	2,589	
	D Music Wire	S.T.	12,000	250	4,880	74	81	3,120	
	E Spring Wire	S.T.	350	6	332	95	104	18	
	G Card Wire	S.T.	270	36	196	73	80	74	
	K Square Wire	S.T.	700	0	406	58	63	294	
	L Tinned Wire	S.T.	900	1	265	88	96	35	
	M Misc. Wire Products								
26	Wire Rope	S.T.	3,000	184	2,399	80	87	601	
	A Aircraft								
	S Other Wire Rope	S.T.	20,000	1,062	15,179	91	99	1,821	
33A	Hot Rolled Sheets	S.T.	20,000	5,106	37,462	187	204	(17,462 Excess)	
	D Hot Rolled Bars & Bar Mill Shapes	S.T.	6,500	3,385	8,750	135	147	(2,250 Excess)	
	Total High Priority Carbon Steel	S.T.	128,645	16,470	126,798	99	108	1,847	

Total deliveries of high priority carbon steel are ahead of Protocol requirements. Several particular types are behind, however, because of difficulties involved in fabrication.

SECRET
 (When Published Under Espionage Act)

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SECRET
 Maximum Permissible Under Exchange Act

Protocol Item No.	Item	Unit	2nd Protocol Production	Made Available at Mill in U.S.A. May 1, 1943 - May 31, 1943	Made Available at Mill in U.S.A. July 1, 1942 - May 31, 1943	Percent of 2nd Prot. Program Completed as of June 1, 1943	Ratio of Actual Deliveries to Prot. Sched. (Prot. Sched. = 100)	Balance to be Produced as of June 1, 1943 To Satisfy 2nd Protocol Prod. Program	Comments	
			1/	2/	2/	3/				
OTHER CARBON STEEL										
19	Cold Finished Bars	S.T.	60,000	0	25,350	42	46	34,650		
A	Beesmer 3/8"-2"									
20	Cold Rolled Sheets	S.T.	75,000	0	11,417	15	16	63,583		
A	Cold Rolled Strip	S.T.	60,000	1,630	31,266	52	57	28,734		
24	Finplate	S.T.	67,200	124	34,772	52	57	32,428		
25	Steel Wire	S.T.	20,000	53	14,147	71	77	5,853		
F	Rope Wire	S.T.	4,000	0	1,175	29	32	2,825		
H	Electric Welding Wire	S.T.	20,000	0	13,696	68	74	6,304		
I	Galvanized Tel. & Tel. Wire	S.T.	8,000	11	5,892	74	81	2,108		
J	Low Carbon									
31A	Barbed Wire	S.T.	40,000	0	22,857	57	62	17,143		
B	Staples	S.T.	2,600	0	1,755	68	74	845		
32	Pipe and Tubing	S.T.	6,000	50	4,278	71	77	1,722		
A	Welding Press and Mechanical	S.T.	12,000	0	2,631	22	24	9,369		
B	Seamless Press and Mechanical									
C	Cold Drawn Press and Mechanical	S.T.	6,000	280	3,711	62	68	2,289		
D	H.P. Press and Mechanical	S.T.	24,000	0	14,571	61	66	9,429		
E	Electric Weld Casing	S.T.	15,000	0	0	0	0	15,000		
F	Electric Weld Line Pipe	S.T.	35,000	30	756	2	2	34,242		
G	Seamless Casing	S.T.	15,000	0	12,364	82	89	2,636		
H	Seamless Line Pipe	S.T.	40,000	114	12,652	32	35	27,348		
I	Seamless Drill Pipe	S.T.	15,000	0	2,318	15	16	12,682		
J	Seamless Oil Well Tubing	S.T.	15,000	0	0	0	0	15,000		
K	Tool Joints	S.T.	3,000	0	1,341	45	49	1,659		
33	Hot Rolled	S.T.	5,000	0	2,650	53	58	2,350		
B	Galvanized Roofing Sheets	S.T.	75,000	242	29,274	39	43	45,726		
C	Plates	S.T.	13,000	103	4,927	38	41	8,073		
E	Structural Shapes	S.T.	11,000	0	15,076	137	149	(4,076 Excess)		
F	Strips	S.T.	4,000	0	3,955	99	108	45		
G	Terne Plate and Long Terne									
34A	Bolts, Nuts, Rivets, Chains & Screws	S.T.	6,000	227	2,973	50	55	3,027		
B	Nails	S.T.	7,000	355	5,210	74	81	1,790		
Total Other Carbon Steel			S.T.	663,800	1,219	281,016	42	46	362,784	

Except for a few specialty orders, delivery of items included in this category remain under suspension because of excessive seaboard stocks.

SECRET
 Maximum Permissible Under Exchange Act

SECRET

Nuclear Proliferation Control Act

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Protocol Item No.	Item	Unit	2nd Protocol Production Program	Made Available at Mill in U.S.A. May 1, 1943 - May 31, 1943	Made Available at Mill in U.S.A. July 1, 1942 - May 31, 1943	Percent of 2nd Prot. Program Completed as of June 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of June 1, 1943 To Satisfy 2nd Protocol Prod. Program	Comments
			1/	2/	2/	3/			
<u>RAILROAD MATERIALS</u>									
101	Rails	S.T.	175,000	237	60,004	34	37	114,996	Production of rails and accessories is being resumed in June. Other items, except a few specialties, continue under suspension because of excessive seaboard stocks.
101A	Accessories	S.T.	80,000	29	15,496	19	21	64,504	
102	Mounted Sets of Wheels & Axles	S.T.	36,000	1,714	23,471	65	71	12,529	
103	Car Axles	S.T.	60,000	0	33,155	55	60	26,845	
104	Locomotive Car Wheel Tires	S.T.	13,500	484	12,787	95	104	713	
105	Roller Steel Car Wheels	S.T.	18,000	0	7,738	43	47	10,262	
107	Steel Locomotive Axles	S.T.	255	0	253	99	106	2	
108	Electric Locomotive Axles	S.T.	300	0	222	74	81	78	
	Total Railroad Materials	S.T.	363,055	2,464	153,126	40	44	229,929	
<u>CHEMICALS</u>									
36	Phenol	S.T.	12,000	1,078	12,440	104	113	(440 Excess)	Additional quantities of ethylene glycol made available are included with Item 61A "Other Chemicals".
38	Ethylene Glycol	S.T.	2,400	0	2,400	100	109	0	
39	Sodium Bromide	S.T.	1,800	0	1,804	100	109	(6 Excess)	
40	Phosborus	S.T.	2,400	0	2,461	103	112	(61 Excess)	
43	Dibutyl Phthalate	S.T.	3,600	169	3,229	90	98	371	
42	Dimethylaniline	S.T.	3,000	0	3,076	103	112	(76 Excess)	Deliveries of all chemicals, except dibutyl phthalate, are considerably ahead of Protocol requirements. Full commitments have already been completed in most cases.

SECRET

Nuclear Proliferation Control Act

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SECRET
 Unusually Producible Under Espionage Act

140

Protocol Item No.	Item	Unit	2nd	Made Available	Made Available	Percent of 2nd Prot. Program Completed as of June 1, 1943	Ratio of Actual Deliveries to Prot. Sched. (Prot. Sched.=100)	Balance to be Produced as of June 1, 1943 To Satisfy 2nd Protocol Prod. Program	Comments
			Protocol Production Program	at Mill in U.S.A. May 1, 1943 - May 31, 1943	at Mill in U.S.A. July 1, 1942 - May 31, 1943				
			1/	2/	2/	3/			
CHEMICALS (Continued)									
43	Dibenzylamine	S.T.	1,800	130	1,635	91	99	165	
44	Colloxylin	S.T.	3,762	232	3,762	100	109	0	
45	Methanol	S.T.	12,000	994	11,348	95	103	652	
46	Drotronine	S.T.	4,600	624	7,354	160	174	(2,754 Excess)	
48	Ammonia Chloride	S.T.	4,800	597	4,800	100	109	0	
50	Potassium Nitrate	S.T.	3,600	0	3,600	100	109	0	
51	Ammonium Cyanide	S.T.	3	0	3	100	109	0	
52	Centralite	S.T.	600	85	645	108	117	(45 Excess)	See preceding page for comments.
53	Resarin (Resorcinol)	S.T.	120	0	120	100	109	0	
54	Barium Peroxide	S.T.	300	25	275	92	100	25	
55	Strontium (S. Oxalate)	S.T.	96	4	96	100	109	0	
56	Rodalite (Rhodamine B)	S.T.	6	0	6	100	109	0	
57	Torium (T. Nitrate)	S.T.	3	0	3	100	109	0	
58	Cerium	S.T.	18	0	18	100	109	0	
60	Potassium Sulphate	S.T.	1,800	0	1,800	100	109	0	
51	Anthracene	S.T.	0	0	9	-	-	(9 Excess)	
61A	Other Chemicals	S.T.	60,000	5,394	57,989	97	105	2,011	
	Total Chemicals	S.T.	118,708	10,332	116,873	100	109	(165 Excess)	

SECRET
 Unusually Producible Under Espionage Act

Regarded Unclassified

SECRET

Business Possible Under Espionage Act

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Pro- local Item No.	Item	Unit	2nd Protocol Production Program	Made Available at Mill in U.S.A. May 1, 1943 - May 31, 1943	Made Available at Mill in U.S.A. July 1, 1942 - May 31, 1943	Percent of 2nd Prot. Program Completed as of June 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of June 1, 1943 To Satisfy 2nd Protocol Prod. Program	Comments
			1/	2/	2/	3/			
INDUSTRIAL EQUIPMENT									
15	Hard Alloys & Small Cutting Tools	\$	22,404,000	1,306,374	16,267,223	73	79	6,136,777	} Except for small cutting tools, deliveries of industrial equip- ment are considerably ahead of Protocol requirements. In the case of small cutting tools, the full amount allowed by the Protocol has not been requisit- ioned. In addition, deliveries, though improving, are not entirely satisfactory.
62	Machine Tools								
63	Electric Furnaces	\$	150,000,000	28,805,679	185,662,828	124	135	(35,662,828 Excess)	
64	Forging Presses & Hammers								
65	Various Industrial Equipment								
67	Abrasives	\$	4,000,000	185,128	3,864,630	97	105	135,370	
	Total Industrial Equipment	\$	176,404,000	30,297,181	205,794,681	117	127	(29,390,681 Excess)	
POWER PROGRAM									
140A	Power Generating Equipment	\$	-	6,426,918	14,527,252	-	-	-	} The Second Protocol Power Program was initiated in May, 1942, but it was only in October, 1942 that the program was approved and engineer- ing work begun. Because of the time required for fabrication, deliveries against the program have been appreciable only during the past two months. From this point on, a very great acceleration is antici- pated. No commitment figure is given in this table because it was never expected that the entire pro- gram would be completed during the Second Protocol period, and because the program was set up in terms of tons rather than in terms of dollar value. The value of requisitions included in the program totals ap- proximately \$61,000,000.
140B	Industrial Boilers	\$	-	181,206	947,354	-	-	-	
	Total Power Program	\$	-	6,608,124	15,074,606	-	-	-	

SECRET

Business Possible Under Espionage Act

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Protocol Item No.	Item	Unit	2nd Protocol Production Program	Made Available at Mill in U.S.A. May 31, 1943	Made Available at Mill in U.S.A. July 1, 1942 - May 31, 1943	Percent of 2nd Prot. Program Completed as of June 1, 1943	Ratio of Actual Deliveries to Prot. Sched. (Prot. Sched. = 100)	Balance to be Produced as of June 1, 1943 To Satisfy 2nd Protocol Prod. Program	Comments
			1/	2/	3/	4/			
<u>MARINE AND SUBMARINE CABLE</u>									
1	Marine Cable	Ka.	1,421	137	1,171	82	89	250	} Deliveries are according to schedule.
2	Submarine Cable	Ka.	780	95	640	108	117	60	
	Total Marine & Submarine Cable	Ka.	2,201	232	2,011	91	99	190	
<u>POWER AND OTHER CABLE</u>									
7a	Electric Power Cable	S.T.	52,666	7,568	37,845	53	58	24,821	} Figures on deliveries of power cable have been revised and corrected since the last report. Anticipated accelerations are being realized, and it now appears certain that despite the size of commitments and the lateness with which requisitions were submitted and contracts placed, Protocol requirements will in large measure be met by June 30.
7A	Misc. Conner Cable & Wire	S.T.	52,386	5,934	31,757	61	66	20,629	
	Total Power & Other Cable	S.T.	105,052	13,502	59,602	57	62	45,450	
<u>CLOTHING</u>									
71	Shoe Leather	S.T.	18,670	1,417	9,674	52	57	8,996	} Delays in clarifying the leather commitment and resultant delays in placing contracts have kept leather deliveries behind Protocol requirements. Deliveries of boots and cloth are satisfactory.
72	Army Boots	Prs.	2,400,000	174,039	2,407,413	100	109	(7,413 Excess)	
73	Army Cloth	Yds.	18,000,000	1,385,618	16,094,914	89	97	1,905,086	
<u>MISCELLANEOUS MATERIALS ITEMS</u>									
77	Petroleum Products	S.T.	240,000	18,791	191,596	80	87	48,404	Delivery figures are actual export figures. Shipping conditions, rather than production conditions, have governed performance.
78	Webbing	Yds.	35,000,000	3,904,816	30,626,690	85	92	5,373,110	Webbing deliveries have been slightly behind Protocol requirements because of limited manufacturing facilities. A recently arranged conversion of rug mills is currently bringing about an acceleration, however.

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SECRET
Maximum Possible Data Exchange Act

Pro- to- col Item No.	Item	Unit	2nd Protocol Production Program	Made Available at Mill in U.S.A. May 1, 1943 - May 31, 1943	Made Available at Mill in U.S.A. July 1, 1942 - May 31, 1943	Percent of 2nd Prot. Program Completed as of June 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of June 1, 1943 To Satisfy 2nd Protocol Prod. Program	Comments
			1/	2/	3/	4/			
<u>MISCELLANEOUS MATERIALS ITEMS (Continued)</u>									
76	Tarpenlin	Tds.	8,000,000	556,000	6,385,620	80	87	1,614,380	The requisition for tarpenlin, placed last month, is scheduled for completion by June 30.
80	Sheet Fiber	S.T.	4,361	182	1,682	39	42	2,679	Delays in submission of requisitions have made it necessary to schedule completion of orders until August, 1943. Soviet representatives have stated that they understand the circumstances responsible for the delay and do not anticipate full satisfaction of the Protocol commitment until after the end of the Second Protocol period.
81	Condenser Paper	S.T.	240	0	92	38	41	148	All requisitions have been completed.
83A	Cigarette Paper	S.T.	908	0	747	82	89	161	All requisitions have been completed.
83B	Parchment Paper	S.T.	2,090	12	2,351	112	122	(261 Excess)	The entire Protocol commitment has been satisfied. Additional requisitions are being accepted to meet the needs of the Soviet fishing industry.
<u>MISCELLANEOUS EQUIPMENT ITEMS</u>									
68	Graphite Electrodes	S.T.	5,480	1,237	6,675	114	124	833	Protocol requirements are scheduled to be satisfied before June 30. In addition, the supply of 633 S.T. of carbon electrodes during the remainder of the Second Protocol period has been authorized.
69	Bearings	S	-	520,359	3,599,562	-	-	-	There is no firm Protocol commitment, but large numbers of requisitions have been accepted. Because many orders are for off-standard sizes, deliveries have been unsatisfactory. It is hoped that, through the submission of new requisitions which call for types of bearings which can be easily fitted into U.S. production equipment, the situation will be improved.

SECRET

Regraded Unclassified

Pro- tocol Item No.	Item	Unit	2nd Protocol Production Program	Made Available	Made Available	Percent of 2nd Prot. Program Completed as of June 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of June 1, 1943 To Satisfy 2nd Protocol Prod. Program	Comments
				at Mill in U.S.A. May 1, 1943 - May 31, 1943	at Mill in U.S.A. July 1, 1942 - May 31, 1943				
			1/	2/	2/	3/			
MISCELLANEOUS EQUIPMENT ITEMS (Continued)									
70	Rolls & Rollers	£	-	35,968	500,254	-	-	-	Deliveries are satisfactory.
78	Tires, Tubes, Other Rubber Products (Rubber Content)	S.T.	40,320	3,633	22,775	56	61	17,545	Delivery figures are for rubber content of tires and tubes procured by the Treasury Department only.
79	High Pressure Hoses	S.T.	648	35	245	38	41	403	Deliveries of both high pressure hose and shock absorber cord represent a relatively large percentage of our total production.
81	Shock Absorber Cord	S.T.	64	2	41	64	70	23	
82	Metallic Cloth & Screen	£	1,000,000	91,665	1,256,666	126	157	(256,666 Kness)	The production program shown is a translation calculated by the Soviet Government Purchasing Commission of the Protocol commitment into dollar value. Deliveries are satisfactory.

- 1/ Second Protocol production programs have been adjusted (a) to take account of the modification of steel requirements under the 2nd Protocol worked out by the Steel Division, W.P.B., and representatives of Government Purchasing Commission of the Soviet Union, and approved by the Requirements Committee, W.P.B., in Program Determination No. 230; (b) to take account of the portion of ferro-silicon and ferro-chrome commitments which are being supplied by the U.K., and (c) through translating some commitments from short tons into the units of measure commonly used in connection with the items in question.
- 2/ Made available data in the case of all items except steel, railway materials, "other chemicals", machine tools, electric furnaces, forging presses and hammers, various industrial equipment, tires, tubes and other rubber products, electric power cable, miscellaneous copper cable and wire, tarpaulin, shock absorber cord, sheet fiber and metallic cloth and screen include stocks which were on hand as of June 30, 1942, and which were available for shipment against 2nd Protocol commitments. Stocks of steel items which were on hand as of June 30, were taken into account in the adjustment of steel requirements under 2nd Protocol commitments mentioned in Note 1 above.
- 3/ The 2nd Protocol calls for deliveries in "Equal Monthly Installments". Thus eleven-twelfths of each commitment should have been delivered by May 31, if Protocol schedules were to be maintained.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 26, 1943, 5 p.m.

NO.: 1030

Reference is made to telegram no. 802, sent by the Department at 4 p.m. on June 24, 1943.

During May the Chinese Government placed the new exchange rate in effect. The Embassy availed itself of the new rate as of May 29, following the receipt of the Department's telegram no. 724, dated June 4, 1943.

If adjustments in allotments and allowances are contemplated by the Department, it should be pointed out that between January and June, the cost of all services and commodities rose approximately 50% or the equivalent of the increased amount of local currency which is received as a result of the new rate of exchange. The rise in the cost of living material and services steadily continues at the rate of about 10 per cent each month.

DIVISION SECTION
ATCHESON

JUN 27 1943

RECEIVED
JUN 27 1943

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 26, 1943, 6 p.m.

NO.: 1031

This is message TF-135 for the Secretary of the Treasury only from Mr. Adler.

Reference is made to the Department's no. 797, dated June 23, 1943. Yesterday I communicated your views to Dr. Kung informally. He indicated that he would request that the 1941 agreement be revised.

ATCHESON

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 207

(Information received up to 7 A.M. 26th June 1943)

Following for Joint Staff Mission Washington

1. NAVAL

Mediterranean. On 22nd and 23rd one of H.M. Submarines sank a schooner and probably sank a 3,000 ton ship off East Coast Sicily.

2. AIR OPERATIONS

Western Front. 24th/25th. 1663 tons bombs dropped on Elberfeld District of Wuppertal.

25th. Fortresses (B 17) despatched to attack Hamburg and Bremen thick cloud prevented their location. 144 Fortresses bombed targets in N.W. Germany and 18 a convoy off Wangerooge Island. No results observed 18 Fortresses missing 8 Typhoon bombers attacked airfield Caen Area.

25th/26th. Aircraft despatched Gelsenkirchen 473 (30 missing) sea-mining 33 (one missing) Intruders 21. Attack on Gelsenkirchen carried out in thick cloud 2 enemy aircraft destroyed.

Sicily. 24th. 12 escorted Spitfires bombed factory at Pazzallo.

Salonika. 24th. 49 Liberators (B 24) bombed Sedes Airfield. Hits observed on hangars and buildings leaflets dropped.

REASURY DEPARTMENT

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 210

Following is supplementary resume of operational events covering the period 19th to 26th June, 1943.

1. NAVAL

HOME WATERS. One of H.M. Cruisers refitting at PORTSMOUTH was damaged on 22nd by explosion in an oil tank. 13 dockyard men killed. One of H.M.C. Destroyers damaged in collision and has been docked. No casualties reported.

NORTHERN WATERS. Russian Reconnaissance 22nd, indicated "TIRPITZ", "SCHARNHORST" "LUTZOW" still in ALTENFJORD Area. British Reconnaissances during week located "KOLN" at KIEL, "GRAF ZEPPELIN" at SIEBILH.

MEDITERRANEAN. One of H.M. Submarines sank a modern 7,000 ton Liner, medium-sized Merchantman and hit a Destroyer and 5,000 ton Merchantman. Over 14,000 service prisoners have been embarked from PANTELLERIA and LAMPADUSA. PANTELLERIA Harbour is now in use by our light craft. A French Destroyer which ran aground off BEACHAZI on 27th May is now a total loss.

SUBMARINE WARPAGE. Week ending 23rd. About 90 U-boats estimated operating in ATLANTIC and INDIAN OCEAN. Main concentration of U-boats between AZORES and ANTILLES. 6 ocean convoys arrived without loss (Corrupt Section) 15 survivors seen in sea after Liberator had attacked a 3rd Submarine same day.

SHIPPING CASUALTIES. During week 19th to 25th inclusive, 2 ships reported sunk by Submarine in ATLANTIC. A Swedish Ship off BRAZIL, a French Tanker Northeast of WEST INDIES. 2 British Ships sunk by Submarine in MEDITERRANEAN. 2 British Ships sunk or damaged by Air Attack off PORTUGAL, small British Tanker sunk by Dive Bombers off PANTELLERIA. U.S. Ship damaged by fire off D.KAR.

GERMANY. Apart from making good Merchant Shipping and escape vessel losses German Naval Construction now confined to Destroyers, U-boats and "Miken" class Minesweeper. Of these 3 or 4 destroyers, about 20 minesweepers and up to 150 U-boats expected to be completed by January, 1944.

TRADE. Imports in convoy into United Kingdom week ending 19th 867,000 tons, of which 352,000 oil.

2. MILITARY

BURMA. Our aggressive patrolling has inflicted casualties on Japanese and forced withdrawal at one point in CHIN HILLS.

NEW GUINEA. Japanese force attacked Allied positions 15 miles south of SALAMAU. Casualties enemy 200. Allied 24.

3. AIR OPERATIONS

WESTERN FRONT. Night. Attacks on OBERHAUSEN and BOCHUM reported OPTEL No. 202 now known to have caused severe damage. During week 3,179 sorties, 148 aircraft missing. 9 enemy aircraft destroyed.

LE CREUSOT SCHNEIDER WORKS. Successful. More than 30 workshops damaged. Steel works most affected.

FRIEDERICHSHAVEN. Successful 3 acres of works devastated and wide area damaged.

KREFELD. Outstanding success. 900 out of 1,100 acres of town centre devastated.

MULHEIM. No details. Believed successful.

MUPPERTAL. No details. Believed very successful.

Day. On 2 days U.S. Fortresses carried out heavy attacks. First on synthetic rubber works at HULS was outstanding success, despite heavy opposition. Bombs well placed in target area. Simultaneous subsidiary attacks on General Motors Works ROTTERDAM and shipbuilding yards were in cloudy weather and results not yet known. On both occasions considerable fighter opposition and enemy suffered heavy casualties.

Enemy. 65 enemy aircraft over south and east coast during the week. 2 destroyed. In attack by 15 aircraft on HULL considerable damage to factory and ship property.

MEDITERRANEAN. Heavy day and night raids on Ferry Termini at MESSINA, SAN GIOVANNI and FOGGIA. Total of about 300 tons on MESSINA and 260 tons on the 2 latter towns. No operational losses on the round trip by Lancasters to north Africa. Bombir of SPEZIA on return journey spoilt by effective smoke screen and believed somewhat scattered. Successful bombing of airfields in SICILY and SARDINIA and of airfield near SALONIKA. Shipping sunk and damaged in Sardinian and Corsican waters.

RUSSIA. Continued night raids by Russian long range bombers on airfields and railway centres. Day attacks on railway objectives near BALAKLEYA and on German airfields in Leningrad Sector. Strategic night bombing of Russian industry by German Air Force continued, sometimes at 500 miles distance from their operational bases. Frequent short distance raids by day and night behind Russian front over whole sector from OREL to BLACK SEA. Estimated that Germans have about 1,900 aircraft available for Russian front compared with 2,500 at corresponding date last year, resulting from their increased commitments on Western and Mediterranean Fronts.

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

DUSSELDORF. Photographs 18th, covering centre of city show by far most extensive damage yet seen, mainly from fire.

MUPPERTAL. Photographs 20th show very heavy damage in BIRMEY Area. Although considerable clearing has been done since attack on 28th/29th, May, there is little activity to be seen.

BOCHUM. The two principal steel works have received further damage. Direct hits seen on Central Station and tramway centre.

OSBERHAUSEN. Railway repair shops more than half destroyed.

BREMEN. Photographs taken during U.S. daylight raid 13th show elaborate and extensive smoke screen in operation, nevertheless several direct hits on Atlas Shipyards.

ANTWERP. In U.S. attack on Erel Works on 5th April at least 50 aircraft were destroyed or rendered useless and 200 Aeroengines destroyed or severely damaged.

MESSINA and REGGIO. Photographs confirm very heavy damage in both places, especially to railway track and installations. At REGGIO 3 ships have been sunk at the quays and a fourth is awash.

SPEZIA. A Littorio battleship has received a direct hit forward, the deck plating has been buckled and the forward gun turret probably damaged by blast.

5. HOME SECURITY

Estimated civilian casualties week ending 23rd - Killed 10, seriously wounded 20.

SECRETARY OF TREASURY
JUN 1 27 PM 1 27
TREASURY DEPARTMENT

NOT TO BE RE-TRANSMITTED

COPY NO. 13

OFFICE OF THE SECRETARY OF THE TREASURY
 BRITISH CONSUL GENERAL
 U.S. CONSUL GENERAL
 OPTEL NO. 203
 1943 JUN 28
 SECRETARY OF THE TREASURY
 U.S. DEPARTMENT OF THE TREASURY

Information received up to 7 a.m., 27th June, 1943.

1. NAVAL

1 Polish Submarine sank a 4,000 ton North bound ship North of MESSINA on 17th. 2 U.S. Tank Landing Ships were torpedoed on the 22nd East of ALGIEERS, one was beached and the other towed into Port. A magazine in FERROL Dock Yard blew up on 22nd.

2. AIR OPERATIONS

WESTERN FRONT. 25th/26th. GELSENKIRCHEN/BOCHUM District. 1,290 tons dropped including 171 4,000 pound H.E. and 715 tons of incendiaries in 35 minutes. Good visibility above complete cloud, not possible to assess success of attack but bombing probably rather scattered. Intense heavy A/A but searchlights neutralised by cloud. Enemy Fighters very active, 4 claimed destroyed. 26th. 247 escorted U.S. Fortresses were sent to attack objectives in Northern FRANCE. Owing to unfavourable weather, no attacks were made except at TRICQUEVILLE Airfield where 39 aircraft dropped 84 tons. 5 Fortresses missing. A total of 37 escorted light Bombers attacked 3 airfields and a railway centre near DIEPPE. Enemy casualties - 3, 3, 3. Cors - 7 Fighters missing. 26th/27th. Aircraft despatched: Sea-mining - 16 (1 missing), HAMBURG - 4, DUISBURG - 3, Leaflets - 14, Intruders - 5 (2 enemy aircraft destroyed and 1 probably destroyed), Anti-shiping - 7.

SARDINIA. 24th. 62 escorted Mitchells bombed OLBIA/VENAFIORITA Airfield and set fire to 2 ships and damaged the Jetty at GOLFO ARANCI. 39 escorted Marauders attacked Railway objectives at CHILIVANI, 32 miles East of ALGHERO. Warhawks destroyed 3 Italian aircraft at CAPOTERRA Landing Ground and damaged 2 small ships off the coast. Enemy casualties - 20, 9, 11. Allied - 9 missing.

SICILY. 25th. From preliminary reports, Fortresses dropped 285 tons at MESSINA. Enemy casualties - 18, 0, 2. Allied - 0. MALTA based Spitfires bombed COMISO Airfield and VIZZINI.

RUSSIA. 24th/25th. Russian aircraft bombed the railway junctions at ORSHA and KARACHEV as well as enemy airfields. 3 Russian aircraft were lost.

Correction to Optel No. 203

1. NAVAL. 2nd line. "sank an armed merchant Cruiser ..." to read: "sank a Modern 15 knot Liner....."

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Treasury Department

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TELEGRAPH OFFICE
C O P Y

1943 JUN 28 AM 10 51

WU10 48 GOVT COLLECT

TD WD BEACON NY JUNE 28 1943 754AM

URGENT DANIEL W BELL

TREASURY DEPT

THE SLIP WHICH YOU INSERTED IN GOVERNMENT PAY CHECKS STARTING OUT
QUOTE THE WHOLEHEARTED SUPPORT AND ENDING PAYROLL ALLOTMENT PLAN
UNQUOTE I LIKE VERY MUCH AND ON SECOND THOUGHT I WOULD CONTINUE TO
SEND THIS TO EVERY GOVERNMENT EMPLOYEE IN THE WHOLE UNITEDSTATES
COPY TO MRS KLOTZ

HENRY MORGENTHAU JR.

811AM

15

UNITED STATES OF AMERICA

1-1/2 PERCENT TREASURY NOTES OF SERIES A-1947

Dated and bearing interest from July 12, 1943

Due September 15, 1947

Interest payable March 15 and September 15

1943
Department Circular No. 716

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 28, 1943.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for notes of the United States, designated 1-1/2 percent Treasury Notes of Series A-1947. The amount of the offering is \$2,500,000,000, or thereabouts.

II. DESCRIPTION OF NOTES

1. The notes will be dated July 12, 1943, and will bear interest from that date at the rate of 1-1/2 percent per annum, payable on a semiannual basis on September 15, 1943, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1947, and will not be subject to call for redemption prior to maturity.

2. The income derived from the notes shall be subject to all Federal taxes, now or hereafter imposed. The notes shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local tax authority.

3. The notes will be accepted at par during such time and under such rules

and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys.
5. Bearer notes with interest coupons attached will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. The notes will not be issued in registered form.
6. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to the closing of the subscription books. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit. Subscriptions from all others must be accompanied by payment of 2 percent of the amount of notes applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, subscriptions for amounts up to and including \$100,000 will be allotted in full, and subscriptions for amounts over \$100,000 will be allotted

on an equal percentage basis, to be publicly announced. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before July 12, 1943, or on later allotment. In every case where payment is not so completed, the payment with application up to 2 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

Henry Morgenthau, Jr.

H. M. J.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

June 28, 1943

MEMORANDUM FOR THE SECRETARY

The arguments that you are likely to meet in favor of the sales tax and compulsory lending and against the spendings tax and exclusive use of voluntary lending are summarized in the following paragraphs.

A. Advantages of the sales tax compared to the spendings tax.

1. The sales tax would reach everyone, and this is everyone's war. No one should be excused from making at least a small contribution in taxation to the war effort. Most of the increases in income have been received by the lower income groups. The amounts spent from such increases can be taxed more readily by the sales tax than by the spendings tax.

2. The sales tax is superior in administration and taxpayer's compliance.

(1) The sales tax is "pay-as-you-go" taxation at its best. The consumer would pay bit by bit, day by day, and only at the time he actually had purchasing power to use. A progressive spendings tax cannot be collected at source; a flat rate spendings tax if collected at source involves credits or refunds after the end of the year.

(2) A computation of the amount he had spent would be an added burden on the taxpayer, often more difficult than the computation of his taxable income. Under the sales tax he would not have to make any such computation.

(3) The progressive spendings tax might be collected annually after the close of the year, or quarterly during the year. If it were collected annually it would fail to check spending very much since the tax would not be felt immediately by the consumer as he made his purchases. Most consumers

would fail to remember it when they bought their clothing, food, and other taxable items. Moreover, the spendings tax would create grave discontent when consumers unexpectedly found, in March, that they were subject to a high rate of tax on part of their last year's spending.

(4) If, to cure the defects of annual payment, taxpayers were required to make quarterly returns of their current spendings, great administrative and compliance difficulties would result. The requirement of quarterly spendings tax returns on top of the quarterly pay-as-you-go estimates of income tax would be well-nigh intolerable, both to the taxpayer and to the Bureau of Internal Revenue.

3. The high marginal rates of a really strong spendings tax would hit alike both harmful spending and harmless spending. For example, luxury trips on trains and seats at concerts would be taxed alike.

B. Advantages of supplementary use of compulsory lending compared to exclusive use of voluntary lending.

1. Unsupplemented voluntary lending has not yielded adequate funds; it is highly questionable that it ever can.

2. Compulsory lending would supplement, not supplant, voluntary lending. While compulsory lending would undoubtedly reduce the total amount of voluntary lending, there would be a net gain. A minimum savings requirement, which is what compulsory lending is, would not interfere with the sale of securities above the minimum.

3. Compulsory lending would not create a mass of potentially unstable purchasing power in the form of redeemable bonds, as do the present Savings Bonds. Repayment could be scheduled for the time when it could do the economy as a whole the most good.

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4. Compulsory lending could be carried through at a low interest rate, thus minimizing post-war budgetary difficulties.

5. Compulsory lending could be made fairer than the haphazard, unjust kind of compulsion that inevitably accompanies any "voluntary" campaign on a scale necessary to raise adequate funds. Whatever flexibility was present in such "voluntary" lending could be more than equalled under compulsory lending by a well designed lending base and appropriate relief measures.

6. Compulsory lending would strengthen the morale of the community. Without it, there will always be an irritating number of entirely able individuals who will not loan as much as they should to the Government and thus cause discontent in the community.

Roy Plough

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Firm stand on wage stabilization indicated

The adamant attitude of the WLB in the coal wage controversy was followed last week by the new Director of Economic Stabilization in rejecting the wage increase recently recommended for the non-operating employees of the railroads. Under the terms of an Emergency Board award, a wage increase of 3 cents per hour was about to go into effect when the Stabilization Director ordered the Board to reconsider its award and make a revised report to the President. This action, coming at a time when the same group of workers is demanding time and a half for overtime, and operating employees are asking for a 30 percent raise, should moderate the ultimate increase in railroad payrolls. While the Stabilization Director has not yet announced the reasons for his unexpected action, it is being interpreted as further evidence of a determination to hold the line on wage stabilization. Moreover, the move should forestall complaints from the coal miners that their wage demands are receiving less favorable consideration than those of other groups.

The renewed indications of a firm stand on the question of wage increases seems likely to spur labor groups to even more insistent demands for a reduction in living costs. In this connection the President of the CIO last week told a congressional committee that organized labor would call for a scrapping of the "Little Steel" wage formula unless an effective subsidy and rollback program is put in operation by July 15. In announcing this virtual ultimatum, the labor leader reasserted the contention that under present wage ceilings labor could not keep up with increased living costs.

Subsidy program banned

Despite labor's demands that prices be rolled back if wage stabilization is to be maintained, Congress voted last week to ban the use of subsidies to reduce retail prices. This legislation would make compliance with the hold-the-line order impossible, according to OPA officials quoted in the press. The drastic Wolcott amendment to the CCC bill, passed by the House, would outlaw all forms of Government subsidies on the production and processing of agricultural products. Full protection is provided, however, for all commitments made to meat, butter and coffee processors until the effective date of the bill (July 1), and agreements entered into by CCC would be continued for at least 60 days after the effective date of the bill, with the exception of the agreement on

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canning vegetables which would be continued on this year's crop.

The Senate attached to the CCC bill the Aiken amendment, which would eliminate the subsidies on butter, meat, coffee and cheese, but would permit the continuation of transportation subsidies on petroleum products and coal, and of pure production subsidies on certain crops and minerals. Since the Senate and the House bills differ somewhat, the final legislation must be worked out in conference. A possibility remains that Congress might authorize additional direct subsidies to farmers for encouraging production, particularly in view of the O'Mahoney amendment to the CCC bill which transfers subsidy powers to the Food Administrator.

While it is difficult to forecast the ultimate effect of this legislation, further substantial increases in the cost of living will be made more probable. Under these conditions it is doubtful whether the "Little Steel" formula for wage control can be maintained much longer, and some new method of relating wage increases to living costs will have to be adopted.

Commodity prices firm

Congressional opposition culminating in the passage of anti-subsidy legislation had a firming effect on commodity prices last week, and the BLS index of 28 basic commodities rose 0.2 percent. (See Chart 1.) Under the influence of hedging operations and more favorable crop reports, grain prices declined earlier in the week, but later regained the losses when Congress voted to ban rollback subsidies. Hog, steer, and cotton prices rose somewhat, and a strong demand pushed up wool-top prices. Since rosin prices have been materially below Government stockpile selling prices, an increase of 1.7 percent in market prices last week was viewed as a necessary adjustment.

The BLS all-commodity index in the week ending June 19 registered the largest single decline in more than one and one-half years, dropping 0.5 percent to 103.5. (See Chart 2.) It is now back to the level of early April when the President's anti-inflation order was issued, although 38 percent above the pre-war level of August 1939. The most important factor in the decline was a 5.2 percent reduction in meat prices resulting from the subsidy rollback program. (This would shortly be eliminated under the pending CCC bill.) Fresh fruit and vegetable prices declined 1 percent, attributed in part to Victory Garden crops cutting down the demand.

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Meat shortage growing

The meat shortage appears to be growing more acute in certain areas, and the Army is reported to be having difficulty meeting its requirements despite the recent order requiring packers to set aside 45 percent of certain grades of beef for Government use. Due to smaller cattle receipts, the beef departments in large Chicago packing plants have been curtailed, and many small packing plants, particularly in California, have closed down. Although cattle slaughter under Federal inspection at 27 selected centers reported by the Department of Agriculture has been running consistently below last year's levels, the disparity has been increasing recently, and in the week of June 18 the federally-inspected cattle slaughter was 42 percent lower than in the corresponding week last year. Hog slaughter, however, has been somewhat higher than in 1942.

Uncertainty over operation of the subsidy rollback has been an important factor contributing to the recent decline in cattle slaughtering and meat supplies. Fearing that Congress may eliminate the subsidy program, packers have hesitated to pay prices which would involve losses if subsidies were discontinued. Consequently, packers have offered lower prices than farmers have been asking, with a resulting drop in receipts of cattle.

Although the institution of the meat rollback program may be responsible for a temporary tightening of meat supplies, the principal cause of the meat shortage of the past several months has probably been the black market. Indicating the extent of black market operations, hide shipments coming onto the market from country points increased 41 percent in the six months ended April 1943, as compared with a decrease of 5 percent in the production of hides in federally-inspected plants. (See Chart 3.) The American Meat Institute stated last week that "the meat industry is handicapped in filling its war obligations because the cattle are not getting into the hands of operators who can supply the Army." Scores of livestock slaughterers' permits in the East have been revoked or suspended by WFA in a drive to force meat supplies into legitimate channels.

Corn shortage causes refinery shutdowns

Despite large stocks of corn on farms, a deficiency of corn marketings in recent months has aggravated the tight feed situation in certain areas and is now threatening the manufacturing of industrial corn products. Three large corn

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refineries were closed last week, and many more plants are reported to have only a few weeks' supply of corn on hand. These refineries manufacture starch and other derivatives of corn, which are used in the textile, paper, explosive, and other industries.

The principal reason for the lack of corn marketings is the very favorable hog-corn ratio. Under the current corn ceiling of \$1.07 at Chicago, farmers can make considerably more profit feeding the corn to hogs than selling it in the market. It is estimated that corn fed to hogs brings from \$1.35 to \$1.40 per bushel at existing hog prices. Although the hog-corn ratio has declined since the peak reached last October, in May (the latest available) it was still 17 percent above the 1920-39 average. (See Chart 4.) Another factor which has made farmers reluctant to sell their corn was the desire to protect their feed supply against a possible poor corn crop this year. With a prospective fall pig crop 21 percent larger than last year, despite attempts of the Department of Agriculture to hold it to a 10 percent increase, large quantities of corn will be needed before the 1944 crop becomes available. Finally, the black market is reported to be siphoning off supplies from normal trade channels.

Stocks of corn requisitioned

The War Food Administration began last week the requisitioning of stocks of corn in 96 mid-western terminal elevators in order to secure supplies for corn processors making food, feed and industrial products essential to the war effort. Elevator stocks are reported to amount to between 5 and 12 million bushels. Since processing plant requirements are estimated at a minimum of 50 million bushels between now and October 1, the start of the new corn crop marketing season, the requisitioning of this corn will probably furnish no more than temporary relief.

This latest action by WFA follows a series of moves which have been made in the past few months to increase available corn supplies. Instead of allowing a periodic increase in corn ceiling prices throughout the marketing year, which encourages holding, on April 14 OPA raised the ceiling price on yellow corn in the Central States to the seasonal high point. An order was issued by WFA on May 5 limiting corn inventories of feed mixers and feeders and limiting purchases and deliveries of manufacturers. Recently

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WPA ordered the liquidation of all Government loans on the 1942 corn crop (some 46 to 47 million bushels) by July 15, after previously ordering the liquidation of loans on earlier crops.

These measures have apparently failed to alleviate the tight corn situation. Higher price ceilings on corn to encourage country marketings, combined with a subsidy program to corn refiners, are now being urged to make sufficient supplies available until the new crop comes on the market.

Industrial production continues to level off

Featured by the output of nearly 7,200 airplanes, munitions output continued to rise in May, but aggregate industrial activity showed no more than the normal seasonal rise. As a result, the FRB adjusted index of production for the month was unchanged from the April level of 203. Reference to Chart 5 will show that the combined index on an adjusted basis has levelled out in recent months.

The production of durable goods in May was unchanged from the previous month after allowance for seasonal factors. Non-durable goods output, however, increased slightly due chiefly to a gain in textile production and a record high for the month in meat production owing to a sharp increase in hog slaughtering. Mineral production fell off moderately, partly in reflection of the temporary work stoppage in the coal mines. Iron ore movement down the Great Lakes finally got under way in heavy volume in May after being 7 million tons behind the 1942 record at the start of the month. Bad weather conditions persisted during May and shipments fell 14 percent behind the corresponding month last year, thus adding to the deficit that will have to be overcome later in the shipping season.

Steel production cut by coal strike

The lag in iron ore shipments, however, is of much less immediate importance to the steel industry than the difficulties caused by the recent work stoppages in the coal mines. After having to close 11 blast furnaces at the time of the previous strike, the Carnegie-Illinois Steel Corporation at the end of last week had closed 14 of its 37 blast furnaces in the Pittsburgh-Ohio area. The daily loss in pig iron production was estimated at 12,000 tons, and the steel operating rate in the Pittsburgh district at the beginning of this week was scheduled to drop 22 points to 78.5 percent of capacity.

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The loss in steel production is particularly unfortunate at this time, since only recently the WPB was reported to have received an order from War Mobilization Director Byrnes to step up third-quarter steel output by 1 million tons. Moreover, a WPB official has reported that demand for carbon steel in the third quarter is so much greater than the supply that aggregate demand must be cut 25 percent. Thus the Office of Defense Transportation had its request for 2,200,000 tons shaved to 1,200,000 tons, while allotments for the petroleum industry, utilities and other essential services were said to be running close to the danger line.

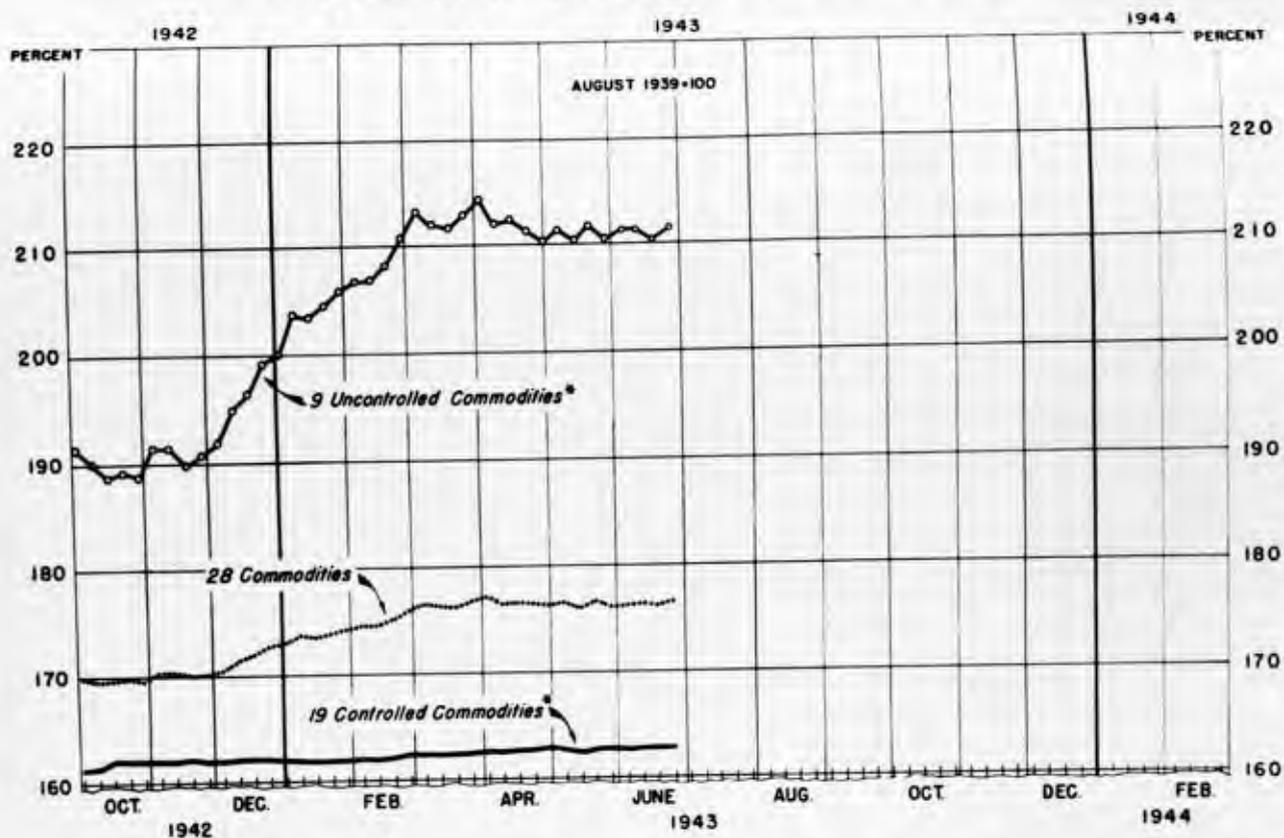
Attempt to build up coal stocks hindered

As another aftermath of the coal strike, the Solid Fuels Administrator warned last week that fuel difficulties will be increased next winter due to the inability to make the progress desired in building up coal stockpiles. Total soft coal stocks increased only 800,000 tons in May, whereas they should have increased by more than 3 million tons. Inasmuch as the loss in production in June has been much more severe than in May, further ground in the stock-building program has been lost. Although figures on last week's coal production are not yet available, another sharp drop somewhat comparable to that in the early part of the month undoubtedly occurred in the latest strike. (See Chart 6.)

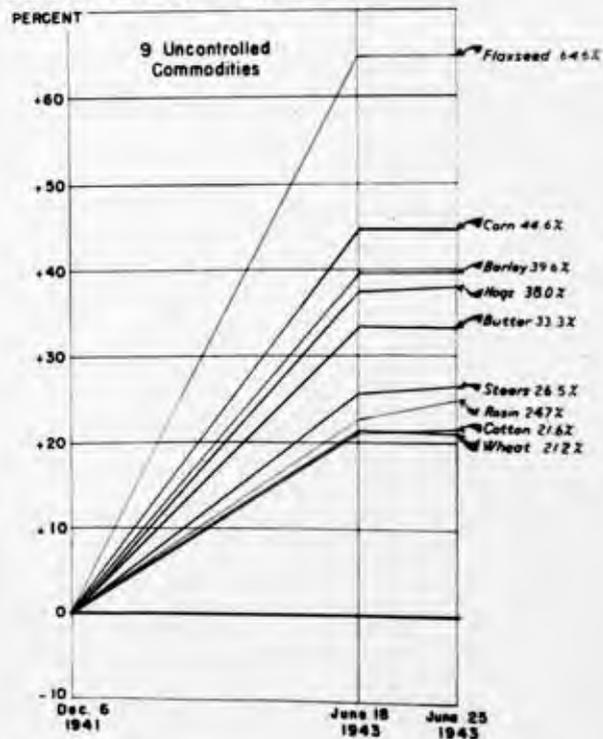
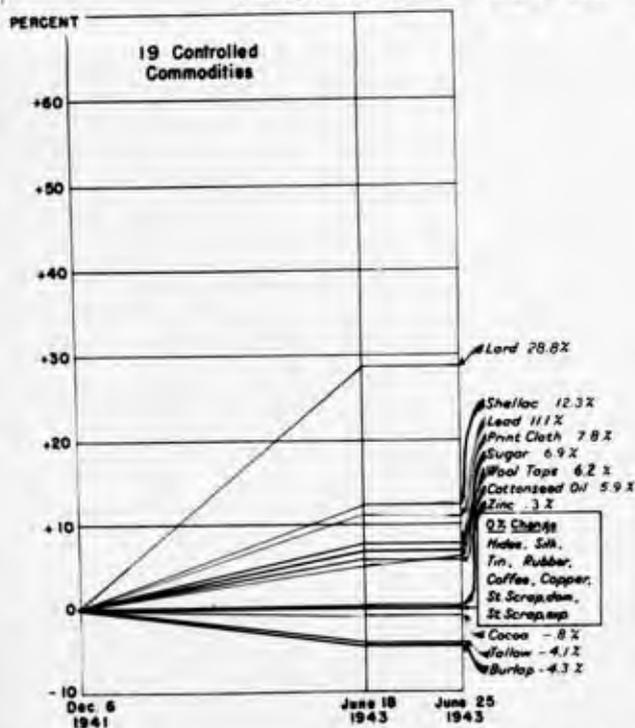
Department store sales maintain gains

Following the sharp spurt in department store sales in the week ended June 12, generated by the shoe buying rush, sales in the following week dropped off only moderately and ran 28 percent above last year's levels. (See Chart 7.) Sales during the first 2 days of the week continued to be stimulated by shoe buying, as ration coupon 17 did not expire until June 15. The Dallas area again paced the sales gain with an increase over the corresponding week in 1942 of 79 percent. The cumulative sales gain of the Dallas district thus far in 1943 has amounted to 42 percent as compared with only 7 percent in the New York and Philadelphia districts, which have shown the smallest increases.

MOVEMENT OF BASIC COMMODITY PRICES



PERCENTAGE CHANGE DEC. 6, 1941 TO JUNE 18, AND JUNE 25, 1943



* 20 Controlled & Uncontrolled previous to June 25, 1942

COMMODITY PRICES

1926 = 100

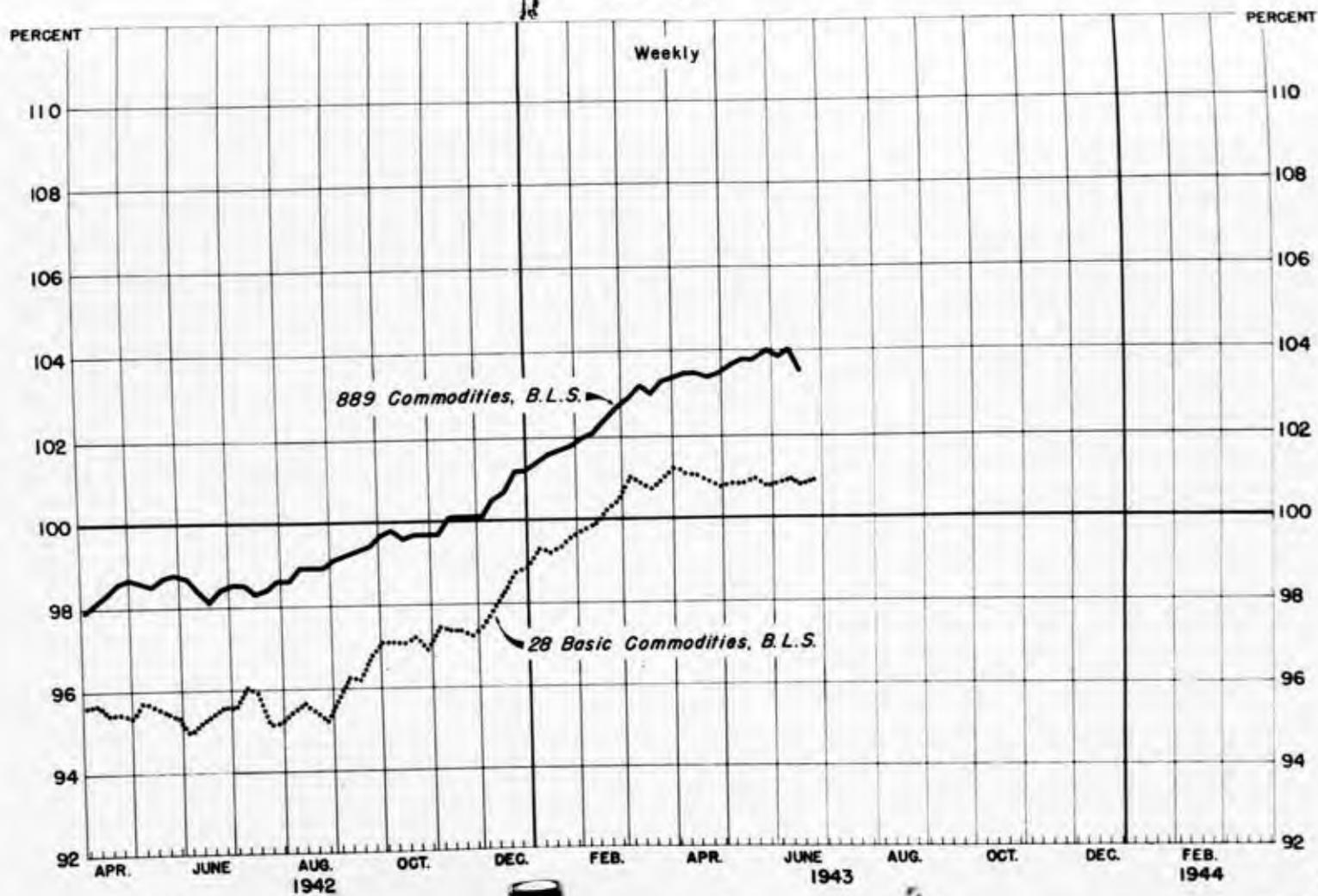
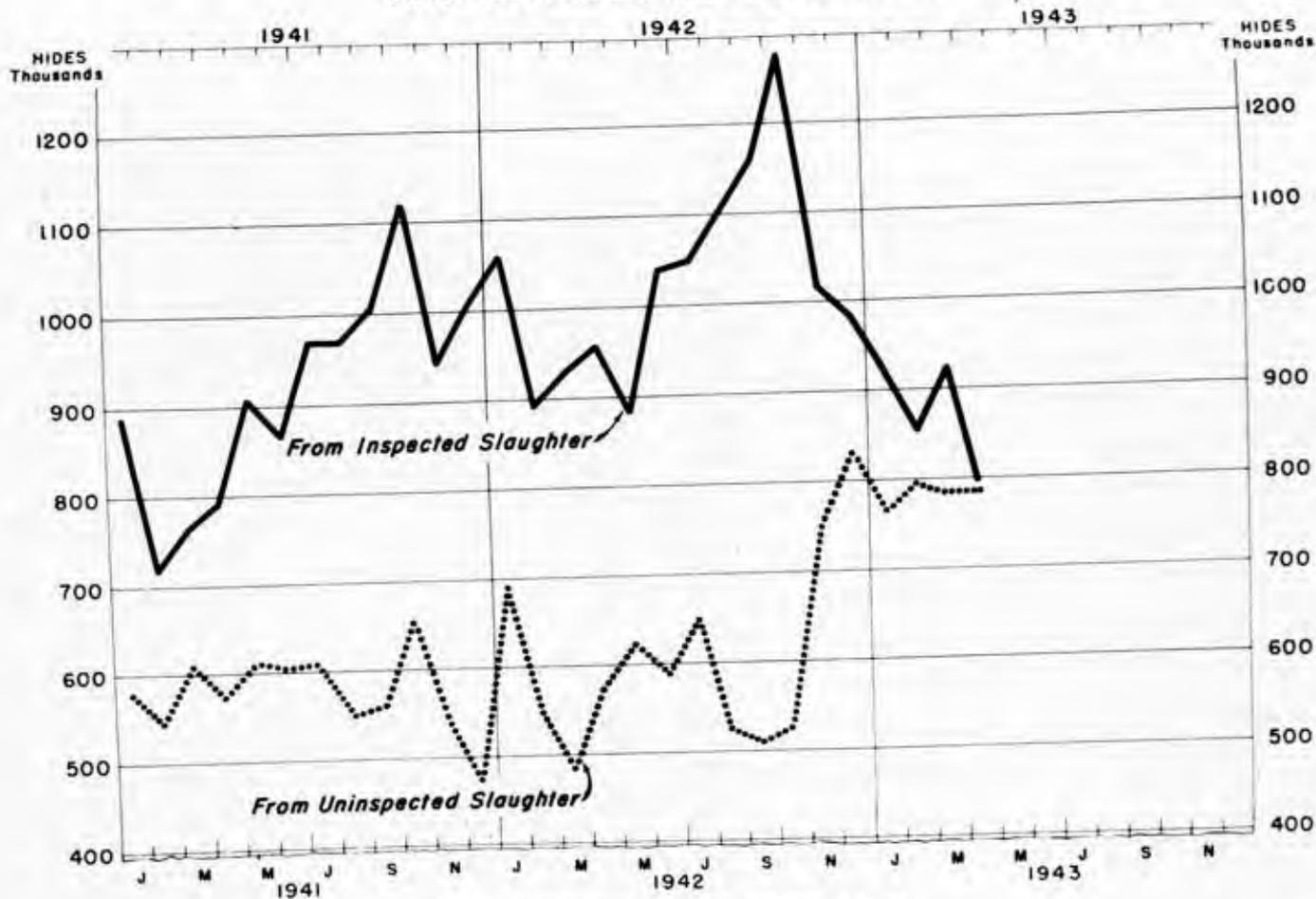


Chart 2
1961

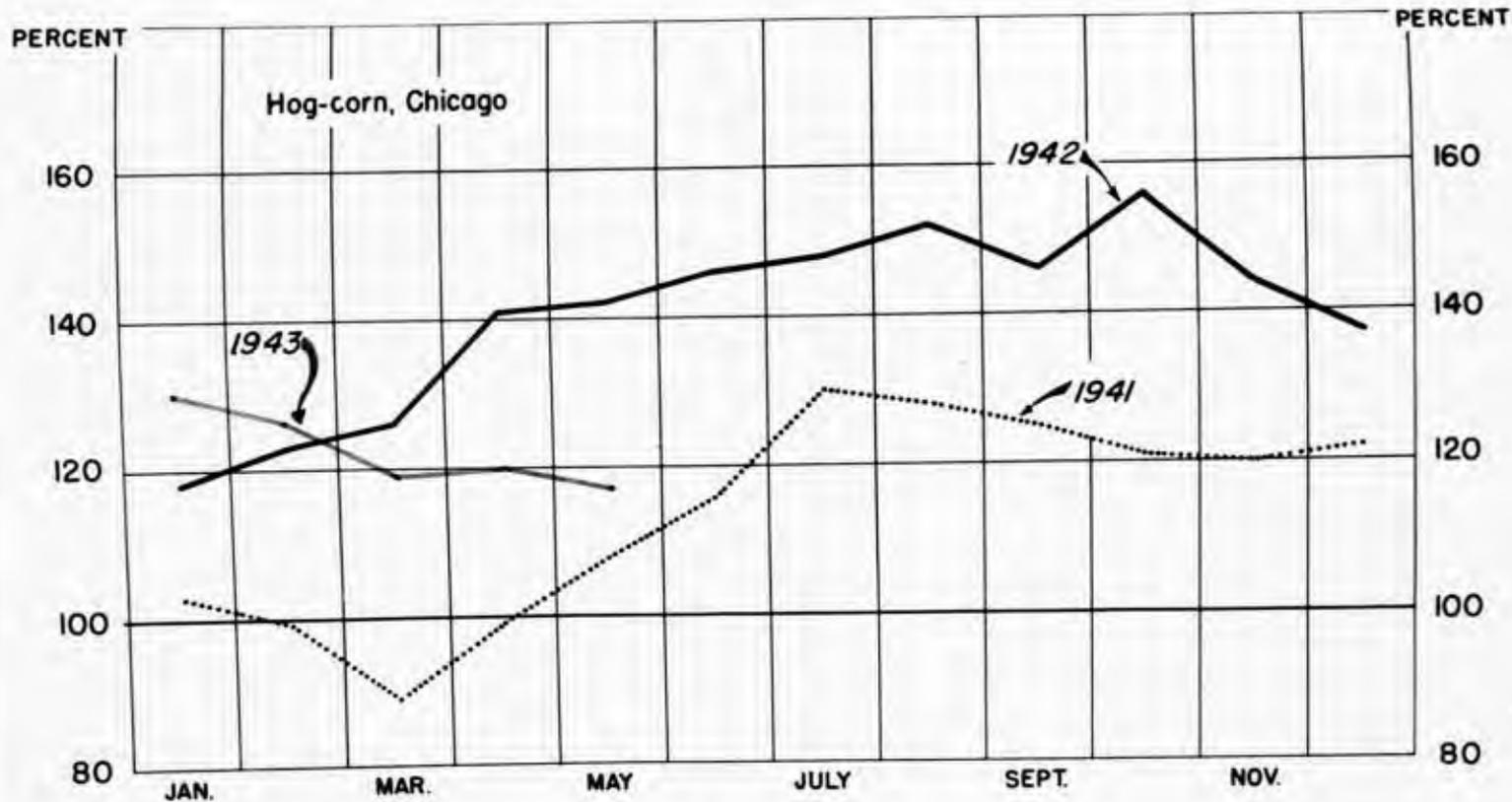
MOVEMENT INTO SIGHT OF CATTLE HIDES FROM INSPECTED AND UNINSPECTED SLAUGHTER



Source: Department of Agriculture and Tanners' Council

HOG-CORN PRICE RATIOS

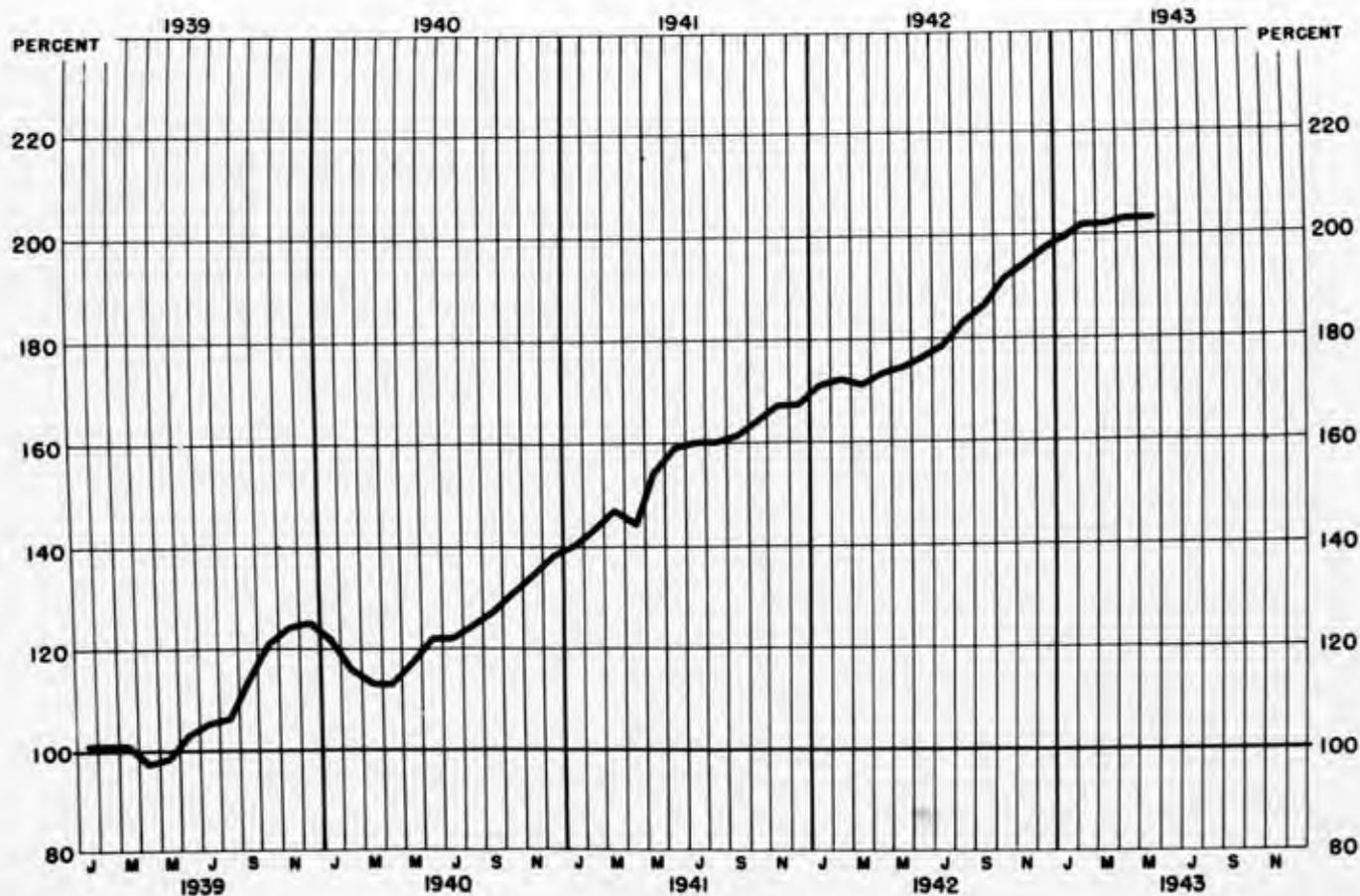
As Indexes, 1920-'39=100, Seasonally Adjusted



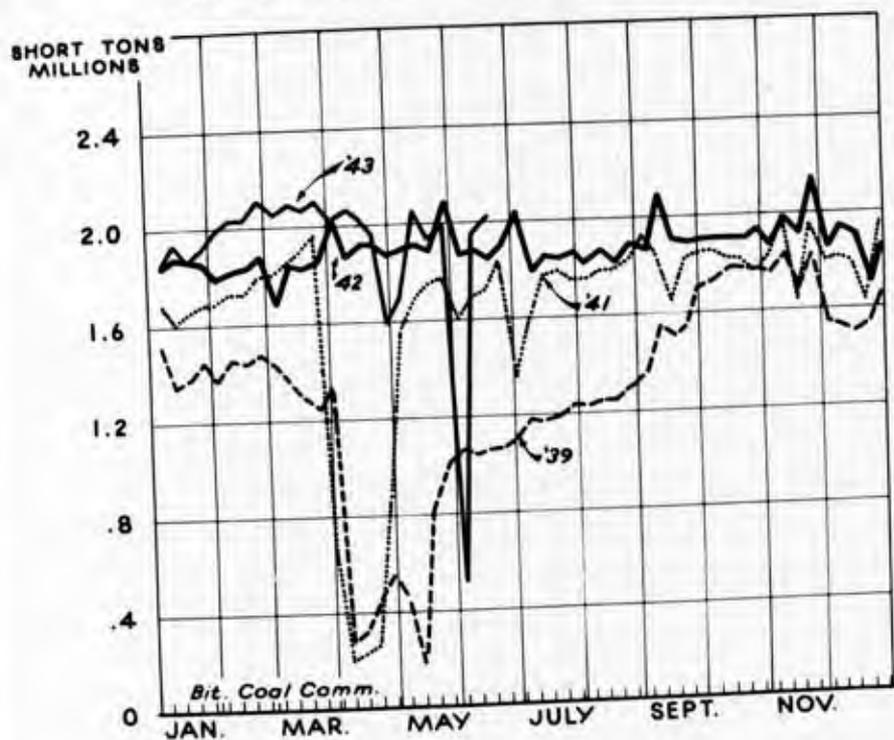
Source: Dept. of Agriculture

F.R.B. INDEX OF INDUSTRIAL PRODUCTION

1935-'39=100, Seasonally Adjusted



BITUMINOUS COAL PRODUCTION

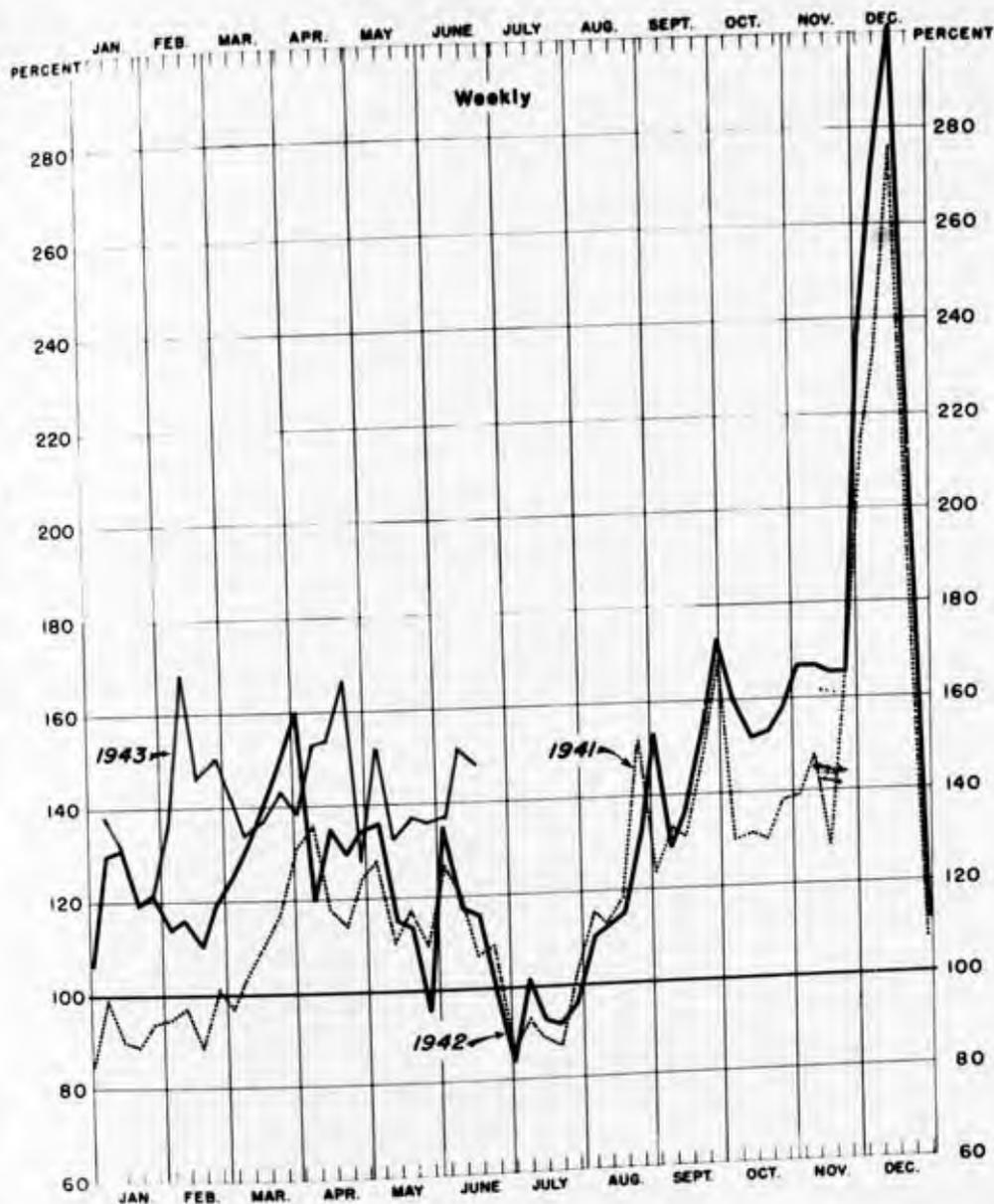


Office of the Secretary of the Treasury
Division of Research and Statistics

C-484

DEPARTMENT STORE SALES

1935 - '39 = 100. Unadjusted



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 28, 1947

TO Secretary Morgenthau
FROM Mr. H. A. [Signature]
SUBJECT: Conversion of War Plants in the Post-War Period

In accordance with your request, I talked to Donald Nelson about the conversion of war plants in the post-war period and the problems incident thereto. Mr. Nelson said that Ernest Kanzler had been doing some work on post-war conversion problems and suggested that he have Mr. Kanzler get in touch with me. Mr. Kanzler, you will recall, is president of Universal Credit Corporation and was formerly production manager for the Ford Motor Company. Last year, he was Deputy Chairman of the War Production Board in charge of Program Progress and for a while he was Director General of Operations. Now, he is acting as one of Mr. Nelson's advisors.

Mr. Kanzler came over to my office and outlined his thinking on post-war conversion; he has written a memorandum on the subject and promised to send us a copy of it. I will send this memorandum in to you as soon as it arrives.

Mr. Kanzler has been directing his thinking toward the mechanics of the Nation's post-war conversion. He feels that these are so complicated and the problems involved are so tremendous that the job of converting to peace will be far more difficult than was the job of converting to war.

The war conversion he pointed out involved a rapid, extensive, physical expansion of the country's plant and equipment and a far greater utilization of manpower than heretofore. One purchaser dominated the market--the Government--and this purchaser required tremendous amounts of goods and services. The funds of this purchaser were practically unlimited and many contracts were placed on a cost-plus-a-fixed-fee basis to facilitate production. Accordingly operations expanded rapidly and went to great heights under the impetus of a nation-wide patriotic endeavor following the attack on Pearl Harbor.

Secretary Morgenthau - 2

In the conversion to a peacetime program, on the other hand, there will be no patriotic urge to expedite the operation program, yet the efforts of a great production capacity will have to be re-directed completely within a very short period of time. The market will again be divided up among tens of millions of purchasers and costs will again become the important equalizer of supply and demand. A multitude of decisions will have to be reached quickly for the problems of this conversion will be many. These decisions will be far-reaching and important to the future of the Nation for they will involve such magnitudes that they will be sufficient to set the whole pattern of subsequent national economic development. If they are not made carefully after a considerable period of detailed analysis and planning they may cause the victory that we will achieve to become a very empty one.

These very important problems are now receiving a minimum of attention, Mr. Kanzler pointed out, because no single agency of the Government is charged with the responsibility of thinking about the mechanics of post-war conversion. The Navy is doing some work on the subject, and it is likely that the War Department is also so engaged. The Committee on Economic Development (a committee of business men aided by the Department of Commerce) is also in the picture and Senator George heads a Congressional committee concerned with post-war problems.^{1/}

^{1/} In talking about agencies concerned with the problems of post-war conversion Mr. Kanzler failed to mention the National Resources Planning Board which has given some thought to the matter and which mentioned some of the problems in its report on post-war planning. This report, you will recall, was given a rather cold reception upon its release last January and has crystallized some of the Congressional opposition to the Planning Board.

Secretary Morgenthau - 3

No one of these organizations has any overall responsibility for the development of a program, however, nor do any of them have a staff large enough to work on the necessary details. A Government agency or a committee within the Government should be established and charged with such responsibility and given such a staff, he feels, so that the preliminary work can be started now.

The agency or committee he suggests, Mr. Kanzler said, would need both White House and Congressional cooperation and participation. To start it off, he suggests the formation of a committee composed of 12 members of the Senate, 12 members of the House of Representatives, and 16 representatives of various Government departments concerned in the war and the post-war activities. This committee would be quite a large one but its activities, might be funnelled through existing Government agencies or the standing committees of Congress.

The operations of the committee suggested would be entirely consistent with the present continuation of the war effort, Mr. Kanzler said, for they would involve few if any withdrawals from production at this time. He used the peacetime automobile industry as an example in this connection. It is customary, he said, for the industry to work out the plans for next year's "improved" model in the laboratory at the very same time that this year's model is being advertised and sold as the very latest thing in automobiles. A similar job on post-war conversion should be done now, he said, for the job is one of analysis and planning.

I am setting forth below some of the mechanical problems of post-war conversion that Mr. Kanzler talked about. They are the mechanical aspects in the background of what, we feel, is one of the Nation's primary post-war objectives; that is:

To acquire a gross national production in peacetime that will be at as high as the level of production achieved in wartime.

Secretary Morgenthau - 4

There are no economic reasons that we know of that would prevent the achievement of a gross national production of \$175 billions a year in peacetime instead of the \$90 billions we have known in a good year heretofore. The achievement of such a record will be a major national accomplishment, however, and decisions with respect to the mechanical aspects of post-war conversion may determine whether it can be achieved at all.

Attachment

A. Present Commitments by the Government.

What will the Federal Government do about its financial commitments for military products? Will contracts be cancelled immediately? On what basis will they be cancelled? Who will meet the commitments under sub-contracts? Who will provide employment and income for the labor that has been brought together to produce armaments? What will become of the plants producing war materials? How many and which plants will the country want to continue as arsenals? How many and which plants will the country want to dismantle or to close down? What will become of the towns that have been built around the plants that are closed down?

B. Inventories.

What will happen to the inventories of raw materials and goods in process in the hands of industry or in transit to the point of industrial utilization? To whom will they belong and on what basis and to whom will they be disposed? Who shall determine what items of goods in process should be completed? What policies should determine the items to be melted down into scrap?

C. The Future Program for Industry.

How will industry move from wartime to peacetime products? Materials, machine tools and capital goods are certain to be scarce for an indeterminate period of time. How will they be allocated during that period, on what basis, and to whom? Who will get the priorities on these materials, on the plants in which they can be used and on the labor that will be needed? Who will determine what the economy needs first, and how will it be possible to prevent a great waste of industrial effort in the conversion process?

D. Stock Piles and Surplus Supplies.

What will become of stock piles of the raw materials and the supplies of finished goods in the hands of industry; in the hands of the armed forces? Many of these materials and supplies will be adaptable to civilian needs; others can be converted into civilian products. To whom do they belong and who will dispose of them? What will become of Government-owned machinery and production facilities; the merchant ships and transport planes, the housing, the trucks, the building materials?

E. Strategic Location.

Many plants were established far from the usual centers of industrial activity for purposes of military strategy. What are we to do with these plants? Should they be left in their present locations or should they be moved bodily to areas more in harmony peacetime utilization? Should some of these particular plants be preserved as part of our future military establishment because of their location?

F. International

What action is the Government likely to take with respect to international cartels, some of which will be vital to the Nation's subsequent development? What must be done about commitments, if any, that have already been made to foreign countries and how will they be integrated with our conversion problems? Are we to plan to rebuild devastated areas, or are we to plan a return to a limited isolation?

G. Other

In the period in which shortages of materials still exist, who shall be permitted to obtain materials for experimental purposes so that the wartime technological progress can be applied to peacetime products? These allocations will permit great post-war advantages to the firms selected. On what basis shall they be made, and by whom? Who shall be allowed to use the inventions and processes that have been developed during the war? What happens to foreign patents? What happens to cross-licensing agreements? What happens to the options that have been included in some contracts to permit post-war purchases of Government-owned plants?



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

June 28, 1943

SECRET

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of June 21, 1943, the purchases against the African Program from June 21, 1943, to June 27, 1943, totaled \$579,074.03 or a total of purchases for the program thus far of \$45,696,583.84.

Attached is report giving status of shipping against these purchases.

Clifton E. Mack
Clifton E. Mack
Director of Procurement



SHIPPING REPORT AS OF JUNE 26, 1943

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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	
Ball Bearings	1		.1	.02
Asbestos sheet packing	2			
Blasting caps	1.4			
Belts			5.5	
Boiler Tubes			19	
Bone glue	47		10.5	
Books & booklets	2			
Brass rods and sheets	111.23	14.82	36.5	
Babbitt metal	53.85			
Brick	169			
Cable insulation winding mach.			4.5	
Calcium carbide	1721.1		424.79	850.17
Cement				47
Cement, rubber			32.27	
Chemicals	2311.66	8.4	1826.22	263.8
Coal cutters	12			
Copper, tubing, sheets, rods, cable, and wire	146.96		78.67	90.6
Corrugated boards	106		19.4	22
Clothing	2472.58	20.68	215.5	74.8
Copper sulphate	5697.7		47.5	
Cotton thread	75.65	23.6		
Cordage & twine	241.55	22.95	26.5	
Drugs	40.08		1.5	
Electric motors	4.8		4.5	
Electrodes	13.41		4	
Envelopes	13.94	2.56	12.68	
Files, steel	15	15	.4	
Fullers earth	72			
Galatin	1	1		

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>
Glass, window	99.6		21	195.3
Glass, lamp chimneys			17	
Glycerine	12.75			
Grass hooks			1.2	
Hooks, eyes, buttons, needles			17	6.5
Horse shoes & nails	168.99	29.91	58.39	10.72
Hosiery	31.56		22.6	
Jute bags	751.19	33.55	555	
Lamps			5.18	
Light bulbs & sockets	6.76		15.5	17
Lithopone			10.2	
Lumnite	30			
Mach. finished book paper	2			
Matches	394.38		16.9	62.35
Newsprint	1465.47		129.66	
Nipples, bottles, eye cups			9	
Oil, insulating		9.5		
Padlocks			2.5	
Paper products	863.27		165.03	381.47
Paper bags	83.9	190.6	11.42	
Paint pigments	28	33.5	13.2	1
Piece goods, textiles	11,999.22	21.5	1421.8	1594.05
Pig iron	65	490		121
Pig tin	64			
Powdered milk	119			
Printers ink & supplies	11.5			
Raw sugar	1545			
Refined sugar	4196.6			
Shoe tacks	14.5	9		
Spare parts for autos, tractors & harvesters	1020.75		460.23	295.23

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>
Spark plugs	4.5	5		.2
Spiegelsisen			161	
Storage batteries & flashlights	66.6		51.72	
Steel, pipe, bars, angles, wire	3375.88		3942.84	1685.32
Shoes, boots & soling	331.25	75.75	252.99	149
Sulphur commercial flour	184	2179	652.2	3373
Tin plate	845			
Tires, tubes & tape	274.64	85	162.3	336.94
Tools	133.64	27.9	584.59	665.29
Tooth brushes			.75	
Tea	171.75			
Trucks	229.8	130	98.5	22.46
Typewriter ribbons		.5		6
Transformers			6.95	
Wire cloth				
Wire nails	100.5			
Wire rope	88.5		17	7
X-Ray film	1		18	
Brake fluid				2.07
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	42,118.31	3,329.72	11,786.81	10,300.09

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 28, 1943

TO Secretary Morgenthau

FROM Mr. White *HDW*

Subject: Recent Developments of Treasury Interest in French African Program

1. Foreign gold holdings in French West Africa

The Treasury representative at Dakar has reported that the approximately \$337 million in gold held for the Bank of Belgium in French West Africa was removed while the area was under the Vichy regime. Unknown quantities of the gold held for the Bank of France reportedly valued at \$1,125 million have also been withdrawn from the area. Polish gold valued at \$79 million is believed to be still stored in West Africa.

2. Shipment of gold by French Bank at Tangiers to Lisbon

The Treasury Department has subjected the accounts of the Tangiers branch to the same restrictions applicable to funds of Proclaimed List nationals and has set aside \$700,000 from these accounts pending decision of the United States Government as to the disposition of the funds.

These measures were taken in connection with the shipment of approximately \$700,000 in gold to Lisbon in February, 1943, by the Tangiers branch of the State Bank of Morocco, acting under instructions from the Vichy-controlled Bank of France and apparently with the sanction of the State Bank of Morocco in French Morocco.

The Treasury representatives in North Africa have approved the Treasury action and report that, with the cooperation of the French authorities, an investigation is being made of the reported collaborationist element in the State Bank of Morocco. They also suggest that consideration be given to designating another bank as the depository of the public funds of the United States Government in French Morocco. The Treasury is not taking further action pending the completion of the investigation.

3. Exchange rate for De Gaulle territory and French Guiana

The exchange rate for De Gaulle territory remains at 43.60 francs to the dollar despite the British commitment to undertake to persuade the De Gaullist French to adopt the 50-franc to the dollar rate and thereby establish a uniform rate for all French territories.

An equally disturbing situation is that the exchange rate for French Guiana has remained at 43.60 francs to the dollar since that area declared its allegiance to General Giraud in March. When the Treasury representatives asked the French North African authorities for an explanation of the failure to adopt the 50 francs to the dollar rate in French Guiana, the French authorities replied that the political situation was extremely delicate in this area and it was considered important to refrain from attempting to force the adoption of the 50-franc rate.

The French authorities have advised that the rate for French Guiana will not be changed until an over-all rate for the French Empire has been established. They feel that it would be embarrassing to change the rate in French Guiana independently because they hope to have the De Gaullist rate of 43.60 francs to the dollar made the rate for the French Empire in its entirety.

4. Financial manipulations of collaborationists

The Treasury memorandum dealing with the financial manipulations of collaborationists in French Africa has been dispatched to American representatives in Algiers with the full approval of the Government Departments represented on the Committee of Combined Boards for North and West African Civil Affairs.

The memorandum caused considerable comment among the interested Government Departments. A report prepared in the War Department commenting on the memorandum evidenced considerable concern over the possibility of the collaborationists in French Africa realizing on their franc holdings at

Division of Monetary
Research

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the 50 francs to the dollar rate "which may have been forced on the Treasury by entirely political considerations". The report suggested that in any future operation the Treasury should be permitted to establish an exchange rate which will be related to the value of the local currency and which will take into consideration the deposit and currency inflation of the respective area.

5. Treasury personnel for French Africa

The Committee of Combined Boards of North and West African Civil Affairs has recently cabled its appreciation to the Treasury representatives in the field for their reports on financial and economic conditions in Tunisia.

It will probably be necessary for the Treasury to send additional personnel to French Africa. Lt. Colonel Bernstein along with Lt. E. H. Clay, Sgt. A. W. Weissbrodt, and Pvt. J. I. King, former Treasury personnel now in the Armed Forces Theatre, have been assigned to other duties by the War Department in accordance with its policy of withdrawing military personnel from the North African Economic Board to the fullest extent possible.

The War Department, in accordance with a request from Treasury, has assigned Pvt. G. P. Kerekes, formerly with Foreign Funds Control, to the Finance and Control Division of the North African Economic Board. The Coast Guard has also advised Treasury that Ensign J. E. Hicks, formerly with the Division of Monetary Research, will be detailed to an assignment with the same division of the North African Economic Board. A request for the services of these men was received from Treasury personnel now in the area.

There are now seven Treasury personnel in French Africa--three from the Division of Monetary Research, two from the Legal Division of the General Counsel's Office and two from Foreign Funds Control. Five additional personnel--two lawyers and one financial control specialist from Foreign Funds Control, one man from the Division of Monetary Research, and one male stenographer from Foreign Funds Control--are expected to leave for French Africa in the immediate future.

6. Disposition of currency and bank balances in Tunisia

The British appear to favor leaving entirely to the French authorities the problems of penalizing the collaborationists and of preventing persons in Tunisia from making large windfall gains from money received for goods and services furnished to the enemy at excessively high prices.

When the fall of Tunisia was imminent, the Treasury, after clearance with the interested Government Departments and the British representatives in Washington, requested Allied representatives in Algiers to consider advising the French African administration to institute a program (a) to keep all Bank of France currency and bank balances in Tunisia blocked for the time being, (b) to take punitive measures against collaborators, and (c) through a windfall levy on these blocked balances to prevent persons in Tunisia insofar as possible from making unjustifiable profits from the large sums of Bank of France currency expended by the enemy for local purchases.

The British authorities in London, without clearance with Washington, issued countermanding instructions to Algiers advising that they are strongly opposed to what they term a devaluation of Bank of France notes and bank balances in Tunisia which would prejudice the rate of exchange of the Metropolitan franc after the liberation of France. The British also stated that in their opinion it is not necessary for the British or the Americans to offer advice to the French on this matter or as to measures to penalize the collaborationists.

Meanwhile the United States representatives in Algiers have strongly endorsed the Treasury program. Attempts are now going forward to reconcile the American and British views, but the delay attendant on the British action may prevent the institution of the full program.

7. Blue seal currency brought into French Africa by United States troops

The United States troops arriving in North Africa are still bringing blue seal currency into the area. The attention of the War Department has again been called to this matter and they have informed us that they are taking appropriate measures to remedy the situation.

The situation evidently arises from the failure of Troop Transport Commanders to comply with the War Department directives that all currency be collected from troops prior to disembarkation. It is reported that some of this currency eventually reaches the active market for dollar currency in Tangiers where the U. S. dollar note exchange for 72 French Moroccan francs is compared with the official rate of 50. Available evidence indicates that the Nazis actively participate in this market both as buyers and sellers.

In connection with the United States currency controls, the Treasury has requested the French Admiralty to procure necessary funds for financing French vessels and their crews in the United States through methods which do not involve the importation of United States currency. The Treasury has indicated its willingness to provide the necessary dollars for this purpose against French francs in restricted amounts. This will close another channel through which persons outside the United States have been realizing on their holdings of U. S. dollar notes.

5. British proposal to lift trading with the enemy restrictions in French Africa

The British have indicated that they plan in the immediate future to lift trading with the enemy restrictions as they apply to French Africa. Unless the British replace these restrictions with other controls, the British financial policy toward French Africa will diverge considerably from the policy of the United States.

When the trading with the enemy restrictions are removed, persons and firms in French Africa will be permitted to dispose of their assets in the Sterling Area. In the United States the assets of persons and firms in French Africa remain frozen or vested under the regulations of Foreign Funds Control and the Alien Property Custodian.

A further effect of the British proposal would be that, as commercial and financial dealings with French Africa would no longer be an offense against trading with the enemy legislation, remittance of accumulated balances between the Sterling

Area and French Africa would be permitted through the British exchange control. The Treasury Department's policy is to permit only those remittances which are immediately necessary to carry out desirable financial and economic activity through the licensing procedure set up by Foreign Funds Control.

The British have also indicated that the prohibition on commercial correspondence between the Sterling Area and French Africa will be lifted. The Treasury representatives in Algiers have pointed out that since trade must for the time being remain on a government-to-government basis confusion will result if private commercial correspondence is permitted.

Discussions are now going forward with representatives of the British Treasury to secure as nearly as possible parallel action.

9. French request that exchange profit realized by the United States Army be refunded

The Treasury Department after consultation with the War Department has refused to grant the request of the French North African authorities that the United States Government refund to the State Bank of Morocco, \$746,424, the amount of the so-called exchange profit which was realized by the United States Army Finance Officers on their franc balances maintained with that bank when the dollar franc rate was changed from 75 to 50 francs to the dollar. The War Department felt that to permit this profit to be refunded would set an undesirable precedent for subsequent invasion areas.

10. Yellow-seal currency in North Africa

Only \$6.9 million of the \$99 million of yellow-seal currency sent to North Africa is unaccounted for and it is expected that most of this is in circulation in French Morocco as our troops there are still being paid in yellow-seal currency due to a scarcity of local franc currency. As of May 10, 1943, a total of \$90 million in yellow-seal currency was held by United States Army Finance Officers in North Africa. The State Bank of Morocco held 1.9 million as of the same date and the Bank of Algeria .2 million.

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Division of Monetary
Research11. Status of the obligations of Metropolitan France
in French Africa

The French North African authorities are paying interest on 15.5 billion francs of French Treasury bonds physically located in French Africa on November 8. Interest is also being paid on an undetermined amount of bonds of French corporations which were guaranteed by the Metropolitan Government and which were located in French Africa at the time of the Allied Occupation. Securities held in French Africa for the accounts of persons now resident in France are included in these servicing arrangements.

The French have required that all such securities be validated by registration and stamping, but have failed to take steps to insure that the securities are held by their legal owners.

12. French diplomatic expenditures in Latin America

In view of the United States Government's refusal to permit certain dollar transfers to meet the expenses of former Vichy French missions in Latin America now adhering to Giraud because of the undesirability of the former Vichy diplomats concerned, the French North African authorities have urged that the dollar transfers from French African dollar funds be approved for this purpose without consideration being given to the character of the individuals involved. The French indicate that this is necessary as they are not now in a position to assign desirable personnel to represent French interests in the American Republics.

On this basis the question of remitting funds to D'Hybouville, who is head of the former Vichy mission in Chile, was again raised. The French were informed that this Government still did not favor transmitting funds for disposition by D'Hybouville. It was suggested that the French African authorities designate a desirable person to handle the funds, pending the designation of a new French African representative.

13. French refugee expenditures in Spain

The Treasury Department has authorized an additional transfer of \$500,000 from the French North African dollar funds for the purchase of escudos and pesetas to be used for the relief of French refugees in Spain and for the support of French educational institutions in Spain now adhering to Vireaud. This brings the total transfers authorized by the Treasury for this purpose from French African dollar funds to \$1,050,000.

The Treasury has informed its representatives in Algiers that while it wishes to facilitate the financing of all essential expenditures of the French African Government in Spain and Portugal that, in view of a shortage of pesetas and escudos for our own requirements, such French expenditures through dollars should be kept at a minimum.

14. Economic warfare controls in French Africa

The French authorities still appear not to be interested in providing a central administration with adequate staff and authority for the satisfactory administration of the French economic warfare controls. The State Department and the Treasury Department have instructed their representatives in French Africa to make a strong request to the French to increase both the personnel and administrative powers of the French economic warfare authorities.

15. Lend Lease and reverse Lend Lease arrangement with French Africa

The American representatives in Algiers were asked to consider the feasibility of requesting the French to provide reciprocal aid to the United States in return for the military aid estimated at \$200 to \$400 million annually provided to the French on credit Lend Lease. It was suggested that the French provide either as aid in kind or through the maintenance of a franc account certain military expenditures of the United States Government in the area other than the pay of troops and those expenditures which the military authorities consider advisable to obtain through cash. At the insistence of the Office of Lend Lease Administration it was suggested

that the French should also be asked to provide francs in adequate sums to meet all expenditures by the United States Government agencies for the purchase of goods for export to the United States and for stockpiling of goods in French Africa to be used for relief in subsequent invasion areas.

The representatives in the field have advised that the program of reverse lend lease is generally acceptable, but feel that it may be inadvisable to request the French to provide as reciprocal aid the francs for our purchases in North Africa for stockpiling or for export to the United States.

The French are to continue to pay landed costs in dollars for goods imported from the United States for civilian consumption in French Africa.

The British have recently indicated their willingness to work out a similar reciprocal aid program with the French. This matter is now being reviewed with the British to arrive at an over-all arrangement that can be mutually agreed upon.

16. Distribution of Lend Lease Goods in French Africa

The United States representatives in French Africa report that large percentages of the civilian supplies which Lend Lease has shipped to French Africa are being held undistributed in warehouses or are reaching the consumers through black market channels.

The Lend Lease representatives in the area have been asked to further investigate this situation and submit a full report to Washington.

17. Stockpiling in French Africa for relief in reoccupied areas

The American representatives in French Africa report that the French have indicated tentatively their desire to participate in building up the largest stockpiles possible in French Africa for relief in reoccupied areas. Study is now being given to the best arrangement to obtain the maximum cooperation of

and the French in procuring supplies for this purpose and at the same time assure that the decision as to the allocation of the stockpile shall remain with the appropriate Allied authorities.

18. Taxation of Allied Governments by French African authorities

The program worked out by the Treasury Department whereby, in revising the blanket exemption of the Allied Governments from taxation in French Africa, the French will be permitted to levy reasonable taxes on all operations of the Allied Governments except those of their military and relief organizations was presented to the French authorities. The American representatives in French Africa report that the French are of the opinion that the United States Army should pay all internal taxes on their military purchases in French Africa and that taxes should also be paid on all purchases by United States relief organizations in French Africa in building up stockpiles for relief purposes in other areas with the exception of France.

The Treasury after consultation with the War Department has taken the position that these taxes on military purchases should not be paid on the grounds that the principle that internal revenue taxes should not be paid on military purchases, or, if paid, should be refunded, is generally applied in all Allied countries where the Armed Forces of the United States operate.

Representatives of the Office of Foreign Relief and Rehabilitation have advised the Treasury that taxes should not be levied on purchases for relief purposes. It is their position that the French African administration should not realize revenue from the relief operations of the Allied Governments in French Africa and the even greater relief contribution that will be provided to the French people after the liberation of France.

Division of Monetary
Research

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19. French request for dollars to purchase 15 million
escudos

At the request of the Governor General of French West Africa, the Treasury Department has obtained the approval of the Portuguese Government for the purchase of 15 million escudos against dollars to be used in Portuguese Guinea for the procurement of cotton goods for the French armed forces.

The transaction will be effected as soon as the French West African Government indicates whether it wishes to purchase the escudos from its available dollar funds or whether it wishes to obtain additional dollars for this purpose from the United States Government against francs to be used for our expenditures in French Africa.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statement No. 91 - Aircraft Despatched
- for week ended June 22, 1943.

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

June 28, 1943.

STATEMENT NO. 91

Aircraft Despatched from the United States
Week Ended June 22nd, 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>					
Catalina 1 B	U.K.	U.K.		1	
<u>CURTISS</u>					
Kittyhawk	S'Africa	Capetown		15	
Kittyhawk	Middle East	Port Sudan		10	
Seamew	U.K.	U.K.		5	
<u>DOUGLAS</u>					
Dakota III	U.K.	U.K.		1	
Dakota III	S'Africa	S'Africa		2	
<u>FAIRCHILD</u>					
Fairchild PT 26	India	Bombay		16	
<u>LOCKHEED</u>					
Hudson III A	U.K.	U.K.		5	
<u>GLENN MARTIN</u>					
Baltimore III A	Middle East	Middle East		1	
Baltimore IV	Middle East	Middle East		15	
<u>NORTH AMERICAN</u>					
Mitchell II (B25C)	Bahamas	Nassau		1	
Mitchell II (B25C)	U.K.	U.K.		4	
Mitchell II (B25D)	Bahamas	Nassau		5	
Mitchell II (B25D)	U.K.	U.K.		5	
Mustang	U.K.	U.K.		16	
Harvard	India	Bombay		27	
<u>VULTEE</u>					
Vengeance	India	Bombay		19	
<u>VEGA</u>					
Ventura GR V	Canada	New Brunswick			2
<u>GRUMMAN</u>					
Widgeon	Bahamas	Nassau		1	
TOTAL:			<u>108</u>	<u>41</u>	<u>2</u>

British Air Commission
Movements Division
June 26, 1943.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTIL No. 209

Information received up to 7 A.M., 28th June, 1943.

1. AIR OPERATIONS

27th. 21 escorted special Beaufighters probably hit 3 escort vessels and possibly one ship off the Dutch Coast. Our fighters flew offensive sweeps over FRANCE. 8 enemy aircraft crossed our coasts. Casualties from these operations: Enemy - 6, 2, 3. Ours 2 missing.

27th/28th. Aircraft despatched - Sea mining 30 (1 missing); Leaflets PARIS 4, Intruders 9, Anti-shipping 13 (1 missing).

ITALY and SICILY. 25th/26th. 48 Wellingtons attacked the oil refinery at BARI. Many bursts were seen in the centre of the objective. 9 heavy bombers attacked MESSINA.

BURMA. 25th. 17 Mitchells bombed various objectives in the LANTALAY area.

2. HOME SECURITY

In the afternoon DOVER and the surrounding district were shelled from the French Coast. 11 fatal casualties including some service personnel.

CASUALTY DEPARTMENT

28 JUN 28 PM 4 56

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, June 29, 1943.

Press Service
No. 37-26

The Secretary of the Treasury announced last night that the subscription books for the current offering of 1-1/2 percent Treasury Notes of Series A-1947 will close at the close of business today, June 29.

Subscriptions addressed to a Federal Reserve Bank, or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Tuesday, June 29, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Tuesday, July 6.

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THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

JUN 29 1943

My dear Mr. President:

Under date of April 28, 1941, you approved the issuance of a special series of bonds of the United States, designated 2 Percent Depository Bonds, which may be subscribed for only by commercial banks qualified as depositories and financial agents, in amounts fixed by the Treasury. The bonds are issued currently, have a fixed rate of yield, and mature in twelve years. They are non-transferable and are redeemable upon due notice at face value plus accrued interest. The bonds were issued to enable the Treasury to secure banking services necessary in the conduct of the Government's business at a minimum cost. Our original estimate was that the total of these bonds to be outstanding at any one time would not exceed \$100,000,000. Demands for banking service directly attributable to our entry into the war have greatly increased and there are now approximately \$220,000,000 of these bonds outstanding. The benefits to the Treasury have amply justified this issue.

Under the Current Tax Payment Act of 1943, employers will be required to withhold substantial sums for which, under Internal Revenue regulations, they will be required to account quarterly. In order to avoid undue tying up of these funds in the hands of employers, it is considered in the interest of the Government to arrange for the deposit of withheld taxes with incorporated banks and trust companies, which are depositories or financial agents of the United States, as provided by the Act. Under this arrangement, withheld taxes will be available to the Treasury on a current basis.

It is, therefore, proposed at this time, subject to your approval, to issue 2 percent depository bonds, second series, which may be subscribed for by banks designated as depositories and financial agents for the purpose of accepting deposits of withheld taxes. These bonds will be identical in all respects to the first issue. Initial estimates indicate a requirement for about \$90,000,000 of these bonds to offset the costs to the banks for this service. This figure may increase as the program develops.

In view of the direct benefits to the Treasury which will result from the issuance of these bonds, I trust that the proposed additional issue will meet with your approval.

Faithfully yours,

W. W. Bill

Acting Secretary of the Treasury

The President

The White House

APPROVED:

June 29, 1943.

Franklin D. Roosevelt



April 28, 1941

My dear Mr. President:

Banking institutions qualified as depositaries and financial agents are required to perform much essential banking service in connection with the fiscal business of the Government. The established method of off-setting costs incurred by such depositaries and financial agents is through the medium of deposits of public moneys which are fixed in direct proportion to such costs. These deposits are required to be collaterally secured by direct or indirect obligations of the United States or obligations of the territorial and insular possessions of the United States. Hence the only revenue the banks may derive from these Treasury balances, generally speaking, is through the yield from the securities purchased in the market for that purpose.

The increasing requirements of the Government for banking services, resulting primarily from the National Defense program, combined with the current yields on eligible collateral have already necessitated undesirable increases in the amount of balances necessary for the Treasury to maintain with banks. To meet this situation it is considered very desirable to provide a special type of obligation which will have a fixed rate of yield, will not be subject to market fluctuation, and may be redeemed upon due notice at face value plus accrued interest.

I therefore propose to issue, subject to your approval, under the authority of the Second Liberty Bond Act, as amended, a special series of bonds of the United States which may be subscribed for only by qualified depositaries and financial agents in amounts fixed by the Treasury. The maximum amount outstanding at any one time probably will not exceed \$100,000,000. These bonds will be issued currently, will bear interest at the rate of two per cent per annum, and will mature in twelve years.

The authorizing act provides that bonds may be issued only with the approval of the President. Accordingly, in view of the direct benefit to the Treasury which will result from this arrangement, I trust the proposed issue will meet with your approval.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,

The White House.

APPROVED: April 28, 1941

Franklin D. Roosevelt

EDB:ew:DWB:ce 4-28-41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO The Secretary

FROM D. W. Bell

Subject: Issuance of 2 Percent Depository Bonds, Second Series, in Connection with Deposits of Withheld Taxes in Depositories.

As stated in your letter of April 28, 1941 to the President, copy attached, the established method of offsetting costs incurred by banking institutions qualified as depositories and financial agents in rendering essential banking service to the Government is through the medium of the Treasury's deposits carried with such depositories. These deposits are invested in Government securities purchased in the market and the income of the bank, generally speaking, is dependant upon the yield of the securities so purchased.

The 2 Percent Depository Bonds have stabilized the earning value of the deposits and have removed the element of market risks. It is doubtful if the Treasury could have provided the necessary banking facilities required in the War effort without this special issue.

At least in the absence of such bonds, it would have been necessary to maintain Treasury deposits far in excess of the present figure.

Our initial estimate of the 2 Percent Bonds to be issued was approximately \$100,000,000. However, the requirements of the War and Navy Departments, the increased Internal Revenue collections and increased deposits by Postmasters, principally the proceeds from the sale of Series E Bonds, have enlarged our demands many fold, and as a result,

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there is at present approximately \$220,000,000 of 2 Percent Depositary Bonds outstanding. In this connection, it should be pointed out, however, that one of the features of the bonds is that banks with an excess of cash may purchase bonds with their own funds. As a result of this arrangement, banks at the present time have invested their own funds in 2 Percent Depositary Bonds, approximating \$55,000,000 thereby reducing the requirements of obtaining Treasury balances correspondingly.

It is difficult to estimate the amount of 2 Percent Depositary Bonds which will be required to function the withheld tax program. The initial issue probably will not exceed \$90,000,000, but this will increase in direct proportion to the dollar amount of the withheld taxes deposited by employers through the banks. The benefits to the Treasury through the earlier deposit of these funds will, of course, more than offset any increase in the amount of the bonds to be issued.

UNITED STATES OF AMERICA
2 PERCENT DEPOSITARY BONDS
Second Series

1943
Department Circular No. 660
First Supplement

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 29, 1943.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, gives notice of an additional special issue of bonds of the United States, designated 2 Percent Depositary Bonds, Second Series. These bonds may be subscribed for at par only by depositaries for withheld taxes qualified under Department Circular No. 714, dated June 25, 1943. The amounts of the allotments and adjustments thereof will be made on the bases specified in that circular. Two Percent Depositary Bonds, Second Series, will be issued and redeemed, and interest thereon, when due, will be paid by Federal Reserve Banks, as fiscal agents of the United States acting for the Secretary of the Treasury.

II. DESCRIPTION OF BONDS

1. The bonds of this issue will be dated July 1, 1943. They will bear interest at the rate of 2 percent per annum, payable on a semiannual basis on January 1 and July 1 in each year until the principal amount becomes payable. Each bond will be issued as of, and will bear interest from, the date payment therefor is received, and will mature twelve years from such date, but may be redeemed at the option of the United States or the depositary for withheld taxes, in whole or in part, at par and accrued interest

at any time, upon not less than 30 nor more than 60 days' notice in writing given by either party to the other. From the date of redemption designated in any such notice, interest on the bond or bonds or any part thereof to be redeemed shall cease, and the unredeemed portion, if any, shall be reissued bearing the same issue date as the bond surrendered. Any such notice of redemption given by a depository for withheld taxes shall be addressed to the Federal Reserve Bank of the district.

2. The income derived from the bonds shall be subject to all Federal taxes now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will not be acceptable for any purposes except those provided for in Department Circular No. 714. They will be issued only in the name of the Federal Reserve Bank of the district in which the depository for withheld taxes is located as fiscal agent of the United States in trust for such depository and will not be transferable. They will be subject to the general regulations of the Treasury Department with respect to United States bonds, so far as applicable.

III. GENERAL PROVISIONS

1. The Secretary of the Treasury may, at any time, or from time to time, prescribe supplemental or amendatory rules and regulations with respect to this issue of bonds, and he may terminate the issue at any time without notice.

2. Federal Reserve Banks, as fiscal agents of the United States, are authorized to perform all necessary acts herein, in accordance with such instructions as from time to time may be given by the Secretary of the Treasury, or by his direction.

D. W. Bell
Acting Secretary of the Treasury.

Filed with the Federal Register
July 1, 1943 - 10:29 A. M.
Federal Register Series No. 2009

June 29, 1943

My dear Mr. Secretary:

I call your attention to the fact that the Department of Agriculture is not supporting as we think it should the Government's Pay-roll Savings Plan for the purchase of War Savings Bonds. The latest available figures indicate that only 85.8% of the employees of your Department are participating, and that their bond allotments amount to 9.2% of the gross pay roll.

Last February, the President wrote that "the employees of the Federal Government should lead the way in the development of a systematic method of sustained savings through the pay-roll allotment plan." Only last week, in a letter addressed to me, the President expressed the opinion that additional people should be convinced of the necessity of participating, and everyone now on the pay-roll savings plan should materially increase the amount of bonds he is buying. A copy of the President's letter is enclosed.

In line with the President's statements, I would appreciate it if you would discuss the matter with Mr. Bartelt, Acting Chairman of the Interdepartmental War Savings Bond Committee.

I firmly believe that practically all Government officers and employees should be able to participate to some extent in the pay-roll savings plan. I also believe that if the needs of the Government are properly explained to the employees, and if the needs of all departments, establishments, bureaus, divisions, and sections should set an example by their own enrollment in the plan, it would be possible to increase the allotments to at least 15% of gross pay.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Claude R. Wickard,

Secretary of Agriculture.

EFB:cal

June 29, 1943

TO MR. BARTELT:

Originals of letters are attached which are addressed to the following agencies. All of these agencies have a thousand or more employees except the Bureau of the Budget (which was the sample letter we wrote for the Secretary's approval); the National Labor Relations Board, which has very near a thousand; and Archives, which you suggested I write on the basis of the memorandum from Mrs. Ferguson, attached:

<u>Agency</u>	<u>Number of Employees</u>
Secretary of Agriculture	60,740
Secretary of Commerce	24,991
Secretary of the Interior	30,883
Secretary of Labor	6,192
Department of Justice	23,277
Secretary of State	2,775
Bureau of the Budget	546
Federal Communications Commission	2,177
Federal Security Agency	29,369
Federal Works Agency	27,272
General Accounting Office	8,372
U. S. Maritime Commission and War Shipping Administration	8,267
National Labor Relations Board	816
Selective Service System	19,884
Office of Strategic Services	2,100
Library of Congress	1,217
Civil Service Commission	6,788
National Housing Agency	15,700
Petroleum Administration for War	1,340
Railroad Retirement Board	1,639
Reconstruction Finance Corporation	8,074
Securities and Exchange Commission	1,297
National Archives	368
Office for Emergency Management:	
Alien Property Custodian	1,077
Division of Central Administrative Services	5,695
Office of Civilian Defense	1,095
Coordinator of Inter-American Affairs	1,207
Office of War Information	1,097
War Manpower Commission	10,196
War Production Board	18,955
War Relocation Authority	1,409
Office of Price Administration	4,642
Board of Economic Warfare	2,977

Originals sent out by Bartelt's office. Copy and photo of President's 6/24 ltr. in Diary.

Copies to Mr. Thompson.

THE WHITE HOUSE
WASHINGTON

June 24, 1943.

My dear Mr. Secretary:

Through you, as Secretary of the Treasury, I want to congratulate the American people on the way in which they have supported the voluntary payroll savings plan.

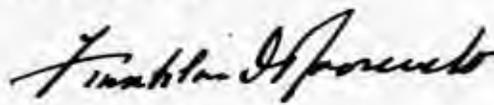
I am proud of the fact that 27,000,000 patriotic Americans are regularly investing more than \$420,000,000 a month to help pay the cost of the war. And since all of this money comes from wages and salaries -- nearly 90 percent from people earning less than \$5,000, and the bulk of it from those working in war plants -- I do not hesitate to say that the payroll savings plan is the greatest single factor we now have in protecting ourselves against inflationary spending.

This is a great record, both from the standpoint of curbing inflation and from the standpoint of financing the war. However, I heartily endorse your present drive to improve that record, and I agree it must be improved if we are to keep pace with the increasing demands of the war.

I therefore join you in calling upon the American people -- and upon labor and management particularly -- to do still more. Additional people should be convinced of the necessity of participating. Everyone now on the payroll savings plan should materially increase the amount of bonds he is buying. We originally asked for 10 percent, but now we need considerably more.

I hope every American on a payroll will figure out for himself the extent to which he can curtail his spending, and will put every dollar of additional saving thus made into the payroll savings plan.

Sincerely yours,



The Honorable,

The Secretary of the Treasury.

Participation in the Pay-Roll Savings Plan
for purchase of War Savings Bonds

	Number of Employees	Percentage of Participation	Percentage of Gross Pay Roll
<u>Executive Office of the President</u>			
Bureau of the Budget	546	74.5	7.3
<u>Executive Departments</u>			
Agriculture	60,740	85.8	9.2
Commerce	24,991	81.3	8.2
Interior	30,883	81.9	8.9
Labor	6,192	80.3	8.7
Justice	23,277	71.7	7.2
State	2,775	68.9	6.2
<u>Emergency War Agencies</u>			
<u>Office for Emergency Management</u>			
Alien Property Custodian	1,077	85.9	8.5
Division of Central Adminis- trative Services	5,695	86.5	8.6
Office of Civilian Defense ...	1,095	72.1	6.4
Office of Coordinator of Inter- American Affairs	1,207	76.1	7.3
Office of War Information	1,097	72.3	6.8
War Manpower Commission	10,196	81.8	7.4
War Production Board	18,955	70.0	6.4
War Relocation Authority	1,409	74.5	7.8
Office of Price Administration.	4,642	71.5	6.8
Board of Economic Warfare	2,977	72.6	6.2
Selective Service System	19,844	64.2	6.7
Office of Strategic Services ..	1,400	79.5	7.3
<u>Independent Establishments</u>			
Library of Congress	1,217	54.1	4.4
Civil Service Commission	6,788	77.6	7.3
Federal Communications Commission	2,177	63.8	6.0
Federal Security Agency	29,369	80.79	8.66
Federal Works Agency	27,272	58.88	5.44
Maritime Commission and War Shipping Administration	8,267	68.5	5.8
National Archives	368	75.8	7.5
National Housing Agency	15,700	77.4	8.4
National Labor Relations Board	816	85.8	8.0
Petroleum Administration for War	1,340	61.3	5.8
Railroad Retirement Board	1,639	84.1	7.7
Reconstruction Finance Corp. ..	8,074	81.3	7.8
Securities and Exchange Commission	1,297	82.6	7.6

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

JUN 29 1943

Secretary Morgenthau

FROM Mr. O'Connell

I attach a memorandum which describes in detail the provisions in the pending Commodity Credit Corporation bill with respect to subsidies and the powers of the War Food Administrator.

1. Subsidy Provisions. The anti-subsidy provision in the bill passed by the House would terminate the roll-back programs on butter and meat, except as to payments accrued up to the time the bill becomes law. The provision would also ban all but a few price stabilization programs with respect to agricultural commodities, whether by direct subsidy payments or purchase and sale operations and whether financed by appropriated or borrowed funds, except as specifically authorized by the Congress. Another provision would add to the present limitations in the Price Control Act as to price ceilings for agricultural commodities, the support price of the commodity established by the War Food Administrator. The Senate bill contains, in addition to provisions similar in substance to those just described, an amendment sponsored by Senator O'Mahoney (for the announced purpose of giving the conferees more latitude in writing the anti-subsidy provision) which, although it would terminate the roll-back programs on butter and meat, would not restrict the purchase and sale operations of the Commodity Credit Corporation.

2. War Food Administrator. The House bill contains a provision which would give the War Food Administrator authority to lift price ceilings on agricultural commodities to the extent he finds necessary to obtain an adequate production of such commodities for war purposes. The O'Mahoney amendment in the Senate bill would not give the War Food Administrator control over price ceilings, but would give him the exclusive authority with respect to subsidies and purchase and sale operations under the Price Control Act.

Attachment



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

JUN 29 1943

Secretary Morgenthau

Mr. Paul

Restrictive anti-subsidy amendments and amendments giving the War Food Administrator additional authority were included in the bills to extend the Commodity Credit Corporation as passed by the House and Senate on Friday and Saturday of last week.

House Bill

The House bill, as passed, extends the life of the Commodity Credit Corporation for two years and increases its borrowing power \$500,000,000. The anti-subsidy provision and the provision concerning the War Food Administrator (each approved by a voice vote) may be summarized as follows:

1. Anti-Subsidy Provision

(a) Prohibits the fixing or maintenance of maximum prices on agricultural commodities, and commodities processed therefrom, including milk and livestock and the products thereof, which will reflect to producers a price below the support price of the commodity or the higher of the maximum prices provided in the Stabilization Act of October 2, 1942 (the parity price or the highest price of the commodity between January 1, 1942 and September 15, 1942), whichever is the higher.

(b) Prohibits, unless specifically authorized by the Congress, the use of funds of the Commodity Credit Corporation or any other Government agency, whether borrowed or appropriated, for subsidies or other payments made directly or indirectly in connection with agricultural commodities, or commodities processed in whole or substantial part from agricultural commodities, including milk and livestock and the products thereof, for (i) any reduction

- 2 -

or roll-back of maximum prices or support prices; (ii) as a substitute for increasing maximum prices or support prices; or (iii) to maintain any maximum price.

(c) Excepts from the limitations of (b) above, (i) subsidies or other payments which have accrued prior to the effective date of the Act (e.g., as to roll-backs on butter and meat), including commitments theretofore made for the production and processing of canned vegetables for the 1943 crop season; (ii) sales of feed wheat at not less than the parity price of corn; and (iii) adjustments in the maximum or support prices on competitive domestic vegetable oils and fats and oil seed as are necessary to obtain adequate production for the war effort.

2. Additional authority to War Food Administrator.

Requires such increases to be made in the maximum prices established under the Emergency Price Control Act of 1942, as amended, for agricultural commodities, and commodities processed or manufactured in whole or substantial part therefrom, including milk and livestock and the products thereof, as the War Food Administrator determines are necessary to secure an adequate production of such commodities for war purposes.

Senate Bill

The Senate bill, as passed, extends the life of the Commodity Credit Corporation for two years and increases its borrowing power \$1,000,000,000. It includes the Aiken-Gillette anti-subsidy provision (which was adopted by a vote of 46 to 29 as a substitute for the Clark amendment after the latter was approved by a vote of 39 to 37; and in lieu of the more liberal Taft-Bankhead amendment, described in my memorandum of June 24, 1943, which was kept from a vote by parliamentary maneuver of Senator Clark) and an amendment sponsored by Senator O'Mahoney (adopted on a voice vote)

which contains a provision giving greater authority to the War Food Administrator, as well as anti-subsidy provisions. These amendments may be summarized as follows:

1. Aiken-Gillette Amendment. Includes provisions with respect to the fixing and maintenance of maximum prices and the prohibition of the use of appropriated or borrowed funds for direct or indirect subsidies which are substantially the same as those in the House bill, described under 1(a) and 1(b) above. In addition to containing exceptions with respect to accrued subsidies on butter and meat, sales of feed wheat, and adjustments in price ceilings and price supports on competitive domestic vegetable oils and fats, described in 1(c) above, it includes the following exceptions:

(a) Does not apply until the end of the current crop season to any commodity, other than milk or livestock or the products thereof, with respect to which the Government commitment for subsidies was made on or before June 15, 1943 (this would permit the continuance of the Commodity Credit Corporation's present price support program, except as to milk, cheese, and livestock).

(b) Permits the payment of the purchase price or adjusted purchase price with respect to commodities sold to Federal agencies for Governmental use.

2. O'Mahoney Amendment. Provides that the authority of the Emergency Price Control Act of 1942, as amended, with respect to the buying, selling, storage, and use of commodities for food purposes and the making of subsidy payments to domestic producers thereof, shall be exercised only by and under the direction of the War Food Administrator, and only for the purpose of obtaining the production of food in quantities specified by

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the President to assure an adequate supply for military, lend-lease, war relief, and civilian needs. It also contains the following anti-subsidy provisions:

(a) Prohibits subsidy payments unless the average price received by producers in the market place for agricultural commodities meets the requirements of section 3 of the Stabilization Act of October 2, 1942 (i.e., parity price or the highest price between January 1, 1942 and September 15, 1942, whichever is higher).

(b) Requires that subsidy payments be within the aggregate amount recommended by the President and approved by the Congress.

(c) Excepts subsidy payments which have accrued prior to the enactment of the Act.

R.E.P.
By J.D.C.



TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

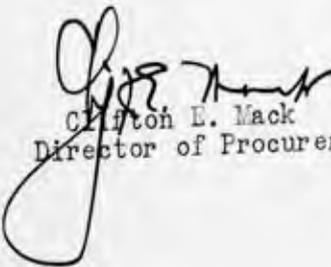
June 29, 1943

SECRET

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended June 26, 1943.

Lend-Lease requisitions received during the past week include metals, marine cable, nylon flake for the manufacture of parachute cords, mobile steam power plants for military purposes, overhead cranes, also mosquito netting for civilian use in West Africa and chemicals for the malaria mosquito control in Egypt.


Clayton E. Mack
Director of Procurement



(37861)

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF JUNE 23, 1943
 (In Millions of Dollars)

SECRET

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$3262.1 (3241.6)	\$1625.8 (1625.8)	\$1256.9 (1236.9)	\$103.4 (103.4)	\$6.8 (6.8)	\$269.2 (268.7)
Purchase Authorizations (Requisitions)	\$2769.9 (2724.9)	\$1509.4 (1508.7)	\$1115.4 (1072.1)	\$40.4 (40.4)	- -	\$104.7 (103.7)
Requisitions Cleared for Purchase	\$2675.7 (2625.9)	\$1453.2 (1455.6)	\$1080.8 (1029.4)	\$40.1 (40.1)	- -	\$101.6 (100.8)
Obligations (Purchases)	\$2590.6 (2533.7)	\$1433.0 (1426.4)	\$1032.3 (983.5)	\$40.1 (40.1)	\$6.3 (6.1)	\$78.9 (77.6)
Deliveries to Foreign Governments at U. S. Ports*	\$1138.8 (1128.8)	\$803.2 (796.0)	\$304.5 (301.8)	\$18.6 (18.6)	- -	\$12.5 (12.4)

*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 June 19, 1943.

SECRET

EXPLANATION OF DIFFERENCE.

The decrease in requisitions cleared for U. K. is a result of cancellations and amendments to contracts.

COPY

216

Hotel St. Regis
55th Street & Fifth Avenue
New York, N.Y.

June 29th, 1943

The President
White House
Washington, D. C.

My dear Mr. President:

May I take the liberty of sending you herewith a brief memorandum dealing with Palestine Colonization and Trade Balance which you were good enough to indicate during our conversation that you might want to see in view of some reports that have reached you about our "deficit" colonization.

I was greatly honored to have had the privilege of meeting with you again, and may I take this opportunity, on the eve of my departure for England, to express to you, Mr. President, my deep appreciation of your interest in our cause and your concern in the plight of my suffering people.

With renewed assurance of my high regard, I beg to remain

Most respectfully yours,

sgt. Chaim Weizmann

MEMORANDUM

ON PALESTINE'S COLONIZATION AND
TRADE BALANCE

For more than two decades, that is to say, coincident with the growth of Jewish immigration and settlement in Palestine, Palestine's trade figures have consistently shown a considerable excess of imports over exports. In part this disparity has been offset by the receipt of substantial Zionist Funds from abroad, and in part by the import of capital by the immigrants themselves. The suggestion has accordingly been made that only be grants from abroad can Palestine hope to make ends meet. For the following reasons, however, it is believed that Palestine's negative balance of trade need not occasion anxiety.

Economically Palestine is a young and rapidly developing colonization country. In such a country high imports and an adverse balance of trade are the inevitable accompaniments of progress. The position was summarized by Lord Hailey in his classic "African Survey" when he said: "An adverse trade balance is not necessarily a sign of danger. A vigorous and rapidly developing territory, in which current foreign investment exceeds the interest payment on the past investment will normally show a surplus of imports." Indeed as long as an intensive stream of immigration is being absorbed and new farms and factories are being established, home production must lag behind the needs of the growing population, both for consumption goods and for productive apparatus. Until the young local industries are set in motion, the new population which is employed in erecting the productive equipment, must be fed, clothed and housed by imported goods.

The capital influx into Palestine above referred to has in fact served precisely the same purpose as have development loans in other countries. But this capital has in addition had the very great extra

- 2 -

advantage of not necessitating any interest or capital payments to foreign creditors. The importance of this was emphasized by the Palestine Royal Commission in its report (July 1937, page 212) where it stated that

"The most singular feature in the economy of Palestine is the vast amount of capital which has been invested in the country, for which no remittances abroad for interest and sinking fund are required. This feature sharply differentiates the Jewish National Home from other communities which have been created by a process of colonization and are burdened by charges on the capital obtained from overseas for their development."

Up to the end of 1941 approximately \$110,000,000 was spent in Palestine through the various Jewish public funds on immigration and colonization generally. The bulk of these expenditures may be classified under three main heads:

- (1) Provision of land, equipment and initial capital for agricultural settlement.
- (2) Provision of public services (education and public health)
- (3) Execution of Public Works (drainage, reclamation and the like).

It is evident that through these activities assets of a permanent and constructive character have been created. It must be emphasized that the expenditure of these public funds, in sharp contrast with purely philanthropic or relief expenditures, has not taken the form of subsidies to individuals. The object which has been steadily kept in view is the creation of a self-supporting society capable of maintaining itself by its own exertions.

Today, largely as the result of a planned agricultural program, and as the result further of an influx not merely of workers and of capital

but also of Jewish specialists from all branches of European industry, there has been a remarkable expansion in Palestine's agricultural and industrial output. This fact has been of considerable importance to the war effort in this crucial area. It is one which offers important prospects for the future. Since the beginning of the war over three hundred new industrial enterprises have been organized; products supplied to the army in 1942 amounted to \$40,000,000 as compared with \$12,000,000 in 1941; and the consumption of electric power more than doubled as compared with 1936. A comparable though lesser expansion has taken place in agricultural production, particularly as regards mixed farming. Developments in this direction have in large measure counter-balanced the severe losses suffered by the citrus growers as a result of the war-time cessation of exports.

Jewish industry has in general not been subsidized from abroad. The Jewish agricultural settlements, however, numbering today approximately three hundred and twenty, have received important help from the Zionist Funds. These settlements are organized for the most part as cooperative or collective workers' groups and were necessarily financed at the outset by monies of the Jewish national funds. Not merely had the immigrant worker to be given the necessary elementary training and provided for a period with food and shelter, but on the land itself swamps had to be drained, the land irrigated, and essential buildings, implements and seeds provided. In the result, however, a large proportion of these agricultural settlements are today self-supporting. Their output has increased manifold as compared with only a few years ago and an increasing number of them have begun to make repayments in respect of the capital outlay made on their behalf by the Zionist bodies.

- 4 -

As long as a substantial immigration into Palestine continues there will no doubt be need for the import of capital from abroad either through the Zionist funds or possibly by way of public loans. Undoubtedly, too, Palestine will require to develop its export trade in order to meet the needs of a growing population for food and raw materials. But the manner in which Palestine's agriculture and industry have risen to the occasion in connection with the war effort promises well for the future. Palestine's industry has shown itself to be modern, resourceful and energetic; and there is no reason why, as the only country in the Near East with a well developed industrial apparatus, Palestine should not become the center of a large export trade covering the markets of that area and extending even to India.

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OFFICE OF THE TREASURY
 NOT TO BE RELEASED

13 JUN 30 PM 1 27

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 211

TREASURY DEPARTMENT

Information received up to 7 a.m., 29th June, 1943.

1. NAVY

One of our motor gun boats was sunk by mine off WESTERN SICILY on 25th/26th. One of H.M. Submarines sank a 3,000 ton ship off EASTERN SICILY on the 14th. Ship blew up. An Eastbound convoy off CAPE BON PENINSULA was heavily attacked on afternoon 26th by F.W. 190's and later by torpedo Bombers. 2 F.W.190's were shot down. No loss or damage to convoy.

2. AIR OPERATIONS

WESTERN FRONT. 28th. 145 Fortresses in 2 formations attacked the new lock opposite the U-boat pens at ST. NAZAIRE, 269 tons dropped with "good" results. Enemy casualties - 17, 5, 5. Allied - 8 missing. In conjunction, 43 Fortresses effectively bombed an airfield near EVREUX. R.A.F. Fighters sank 2 small ships and damaged 4 off the DUTCH ISLANDS. 28th/29th. Aircraft despatched: COLOGNE - 608 (25 missing), HAMBURG - 4, Sea-mining - 6, Intruders - 15, Anti-shipping - 10. At COLOGNE, a blind bombing attack was made through thick cloud. At first bombing was scattered, but later concentration improved.

GREECE. 27th. Liberators dropped 34 tons on HASSANI Airfield and 36 tons on ELEYSIS Airfield, both near ATHENS. 2 hangars at the former and 3 at the latter were hit. Enemy casualties: 7, 8, 0, in the air and 5 set on fire on the ground. Beaufighters bombed and hit a 6,000 ton transport off the West Coast.

BURMA. 26th. Heavy and Medium Bombers respectively attacked railway installations at THANBYUAZAYAT, 100 miles East-southeast of RANGOON and KANBALU, 100 miles North-northwest of MANDALAY.

3. HOME SECURITY

28th/29th. Southeast coast shelled.

DOVER. 4 killed and telephone exchange hit.

RAMSGATE. Gas Works hit, 1 fatal casualty. Other minor incidents MARGATE, FOLKESTONE and DEAL.

June 30, 1943

10:20 a.m.

Present: Mr. Bell
Capt. Kades
Mr. O'Connell
Dr. Haas
Mr. Smith
Mrs. McHugh

HM, Jr: I saw the President. He read the memorandum very carefully and he said, "This is an ingenious memo."

I introduced my remarks by saying I realized I was a late starter, but that Kades had been working on this with other people in the Treasury, (I have to be truthful; I said Kades had been working on this. I forgot the other people.) Kades had been working day and night for ten days and only had it now in such shape that I could bring it in and recommend it to him.

I said I realized it was late, but that if he could call up people like Barkley and Rayburn, McCormack, Senator Wagner, and ask them to just let the thing rest in Committee for ten days and then organize people like W.L.B. Davis, myself, and other people interested, and let us go to town and he should go to town himself. He said, "Congress want to go home." I said, Look. You can say to Congress, "If you want to go home, it's just too bad if Congress can't delay going home ten days and delay recommendations," I said, "to bring the price of beef back from \$1.00 to 75¢ and other things in that proportion -- it's just too bad." And you can take the ball away from Congress. You should do the way they do in England: make it a Cabinet-Administration

-2-

problem and everybody should go out and go to talking and soften up the country with a barrage." I said, "There is an incipient consumer bloc organized already and now is the time that I think you can get what you want."

He listened very, very closely. He said, "This is nothing new. I thought of something like this myself sometime ago and that he was thinking very hard. Of course, the thing to do is talk just about the essentials, like meat, bread, coffee, sugar." He said, "On some of these things we have done a very good job, like coffee and sugar. The chances are that next winter there will be no ration on sugar and on coffee we will get a little more." I said, "I know you have done a good job. That's the pity of the thing. You can't do a good job on the whole business." I said, "I am getting terribly worried how much longer people will buy my bonds if these high prices keep up." He said, "I am worrying how I can keep on buying more bonds." So I said, "Labor has been wonderful, but how much longer is this spiral of increased wages, increased cost of food, etc., going to keep up?" He said, "I am thinking of going much further and stabilizing everything." I didn't say, "You have no authority."

I said, "You have to do something this morning." "Well," he said, "suppose I let this bill go through and then came out and said Congress should stay here and do something rather than go home." I said, "Let the bill rest in committee while you work." Then I gave him the example of the Stabilization Fund expiring and the opinion of the Attorney General that what had transpired in those six days was legal.

He never listened more closely, so I kept pressing him all the time to do something this morning. He obviously did not want to do it while I was there. So I said, "I am not going around town and sell this to anybody. I have not talked to anybody, but we are over here to be

helpful. Then I said, "Of course, a lot of us feel we are on the outside and can't always help." He said, "That isn't true. So I said, "Even if I am going to make you angry, and I don't want to make you angry, we are on the outside." "Well," he said, "I can't make this War Mobilization Committee any bigger." I said, "Nobody is talking about making it any bigger." He told me that before - he told me before a lot of people want to go on the War Mobilization Committee. I told him this time, and I hope the last time, I didn't want to go on the damn Committee; I don't think it's any good. The very first one they set up, my name was on it and I personally scratched my name off of it when McReynolds was working on it.

He is very sensitive. Evidently he has been under pressure to put a lot of people on.

I gave him my memo of December 18th to read, and I said "That is still a hundred-fold more important now." He said, "What would you call it?" I said, "I wouldn't call it anything. Supposing you call in Frank Walker, Harold Ickes and Harry Hopkins and myself as a start and let's talk about doing things on a community level." I said, "You, yourself suggested that. After all, O.C.D. for a couple of months did a good job. They put a wonderful show on in Amenia and a lot of other things and then it went flop!" He said, "That's right" and then he remembered it.

I said, "The Russians have their political Commisar. They want something done -- wants bonds sold, each plant is told verbally how much to buy and they buy them." I said, "If you want something done on food, who have you go to do it? Nobody. I wouldn't call this group any name, but let us sit around with you on evening. (I suggested the same thing - Bell knows - five times, that he take a group of us down the river on a permanent solution of unemployment and he never would do it.)"

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He did not get angry. He evidently is very sensitive on this new Committee with Byrnes, but when I told him that some of us were on the outside, that evidently made him angry on account of Chester Davis and Wallace, and so on. But I stuck to my guns, as I immodestly say I always do. I pressed him awfully hard to do something this morning and he did not resent it. In fact, he did not resent anything other than when I talked of getting some of us together.

He said, "It always ends up by my making a speech. That's the only suggestion that comes out of the meeting." I said, "Let us do the talking, but you have got to do something on the community level. You have to take the ball away from Congress and tell the people what you want; soften the people up with a barrage of words; do the way it is done in England, a Cabinet-Administration matter, everybody go to town. Let O.W.I. coordinate it. That's their job. They should tell each of us what we should say and where we should say it and how." I said my speech and I didn't get fired and I didn't get shot, and he listened.

Now, I don't know what he's going to do, but I never was more affirmative in my approach.

The last thing he said was, "Have you heard how much the packers made?" I said "I heard about Lubin having some figures and I asked him to check them with us." The President said, "Swift & Co. went from \$3,000,000 to \$25,000,000 in one year." The President seemed to think that the 42% represented increase in food prices instead of that food prices amounted to 42% of the cost of living. I said, "Everything has been checked by George Haas and I know the figures are correct." (And I said to myself, "I hope so.") He is also very sensitive on these increases in food prices.

Anyway, that's my story. We have done our Boy Scout good deed. What he will do with it, I don't know, but it's a damn good plan. I do not know whether

-5-

the right thing is to let it lay in the Committee or let it pass on veto. I don't know. But certainly he has enough ex-Senators and ex-Congressmen around to tell him. I got him there. I said, "You tried your ex-Senators and ex-Congressmen working on the hill and that hasn't worked. You have got to go to the constituents. That's the way to do it." When I pulled that one, he did not get angry either. The only time there was any flare-up was when I told him some of the people like myself are left on the outside. That was the only time I got any flare-up. Because the answer is, it's true. Here we are in the Treasury, more interested in inflation than anybody else, but we don't even get in. We get a chance when we prepared something, but we are not called in.

Well, anyway, that gives you the background.

I told the President that I definitely would not go around town. In the first place, we had not shown it to anyone and in the second place I would not go around town trying to sell it; I would stay in my office until I heard from him.

oOo-oOo-oOo

My dear Mr. President:

As you know, I have been thinking about ways and means of encouraging farmers to increase production of critical farm products, without adding to the cost of living. Food prices contribute about 42 per cent to the Bureau of Labor Statistics cost of living index. Control of the prices of those goods bulking large in the cost of living is therefore an essential element of fiscal policy.

My suggestion is, in essence, to apply to agriculture the same principle of Government assumption of war risks which has been successfully used to induce industry to expand its production for war purposes. By offering a Government contract under which the entire quantity of specified commodities would be purchased, we could reward the farmer (as we have the manufacturer) who converts his production to those crops necessary in the prosecution of the war.

At the same time, by combining this use of the Government contract with a willingness to accept trading losses on the resale of the purchased products, the Administration would have an effective weapon in the fight against inflation. Food production could be stimulated; food prices could be stabilized.

There is no novelty in the purchase and resale at a loss by the Government of an entire domestic crop or output. Some recent examples are peanuts, cheddar cheese, certain canning crops, and crude vegetable oils.

In the case of war industries, however, we do not wait until the planes or tanks or guns are completed before agreeing to buy them. My suggestion is that we put critical farm products on a similar basis by agreeing to buy these products also under "production contracts. A Government contract would assure farmers of firm

2.

prices for their output, fixed well in advance of the planting or breeding seasons, and would encourage their conversion to war production by aiding farmers (as we have manufacturers) to obtain necessary equipment and working capital.

Various Federal agencies would have to participate in the program. The farm products to be considered as critical farm products and the prices for such farm products specified in the Purchase Orders would be fixed by the War Food Administrator. The resale price would determine the amount of the trading loss, and would be arrived at after conferring with officials charged with responsibility for stabilizing prices.

The issuance, execution, supervision, and performance of the Purchase Orders could be accomplished by utilizing the county agents, county committees, and excellent field organization of the Department of Agriculture.

All commercial and financial details of the purchase and resale transaction would be handled by the Commodity Credit Corporation or other appropriate federal agency. That Corporation now has the power to buy and sell farm products in the manner proposed. However, if the Commodity Credit Corporation bill now pending in the Conference Committee is enacted, there is grave doubt if the proposal (except for a few products) could be carried out under the law. If you think well of this proposal, I am advised that the bill is in such shape in conference that an amendment could well be made by the Conference Committee which would make it possible to carry out the proposal. Therefore, I am attaching herewith a draft of a proposed amendment and an outline of the 'Purchase Order' plan.

Yours sincerely,

The President,
The White House.

OUTLINE OF PURCHASE ORDER PLAN

1. The Government would agree to buy the total output of critical farm products by means of Purchase Orders. These Purchase Orders would contain conditions under which the farmers would be guaranteed (a) a specified price for his product (b) priorities for farm implements and (c) advance payments on account of the purchase price to be used to obtain feed, seed, and other necessary equipment.

2. Farmers accepting Purchase Orders would produce critical farm products in accordance with the terms of the Purchase Orders and deliver their products to the private agencies with which they ordinarily deal. Farmers would be paid by private agencies which would make such payments on behalf of and for the account of the Government. By "private agency" is meant the usual farmers' co-operative, marketing agency, or other farmers' association dealing in the particular farm product.

3. The Government would then sell these critical farm products to these private agencies at prices which would enable the products to be sold to processors, wholesalers, distributors, and consumers under existing ceiling prices. Farmers would directly benefit, of course, by any difference between (a) the amount received by them from the sale to the Government, and (b) the price at which the Government resells the product to the private agency. This difference would involve a trading loss which would be paid to the private agency by the Government.

Suggested New Section to H.R. 2869
(Commodity Credit Corporation Extension Bill)

SEC. . Nothing in this Act shall be construed to prevent the Commodity Credit Corporation, or any other Federal agency or Government-owned or controlled corporation, from acquiring by purchase or otherwise agricultural commodities, including milk, livestock and poultry, from the producers thereof, or farmers' cooperatives, marketing agencies, farmers' associations or other organizations of producers, nor to prevent the sale of any such agricultural commodities at less than the cost of acquisition.

DJS:rgs
6/29/43

32
Dec. 18, 1942.

My dear Mr. President:

During our conversation on Wednesday morning we discussed the need of keeping the people of the country better informed as to the measures necessary on the home front for a more effective prosecution of the war. I am convinced that much of the misunderstanding that prevails can be traced to the lack of coordination in the efforts of departments and agencies dealing directly with the people. Different departments and agencies go to the people with different appeals and different programs. The result is often bewilderment and confusion.

In the Joint Chiefs of Staff you have an organization to advise you as Commander in Chief on military matters. I think you should have a somewhat comparable organization dealing with the home front.

I would like to offer a proposal which should contribute in my opinion to greater public understanding and result in more intelligent cooperation by the people as a whole. I suggest for your consideration the creation of an informal committee, including Claude Wickard, Leon Henderson or his successor, Paul McNutt, James Landis, Elmer Davis, and myself -- all heads of departments or independent agencies dealing directly with the people -- to take up the problem of coordinating our programs and appeals to the people in the community. This committee would meet once a week, or as often as is necessary.

The coordination achieved here in Washington would make possible, as I visualize it, corresponding coordination in the field. If, as an instance, we have a War Bond meeting, or a meeting to explain the Victory tax in any community, the representatives of the other departments and agencies dealing with the people should be present so that all matters involving civilian aspects of the war effort might be handled at one and the same meeting. In this way the people in each community would be apprised in a detailed and at the same time systematic way of the things that are required of them for the more effective prosecution of the war. They would understand better the reasons why it is so necessary to interfere now with normal civilian

life. Cooperation as a team by different Government agencies, both in Washington and in the communities, would serve to stimulate a corresponding cooperation by the people in each community.

I would like an early opportunity to discuss this matter further at your convenience.

Sincerely yours,

(Sgd.) Henry Morgenthau, Jr.

The President,

The White House

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

June 20, 1943

TO Secretary Morgenthau
FROM Capt. Kades

The purpose of this memorandum is to consider the Purchase Order and Trading Loss procedure suggested in the proposed letter to the President.

I.

FISCAL POLICY AND FOOD PRICES

Food prices contribute about 42 per cent to the Bureau of Labor Statistics cost of living index. This index to a large extent determines the course of wage rates which, in turn, influences the price of manufactured goods.

On the one hand, labor can make a plausible argument that, without increases in wages to offset increases in the cost of living, a slowdown in production will be inevitable.

On the other hand, farmers can make an equally plausible argument, that, without increases in the prices of agricultural commodities, a failure to produce sufficient food to meet requirements will be inevitable.

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It is impossible to disprove either claim. Both labor and farmers may be right. The nation can not run the risk of assuming that either group is wrong.

To win the fight against inflation, these conflicting claims must be reconciled. Control of the prices of those goods bulking large in the cost of living is therefore an essential element of fiscal policy.

Prices to farmers are high. But it is risky business to make a generalization that they are higher than necessary to obtain the output wanted.

Notwithstanding that increased farm production is recognized as imperative, the Fortune Survey last March showed more than two-thirds of the farmers were deep in gloom and expected to be forced to reduce production this year.

This attitude is understandable. For ten years farmers were led to think that the way to obtain increased income was to reduce production to the point where the laws of supply and demand would force prices up to parity. The result was that in no single year of the Thirties did per capita food production get up to the 1926-1930 level, the average for the decade being five per cent below that level.

When the second World War began and employment increased (1) consumption of food in general increased, and (2) consumption of meat, poultry, eggs, milk and cream increased in particular.

These are the very foods which require a relatively large amount of two important limiting factors on food production, namely (1) land and (2) labor.

It is believed that these indirect and dubious means of stimulating production by the present AAA program should be supplemented by direct methods.

The complexity of these regulatory controls, the history of their use as sanctions for maintaining scarcity, and the difficulty of reorienting the thousands of field employees of the Department of Agriculture to the subtleties of the new program may well have raised a psychological barrier to the full utilization of farm resources.

II.

CONVERSION OF FARMS TO WAR PRODUCTION

There is nothing inherently inconsistent between an intention to increase farm production and an intention to control the cost of living.

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There was nothing inherently inconsistent between an intention to increase industrial production and an intention to control the cost of living. The technique used to increase the production of ships, planes, tanks and guns can be applied to increase the production of food.

To achieve this increased industrial production, it was not deemed necessary to solve the many delicate and complex relationships in the business world. Nor should increasing the production of critical farm products needed to win the war make mandatory the solution of the whole so-called Farm Problem.

The method used in mobilizing industry involved (a) assuring a manufacturer, as a matter of procurement policy, a reasonable price for his product, (b) furnishing him with the necessary priorities for the machinery he needed, (c) assuming the major risks involved in any conversion from a peacetime to a wartime product, and (d) providing him with working capital if he could not get it through ordinary channels of finance.

The Government Purchase Order

A Government contract determined the terms and conditions of the production and sale of the product, and expressed the rights and obligations of the producer and the Government. That legal instrument is available and can be effectively used in mobilizing farmers for war production.

A Government contract would assure farmers of a firm and attractive price for his product, fixed well in advance of planting and breeding seasons, and whatever facilities, fertilizers, and financing he may require. The Government would get a balanced food program by direct methods uncomplicated by devious indirect administrative regulations. And the cost of living can be curbed without checking production .

The terms of the contract would be simple. The Government would offer to buy the farmer's entire quantity of specified commodities at prices fixed in an offer, called a Purchase Order. The Government would make payment and accept delivery either through a Government instrumentality, such as the Commodity Credit Corporation,

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or through farmers' co-operatives, marketing agencies, or other farmers' associations, licensed by the Government for such purposes.

The Prices To Be Paid

By means of the Purchase Order the Government might not only (a) increase the total amount of food produced, but also (b) influence the type of food produced to conform to the Government's food policy.

These considerations, together with (a) the increased cost of wartime food supply and (b) the risk of loss in converting from a peacetime crop plan to a wartime crop plan, justify a liberal Governmental pricing policy in connection with such Purchase Orders. The prices probably should not be less than parity prices, and, in any event would be fixed at levels which would allow profits to high cost as well as to low cost farmers in order to encourage all possible production consistent with sound soil conservation practices.

The Commodities To Be Selected

The commodities for which such offers to purchase would be made would presumably be those which (a) the Government desired to encourage farmers to produce in greater quantity (such as dry edible beans and peas) or (b) which constituted a significant part of the cost of living (such as meat and milk), with such exceptions as might be dictated by difficulties of administration or for reasons of basic policy. In this connection, it has been striking how many of the proposals in the last decade which were originally condemned as administratively impracticable have proved very successful.

Those essential domestic products which are fairly uniform, widely consumed, not highly perishable and produced in large quantities probably would be easiest administratively to purchase under this procedure.

How the Purchase Order Would Work

The Purchase Order would be addressed to all farmers, and would be irrevocable until one year after

the end of the war. Acceptance would be evidenced by the farmer simply signing his name in a place provided at the bottom of the Order.

The existing organization of county agents and county committees would, of course, be utilized in encouraging the acceptance of Purchase Orders, just as they previously encouraged acceptance of AAA crop control programs.

The county agents and county committees would also be helpful in obtaining for the farmers the practical benefits to which acceptance of the Purchase Order would entitle him, such as getting through priorities, needed fertilizer, farm machinery, feed, and fuel. The pecuniary benefits would be confined to the price paid for the farm crop and possible advance payments on account of the purchase price.

Existing channels of distribution would not be disturbed. The farmer would deliver the product in the customary manner. The agency accepting delivery would simply act as the agent for the Government, (instead of buying on his own behalf) for the purpose of receiving and paying for the commodity.

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The principle of obtaining control of wartime crops at the producer level by outright purchase is consistent with using peacetime personnel and peacetime channels of trade. The men who know farmers and food from A to Z would still handle the farmers and the food.

The Trading Loss

A policy of promoting food production by the Purchase Orders would also aid in holding the line. By controlling supply the Government would have it within its power to prevent the processor, for example, from being squeezed between a high price required by the farmer and a lower ceiling price on the processed product.

For example, if the Government desired to pay farmers higher prices for vegetables, it would not thereby make it necessary to increase ceiling prices on canned vegetables. It could buy the vegetables by Purchase Order at the higher price and sell to the canner at a lower price.

In the case of a Government corporation, like the Commodity Credit Corporation, the resulting loss would

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be absorbed like any other trading loss, that is, as an offset against profits, or as a depletion of capital to be reported to Congress for possible replenishment by an appropriation.

Committee to Review Trading Losses

Before taking such trading losses on commodities acquired by Government crop purchase orders, it might be desirable to have a committee consisting of the Secretary of the Treasury, the Director of Economic Stabilization, and the Price Administrator, review the arrangement for the purpose of determining whether taking the trading loss is necessary to prevent a rise in the cost of living. Only if it is necessary for this purpose would the trading loss be justified.

Purchase of Peanut Crop from Farmers

There are ample precedents for this Government's purchase of an entire domestic crop or output. All farmers' stock peanuts are now purchased by the Commodity Credit Corporation, or by an agency it designates to purchase, sell, or deliver peanuts for its account.

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In fact, by an Order of the War Food Administrator issued on June 10, 1943 the purchase, sale or delivery of peanuts by anyone other than the Corporation or its designee is forbidden under the priority provisions of the Second War Powers Act.

There are also many precedents for the Government's taking trading losses in commodities purchased for the specific purpose of selling such commodities at less than the purchase price. Some of these are summarized in the Appendix attached hereto.

By some such combination of Purchase Order and Trading Loss, it may be possible to prevent the interplay of wage rates and food prices from disrupting inflation control.

D.L.R.

Attachment

APPENDIX

I

SOME CASES OF TRADING LOSSES
ON DOMESTIC COMMODITIESPurchase of Cheddar Cheese Output

Since December, 1942, the Commodity Credit Corporation has purchased U. S. No. 1 American Cheddar Cheese from the cheese factories and then resells the cheese to the same concerns below its purchase price. The loss amounts to 3 3/4 cents per pound of Cheddar Cheese. This amount is passed on to the producers from whom the factories buy their milk.

The main purpose of taking the trading loss is to enable Cheddar Cheese manufacturers to pay farmers a price that will attract milk to cheese factories, thus encouraging Cheddar Cheese production. The annual trading loss will probably exceed \$30,000,000, based on an 800,000,000 pound annual volume of Cheddar Cheese.

Purchase of Canning Crops from Processors

On January 28, 1943, the Commodity Credit Corporation instituted a program designed to increase the production of tomato, pea, sweet corn and snap bean canning crops.

The Corporation purchases the output of certified processors of these products at specified prices and then resells the products to the same canners at a discount, provided the canners have paid specified minimum prices to growers. Commodity Credit Corporation's losses involved in selling these commodities below purchase prices will total \$10,000,000 annually.

This trading loss involves about half the canning crop, the other half being bought by the Army. The purpose of taking the loss is to permit the ultimate distribution of the canned goods at retail ceiling prices not higher than those now prevailing.

Purchase of Crude Vegetable Oils from Refineries

The Commodity Credit Corporation also purchases the crude soybean, cottonseed and peanut oils from refineries

and the resale to the same refineries of such oils at a 1/2¢ per pound reduction in price. The refineries refine the crude oil and store it until it is released for processing and the Corporation pays the storage charges.

Sale of Corn and Wheat at a Loss

The Commodity Credit Corporation also sells corn and wheat to manufacturers of industrial alcohol and high wines at prices below cost, the purpose being to encourage the production of industrial alcohol from grain without raising OPA's ceiling price. The purpose of taking this loss is to cover the costs of converting whiskey distillers to the production of industrial alcohol and to cover the increased prices of grain.

Loss on Nicotine Sulphate

The price of low-grade tobacco leaf advanced to high levels in 1942. As a result, producers of an insecticide called nicotine sulphate and used mainly by farmers had to pay much higher prices. This squeezed nicotine sulphate manufacturers.

- 4 -

To avoid raising ceiling prices, the Agricultural Marketing Administration paid the insecticide manufacturers the difference between the low-grade leaf tobacco market price and the price the manufacturers could pay and still sell within the ceiling price.

II

SOME CASES OF TRADING LOSSES
ON IMPORTED COMMODITIES

In addition, to the trading losses which are taken in transactions involving domestic commodities by the Commodity Credit Corporation, other trading losses are taken on transactions involving imported commodities sold to domestic manufacturers.

Loss on Henequin

The Defense Supplies Corporation buys henequin from Mexican exporters at 9¢ per pound and sells it to domestic manufacturers of rope and binder twine at 6 1/2¢ per pound. If this trading loss were not taken (plus

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absorbing increased freight costs and war risk insurance) the retail price of rope would have to be raised about 5¢ per pound.

Loss on Strategic Metals

The Metal Reserve Corporation imports copper, lead, tin, and mica and sells these strategic metals to domestic producers at prices less than their landed cost.

Loss on Chilean Nitrate

The Defense Supplies Corporation purchases Chilean nitrates from the Chilean Nitrate Sales Corporation on a landed basis at \$33.15 per ton and then resells the nitrates to the Chilean Sales Corporation at \$27.15 per ton, thus taking a \$6 loss on each ton of nitrate sold. The loss compensates the firm for increased transportation and war risk insurance costs and the increase in the foreign seller's price, and enables the corporation to sell the nitrates at the present ceiling level, and totals \$6 million annually, based on an estimated annual import volume of 1,000,000 tons of nitrate.

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June 30, 1943
10:37 a.m.

HMJr: Hello.

Operator: Dr. Lubin is in a meeting of the Munitions Assignment Board and she said it is impossible to get him right now.

HMJr: Well, get me Steve Early, will you?

Operator: All right.

10:42 a.m.

Stephen
Early: Yes, sir.

HMJr: The President has two or three times told me, this morning also, about the packers who made these exorbitant prices....

E: Yes.

HMJr: Now, I have just gotten the original memorandum which Lubin gave him. I couldn't find Lubin....

E: Uh huh.

HMJr:and we find that this is before taxes, so for God's sake don't let him go out on the end of a limb, you see, and use them as we will have some figures over to you this afternoon showing what they were after taxes.

E: Yes, well now, Henry, uh - this catches me a little bit uninformed -

HMJr: Well....

E: Is he preparing some....

HMJr: I don't know, but you know when he gets hot under the collar, he'll shoot something....

E: Well, he did yesterday.

HMJr:and the point is that Lube sent him these figures that these packers have made these exorbitant profits - Hello....

E: Yes.

HMJr:and he's mad and he may - might say something. The point is - I just got this - we've run it down - it comes from Gilbert over at O.P.A.....

E: Yes.

HMJr:and we now find that these figures are before taxes. Well, a lot of companies have made 100% before taxes....

E: That's right.

HMJr:and I will get this over to you sometime this afternoon - the correct figures after taxes....

E: All right, I'll get 'em to him.

HMJr:and I don't know what they are but just....

E: Between you and me, as far as I know, he's going to leave here tomorrow....

HMJr: Oh!

E:and there won't be any press conference Friday.

HMJr: Going up country?

E: I think so....

HMJr: Or home?

E: ~~H~~....tomorrow night, I believe.

HMJr: Oh, good.

E: That, I think, is the plan - it might be that he is going up here in the Mountain Shangri-la - but I know he's leaving here tomorrow night. He told me so....

HMJr: Right.

E: And....

HMJr: Well....

E:that means there won't be any press conference Friday and that means there won't be any until next Tuesday.

HMJr: Well, I was just scared that he might shoot off....

E: Yeah.

HMJr: ...and then - then have everybody jump on him and say, "Why, the President of the United States doesn't know how to figure."

E: Yeah. That's right. Well, then I'll get them to him.

HMJr: All right.

E: Thank you, sir.

HMJr: Thank you.

158
June 30, 1948

Dear Steve:

I am enclosing herewith the memorandum for the President which I talked to you about this morning.

You will note that the figures for Swift, Armour and Wilson after income taxes are quite different than the figures submitted to the President by Mr. Lubin which were based on profits before taxes.

I would appreciate it if you would bring this to the President's attention.

Sincerely yours,

(Signed) Henry

Honorable Stephen Early,
Secretary to the President,
The White House,
Washington, D.C.

*Diary
Del. by S. Magent 4:50-6*

June 30, 1943

MEMORANDUM FOR THE PRESIDENT

Regarding the figures which you received recently on the profits of packing companies, I should like to point out that the profits were before deducting income and profits taxes.

I have had an examination made of the taxes of the same 17 packing companies on the basis of the same figures which you previously received. The comparative figures for profits before taxes and after taxes are as follows:

	Profits before income and profits taxes	Profits after income and profits taxes
Average 1936-39	\$22,874,000	Not available
1939	35,212,000	\$28,577,000
1940	41,786,000	32,243,000
1941	74,282,000	52,584,000
1942	104,965,000	51,330,000

The figures for three of the leading companies are as follows:

	Profits before income and profits taxes	Profits after income and profits taxes
<u>Swift and Company</u>		
Average 1936-39	\$ 8,120,000	\$ 6,346,000
1939	12,403,000	10,322,000
1940	14,193,000	11,183,000
1941	25,781,000	17,910,000
1942	43,426,000	16,983,000

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	Profits before income and profits taxes	Profits after income and profits taxes
<u>Armour and Company (Illinois)</u>		
Average 1936-39	\$ 8,560,000	\$ 6,572,000
1939	9,654,000	7,732,000
1940	12,205,000	9,216,000
1941	24,127,000	16,873,000
1942	25,128,000	14,956,000
<u>Wilson and Company, Inc.</u>		
Average 1936-39	\$ 2,805,000	\$ 2,512,000
1939	3,953,000	3,385,000
1940	5,157,000	3,912,000
1941	10,229,000	7,143,000
1942	15,446,000	7,946,000

I should like to point out that we have not verified the accuracy of the original figures, but have taken the amounts of taxes from the same published sources.

(Signed) H. Mergensau, Jr.

RB:dad
6/30/43

June 30, 1943
3:35 p.m.

THIRD WAR LOAN DRIVE - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Sullivan
Mr. Smith
Mr. Graves
Mr. Gamble
Mr. Odegard
Mr. Gaston
Mr. White
Mr. O'Connell
Mr. Haas
Mr. Blough
Mr. Callahan
Mr. Coyne
Mr. Lindow
Mr. Tickton
Mr. Englesman
Mr. Lane
Mr. Louis
Mr. Houghteling
Mr. Thompson

H.M.JR: I invited some people in like Roy Blough who needs some constant needling. (Laughter) After I read Blough's memorandum to Paul on compulsory savings, I was going to call you up.

MR. BLOUGH: Which one was that?

H.M.JR: Paul said, "I think you will be interested in Blough's memorandum on compulsory savings." It was good that we were two hundred and fifty miles apart. (Laughter)

Go ahead, Mr. Gamble.

MR. GAMBLE: The Secretary asked that we all get together so that we could bring you up to date with what we are doing with the War Finance organization.

Mr. Gaston and I have just returned from a tour of some twenty-five States where we have effected reorganizations. We are trying to put together the two groups, what were formerly the Victory Fund Committee and the War Savings organization. We feel that we have been highly successful in that job. We hope in the next ten days to have completed the whole country.

We have done some preliminary work on all of the States. In the region of the Kansas City Federal Reserve Bank and the Richmond bank we have tentative organizations set up for all of those States, so that we have the work to complete yet in the Boston and Dallas district and the Atlanta district. We expect, as I say, to have it completed about the 10th of July.

While we are setting up this new organization of the War Finance Committee, we have the problem of planning for the September drive. The date has been set, as you all know, for September 9, and we have several balls in the air. We are trying to not let the calendar work against that and wait until we have completed this reorganization to get some of the work in motion. We have some in motion; and while it is in the preliminary stages, we want to tell you something about it. We won't go into the details of our application forms and manuals and that sort of thing, which really requires a great deal more work and planning and more time to get out than the other--

H.M.JR: May I interrupt you a minute? I was kidding Roy before, but I have invited other people here who worked with me on other problems who are not directly related, but after all, we are a team - and everybody is entitled to his own opinion, I hope. As a team we have to hit this thing harder than we have ever hit it before, and I want people like the General Counsel's office and Mr. White's office and the Tax office to know what we are doing.

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They wouldn't be here, and we wouldn't be associated together if we weren't all pulling as a team. I was a little bit joking, and so forth, and so on, but we are taking on the biggest sales task any group has ever undertaken in the world. That sounds like a big mouthful, but it is a big mouthful.

We are attempting to get twenty-five percent of the savings of all the receipts of the people in the United States in the second six months of this year. In other words, we are trying to get eighteen billion out of seventy-two, and as a team of the Treasury we have all got to put our minds - whether Mr. White is trying to get Lord Keynes to see the daylight, he still has time enough to know what the other problems in the Treasury are, and he will have good ideas and good suggestions, as will Mr. Paul's office.

So, I mean I want everybody, and that is why you are invited. I hope to do this once a week so that everybody in my Treasury family will know what is going on. The die is cast; we have to raise this money. It isn't a question of arguing any more about it. But I do want people who are not directly related, but people who are assistants directly to me to know what it is. They are not invited here just to be witnesses, but to participate in this Third War Loan. I just wanted to make that little remark.

MR. GAMBLE: It might be well to give you a little background about the kind of an organization we have set up. In setting up this State organization we have divided it into three broad divisions, one called the banking and investment division, which will include most of what was formerly the Victory Fund organization. The responsibility of that division shall be the canvassing of special names groups, of corporations, large investors, and miscellaneous institutions and associations.

Now, that committee in almost every State has been chairmaned or is being chairmaned by a leading banker - commercial banker or investment banker - who understands that type of work. It will include, in addition, I might

say, as a part of the special names group - it will include the banks' customers lists. As an example of what I mean, here in the District of Columbia in the April drive the commercial banks through the formation of teams and the use of their personnel and the solicitation of their own customers accounted for sixty-one million of the eighty-seven million total dollar volume raised in the month of April in the District of Columbia. It is a very important market. It is not the answer to our problem, but it covers one very important field, and we are encouraging the expansion of that kind of an operation in every State.

One of the other divisions is the industrial division, which includes the pay-roll savings and the labor-management committees. It conceivably would include in some States - we have set these umbrellas up to cover all of the former activities of both groups. It might conceivably include industry and trade committees where they have separated the banking and investment work, the solicitations of corporations, to confine those to special names in the banks and leave the canvassing of corporation heads to the industrial committees - pay-roll savings committee - to the pay-roll savings workers. There is a market there that overlaps and has to be defined and separated at the community level.

The third division is the community division and includes most of the continuous activities of what was formerly the War Savings organization.

These three divisions are to be headed by leaders at the State level, at the county level, and at the community level. The leaders of those three groups, the banking and investment, the industrial, and the community division shall have, together with the chairman and vice chairman of the State - they shall have the responsibility for the drive.

Now, the reason for that is to--

H.M.JR: May I interrupt to introduce a little humor? This is just a side remark. This morning the President said, "You see my trouble with Chester Davis, Henry."

I said, "Mr. President, you only had one Federal Reserve Bank president to deal with; I had twelve." (Laughter)

MR. HOUGHTELING: May I interrupt a minute? Would it be possible, Mr. Secretary, to call the industrial division the business and labor division?

H.M.JR: Who?

MR. HOUGHTELING: The business and labor. Industrial doesn't click with me as being descriptive of exactly what we are trying to do.

H.M.JR: It sounds all right with me. You can talk it over in your own War Finance family.

MR. GAMBLE: There is no objection to it, Lawrence, so far as identifying the labor participation.

MR. SULLIVAN: I get the same implication from the title.

MR. HOUGHTELING: I don't want it just because there is no objection; I want it only if it is an advantage - if it is a better name.

MR. GASTON: I would prefer labor and industry, because labor and business might run afoul of our community--

MR. GAMBLE: I thought it was important they understood--

H.M.JR: If they don't know, they should read the papers and the bulletins which you circulate.

MR. GAMBLE: The objective was to set up an organization where we could have all elements of the community represented in this drive and in that way try to expand the job that must be done on individuals.

Now, that is what we are reaching for. Instead of having two groups, one that has a specialized job to do, one group in the community, and another that had another

job to do, conflicting with each other at drive times instead of working together in a single organization, we will bring about the possibility of using everyone in the community and thereby do what might not amount to a house-to-house canvass, but will amount to a thorough canvassing of many more people than have ever been reached in this program before. The Secretary doesn't have much time--

(Mr. Thompson entered the conference.)

H.M.JR: You haven't missed anything except an introductory speech by Gamble. (Laughter)

MR. GAMBLE: We will jump into questions we want to ask you and things we want to tell you. Doing some preliminary work on advertising for September, Mr. Louis, Mr. Odegard, and others - Callahan - met with the Council and came up with suggestions for a slogan for the September drive. I think without any additional fanfare we will swing right into it so we can have the benefit of your advice.

MR. LOUIS: In attempting to get on to my job, I have finally decided to try to get my teeth into something that I can plan far enough in advance to be in on things when they originate. In planning this gigantic campaign for the September drive there are certain things we have to have, and we have to gear this campaign down to the level of the under-five-thousand-dollar-a-year income, and we have to have some common denominator in that campaign in order to make it really sell - make it get results.

The first question I would like to ask you - and it probably will take some statistical application - is whether or not we can set up a personal quota for everybody in the country, whether we could say to them, "We want you to buy at least a one-hundred-dollar bond in September." That gets it down to an individual.

H.M.JR: Well, Mr. Louis, I am not going to pass on that. I am going to let the War Finance - I mean,

whatever you decide on that - I don't know whether Mr. Bell wants to get in on it. I don't, but I will abide by your decisions - I mean, the War Finance group. I say it is your problem; it is a selling problem; it is an advertising problem. You fellows decide it and tell me what you want to do.

MR. LOUIS: You do react favorably, I assume, to attempting to get this down to something specific that we can ask everybody to do.

H.M.JR: I have been with you since you started talking - you have to have something definite. I react favorably to the idea of a definite something.

MR. LOUIS: The theme of the campaign which we have discussed which is current and exciting - and I think we can iron the bugs out after a few more meetings - is based on the - on this country's participation in the invasion. The invasion starts at home. All the talking - all the military reading we do, and everything, is all based on invasion. We have discussed it back and forth - there are many possible stumbling blocks in that. If by the time the drive starts there has been no invasion - maybe there won't be any invasion this year, but we still think that invasion is in the minds of everyone - we think it is current and newsy, and we think it ties up with patriotic themes and themes of sacrifice and that it is a thoroughly appropriate thing for this drive because of the magnitude of it. That is about all I can say about the theme, because it isn't jelled.

H.M.JR: I like it. They had a poster on invasion - I forget - one of the soldiers landing--

MR. WHITE: Back up the second front.

H.M.JR: I forget what it was called, but they had a picture - wasn't it three words, "invasion"--

MR. GRAVES: "Attack! Attack! Attack!"

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H.M.JR: It was--

MR. ODEGARD: We have another, "Back the Attack."

H.M.JR: I don't know whether you want to use the word "attack" or the word "invasion," but again that is something which you professionals should handle. It sounds all right to me. But again, it is the technique of merchandising.

MR. LOUIS: We have also had some interesting recommendations from the Council, from the creative people in the Council, along this line, that we do everything we can do in this campaign to simplify it, to make it articulate better and quicker to the mass of people, and they would like to leave the description of the securities out of the campaign and sell war bonds - and sell one-hundred-dollar war bonds as much as they can.

Mr. Gamble brings up many things involving the securities people that we will have to iron out, but at least we are working on that problem and have a meeting of minds on it. We would like to keep it just as simple as we can and not complicate it.

H.M.JR: I am for the simplicity, and I suppose - I don't know, maybe your national copy could leave it out, but I do think when you get down to the field we are going to have to tell them what they have to sell and what they have to buy even if it is in a box.

MR. LOUIS: We will have a meeting of minds on that.

H.M.JR: Again, unless Mr. Bell wants to get in on it, I think you fellows ought to decide it; I personally wouldn't want to pass on it. Do you, Dan?

MR. BELL: I will be in on some of the meetings, though.

H.M.JR: As far as I am concerned - will you talk up, Dan? Just raise your hand when you want to get in.

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MR. BELL: O.K.

H.M.JR: But as far as I am concerned I don't want to get in on it.

MR. WHITE: I had the feeling, Mr. Secretary, in the last drive that there hadn't been enough advantage taken of the Army and Navy. There hasn't been any obvious success in tying up the Army and Navy with the drive. There must be many ways in which that could be done. I am sure you could think of a number of ways.

One of the possibilities might be to get near the Army camps; and they are all over the country, get people to volunteer. And in your house-to-house canvass have everyone accompanied by a soldier or a sailor or a marine. Certainly there ought to be more parades. There is nothing in the drive which seems to connect the drive up with the Army effort. It seems to be too remote a thing. I don't know how much can be done in that direction, but it seems to me there is room.

MR. SULLIVAN: I agree; I think a good band and a good parade is worth a hundred speeches.

H.M.JR: I agree.

MR. BELL: I think the band and the parade are all right, but in the departmental setup here we tried the uniformed man, and it didn't work. Maybe it is because Washington has seen too many of them.

MR. WHITE: House-to-house?

MR. BELL: I mean Government employees, department setup - they wondered why the soldiers and sailors were running around.

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MR. WHITE: Wouldn't that be different from an evening call - I mean, devote their evenings?

MR. BELL: That may have been because it was Washington and they see so many officers around here that it just didn't go over. Now, maybe outside of Washington it would be better.

H.M.JR: I think if the soldier had a few service stripes they would feel a lot different than some of these Washington "chair-borne troops." That is the latest one. (Laughter) That is not original, but I think it is very good - some of the Washington "chair-borne troops." (Laughter)

MR. LOUIS: We will take that suggestion seriously and use the Army and Navy.

MR. WHITE: Do you feel you have exploited all the possibilities of getting larger contributions from the Army itself? I don't think that they - there are, after all, six million men in the United States in uniform, and you could get some volunteers among their own companies to step up their contributions. There would be several desirable results through that.

MR. LOUIS: That is a sales question.

MR. GAMBLE: It can be done. As a matter of fact, we have not, ourselves, supervised the sales efforts in the Army camps, and that was by agreement you (the Secretary) made with them early in the game. They were to promote their own sale. They have a little bit of a problem of getting caught up with the bonds they have already sold - the Army itself has - before they can step up sales.

H.M.JR: That is good, to get Harry thinking about this thing.

MR. GAMBLE: I agree on one thought. I don't agree with you (White) on the thought of using soldiers to accompany canvassers. The State of Ohio had a hundred and twenty thousand canvassers in April. I would much rather use a few war heroes returned from the battle front to help kick off the activity than to think in terms of trying to

get a hundred and twenty thousand soldiers to accompany these people doing the job, because of the magnitude of it. We will have several million people working.

H.M.JR: Well, Mr. White had WAACS in mind. (Laughter)

MR. SULLIVAN: I don't think the individual does the job, Ted. I think the thing that inspires the ordinary fellow in the street is when he sees a compact body of men in uniform with the tanks going along, and jeeps, and the things their bond money goes to buy.

MR. GAMBLE: I agree with that. In some sections of the country in the April drive they did a magnificent job. It was not uniform; you didn't see it all over the country. But we have here - which you can all see if you would like to see it sometime - the newspaper accounts of where companies invaded cities. Ten thousand troops would go into one city, set up their equipment, Army rolling kitchens, and bake bread in the middle of the street, and sell the bread.

MR. WHITE: Here is another bum idea. (Laughter) Did you see this "Prelude to War"? The first volume was out and everybody whom I have heard speak of it said it was the most effective piece of propaganda ever turned out. I understand there are five volumes that have already been completed and shown in certain Army camps since then. Why might it not be possible to show those whole four or five volumes in the week preceding or during the drive in all the theaters of the country? It would be a marvelous picture.

MR. GAMBLE: I don't want you to get the thought it isn't a good suggestion to try to get in all sections of the country that kind of support. You have to relate the two or you are not going to do the job we have to do.

H.M.JR: In talking about one thing, I do wish that everybody would aim to get every piece of promotional material out and in the hands of the States by the first of September.

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MR. GAMBLE: That is too late, Mr. Secretary.

H.M. JR: Well, I will be damned glad if it is there by the first of September. (Laughter) I am not looking at anybody. I don't want to pay any airmail express bills this time.

MR. LOUIS: There is one item. We do not overestimate the value of a slogan. It is merely a physical device to tie all the pieces of the promotion campaign together. We had a number of creative people here and we had a basketful of slogans. They were finally weeded out and there are two suggestions which we would like to make here. But number one depends on the decision about selling the hundred-dollar bond, and that is simply a merchandising slogan which says, "Remember, at least a hundred dollars more in September." And if the hundred-dollar bond goes through, that is an effective way to move the selling message through everything we do.

The other one is more sentimental and broader, and I think more dignified. It says, "The more bonds and sweat, the less blood and tears."

H.M. JR: The other one leaves me awfully cold. The last one is rather nice.

MR. GAMBLE: This is the result of it - all the advertising men submitted seventy or eighty of these.

H.M. JR: Say that again.

MR. LOUIS: "The more bonds and sweat, the less blood and tears."

MR. BELL: Do you think you have to have a new slogan for every war loan drive?

MR. LOUIS: Yes.

MR. GAMBLE: Too good a device not to have it.

MR. LANE: Aren't you going to indicate the authorship of that slogan, Jack?

MR. LOUIS: No.

MR. LANE: He thought of it himself.

H.M.JR: Do we have to get Mr. Churchill's permission to use that? (Laughter)

MR. LOUIS: I don't think so. (Laughter)

H.M.JR: Go ahead.

MR. BELL: "Back the second front" - what about Harry's slogan?

MR. SULLIVAN: The last sentence of Chief Justice Stone's letter to you has an idea, but I don't think it would fit into an invasion campaign slogan. "One way of securing"--

H.M.JR: Read me the whole letter. Why just the last one? I haven't heard it--

MR. SULLIVAN: "Both you and the country"--

H.M.JR: Excuse me, this is Mr. Sullivan's idea and delivery. (Laughter)

H.M.JR: "Both you and the country are to be congratulated on the striking success of the Voluntary Payroll Savings Plan. Through it twenty-seven million wage earners are regularly investing in Government bonds more than \$420,000,000 a month to meet the cost of the war. This is of primary importance as an aid to winning the war and as a safeguard against inflation. But it is also important that so many of our fellow citizens are reviving the forgotten art of saving from earnings. One way of securing freedom from want in the future is by saving something from the plenty of today."

I think that is a very quotable sentence. (Copy of letter to the Secretary from Harlan F. Stone, dated June 29, 1943, attached.)

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H.M.JR: Who wrote that?

MR. SULLIVAN: Chief Justice Stone.

I also have the letter from the leaders of the Senate Finance and Ways and Means, and I have replies for your signature.

H.M.JR: This is another one. We are getting "letter-minded." This is good, signed by George, Vandenberg, Doughton, and Knutson.

"Thank you for sending us the description of your expanded pay-roll savings drive based on the theme 'Figure It Out Yourself.'

"The House Ways and Means Committee and the Senate Finance Committee are happy to support the present drive to increase the purchases of War Savings Bonds through the Payroll Savings Plan. This plan has already achieved a fine record. The fact that twenty-seven million American workingmen and women are setting aside almost ten percent of every pay envelope and salary check speaks for itself.

"We agree with you, however, that public participation in the financing of this war should be and must be stepped up materially. Not only does the Treasury need added funds, but every dollar diverted from the purchasing stream into savings is a contribution to the fight against inflation. We wish you success in this campaign and we know that the American people will respond to this appeal as they have in the past."

Who is going to merchandise this stuff?

MR. SULLIVAN: Now you have one from the Executive, the Legislative, and the Judicial branch.

(Copy of letter to the Secretary from Walter F. George, A.H. Vandenberg, R.L. Doughton, and Harold Knutson, dated June 29, 1943, attached.)

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MR. ENGLESMAN: We will go right to work on that.

H.M.JR: Do I have to sign something?

MR. SULLIVAN: I have a letter to the Chief Justice and one to the Congressmen who signed that other letter.

(Letters to Harlan F. Stone, Walter F. George, A.H. Vandenberg, R.L. Doughton, and Harold Knutson, signed by the Secretary.)

H.M.JR: Would you put the letters through my office?

MR. SULLIVAN: Sure.

H.M.JR: Can I forget about this, Ted?

MR. GAMBLE: Yes, sir.

H.M.JR: You have got the point Sullivan made. It is the Executive, the Judicial, the Legislative--

MR. BELL: Something set up to show that the three branches of the Government are behind this.

MR. GASTON: We ought to take each individually and explain them again separately. Otherwise, you are wasting values.

H.M.JR: My own hunch - just a hunch - I would like to give out the Legislative one tomorrow and then next week give out Harlan Stone's.

MR. GAMBLE: As far as giving them out as releases, I think that is good, but when we get down into this job of merchandising them into the plants, they could be consolidated.

MR. LOUIS: I don't think you ought to ride the newspaper horse too hard, either.

H.M.JR: You boys decide; that is what you are here for.

MR. GAMBLE: If you would stop and see the printing on this President's letter you would get what I mean when I say that we ought to tie the three of them together.

Jack, did you have anything else?

MR. LOUIS: No.

MR. WHITE: You couldn't give a gallon of gas with every bond, could you? (Laughter)

MR. GAMBLE: I want to tell you about the slogan; also about the matter of quota, and about the basket.

Now, we have the biggest job we have ever had to do in the distribution of material coming up on September 9. If we can get a decision on those three matters within the week--

H.M.JR: On what?

MR. GAMBLE: The basket, the quota, and the slogan.

H.M.JR: Well, the slogan - when you fellows agree, I would like to have that brought to me - when you agree amongst yourselves.

MR. GAMBLE: Yes, sir.

H.M.JR: The quota is Mr. Bell's responsibility and yours (Gamble's). I don't want to get into it. The basket I will have to work on myself. But I would like Mr. Bell to bring - to develop that with Haas and his people up to the point where they can bring it to me. That is good. After you agree on the quota yourselves - I mean on the slogan--

MR. GAMBLE: We have agreed on this.

H.M.JR: Which one?

MR. GAMBLE: On the blood and tears.

H.M.JR: Well, I like it. I think this, after my experience in New York - I think where you appointed a State chairman, that they are going to appreciate it and like it - for instance, where you have the State you would wire that slogan out and ask their advice. You have to do more consultation with these State chairmen and less telling.

MR. GAMBLE: We made, on this matter of listing securities--

H.M.JR: But I mean on a thing like the slogan, send out a message - a letter - saying, "This is what we are thinking." If you are going to hold these fellows responsible you have to consult them more. That is one thing I think.

MR. COYNE: Would you say a dozen top States?

MR. SULLIVAN: A cross-section.

H.M.JR: Wherever you have appointed a State chairman I would consult him.

MR. GAMBLE: You wouldn't mind if we settled that before we finish setting up the States?

H.M.JR: Where you have already set them up, let these fellows have something to say. Bell and I do that all the time with the Federal Reserve - they call in a couple of hundred bankers in each district and we get their reaction.

On the quota, I am not interested in it. Bell handled it last time; he can handle it this time.

On the basket, if Bell will develop that, when he is ready I am ready.

MR. GAMBLE: I will tell you why it is so--

H.M.JR: O.K.?

MR. GAMBLE: Yes, sir. We need to know those things. In the Fourth Federal Reserve district in Cleveland, in the April drive, they sent out eleven carloads of material - eleven boxcar loads of material in one Federal Reserve district. That means that we have to assemble all over the country this job - the order blanks alone that we are going to print, the application forms for all these districts - it is just a staggering job, and we have it now in the mill, but before we can put it to bed - put it to press - we have to have these decisions.

H.M.JR: What else?

MR. GAMBLE: Well, if you would like for us to cover several other things we have in the hopper that we keep working on--

H.M.JR: Yes.

MR. GAMBLE: We are working on a program with the retailers to get them to do a job the likes of which they have never done before. We have in the country in the retail stores about six thousand stores that are issuing agents for bonds. We are going to need because of the job that we have to do in September - we are thinking in terms of four billion dollars of E Bonds contrasted to a billion four sold in April.

Physically, we are going to have the help of every issuing agent in the country, be sure they are properly stocked with blank bonds and enthused and willing to do a job, or we are not going to be able to take care of the job of distribution of the securities and keeping the quotas we have set.

So we have asked the retailers already - representatives in the retail establishments - to do an all-out job through chain and variety stores during the month of September.

To give you an example of how important that can be to us, if we get a hundred percent job, last July the

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J.C. Penny Company in their sixteen hundred stores put on a drive of their own and 24.23 of every dollar that came in in the J.C. Penny stores went for the purchase of War Bonds. If we can get the nation - the retail establishments of the nation - to set a quota it may be tremendously helpful to us in reaching our goal.

We are doing the same thing with the motion picture industry. And in keeping with that, Mr. Secretary, on July 14 in New York they are calling a meeting of the sixty-two allied trades of the entertainment world and would like to have you at that time - the 14th of July. They would like to have you appear there and speak to them about--

H.M.JR: Who is going to be there?

MR. GAMBLE: Myrna Loy - she has been promised. They are going to have the representatives of every one of the artists' associations in the country, the Association of Broadcasters--

MR. CALLAHAN: The musicians, broadcasters, Advertising Council, newspapers - everything having anything to do with entertainment - Screen Actors' Guild - at the Waldorf Astoria.

H.M.JR; What time?

MR. CALLAHAN: Twelve-thirty.

MR. GAMBLE: Lunch.

MR. BELL: It is a pretty good time to give the details of the basket, and everything.

H.M.JR: Well, put it down, Fred, and we will see. So far they have only offered us Myrna Loy - not so good.
(Laughter)

MR. SMITH: Hold out for Hedy. (Laughter)

H.M.JR: For a headache? (Laughter)

MR. SMITH: Hedy.

MR. WHITE: Same thing. (Laughter)

MR. GAMBLE: We are asking the theaters, motion picture industry--

H.M.JR: Seriously, you don't want me to talk to super-colossal magnets from Los Angeles?

MR. GAMBLE: No.

H.M.JR: Aren't they going to have a floor show, or something?

MR. GAMBLE: They want you to be the floor show. (Laughter)

Mr. Aldrich is going to appear at the same luncheon.

H.M.JR: That is competition. (Laughter)

MR. GAMBLE: He will talk on the War Fund drive.

H.M.JR: Either you (Gamble) or I will appear.

MR. GAMBLE: Couldn't make it both of us? That way I will be sure to get to see these people.

H.M.JR: Please note that, Albee and Smith have got fifteen days' notice.

MR. GAMBLE: The motion picture industry, through its production and distribution fields, are being asked to do a job comparable to what they had where they had three hundred motion picture stars visit cities and plants all over the country. We are interested in that, particularly, because we want to get the sixteen thousand theaters as sales outlets, about forty-six hundred of which sell bonds. They are eighteen-hour-a-day physical outlets for these securities.

Our records indicate in their September operation they increased our sales a couple of hundred million dollars, and we can, with the experiences we have had in the last year, turn that operation into an even greater effort - that coupled with the retail.

The programs we have for newspapers, radio stations, and billboards are all designed to do another thing because retailers are important sponsors of advertising to generate enthusiasm and excitement during the Third War Loan - the likes of which the country has never seen.

We think we can set the country on fire and we think anything short of that is not going to be enough to fill the bill. That is not an optimistic statement, or an off-hand statement. We have conferred with numerous people - the leaders of all these industries we have spoken of - and they are all willing to do that job. We have told them the magnitude of it and invited them to take part in it, and I am sure we will have them.

We could go on and tell you about--

H.M.JR: May I interrupt you? I have an idea. Every time we want the President to launch one of these campaigns we have trouble. He says he doesn't want to do this and that. He has always kidded me about all these movie stars being over here on the Treasury portico. So let's bring them over there - the movie stars. I think he will like it. I give you that as a suggestion. I have been racking my brains - how could I get him to do it? We will submit the list in advance - additions and subtractions. But he has always said, "Why don't you bring them over here?" So this time we will bring them over there. Seriously, get up a list and I will submit the list to him and we will have him go over it.

MR. GAMBLE: Of course, it goes without saying that tying the motion picture industry into this, it automatically follows we will get them interested, now and soon, in the production of motion picture subjects for use during the drive, and it wouldn't be one of those last-minute things

to depend on the news reels, although incorporate the news reels at the last minute to get it around the country. Those are just some of the highlights of what we have in motion.

We have, as I say, worked on the promotion on our drive. At our next meeting we will be able to give you a little better picture - show you samples of what we have in the working.

H.M.JR: So far so good. I think you have to make these new State organizations feel their responsibility. You have got to let them know in advance some of these things you are going to do. We have got to be a lot better here in Washington than we are. We are not good enough, by far. And our whole tie between Washington and these State organizations has got to be much closer and much smoother.

The little experience I had in New York the other day showed me the amount of work that has to be done to bring Washington and the State organizations closer together. And some of these State organizations are going to be wonderful, and if we don't get better here they are going to make us look kind of pale. If we sit down here and start telling some of these organizations what to do, we have to be better and smarter and quicker than they are.

MR. GAMBLE: Well, I am not sure that we are, either, but I tell you this, Mr. Secretary, that there have been a great many things contribute to conditions in the field that we are now having to pay for, and it is going to be a matter - it is perfectly understandable. It will be several weeks before we are in a position to carry on a proper relationship with the field, and it is much more important, in our opinions, to have these big projects - these application forms, and all of the materials that the calendar is working against - worked out in motion before we get this--

H.M.JR: I agree with you, but also I urge you strongly to use the field, through your new organization, so they will feel they are a part of it. They see this thing. Either send them to the field or have them come in and see them.

MR. GAMBLE: We discussed that and made a note of the people we were going to call, as to whether or not the basket should be included in our advertising. We are not making any pretense of being a closely knit organization yet, because we are not, but we shall be.

MR. LOUIS: Ted, are you familiar enough with the obligations we seem to have with the drug industry to explain to the Secretary what they want to do?

MR. GAMBLE: Yes; you and Peter know more about it than I do.

Briefly, the drug industry conducted this fine campaign which ran into several billions of dollars and they did a good job on it, and they now have in mind to launch another campaign and would like to come here to take a bow for the job they have done and to have some comment made on the job that they have contemplated.

There is a great number of them. It probably runs to sixty or seventy people if we bring them all in. Stuart Peabody and the members of the Advertising Council have been in touch with both Peter and Mr. Louis about it, and feel we should have them come here. The date doesn't have to be fixed now, but if you could let us know sometime, two weeks in advance, when we could see them--

H.M.JR: One week in advance.

MR. GAMBLE: That is everything we have, sir.

MR. ODEGARD: If that drug group could meet next week I think it could be arranged.

H.M.JR: Next week?

- 24 -

MR. GAMBLE: They suggested, Peter, they would like to have a week or ten days notice.

H.M.JR: I think if you wait until after the Fourth of July - Mrs. Morgenthau will surely be better then, and I can make dates much more definitely - which I can't now.

MR. ODEGARD: Might combine the July 14 meeting with that.

H.M.JR: That is in New York?

MR. LANE: They say they would just as soon have it in New York - the afternoon of July 14.

MR. GAMBLE: All right.

H.M.JR: O.K.

JUN 30 1943

My dear Mr. Chief Justice:

I want to tell you how deeply I appreciate your letter of June 29th in which you express your pleasure at the success of the voluntary payroll savings plan. Your letter is very timely because we are now engaged in a campaign to increase the purchase of War Savings Bonds through this plan. I am sure your letter will be helpful to us in this campaign. I very much appreciate your writing me.

Sincerely yours,

(Signed) H. Mergenthau, Jr

The Chief Justice
of the United States,
The Supreme Court,
Washington, D. C.

Original incoming ret'd to Gamble.
copies of reply to Thompson.

JLS:kb

Supreme Court of the United States
Washington, D. C.

MEMBERS OF
THE CHIEF JUSTICE
429 TWENTY FOURTH STREET, N. W.

June 29, 1943

The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Both you and the country are to be congratulated on the striking success of the Voluntary Payroll Savings Plan. Through it twenty-seven million wage earners are regularly investing in Government bonds more than \$420,000,000 a month to meet the cost of the war. This is of primary importance as an aid to winning the war and as a safeguard against inflation. But it is also important that so many of our fellow citizens are reviving the forgotten art of saving from earnings. One way of securing freedom from want in the future is by saving something from the plenty of today.

Yours sincerely

Harlan F. Stone
Harlan F. Stone

June 30, 1943.

My dear Senator George:

I want to thank you for your letter of June 29th and the support you have tendered for the present drive to increase the purchase of War Savings Bonds through the Payroll Savings plan. I feel that your letter will be very helpful to us in this campaign and I want you to know I appreciate the assistance you have given me.

Sincerely,

(Signed) H. Mergenthau, Jr

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

Orig. incoming ret'd to Gamble
Initialed copy to Thompson
Photo. file in Diary

JLS:eh

June 30, 1943.

My dear Senator Vandenberg:

I want to thank you for your letter of June 29th and the support you have tendered for the present drive to increase the purchase of War Savings Bonds through the Payroll Savings plan. I feel that your letter will be very helpful to us in this campaign and I want you to know I appreciate the assistance you have given me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Arthur H. Vandenberg,
United States Senate,
Washington, D. C.

Orig. incoming ret'd to Gamble
Initialed copy to Thompson
Photo. file in Diary

JIS:eh

June 30, 1943.

My dear Mr. Doughson:

I want to thank you for your letter of June 29th and the support you have tendered for the present drive to increase the purchase of War Savings Bonds through the Payroll Savings plan. I feel that your letter will be very helpful to us in this campaign and I want you to know I appreciate the assistance you have given me.

Sincerely,

(Signed) H. Mergenthaler, Jr

Honorable Robert L. Doughson,
House of Representatives,
Washington, D. C.

Orig. incoming ret'd to Gamble
Initialed copy to Thompson
Photo. file in Diary

JLS:eh

June 30, 1943.

My dear Mr. Knutson:

I want to thank you for your letter of June 29th and the support you have tendered for the present drive to increase the purchase of War Savings Bonds through the Payroll Savings plan. I feel that your letter will be very helpful to us in this campaign and I want you to know I appreciate the assistance you have given me.

Sincerely,

(Signed) H. Morgenthau, Jr

Honorable Harold Knutson,
House of Representatives,
Washington, D. C.

Orig. incoming ret'd to Gamble
Initialed copy to Thompson
Photo. file in Diary

JLS:eh

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Congress of the United States

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

Washington

June 29, 1943

Dear Mr. Secretary:

Thank you for sending us the description of your expanded payroll savings drive based on the theme "Figure It Out Yourself".

The House Ways and Means Committee and the Senate Finance Committee are happy to support the present drive to increase the purchases of War Savings Bonds through the Payroll Savings Plan. This plan has already achieved a fine record. The fact that twenty-seven million American workingmen and women are setting aside almost ten percent of every pay envelope and salary check speaks for itself.

We agree with you, however, that public participation in the financing of this war should be and must be stepped up materially. Not only does the Treasury need added funds, but every dollar diverted from the purchasing stream into savings is a contribution to the fight against inflation. We wish you success in this campaign and we know that the American people will respond to this appeal as they have in the past.

Sincerely,

Harold Krutson
George F. Starnes
Robert L. Downing
Harold Krutson

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

cc-Messrs. Gamble,
Smith and Bell.

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June 30, 1943
4:22 p.m.

HMJr: (Talking aside: Netherlands Finance Minister.) Hello.
Operator: Lowell Mellett.
HMJr: All right.
Operator: Go ahead.
HMJr: Hello.
Lowell
Mellett: Hello.
HMJr: Hello, Lowell.
M: Henry, have you got five or ten minutes?
HMJr: When?
M: This afternoon?
HMJr: No, not this afternoon.
M: Oh, hell.
HMJr: What's on your mind?
M: The picture called "Inflation."
HMJr: Oh, no I couldn't do that today.
M: Have you got five or ten minutes - have you got five
minutes right now on the 'phone?
HMJr: Uh - well, what's on your mind, Lowell?
M: Well, it's this: I know your request to have that
picture killed.
HMJr: Yeah.
M: Here's the situation - what - some of the implications
of it. The picture was made by M-G-M out of the good-
ness of its heart....
HMJr: Yeah.
M:and out of its own pocket....

- 2 -

HMJr: Yeah.

M:and yet they make no money out of it....

HMJr: Yeah.

M:uh - it was made after the suggestion had been made to various studios out there - proceeding primarily from O.P.A....

HMJr: Yeah.

M:wanting a picture on inflation....

HMJr: Yeah.

M:it went over months....

HMJr: Yeah.

H:and finally they came up with this one. The script was tried out on O.P.A. and they liked it. They offered some changes which were incorporated.

HMJr: Yeah.

M: The picture has been made. Uh - the - it represents considerable loss to - to M-G-M if they have to kill it.

HMJr: Yeah.

M: It's somewhere in the thirty thousand.

HMJr: Yeah.

M: Now, my real concern is this: The motion picture people are about the only friends we've got in the communications field, Henry....

HMJr: Oh, but now look, Lowell, what is \$30,000 compared to propoganda when we're talking about billions of dollars that may hurt us on the inflation....

M: Well, before we take up that other argument, let me tell you the rest - the other thing I have in mind, Henry. Uh - we know where the press is - it's agin' us.

HMJr: Yeah.

M: And, we know where radio will be just as soon as it feels free to be - it's about 50-50 now. The pictures

- 3 -

M:
(Cont'd)

are with us - with us for the next year or two at least. If they don't - if they don't get completely upset. Now, they feel that - they feel that they've done something useful and they feel like they are getting their face pushed in for trying to do something useful. Now, about the danger of the picture, that's what I've followed - I've been doing for a year, Henry, is to get the pictures with us to stay, and I think I've succeeded pretty well. Uh - now, the picture has been seen by a great many people....

HMJr: Yeah.

M:all of whom, so far as I know, except one - except yourself and some others, like it. In other words, it was - first it was liked by O.P.A., which started the idea.

HMJr: Yeah.

M: Uh - we know that a number of your field people have liked it well enough to ask for 16 mm prints to be made....

HMJr: Yeah.

M:to use in Bond Campaigns....

HMJr: Well, Lowell....

M:and they think it would help.

HMJr: Well, Lowell, you can't sell me on the picture. I think it's lousy. I think it's dangerous and I didn't go off half-cocked. We showed it to about twenty people here in the Treasury and everybody agreed it was terrible.

M: Well, I - I - I - I can't get up and make an eloquent speech in behalf of that being a great picture. I don't think it is....

HMJr: And at \$30,000....

M: ,,,and I don't think it's going to do any particular good and I don't feel - but it's awful hard for me to see where the harm is going to be.

HMJr: And as far as the motion picture industry - we've done more for the motion picture industry here in the Treasury by getting their money out of England than anybody has

HMJr:
(Cont'd) ever done for them on the financial front. And, they are very, very much indebted to us for it. Everybody tried it and failed.

M: Yeah.

HMJr: I mean, they - through Will Hays and all the others - they tried to brow-beat - to insult - uh - to bribe and everything else....

M: Yeah.

HMJr: ...and then when the four presidents of companies came down, I showed them how to do it without costing them one red cent. They did it, and they were tickled to death and they didn't have to buy anybody to do it. We got 'em out....

M: Yeah, but here they are stuck with eight - eight feature pictures and a dozen short pictures, they are having a hell-of-a-time getting distribution for.

HMJr: Where?

M: In this country.

HMJr: What?

M: Somewhere in the processes the - the British unloaded on them a bunch of pictures....

HMJr: Well, they got thirty or forty million dollars out of it....

M: Yes, I know, Henry.

HMJr:and now we're talking about something which I think may do a terrific harm at \$30,000. My heavens!

M: It isn't - isn't - just the losing the \$30,000. I am just concerned about losing the active, growing, positive friendship we've got at the moment.

HMJr: Oh, you're not going to lose that through this thing.

M: Well, I don't know.

HMJr: Well, I'm sorry. I just - you just leave me absolutely cold.

M: Well, we're awful hard up for friends these days.

- HMJr: Well, I don't think that - I can't go along for - I'm only thinking - I can only think of one thing - what's going to help inflation and what's going to hurt it and I think this picture is terrible and I can't change my mind for \$30,000.
- M: Well, it isn't the figure - you keep talking about the \$30,000 - that isn't it - it's the feeling of the people who made it.
- HMJr: Well, I'm willing to sit down anytime with the Presidents of these companies and ask them what the Treasury has done to be helpful, and....
- M: Of course, we don't always get a chance to argue rationally with people, Henry.
- HMJr: They had - I saw them myself on - on their money and they've tricked around from pillar to post because they try to get it the "Old Deal" way. When they tried the "New Deal" way, they got it and it didn't cost them a red cent.
- M: Yeah. I don't....
- HMJr: I'm sorry, Lowell....
- M: I don't think they'd argue to the contrary. It's just a question of - people get fellings that if - when they've tried to do something they think's helpful - that they get their face smacked for it.
- HMJr: Well, nobody gets their face smacked.
- M: Well, when they - when the picture is ordered killed - it's already out in the Exchange....
- HMJr: They didn't get any orders.
- M: No, I mean, when they have to order a picture - when the request to be killed - then they kill it quick as - they don't have to do it, but they'll do it if you insist on it.
- HMJr: Well, I sent a telegram to Howard Dietz and then, I understand that - what is the new man over - over at O.W.I....
- M: Yeah.
- HMJr:I understand that he's in sympathy with my position.
- M: Well, he's - no, he feels - he called me that - told me that you were - your feeling about it....

HMJr: Yeah.

M: And it was because of that that he wanted me to....

HMJr: Huh.

M:he wanted me to....

HMJr: Well, I can't change, Lowell, I'm sorry.

M: Well, the rest of it is that Nick Schenck called me yesterday in New York and told me he had had a telegram from you, and....

HMJr: I telegraphed Howard Dietz....

M: To Dietz rather than to Schenck, huh?

HMJr: Yeah.

M: And I wanted to let him know today because if it's going to be pulled out of the Exchange, it has to be done today.

HMJr: Yeah. Well, I'm sorry. The thing is much too serious - and, as I say, I just can't imagine anybody thinking that it's good.

M: Hoyt - the new man you speak of....

HMJr: Yeah.

M:over at O.W.I. - or in O.W.I.....

HMJr: Yeah.

M:had suggested that I get the screening of the thing for Byrnes, Vinson and Brown and yourself....

HMJr: Yeah.

M: And you don't want to see it again, I'm sure.

HMJr: Yeah. once was terrible enough.

M: Yeah (Laughs). If they felt any differently about it, would that make any difference to you?

HMJr: No, I wouldn't change my opinion - I mean, I don't care what they think - I mean - they're entitled to their

HMJr:
(Cont'd) opinion and I'm entitled to mine. It wasn't myself-
I mean - Danny Bell feels even more violently about
it than I do.

M: Yeah?

HMJr: Bell thinks it's simply terrible.

M: Yeah.

HMJr: And, we've been in this thing now for three years trying
to make a little headway on inflation and we just think
that this would be pouring oil on the flames.

M: Yeah.

HMJr: I mean - the other people are entitled to their opinion
and they can do anything they want, but I'm not going to
I hate to be so arbitrary but we talked about it, dis-
cussed the thing and that's the opinion of the Treasury.
It isn't just my personal opinion....

M: Yeah.

HMJr: I mean, it isn't me personally - it's the combined
opinion here in the Treasury.

M: Yeah.

HMJr: Sorry, old man, I'd like to do something, but it isn't
a personal matter - it's much bigger than I am.

M: Well, I know your - I know your reason for it, Henry.
I know it isn't personal and I know you....

HMJr: Well, I sent a perfectly....

M: Of course, I understand, Henry.

HMJr: Well, I sent a perfectly courteous telegram.

M: Oh, I'm sure you did.

HMJr: Yeah.

M: Well, the thing isn't so damned easy.

HMJr: Well, that's that anyway. I appreciate your calling me.
I'd like to cooperate but I can't on this front.

M: All right.

- 8 -

HMJr: Sorry.
M: Good bye.
HMJr: Bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

	DATE
TO Secretary Morgenthau	June 30, 1943
FROM Mr. O'Connell	2:45 p.m.

The House just approved the Conference Report on the Commodity Credit Bill, without a roll call and with only a handful of dissenting votes. The vote was approximately 160 to 30.

The Senate has not yet acted. The Senate is considering the Conference Report this afternoon but had not acted up to a few moments ago.

J. J. O'Connell

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Mr. O'Connell

June 30, 1943
5:15 p.m.

The Senate accepted the Conference Report on the Commodity Credit Corporation Bill by a vote of 60 to 13.

The House previously accepted the Conference Report so that the Bill now goes to the President.

J. O'Connell

JUN 30 1943

MEMORANDUM FOR THE PRESIDENT:

67-3743

In response to your inquiry of June 26th as to what you should withhold from the pay of (a) farm and garden workers, and (b) domestic servants, I wish to advise you that the withholding provisions of the recently enacted tax bill do not apply to agricultural labor or domestic servants.

(Signed) H. Mergenthau, Jr.

Del. by S. S. Agent 10:45
 (changed to Mrs. Ferris; then
 Kelly notation)

JLS:kb
 6/28/43

GKS

Diam

THE WHITE HOUSE
WASHINGTON

June 26, 1943.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Would you please let me know what, under the new "pay-as-you-go" plan, I have to do in regard to the employees at Hyde Park?

There are:

(a) About seven or eight farm and garden workers who get from \$80.00 to \$125.00 a month. Three of them live in houses of mine, free of rent.

(b) About three domestic servants, ranging from \$35.00 to \$80.00 a month.

What do I withhold if anything?

F. D. R.

MEMORANDUM

June 30, 1943.

TO: The Secretary
FROM: Mr. Sullivan

T L S

Agents of the Department of Justice who are investigating T. A. Loving and Company, Inc. for conspiracy to defraud, asked to see the Internal Revenue agent's reports in this case. They were shown the reports. They then asked to be given the Revenue agent's and the special agent's reports. The Bureau refused to do this.

Commissioner Helvering sent Mr. Wenchel to see Tom C. Clark, Head of the War Frauds Unit of the Department of Justice and Mr. Clark advised Mr. Wenchel that the Department of Justice employees had exceeded their authority in asking for the reports of the Internal Revenue Bureau. The Department of Justice and the Internal Revenue Bureau are in accord on the way this case should be handled. We have already sent the case to the Department of Justice for prosecution for violation of the Internal Revenue laws.

Since the fears which prompted Commissioner Helvering to write you the memorandum have not materialized, the matter does not merit your consideration.



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESSES REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

GC:P:WS-JDH
381946

MEMORANDUM FOR SECRETARY MORGENTHAU:

In re: T. A. Loving and Company, Inc.,
Goldsbore, North Carolina.

The Bureau is considering the institution of criminal proceedings against T. A. Loving, et al., for attempted evasion and conspiracy to evade the income tax liability of the above-named corporation and T. A. Loving, individually. The aggregate amount of taxes and penalties involved in the case of the corporation is approximately \$360,000.00, and in the case of the individual approximately \$140,000.00. A considerable part of the understatement of income upon which the fraud charges rest was derived by the corporation from a cost plus fixed fee contract with the Government for the construction of Fort Bragg, North Carolina. It appears that the contractor claimed numerous fictitious and fraudulent costs, the amounts of such charges, for the most part, being diverted from the corporation for the personal benefit of its officers and stockholders. The primary purpose of the fictitious charges appears to have been the evasion of income taxes of the corporation and its officers.

The War Frauds Unit of the Department of Justice has under consideration the matter of instituting criminal prosecution against the contractor and its officers for conspiracy to defraud the United States, and also, in conjunction with the Claims Division, is contemplating a civil suit to recover the amounts paid out by the Government on account of such fictitious charges. It appears that the War Frauds Unit has not had an investigation made by the Federal Bureau of Investigation, but apparently is expecting to make its case by use of the information and evidence gathered by the Bureau's examining agents in connection with the income tax investigation. Pursuant to previous requests by Assistant Attorneys General Berge and Tom C. Clark, representatives of the War Frauds Unit were authorized to



Memorandum for Secretary Morgenthau,
In re: T. A. Loving and Company, Inc.

examine the income tax returns of the contractor and related companies, and reports of the internal revenue agents, before the special agent's report, recommending the institution of criminal proceedings, was submitted. The revenue agent's reports show the factual basis for the proposed adjustments to income, but the detailed evidence which will be relied upon to support the Bureau's charges of fraud is contained in the special agent's report and exhibits attached thereto.

On May 26, 1943, Assistant Attorney General Tom C. Clark of the War Frauds Unit, requested that the special agent's report and exhibits attached thereto, be made available to the War Frauds Unit for use in connection with its case, and that copies of such report and exhibits be furnished for the same purpose. It has long been the policy and practice of the Bureau to refuse to permit other Government agencies to have access to or make use of such reports until the question of criminal prosecution in the tax case has been disposed of. In the present case, it appears that prosecution of the War Frauds case prior to disposition of the tax case, probably would materially prejudice successful prosecution of both the criminal and civil tax case. On the other hand, it does not appear that any material prejudice to the War Frauds case would result from prior disposition of the tax case. I have accordingly, reached the conclusion that the request of the War Frauds Unit should not be complied with until after the tax case has been disposed of, and Assistant Attorney General Tom C. Clark is being so advised.

If only this one case were involved, I probably should not feel it necessary to call the matter to your attention, but there is a larger aspect of the matter about which I think you should be advised. The representative of the War Frauds Unit who examined the report of the internal revenue agent in this case on May 26, 1943, indicated that the War Frauds Unit has a number of other cases in which they are awaiting completion of income tax investigations, and in which they expect to utilize the information secured by the Bureau in such investigations for the purpose of instituting fraud prosecutions against various Government contractors. The broad powers of investigation granted by statute to the Bureau, were given by Congress to facilitate the administration of the internal revenue laws and not for the purpose of securing evidence for

Memorandum for Secretary Morgenthau,
In re: T. A. Loving and Company, Inc.

criminal proceedings by the Government under other laws having no relation to the internal revenue. I feel that it is a perversion of the internal revenue laws to permit the use of the Bureau's investigating authority for such purposes, at least, when such use may be made an habitual practice by another Government agency. Furthermore, the practical result is that the time of the Bureau's investigating agents is utilized for the benefit of other departments and, of course, the appropriation for the Bureau of Internal Revenue is, in effect, being used for the same purpose. This is especially true where the proposed action of the other Government agency, as in the present case, runs counter to the interests of the Bureau in punishing violations of the internal revenue laws, and collection of the full amount of civil tax liability found to be legally due.

The most important objection to the practice, however, is the fact that, if it becomes generally known that the information secured by the Bureau's agents in income tax investigations is immediately turned over to the Department of Justice for use in prosecutions for War Frauds, the Bureau probably will soon begin to experience serious difficulty in securing the cooperation of taxpayers, particularly those who hold war contracts, in its investigations to determine their income tax liabilities.

For the foregoing reasons, I have concluded that in the present case, and in all similar cases, the Bureau should proceed with the orderly disposition of income tax cases, which have been investigated by its agents, before the material gathered in such investigations is released to the War Frauds Unit for use in proceedings which, if instituted before the tax cases are disposed of, might be prejudicial to effective enforcement of the internal revenue laws.


Commissioner.

ars



TREASURY DEPARTMENT
WASHINGTON

June 30, 1943

MEMORANDUM FOR THE SECRETARY:

Regarding the attached clipping from PM, which you asked me to bring to your notice a week or so ago, I am sorry that I found no opportunity for further discussion with you.

The so-called "Baseball War Bond League" is a promotion of the New York City sports writers. You will find it fully explained in the attached papers.


GRAVES.



P. M. - June 22, 1943

Baseball Bonds Top Half Million

The 37 players of the Baseball War Bond League put the slug on the Axis to the tune of more than half a million dollars during the first week of operation and that doesn't include the fans' part in the battle.

Dixie Walker, the people's choice from Brooklyn, got off to a slow start but he opened the bomb bay wide over the week end to push his week's sale to \$45,000. However, top honors of the week went to the Yanks' Charlie Keller, who collected four singles, two doubles, one triple and two homers to cost his sponsor \$47,500 at the rate of \$2500 for each base hit.

Without a report on the brisk sale of bonds to fans who purchased them in the name of their favorite players, the first week's total was \$575,000.

Pressing closely behind the leaders, in this place, is Sid Gordon of the Giants with a credit of \$42,500. He hit one homer to two each by Walker and Keller.

Topping the pitchers is King Carl Hubbel who added a single to his \$25,000 triumph over the Braves.

By next week each fan vote will be credited to the player selected. Bonds may be purchased at each of the three local ball parks or at any trust or savings bank in the city where cards are available for the purchaser to fill in the name of his chosen player.

The purchase of a bond, no matter what the denomination, will be a vote for the respective player.

*Handled Grace
Bring the up this
afternoon, 11:30 p.m.*

Baseball
War Bond
League

305

•
Luncheon

•
Waldorf-Astoria
Grand Ball Room
Tuesday, June 8th
1943

Sponsored by the
NEW YORK CHAPTER OF BASEBALL
WRITERS OF AMERICA, Inc.
In cooperation with the New York War
Savings Staff, U. S. Treasury Department.



ARTHUR "RED" PATTERSON

Arthur E. Patterson, chairman of the New York Chapter of the Baseball Writers Association of America who are the sponsors of the Baseball War Bond League in cooperation with the New York War Savings Staff of the U. S. Treasury Department.



BRANCH RICKEY

President of the Brooklyn National League Baseball Club, Inc.



EDWARD G. BARROW

President of the New York Yankees Baseball Club.



HORACE C. STONEHAM

President of the Giants National Exhibition Company.

• We congratulate the New York Chapter of the Baseball Writers Association of America and the managements and players of the New York Yankees, Brooklyn Dodgers and New York Giants for their splendid patriotism in launching the Baseball War Bond League Drive for the sale of United States War Bonds.
We are proud and honored to be associated with this great campaign.
(Signed) BENRUS WATCH COMPANY.



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GIANT PLAYERS

*Selected by the
SPORTSWRITERS COMMITTEE*

- 1. MEL OTT, *Manager-Outfielder*
- 2. ERNIE LOMBARDI, *Catcher*
- 3. DICK BARTELL, *Infielder*
- 4. MICKEY WITEK, *Infielder*
- 5. BILLY JURGES, *Infielder*
- 6. SID GORDON, *Infielder*



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GIANT PLAYERS

*Selected by the
SPORTSWRITERS COMMITTEE*

- 7. BABE BARNA, *Outfielder*
- 8. BUSTER MAYNARD, *Outfielder*
- 9. CARL HUBBELL, *Pitcher*
- 10. CLIFF MELTON, *Pitcher*
- 11. BILL LOHRMAN, *Pitcher*
- 12. ACE ADAMS, *Pitcher*



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YANKEE PLAYERS

*Selected by the
SPORTSWRITERS COMMITTEE*

- 1. BILL DICKEY, *Catcher*
- 2. NICK ETTEN, *First Base*
- 3. JOE GORDON, *Infielder*
- 4. GEORGE STIRNWEISS, *Infielder*
- 5. FRANK CROSETTI, *Infielder*
- 6. CHARLES KELLER, *Outfielder*



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YANKEE PLAYERS

*Selected by the
SPORTSWRITERS COMMITTEE*

- 7. ROY WEATHERLY, *Outfielder*
- 8. JOHNNY LINDELL, *Outfielder*
- 9. ERNIE BONHAM, *Pitcher*
- 10. SPUD CHANDLER, *Pitcher*
- 11. JOHNNY MURPHY, *Pitcher*
- 12. HANK BOROWY, *Pitcher*



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DODGER PLAYERS

*Selected by the
SPORTSWRITERS COMMITTEE*



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1. DOLPH CAMILLI, *First Base*
2. MICKEY OWEN, *Catcher*
3. ALBIE GLOSSOP, *Infielder*
4. ARKIE VAUGHAN, *Infielder*
5. BILLY HERMAN, *Infielder*
6. AUGIE GALAN, *Outfielder*



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7

DODGER PLAYERS

*Selected by the
SPORTSWRITERS COMMITTEE*

7. JOE MEDWICK, *Outfielder*
8. DIXIE WALKER, *Outfielder*
9. WHITLOW WYATT, *Pitcher*
10. BUCK NEWSOM, *Pitcher*
11. KIRBY HIGBE, *Pitcher*
12. RUBE MELTON, *Pitcher*



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12

BASEBALL WAR BOND LEAGUE LUNCHEON

Menu

-
- FLORIDA GRAPEFRUIT
-
- ROAST SPRING CHICKEN GABRIEL
-
- HASHED IN CREAM POTATOES
-
- SMOTHERED NEW PEAS
-
- VICTORY DESSERT SURPRISE
-
- DEMI TASSE

The Treasury Department acknowledges with thanks the cooperation it has received from THE BENRUS WATCH COMPANY who have sponsored the luncheon.

BASEBALL WAR BOND LEAGUE

Program

- Address LEWIS E. PIERSON
Chairman Greater New York War Savings Staff
- The National Anthem FRED WARING
and his Pennsylvanians
- Rules of the Auction JOHN L. FITZGERALD
Chairman Baseball War Bond Committee
- The Auction of Players
HON. JAMES J. WALKER
Master of Ceremonies
Assisted by
WALTER "RED" BARBER
MEL ALLEN

SPECIAL NOTICE—The program goes on the air over Station WJZ from 2 P.M. to 2:15 P.M. with Harry Wismer, as commentator.

The Committees

- Baseball Writers**
ARTHUR E. PATTERSON
THOMAS HOLMES
 - THOMAS MEANY
ROSCOE MCGOWEN
GARRY SCHUMACHER
 - KEN SMITH
CHARLES SEGAR
 - Baseball War Bond Committee**
JOHN L. FITZGERALD, *Chairman*
ELLIOT SPERBER, *Vice Chairman*
ROBERT P. LEE, *Director of Publicity*
FRANK MITCHELL
PAUL J. NORMAN
 - JOHN FALKENHOLM
STANLEY QUINN
 - J. W. FOGE, JR.
PHILIP M. LIGHT
- The Committee is indebted to Mr. John H. Callan, who conceived the original idea of the Baseball War Bond League.*

BUY WAR BONDS

Rules of the Baseball Auction

1. There are seated on the dais the starting line-ups and four pitchers from each of the three New York major league baseball teams, the Giants, Yankees and Dodgers.
2. These thirty-six players will be auctioned off in groups of three to the highest bidders in War Bonds. As each group of three players is put up for auction, the highest bidder during the time allotted to that group will be given his choice of any one of the three players; the second highest bidder will be given his choice of the two remaining players; and the third highest bidder will be considered as having won the third or remaining player of that particular group.
3. The individual or firm representative who purchases a player will thereupon be known as that player's sponsor, and will automatically become president of a club bearing the player's name, for example, "The Dolph Camilli Club." As soon as the bidding for each group of three players has been concluded and the three players comprising the group have been matched up with the three highest bidders, the three sponsors will proceed to the dais to join their players.
4. The sponsor of a player is committed (A) to the purchase of War Bonds in an amount equal to his winning bid for the player, and (B) to an additional amount based on the actual performance of the player from June 15 through the close of the baseball season. The sponsor specifically agrees to make a MINIMUM purchase of:
 - (a) \$2,500 in War Bonds for each single made by his player
 - (b) \$5,000 in War Bonds for each two-base hit
 - (c) \$7,500 in War Bonds for each three-base hit
 - (d) \$10,000 in War Bonds for each home run
 - (e) If he is sponsoring a pitcher, \$35,000 for each game won unless the game won is a shut out, in which case \$50,000 in War Bonds. A sponsor backing a pitcher is also committed to the purchase of War Bonds for any hits his player may make as indicated in (a), (b), (c) and (d) above.

RULES OF BASEBALL AUCTION—Continued

It has been determined that a sponsor will probably be called upon to purchase in the neighborhood of \$500,000 worth of War Bonds on the basis of player-performance during the balance of the baseball season.

5. Sponsors may honor their bids and player-performance commitments by the purchase of any and all types of securities issued by the Treasury between June 8 and December 31, 1943, within which time the 3rd War Loan Drive will be scheduled. The total amount must be paid for in full by December 31, 1943.
6. While we thus have the basis for arriving at the minimum amount for which a sponsor is committed, it should be noted that there is no ceiling on the amount he MAY purchase if he so desires.
7. The sponsor may allocate all or part of his firm's purchases which will be made in subsequent War Loans up to December 31, 1943, in order to take up his commitment. The sponsor may also form a committee or other club to meet his commitment within the stipulated time limit. *He will not receive credit toward his personal commitment for any purchases made by the general public or for purchases made by employees under existing payroll savings plans.*
8. Bidders who are unsuccessful in obtaining players will nevertheless be committed to the purchase of War Bonds in an amount equal to their highest bid during the course of this auction. Unsuccessful bidders may designate the player to whom they wish such funds credited.
9. The general public will, of course, be given ample opportunity to participate in the activities of the Baseball War Bond League and they will be urged to join the thirty-six clubs bearing the names of the players by purchasing War Bonds through designated issuing agents of the War Bond League. A method of creating and maintaining future public participation will be devised by the Baseball Writers' Association and the War Savings Staff.

WAR BOND SCORE

GIANTS

PLAYER	SPONSOR	WAR BOND BID
MEL OTT		
ERNIE LOMBARDI		
DICK BARTELL		
MICKEY WITEK		
BILLY JURGES		
SID GORDON		
BABE BARNA		
BUSTER MAYNARD		
CARL HUBBELL		
CLIFF MELTON		
BILL LOHRMAN		
ACE ADAMS		

YANKEES

BILL DICKEY		
NICK ETTEN		
JOE GORDON		
GEO. STIRNWEISS		
FRANK CROSETTI		
CHAS. KELLER		
ROY WEATHERLY		
JOHNNY LINDELL		
ERNIE BONHAM		
SPUD CHANDLER		
JOHNNY MURPHY		
HANK BOROWY		

DODGERS

MICKEY OWEN		
DOLPH CAMILLI		
ALBIE GLOSSOP		
ARKIE VAUGHAN		
BILLY HERMAN		
JOE MEDWICK		
AUGIE GALAN		
DIXIE WALKER		
WHITLOW WYATT		
BUCK NEWSOM		
KIRBY HIGBE		
RUF MELTON		

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Confidential

THE BASEBALL BOND LEAGUE1. General Purpose

The Baseball Bond League developed out of the desire to bring baseball directly into the War Savings program and to utilize public interest in the national pastime as a springboard to further the sale of War Bonds.

2. General Plan

The general plan is to tie in the purchase of bonds with the day-by-day performance and personal popularity of designated players.

3. Sponsorship of the Plan

The plan is to be sponsored by the New York Chapter of the Baseball Writers Association, headed by Mr. Arthur Patterson, with the cooperation of the New York War Savings Staff.

4. Introductory Luncheona. Time, Place, Guests

The official launching of the Baseball Bond League will take place at a luncheon to be held on June 8, at 12:30, in the Grand Ballroom of the Waldorf Astoria Hotel. Those present at the luncheon will include:

Mr. Lewis E. Pierson, representing the Treasury Department
 Hon. James Walker
 Mr. John Fitzgerald, Chairman W.S.S. Baseball Committee
 36 designated ball players -- the starting line-up and
 4 pitchers of each of the three New York teams, the
 Giants, the Yankees and the Dodgers
 The managers of the three teams
 Colby Chester, Chairman of General Foods Corp.
 Bruce Barton, President of Batten, Burton, Durstine
 & Osborn, Inc.
 Henry Bruere, President of Bowery Savings Bank
 Matthew S. Sloane, President of M. K. & T. Railroad
 Francis F. Randolph, J. & W. Seligman & Co.
 Charles D. Hilles, Employers Liability Assurance, Ltd.
 Roger W. Straus, President of American Smelting
 & Refining Company
 George V. McLaughlin, President of The Brooklyn Trust Co.
 Walter S. Mack, Jr., President of The Pepsi-Cola Co.
 John Kadel, Kadel & Hoffman, and others

b. Auction of Players

After the luncheon has been officially opened and Mr. Fitzgerald has explained the purpose and operation of the Baseball Bond League, Mr. Walker will commence to auction the 36 players, one by one, to the highest bidders in War Bonds. In order to ensure that there will be bidding for all 36 ball players, there will be present in the audience approximately 100 industrialists or representatives of leading firms who will have previously been visited by representatives of the Payroll Savings Division for the purpose of securing advance agreement to bid. Payroll Savings representatives who are assigned to call upon designated individuals or firms for this purpose should acquaint them with the following information:

They will be expected to bid on at least one player. In the event that their bid on that player is unsuccessful they will be expected to continue bidding until they have won a player or the bidding is closed.

They should be prepared to bid at least \$500,000 for a player, and if successful in obtaining a player, to purchase at least \$500,000 more in War Bonds on the basis of that player's performance during the balance of the baseball season (as explained in Paragraph 5).

They may honor their bids and player-performance commitments by the purchase of any and all types of securities issued by the Treasury between June 8 and December 31, 1943. The total amount which they are committed to purchase must be paid for in full by December 31, 1943.

It might be well to note at this point that in a sense the Baseball Bond League may be regarded as the opening gun of the 3rd War Loan. For this reason the point may profitably be brought out by Payroll Savings representatives in their conversations with prospective sponsors that commitments to purchase War Bonds in connection with the Baseball Bond League may be taken up during the 3rd War Loan.

Returning to the auction itself, the bidding will continue until all 36 players have been bought. The individual or firm representative who purchases a player will thereupon be known as that player's sponsor and will immediately become president of a club bearing the player's name, for example, "The Dolph Camilli Club." The total amount pledged during the luncheon will be distributed for credit among the various players by the Sportswriters' Committee.

5. Purchase of Bonds by Sponsor Based upon Player-Performance

As previously indicated, the sponsor of a player is not only committed to the purchase of War Bonds in an amount equal to his winning bid for the player, but also to a certain amount based on the actual performance of the player from June 15 through the close of the baseball season.

In this connection he agrees to make a MINIMUM purchase of:

- (a) \$2500 in War Bonds for each single made by his player
- (b) \$5000 in War Bonds for each two-base hit
- (c) \$7500 in War Bonds for each three-base hit
- (d) \$10000 in War Bonds for each home run
- (e) If he is sponsoring a pitcher, \$35,000 for each game won unless the game won is a shut out, in which case \$50,000 in War Bonds. A sponsor backing a pitcher is also committed to the purchase of War Bonds for any hits his player may make as indicated in (a), (b), (c) and (d) above.

While the above indicates the basis for arriving at the minimum amount for which a sponsor is committed, it should be noted that there is no ceiling on the amount he may purchase if he so desires. A sponsor may form a committee or other group to assist him in taking up his commitment but HE WILL NOT RECEIVE CREDIT TOWARD HIS PERSONAL COMMITMENT FOR ANY PURCHASES MADE BY THE GENERAL PUBLIC (AS EXPLAINED IN PARAGRAPH 6).

6. Purchase of Bonds by General Public

The general public will, of course, be given ample opportunity to participate in the activities of the Baseball Bond League. Through the radio, the columns, and the sports pages, the public will be fully informed of the plan and will be urged to join the 36 clubs bearing the names of the players. This they may do through the purchase of War Bonds and the designation of the player to be credited. To facilitate this operation the three New York baseball parks will be made issuing agents so that Bonds may be purchased at the games. In addition, arrangements will be made with banks throughout the City to handle Baseball Bond League purchases and to report them for appropriate credit.

Other methods of bringing the general public into the picture will be devised by the Baseball Writers Association and the sponsors themselves who will be given wide latitude in this connection.

7. Miscellaneous

a. Confidential Nature of Plan

This plan is strictly confidential and must be kept so until such time as the details thereof are released by the sportswriters.

b. Records and Follow-Up

After the luncheon, the responsibility of maintaining the public enthusiasm essential to the success of the Baseball Bond League will rest with the sportswriters. The job of the New York War Savings Staff will be primarily record-keeping and follow-up in nature.

c. Special Event at Close of Season

Some sort of special event, e.g., naming of an All-Bond team, all-star game, testimonial dinner, etc., will be planned to bring the operation of the Baseball Bond League to a fitting conclusion.

JUN 30 1943

Mr. Ted R. Gamble,
Assistant to the Secretary.

Dear Mr. Gamble:

Under your appointment as an Assistant to the Secretary, you are hereby designated as National Director in charge of the War Finance Division established under the provisions of Treasury Department Order No. 50 of June 25, 1943.

Very truly yours,

(Signed) H. Mergenthau, Jr.

Secretary of the Treasury.

WHT:aja

Secy. handed over to Gamble



TREASURY DEPARTMENT

WASHINGTON

June 25, 1943

TREASURY DEPARTMENT ORDER NO. 50:

The War Savings Staff, created by Department Order No. 39, dated March 19, 1941, as amended, will hereafter be known as the War Finance Division of the Office of the Secretary. The War Finance Division will have charge of promoting the sale of securities offered to the public by the Treasury Department. It will perform its functions under the supervision of an Assistant to the Secretary, who will be known as National Director.

Henry M. O'Connell
Secretary of the Treasury.

E. J. ...
AWB *2/2*



June 30, 1948

George Haas
D. W. Bell
Randolph Paul
John Sullivan
Secretary Morgenthau

I have talked with Donald Nelson who feels that we should get busy on studying the question of disposing of surplus materials after the war. He is very positive that the Army, Navy and Maritime Commission should not have anything to do with it and he doesn't want his own organization to have anything to do with it. However, he would like Procurement in the Treasury to handle it, but they will have to be a little more aggressive about it.

I would like to talk to you men about this sometime early next week.

Finished

26

June 30, 1943.

Dear Milo:

It was good of you to send me a copy of the Vice President's recent statement. I am taking this home with me and shall read it carefully and with much interest.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Milo Perkins,
Executive Director,
Board of Economic Warfare,
Washington, D. C.

File in Diary.

GEF/dbs

BOARD OF ECONOMIC WARFARE
OFFICE OF EXECUTIVE DIRECTOR
WASHINGTON, D. C.

June 29, 1943

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

I should like to call your attention to a
statement just released by Vice President Wallace.

Sincerely yours,

Mils Perkins
Executive Director

Enclosure

v 2 6 - 7 1 x

STATEMENT BY VICE PRESIDENT WALLACE,
Chairman, Board of Economic Warfare,
June 29, 1943.

Vice President Wallace today made public a statement originally prepared for the Senate Committee on Appropriations. In releasing this statement he said:

"On June 4 my good friend, Senator McKellar from Tennessee, said certain things about the Board of Economic Warfare on the Floor of the Senate which moved me to prepare a statement. After sleeping over the matter for several nights I decided not to make it.

"Milo Perkins, Executive Director of the Board of Economic Warfare, recently appeared before the Senate Committee on Appropriations to discuss the work of the Board. During his testimony he indicated that, in the interest of unity, he was reluctant to discuss the failure of the Reconstruction Finance Corporation to build adequate government stockpiles of strategic materials as authorized and directed by the Congress nearly 18 months before Pearl Harbor.

"Since his appearance before the Senate Committee on Appropriations, the effort to misrepresent the facts concerning the work of the Board of Economic Warfare has continued. Some of these misrepresentations which have been called to my attention during the past week have been of such a nature that I have decided to release the statement as originally prepared. I am asking Senator McKellar to make it part of our hearings.

"It seems to me that on a matter such as this, I, and only I, as Chairman of the Board of Economic Warfare, can make the kind of presentation that will set the record straight.

"There are times when the sense of public duty outweighs the natural, personal reluctance to present facts of this nature. This is such a time."

(The Statement continues on the attached page.)

12 4 PM 29 JUN 62

OFFICE
SECRETARY OF TREASURY

STATEMENT BY VICE PRESIDENT WALLACE,
CHAIRMAN OF THE BOARD OF ECONOMIC WARFARE
AS ORIGINALLY PREPARED FOR
THE SENATE COMMITTEE ON APPROPRIATIONS.

On June 4, 1943, the Chairman of this Committee discussed the work of the Board on the floor of the Senate. His statement contained certain inaccuracies for which the Senator was not responsible. He was basing his comments on testimony which he said Mr. Jesse Jones had given before the Joint Committee on the Reduction of Non-Essential Federal Expenditures.

I realize that when the distinguished Senator from Tennessee made his remarks on the floor of the Senate he felt he had been correctly informed by the Secretary of Commerce. The actual facts are at variance with the information given the Senator, however, and I feel compelled to state the correct information for the record.

Senator McKellar said on June 4th: "No Congressional appropriation has ever been made for the payment of a single person employed in the Board of Economic Warfare. The Senate Appropriations Committee, of which I happen to be temporarily the head, has never appropriated any money for the Board of Economic Warfare".

On May 30, 1942, the President transmitted for the consideration of Congress an estimate of an appropriation for the salaries and expenses of the Board of Economic Warfare for the fiscal year 1943 (Document No. 760, 77th Congress, 2nd Sess.). After hearings before the House

Appropriations Committee, during which we gave detailed testimony, that Committee favorably reported HR 7319, which contained an item for salaries and expenses of the Board of Economic Warfare (Report No. 2295, 77th Congress, 2nd Sess.). The bill passed the House on June 30, 1942, and was reported by Senator McKellar, for the Senate Committee on Appropriations, on July 10, 1942. The report suggested changes in some other items in the bill but left unchanged the item for salaries and expenses of the Board of Economic Warfare (Senate Report No. 1542). The bill as passed by the Senate on July 16, 1942, and approved by the President on July 25, 1942, contained an item in the amount of \$12,000,000 for salaries and expenses of the Board of Economic Warfare (Public Law No. 678, 77th Congress). Mr. Perkins was not called upon to testify with regard to the item when it was considered by the Senate Committee on Appropriations. However, on October 12, 1942, Mr. Perkins appeared before the sub-committee of the Senate Committee on Appropriations, with Senator McKellar presiding, to explain the need for certain amendments in the appropriation language, primarily to take care of the payment of living and quarters allowances to employees stationed abroad. These amendments were included in an item entitled "Board of Economic Warfare" in Public No. 763, 77th Congress, approved October 26, 1942.

In the same statement on the floor of the Senate on June 4th, 1943, Senator McKellar said: "Mr. Jesse Jones testified a day or two ago before the so-called Economy Committee, that Mr. Milo Perkins absolutely ran the entire establishment of 2,620 employees; that his word was law, even over him, Mr. Jesse Jones and that he had received a directive from Mr. Perkins to furnish the money to pay all these employees."

The Board has never obtained money for administrative purposes from the Reconstruction Finance Corporation, nor has the Board ever directed Mr. Jesse Jones or any Reconstruction Finance Corporation subsidiary to furnish money to pay the salaries of any of the Board's employees or any of its administrative expenses. All such salaries and expenses are paid from funds appropriated by the Congress to the Board of Economic Warfare.

There have been a few occasions where, in connection with the joint operations of the Board of Economic Warfare and the Reconstruction Finance Corporation field staffs in foreign countries, arrangements have been worked out jointly for the payment of certain joint staff expenses by either the Board or the Corporation. In these cases reimbursement by the one agency or the other has been made in accordance with established government procedures.

On June 4, Senator McKellar also said: "The Board of Economic Warfare was not created by the Congress."

The Board of Economic Warfare was established by the President on July 30, 1941, by executive order, as were other war agencies. From time to time additional functions have been transferred to the Board of Economic Warfare by the President pursuant to authority vested in the President by the Congress, particularly by the First War Powers Act of December 18, 1942 (Public Law No. 354, 77th Congress). Congress has appropriated the monies which the Board is using to discharge these responsibilities. Furthermore, Congress has specifically directed in Public Law No. 638, 77th Congress, approved June 30, 1942, that unless the President shall determine otherwise, the Board of Economic Warfare shall administer the Export Control Law.

It is not enough to make these corrections. The false impression which Mr. Jones created before the Byrd Committee is similar to the impression he created in early December before the Senate Banking and Currency Committee. It is time to prevent further harmful misrepresentations of this nature.

On April 13, 1942, the President vested in the Board of Economic Warfare complete control of all public purchase import operations. Mr. Jones has never been willing to accept that fact. He has instead done much to harass the administrative employees of the Board in their single-minded effort to help shorten this war by securing adequate stocks of strategic materials.

The report of the Truman Committee, dated May 6, 1943, has set the proper pattern for dealing with situations of this kind. Two brief paragraphs from that report are of particular relevance:

"Energetic, aggressive men, striving to meet war needs, will tend to clash when their duties bring them into conflict. But destructive, wasteful feuding must be suppressed.

"The task of control and guidance is of utmost importance. Clear leadership in strong hands is required. The influence from above must be always towards unity. Where necessary, heads must be knocked together."

The President's Order of April 13, 1942, provided for "clear leadership" in programming the import of strategic materials. As a consequence of Mr. Jones' reluctance to accept that leadership there has been too much "destructive, wasteful feuding." The Board of Economic Warfare has tried for over a year now to do its job in spite of the obstructionist tactics Mr. Jones has employed from time to time.

The Congress showed great foresight, very early, in authorizing government stockpiling of strategic materials by passing legislation and by making funds available for this purpose way back in 1939 and 1940. In June of 1939, the Secretary of the Treasury was empowered to purchase and stockpile strategic materials as directed by the Secretary of War and the Secretary of the Navy. This program was comparatively small. Then in the summer of 1940, the Congress made substantial funds available to the Reconstruction Finance Corporation for carrying out a program for purchasing and stockpiling all critical and strategic materials.

From the summer of 1940 until well past December 7, 1941, the Reconstruction Finance Corporation failed dismally, so far as the import field was concerned, to build the government stockpiles authorized and directed by the Congress nearly eighteen months before Pearl Harbor.

During this period, of course, private purchasing of imports continued on a somewhat increased scale due to better business, and the Reconstruction Finance Corporation entered into various under-writing agreements with some countries under which we agreed to take surpluses if they were not bought privately. This seems to us to have been a timid, business-as-usual procedure; at least it was a "far cry" from the aggressive government stockpiling which the Congress directed and authorized so that this Nation might have a margin of security in its imported raw materials inventories.

On December 8, 1942, Mr. Perkins and I testified before the Senate Banking and Currency Committee and gave partial evidence of the delays to our work for which we felt Mr. Jones was responsible. We gave

testimony on his failure to meet the Office of Production Management's directives to stockpile industrial diamonds and block mica. We gave evidence on the extent to which he had delayed the foreign rubber program and cited specifically his stalling in the gathering of wild rubber in South America and the planting of rubber plantations in Africa and in the planting of cryptostegia for natural rubber in the Caribbean. We also presented evidence on the months of delay in starting a proclusive buying program in European neutral countries to prevent strategic materials from going to the Axis. These delays took place before Pearl Harbor and extended beyond Pearl Harbor right up to the 13th of April, 1942, at which time the President transferred import powers from the Reconstruction Finance Corporation and its subsidiaries to the Board of Economic Warfare.

The evidence which we presented on December 8, 1942, to the Senate Banking and Currency Committee was only partial evidence. It is a matter of public record in Hearings on S. 2900.

I now desire to present additional evidence on government stockpiling -- commodity by commodity, for consideration by this Committee, by the entire Congress, and by the public at large.

I want to point out first that all of our administrative work on imports is done under the broad direction of the War Production Board and in some cases under the broad direction of the War Food Administration. I now feel it my duty to get down to specific cases. For reasons of military security, I shall not include figures which might be of value to the enemy. The figures I am able to use, however, have not been previously presented to the Congress. They appear in the following table which I desire to discuss, commodity by commodity:

Performance Record on Certain Public Purchase Recommendations Issued in 1941

Commodity	1	2	3	4	5	6
	WPS (or GPM) Recommendation	Import Contracts Executed before April 13, 1942	Import Contracts Executed as of December 31, 1942	Chief Countries of Origin	Chief Uses	
Beryl Ore	December 1, 1941: 3,000 m. t.	300 m. t.	4,118 m. t.	Argentina, Brazil, India, South African	In production of master beryllium-copper alloy	
Castor Seeds	November 19, 1941: 178,571 l. t.	None	73,799 l. t. (spot purchases) 220,000 l. t. (future delivery)	Brazil, Central America	Castor oil used as hydraulic brake fluid	
Cobalt	November 17, 1941: 2,500 m. t. of contained cobalt metal	159 m. t.	876 m. t.	Canada, Brazil, Belgian Congo	High speed cutting steels	
Corundum	November 18, 1941: 6,000 l. t. (subsequently increased)	None	12,000 l. t.	South Africa	Abresive for grinding optical glass and telescope lenses	
Fats and Oils (Coarsel)	October, November (1941); January, February (1942): 217,499 l. t. (subsequently increased)	2,200 l. t. (approximate)	276,622 l. t. (spot purchases) 500,000 l. t. (future delivery)	Africa, Brazil, Canada, Central America, South America, South Pacific	Edible oils; glycerine (for explosives); manufacture of synthetic rubber; lubricants; paints; tin plate manufacture	
Palm Oil	October 20, 1941: 20,000 l. t.	None	23,928 l. t.	Belgian Congo, Nigeria	Manufacture of tin plate	

1	2	3	4	5	6
Commodity	WPB (or OPM) Recommendation	Import Contracts Executed before April 13, 1942	Import Contracts Executed as of December 31, 1942	Chief Countries of Origin	Chief Uses
Flax Fiber	October 27, 1941: 6,500 s. t.	None	8,000 s. t. annually for duration	Canada, Egypt, Peru	Parachute webbing; industrial sewing thread
Jute	September 5, 1941: 80,000 l. t.	1,210 l. t.	88,000 l. t.	India	Marine cordage; twines and ropes
Sisal	September 5, 1941: 100,000 s. t. (subse- quently increased)	33,600 s. t.	310,000 s. t.	Caribbean Area, Africa, Mexico	Binder twine
Tantalite	December, 1941, March 13, 1942: 1,000,000 lbs.	None	322,000 lbs.	Africa, Argentina, Brazil, Nigeria	Contact points in radio tubes
Zirconium	September 5, 1941: "reasonable amounts"	None	21,575 s. t.	Australia, Brazil	Tracer ammunition; flares; signals; blasting caps

BERYL ORE

Beryl ore has very important military uses, the outstanding one being its use as an alloy with copper.

On December 1, 1941, the Office of Production Management, the forerunner of the War Production Board, recommended the purchase by Reconstruction Finance Corporation of 3,000 metric tons of beryl ore.

As of April 13, 1942, the day the President transferred import powers from the Reconstruction Finance Corporation to the Board of Economic Warfare, one 300 ton contract had been made, and no deliveries effected.

As of December 31, 1942, eleven contracts calling for the delivery of 4,118 metric tons of ore from four different countries (Argentina, Brazil, India, South Africa) had been made; 640 tons had been delivered. This was done under Board of Economic Warfare directives.

CASTOR SEEDS

The oil extracted from castor seeds is vitally important for war purposes. Among other things, it is used as a hydraulic fluid for jacks and brakes in war machines, as a solvent in paint, and (dehydrated) as a special protective coating for testing airplane motors. No adequate substitute is known.

On November 19, 1941, the Office of Production Management recommended to Reconstruction Finance Corporation the purchase of 178,571 long tons of castor seeds.

As of April 13, 1942, over four months after Pearl Harbor, none had been purchased.

As of December 31, 1942, at the direction of the Board of Economic Warfare, spot purchases totaling 73,799 long tons had been made and long term contracts had been executed for another 220,000 long tons.

COBALT

Cobalt is vitally important to our military effort, its chief use being in high speed cutting steels.

On November 17, 1941, Office of Production Management recommended to the Reconstruction Finance Corporation the purchase of ores containing 2,500 short tons of cobalt metal.

As of April 13, 1942, contracts had been made by the Metals Reserve Company for the purchase of ores containing only about 159 tons of cobalt metal.

As of December 31, 1942, government contracts for ore purchases from foreign sources totaled about 876 short tons of cobalt metal. Increased private purchases have now put us in a comfortable supply position.

CORUNDUM

Corundum, vitally important for its use as an abrasive for grinding optical glass and telescope lenses, is obtained almost exclusively from South Africa. There is practically none in the United States, although there are some interesting experiments being carried on now, in the Southeastern section of the country.

On November 18, 1941, the Office of Production Management recommended to the Reconstruction Finance Corporation the purchase of 6,000 long tons of South African corundum. The recommendation was subsequently increased.

As of April 13, 1942, over four months after Pearl Harbor, no purchases had been made.

As of December 31, 1942, there were under contract (one contract; made by Metals Reserve Company in June, 1942) 12,000 long tons of South African corundum for delivery during 1943 and 1944. This was done under the Board of Economic Warfare directives.

FATS AND OILS

The fats and oils group includes approximately 25 different products, ranging all the way from sunflower seeds to curicury nuts and whale oil. These products are critically needed in the war effort for a variety of industrial uses as well as for human consumption.

There is one large group of edible oils, needed for Army, Navy, Lend-Lease and civilian uses.

Another group, which includes babassu nuts, coconuts, palm kernels, miru miru nuts, tucum nuts, and curicury nuts, contains a high percentage of lauric acid, from which glycerine - used in the manufacture of explosives - is derived. These products are also used for plasticizers (to reduce brittleness) and in the manufacture of soap and synthetic rubber.

Oiticica oil and linseed oil are used as solvents in paints.

There is no adequate substitute for cashew nut oil, which is used to impregnate and toughen brake linings and for magnetoharness coverings.

Hoatsfoot oil is used in impregnating leather.

Tallow, seal oil and whale oil are used in soap making processes, in the course of which glycerine is produced.

Palm oil is essential in the manufacture of tinplate.

Certain marine engines require reprocessed oil as a lubricant.

Sperm oil is used as a special lubricant for airplane engines (allowing the "cold" breaking in of motors), in the rifling of gun barrels, and as a high pressure smokeless lubricant in Diesel engines.

One would think, in view of the critical military urgency of going out to get these imported raw materials, that Mr. Jones would have moved aggressively to build government stockpiles of these fats and oils, and yet here are the facts:

In October, 1941, the Office of Production Management recommended to the Reconstruction Finance Corporation the purchase of approximately 30,000 long tons of various types of fats and oils from foreign sources. In November this total was increased to 208,571 long tons; in January, 1942, to 308,571 tons; in February to 317,499 tons. (The total has, since April 13, 1942, been increased much beyond this last figure.)

As of April 13, 1942, the Reconstruction Finance Corporation had purchased (according to the best information we have) only 2,200 long tons (rape-seed oil); none had arrived in this country. The purchases were all spot; no development program had been even devised. There may be a minor error in this particular figure due to the inadequate commodity accounting records of the Reconstruction Finance Corporation, but we believe the figure to be substantially accurate. For all practical purposes, however, virtually nothing was done by Mr. Jones to build a government stockpile of fats and oils even after Pearl Harbor, when the Japs were conquering the Far East from which we had been getting tremendous supplies.

The Board of Economic Warfare, shortly after it was given its responsibility in the import field, on April 13, 1942, shifted the financing of the fats and oils program to the Commodity Credit Corporation, but retained general administration of it.

As of December 31, 1942:

(1) 276,622 tons of foreign fats and oils had been bought on a spot purchase basis.

(2) The Board of Economic Warfare had negotiated and the Commodity Credit Corporation had entered into development and long term purchase contracts calling for the delivery of 500,000 tons. Several additional development contracts beyond this total were subsequently negotiated.

(3) The private import trade, dealing in fats and oils, which was threatened with extinction because of distortions in the world price structure, was organized into the Emergency Group for Foreign Vegetable Oils, Fats and Oil-Bearing Materials, and its services made use of as an integrated part of the program.

(4) Agreements for joint purchasing were made with the British and Canadians, eliminating competitive buying and resulting in a substantial reduction in the prices paid for a number of fats, oils and oil-bearing materials.

PALM OIL

Since there is no adequate substitute for palm oil, which is used in the manufacture of tin plate, I desire to call special attention to it.

On October 20, 1941, the Office of Production Management recommended to the Reconstruction Finance Corporation the purchase of 30,000 long tons of palm oil.

As of April 13, 1942, none had been purchased.

As of December 31, 1942, purchases (spot) totaled 23,928 long tons. This took place under Board of Economic Warfare directives.

FLAX FIBER

I now want to discuss flax fiber which is used for parachute webbing and which is also used as industrial sewing thread for high tension purposes.

On October 27, 1941, the Office of Production Management recommended the purchase by the Reconstruction Finance Corporation of 6,500 tons of flax.

As of April 13, 1942, the day the President transferred import powers from the Reconstruction Finance Corporation to the Board of Economic Warfare, no purchases had been made.

As of December 31, 1942, contracts had been made for approximately 8,000 tons annually from Canada, Peru and Egypt under Board of Economic Warfare directives.

JUTE

Jute is another commodity which must be imported from abroad.

On September 5, 1941, the Office of Production Management had directed the purchase of 80,000 long tons of jute, nearly all of which comes from India.

As of April 13, 1942, over four months after Pearl Harbor, the Reconstruction Finance Corporation had done practically nothing to fulfill this important directive, having bought only 1,210 long tons, although the situation in India during this period was highly uncertain.

As of December 31, 1942, the Board of Economic Warfare had arranged for the purchase of the full 80,000 long tons, plus another 8,000 long tons to cover a supplementary directive. Moreover, most of this jute was shipped from Indian ports by the end of 1942.

The Board of Economic Warfare's insistence on maintaining in Calcutta, India, a special agent with a full business background in this industry, has been an important factor in the establishment of this performance record.

SISAL

Sisal is a hard fiber needed particularly in the manufacture of binder twine for the harvesting of our grain crops.

As of September 5, 1941, the Office of Production Management had recommended the purchase of 100,000 short tons of sisal (increased to 250,000 tons on March 18, 1942).

As of April 13, 1942, the Reconstruction Finance Corporation had purchased only an approximate 33,600 short tons against this urgent directive.

As of December 31, 1942, the Board of Economic Warfare had negotiated contracts for approximately 310,000 short tons, all to be produced by June 1945, and of which 150,000 tons is expected to be produced by the middle of 1945. By December 31, 1942, some 88,000 tons had been delivered.

We lost many of our fibers sources in the Far East to the Japanese. By December 31, 1942, the Board of Economic Warfare had entered into contracts for the development and purchase of a number of hard fibers in Mexico and Caribbean areas as well as in Africa as part of a tremendous development program. We are planning to put 70,000 acres in these crops. 40,000 acres have already been planted. During a war we have to fight as vigorously to buy goods as we have to fight in peace time to sell them.

TANTALITE

Tantalite is another strategic material carrying the very highest military priorities. It is used, among other things, for contact points in radio tubes.

In December, 1941, there was an exchange of correspondence between the Office of Production Management, the State Department and the Reconstruction Finance Corporation which made clear the necessity of increasing substantially United States tantalite imports by public purchase. On March 13, 1942, the War Production Board formally recommended the purchase by the Reconstruction Finance Corporation of 1,000,000 pounds.

As of April 13, 1942, over four months after Pearl Harbor, no tantalite had been purchased by the Reconstruction Finance Corporation.

As of December 31, 1942, some 322,000 pounds had been purchased.

This increase has been due in large measure to an aggressive Board of Economic Warfare program of tracing down every possible source of an ore which occurs only in very small and scattered deposits. Most purchases have been in exceedingly small lots.

In order to open up new sources of supply which will permit fulfilling the purchase recommendations we have received from the War Production Board, the Rare Metals Section of the Board of Economic Warfare's Metals and Minerals Division has contacted private producers or government representatives in Australia, Brazil, South Rhodesia, Argentina, French Equatorial Africa, Nigeria, Portuguese East Africa, India and Uganda.

It is estimated that, very largely as the result of Board of Economic Warfare efforts, 1943 imports into the United States may be 60% above 1942 imports and ten times the total world production in 1939. This program is typical of the way in which the Board of Economic Warfare fights for every pound of strategic materials as though a soldier's life depended upon it -- which, of course, it does.

ZIRCONIUM

I now desire to discuss zirconium which is so important in the manufacture of flares, signals, tracer ammunition, and blasting caps.

On September 5, 1941, Office of Production Management recommended to the Reconstruction Finance Corporation the purchase of "reasonable amounts" of zirconium from Brazil.

As of April 13, 1942, the day on which the President transferred import powers from the Reconstruction Finance Corporation to the Board of Economic Warfare, no purchase contracts had been made under the Office of Production Management directive.

As of December 31, 1942, contracts had been made for the purchase from foreign sources of 21,575 short tons of zirconium ores, of which 16,500 short tons were from Brazil. This was done under Board of Economic Warfare directives.

As previously indicated, I have deliberately given figures of the Board of Economic Warfare accomplishments through December 31, 1942, only, for the purposes of military security. The progress in the foreign field for the first six months of 1943 is even more encouraging, considering the difficulties we have faced, than it was during the last six months of 1942. As an over-all figure for this Committee to bear in mind, I should like to point out that total purchases of imported raw materials subject to Board of Economic Warfare directives will run roughly a billion and one-half dollars for the 1943 fiscal year and slightly over two billion dollars for the fiscal year of 1944. Over two hundred critically needed strategic materials will be included in these public purchase programs. Contracts will be made in over thirty foreign countries.

Mr. Perkins is in position to give this Committee detailed and current information on any imported strategic material in a completely secret and off-the-record discussion if this Committee desires to have such facts placed before it in this manner. He can indicate the figures for the full fiscal year 1943 as well as contemplated figures for the 1944 fiscal year. Under no conditions would we make such current information a matter of public record. We are, however, very anxious to inform this Committee as to how such vast sums are being spent. I used the word "spent", but imported strategic materials are, of course, sold by subsidiaries of the Reconstruction Finance Corporation to our war industries. Public purchase is used to assure adequate supplies. Detailed information has already been given the House Committee on Appropriations. We want to give the fullest possible information to the Senate Committee.

Since the 13th of April, 1942, when full import powers were transferred from the Reconstruction Finance Corporation to the Board of Economic Warfare, tremendous progress has been made in stepping up the procurement of certain strategic materials, shortages of which could not adequately have been foreseen by the Office of Production Management prior to Pearl Harbor. Outstanding among these is the increased production of balsa wood and mahogany, largely in this Hemisphere. When the full story can be told, it will be one of the most dramatic successes of the war effort. Our country can be proud of having achieved what seemed to be almost impossible on this front.

Although the President, on April 13, 1942, transferred full control over the programming of imported strategic materials from the Reconstruction Finance Corporation to the Board of Economic Warfare, which operates under broad directives received from the War Production Board, Mr. Jones has never fully accepted that authority. He and his personnel down the line have thrown a great many obstacles in the way of our exercise of the powers given us to carry out our war-time assignments. Some of these obstructionist tactics have been minor and annoying and some have been of major consequence in this gigantic job of waging total war. I now desire to inform this Committee and the Congress, and the public at large about some of these delays, which have not yet seen the light of day.

First of all I desire to discuss quinine. Brig. Gen. H. C. Minton has informed us that: "Antimalarial preparations derived from cinchona are, of course, essential to adequate control and treatment of malaria, in conjunction with the accepted synthetic anti-malarials."

Far East cinchona bark contains 7 to 10% quinine sulphate; Latin America bark about 2%.

On April 14, 1942, General MacArthur wired Washington that two million seeds of a high grade strain had been brought out of the Philippines (on one of the last planes leaving for Australia); adding that they "must be planted without delay."

I am sorry to have to inform this Committee that Jesse Jones and Will Clayton stalled for months on this program. As I indicated to the Senate Banking and Currency Committee last December, there are times when what we need is more fights and fewer shortages.

Lt. Col. Arthur F. Fischer, who brought these seeds from the Philippines to the United States, came to the Board of Economic Warfare with his proposal -- to plant the seeds in Costa Rica -- on August 24, 1942. Within three weeks, the Board of Economic Warfare had worked out a detailed plan and submitted it to the other interested agencies. Reconstruction Finance Corporation representatives at first acquiesced in the proposal when it was discussed with them on September 11 and 29. Under Secretary of War Patterson approved it formally on October 7, 1942.

Then, on October 10, the Reconstruction Finance Corporation notified the Board of Economic Warfare that "the matter requires further consideration." These "considerations" continued for four months. Mr. Jones said that our proposal was post-war planning because of the time it takes for cinchona trees to come to full maturity for profitable striping. The Fischer trees couldn't be harvested for 2 1/2 years at the earliest; normally, seven years pass before striping of the bark begins.

During 1941 Mr. Jones may have felt that this would be a short war in which we wouldn't become involved; in any event he did not buy quinine during that period in adequate amounts for government stockpiles; during 1942 he acted as though the war might be over by 1944 if we can take his attitude toward this quinine project as a criterion. A United Press story in the New York Journal of Commerce of February 3, 1942, quotes Jesse Jones as follows: "Secretary of Commerce Jesse H. Jones told the House Banking Committee today that he believed the United States will be getting 'all the rubber we need from the Dutch East Indies' by the end of 1943 despite the present Japanese threat to that area". Mr. Jones may be right, but we dare

not take chances and base our imports work on any such optimistic estimate.

As a matter of fact, Mr. Jones may have been considering something else. He takes great pride in the profits of the Reconstruction Finance Corporation and some of its subsidiaries, as evidenced by his recent testimony before the Byrd Committee. If the cinchona trees which we have been discussing have to be stripped after 2½ years because of desperate military needs for quinine, they will yield about 10,000 ounces of quinine-- and a \$125,000 loss to the Reconstruction Finance Corporation. That will mean red ink on the books of the Reconstruction Finance Corporation. I do not like to assign motives, but it is difficult to escape the conclusion that a possible dollar loss held up this production project. Like many things in total war this project may, of course, prove to be an expensive undertaking in terms of dollars. It seems to us to be a wise investment in terms of saving lives, however.

Whatever his reasons may have been, the facts are that Mr. Jones disregarded the constant proddings by the Board of Economic Warfare, and for a while he ignored the fact that I, as Chairman of the Board of Economic Warfare, had personally investigated the matter and recommended immediate action. His "considerations" continued right on through the battle -- with malaria and with the Japs -- at Guadalcanal.

It was not until late January, 1943, that the Reconstruction Finance Corporation finally announced that it would spend some money for this quinine project. For all the full power the President has given the Board of Economic Warfare over imports, we are helpless when Jesse Jones, as our banker, refused to sign checks in accordance with our directives. Finally, we have won out in all such cases, but the time lost has been precious time which there was no excuse for losing. There have been

many other times, of course, when personnel down the line in both the Reconstruction Finance Corporation and the Board of Economic Warfare have found themselves in complete agreement and have moved forward together with speed. The situation is better than it was a while back, and Mr. Perkins emphasized this fact in his recent testimony before the House Appropriations Committee.

Colonel Fischer is now in Costa Rica and the quinine project is underway. Some of his seeds have been germinating in the Department of Agriculture's experimental station in Beltsville and are about to be sent to Costa Rica. The rest will be planted there. It will be 1946 before quinine from the seeds brought out of the Philippines by Colonel Fischer can be put to work fighting malaria in the tropics. Even so, our Armed Forces may need it desperately by that time if they are still fighting in the malarial regions of the Southwest Pacific.

We and the Army would be quite willing to strip a greater part of the young trees at the end of 2½ years if we have to do so to get quinine for our soldiers, even though the Reconstruction Finance Corporation may lose a little money through not waiting seven years to let the trees mature for the most profitable period of stripping.

In fairness to the Reconstruction Finance Corporation I want to report that on a recent development project in Guatemala, where three hundred million cinchona trees for quinine are being planted under Board of Economic Warfare directives, we have thus far had no opposition from the RFC. We had previously won our fight in terms of principle on the Fischer project just described and Mr. Jones has not yet opposed us on the much larger project we have worked out in Guatemala.

The other quinine programs of the Board, such as gathering wild cinchona bark in Latin America, have been pushed aggressively by the Board of Economic Warfare, and Army officers are now surveying this work in the foreign field with members of our staff. Even this work, I am sorry to report, was held up by Mr. Jones in the late summer of 1942, some nine months after Pearl Harbor.

I want to submit the following facts:

In February, 1943, the Board of Economic Warfare took over the actual import purchase negotiations under Order No. 5 which I signed as Chairman of the Board of Economic Warfare. Order No. 5 is a part of our formal budget presentation. These negotiations had previously been handled by the Reconstruction Finance Corporation subsidiaries. The 1942 record of Reconstruction Finance Corporation's purchases of cinchona bark, under Board of Economic Warfare directives, illustrates why the procedures were changed in the interest of shortening this war.

(1) On June 19, 1942, the Board of Economic Warfare gave Defense Supplies Corporation a detailed outline of a program for purchasing Latin American cinchona bark from United States importers, and directed that it be put into immediate effect. A checkup five days later revealed that nothing had been done; the Federal Loan Administrator had "objected to the tone of finality" about the letter of June 19. Another week was lost because Mr. Clayton "has apparently mislaid the directive and requests another copy." That's the way the Reconstruction Finance Corporation was handling the cinchona program for quinine three months after we had lost Batavia.

(2) The Reconstruction Finance Corporation waited one month to accept an offer of 25 tons; by that time the particular bark had been sold to Brazil. Another offer for 20 tons was withdrawn - five weeks after it had been made. These delays meant the loss of 1,800 ounces of anti-malarial alkaloids for United States soldiers fighting in the tropics. In three months the Reconstruction Finance Corporation bought just 75 tons of bark. In the following seven weeks a single Board of Economic Warfare agent got firm commitments for 750 tons for immediate shipment, 1,500 more for future delivery. By this time, our Imports Office was better organized than in the Spring of 1942, and swinging vigorously into action.

(3) The Board of Economic Warfare learned that the Reconstruction Finance Corporation was getting firm offers on cinchona bark but referring

them to processors -- with whom the importers were then haggling about price -- while the bark stayed in Colombia and Ecuador. When the Board of Economic Warfare directed the Reconstruction Finance Corporation to accept all firm offers, the Reconstruction Finance Corporation responded by calling two meetings, each after another ten day delay. Then the Reconstruction Finance Corporation explained its reluctance; it didn't want to take the risk of financial loss involved in dealing with unknown and possibly "irresponsible" suppliers.

The Reconstruction Finance Corporation thus held up the vital quinine program while it objected to the "tone" of our letters, mislaid papers, forgot about offers, and handpicked its suppliers from the "right kinds of people", instead of making a desperate fight to buy every pound of cinchona bark it could locate from any source whatsoever, regardless of the financial risks involved.

QUARTZ CRYSTALS

I now desire to discuss quartz crystals, the use of which is so utterly important to some of our war industries.

For two years now Brazilian quartz crystal, essential element in airplanes, tank and submarine radio sets, has been in critically short supply.

During 1941 and early 1942, the Reconstruction Finance Corporation agent in Brazil bought 2,000 tons of crystals. He was paid a commission of 1 1/2% on his gross purchases, and he bought these crystals without checking to see whether they were of the quality needed and paid for. Over 85% of them weren't. The government lost between two and six million dollars, and we have heard that United States quartz fabricators began raiding museums to get usable crystals.

Shortly after April 13, 1942, the Reconstruction Finance Corporation replaced this agent although it gave him equally lucrative work in New York.

But the situation in Brasil wasn't improved. The Reconstruction Finance Corporation had been burnt where it hurt most, by having to take a loss on a hazardous undertaking. The new Reconstruction Finance Corporation agent, began eliminating dollar losses the easy way. Not a pound of quartz crystal was purchased by the Metals Reserve Company for six months. The Board of Economic Warfare finally had to send a top official to Rio to get the public purchasing resumed. I feel that Board of Economic Warfare personnel should have fought the delaying tactics of the Reconstruction Finance Corporation more vigorously in this instance.

The Board of Economic Warfare finally insisted upon inspection facilities in Rio so that crystals could be tested before payment and shipment. The Army Signal Corps has been of great assistance to us on this project by supplying 20 trained inspectors and the necessary arc-lights, inspection baths, polaroid screens, etc. The Army, of course, had a critical military stake in this phase of our work and has cooperated readily and effectively.

Reconstruction Finance Corporation policy had been to keep a staff in Rio -- and to wait for the business to come in. When the Board of Economic Warfare sent 100 engineers and qualified purchasing agents into the up-country areas where the crystals are mined, Reconstruction Finance Corporation representatives in Brazil at first cooperated in supplying purchase money and contracting authority; then they refused to cooperate -- on "instructions from Washington". The Board of Economic Warfare set up a purchasing station at outlying Campo Formosa; then we had to move it back to Bahia -- so that Reconstruction Finance Corporation funds could be spent through the bank there.

In April, 1943, Board of Economic Warfare representatives in Rio advised that restrictions put upon Metals Reserve Company agents' purchasing authority by Reconstruction Finance Corporation was preventing our meeting

market prices in our buying there and that purchases were coming to a halt. The Board of Economic Warfare, therefore, directed the Reconstruction Finance Corporation to relax its restrictions. Reconstruction Finance Corporation refused, stating that we didn't need quartz enough to pay any more for it. Three weeks later, after advice from their own Brazilian representatives, they reconsidered -- and changed their instructions. But not in time to head off the Special Representative of the Board of Economic Warfare in Brasil. Fed up with Reconstruction Finance Corporation obstruction to his Brazilian program, he arrived in Washington to report. It took his report, plus a morning which I spent with Jesse Jones and Will Clayton, to break this particular log-jam. Throughout the period of these bureaucratic, obstructionist tactics on the part of the Reconstruction Finance Corporation, the need for quartz crystals was critically urgent.

As I previously indicated, the reason Mr. Jones could hold up our quartz crystal and quinine programs is because he signs the checks to pay for the procurement and development of these commodities. To put it differently, he has been able to delay this part of the war effort because of his position as banker for us, notwithstanding the complete delegation of powers over imports which the President gave the Board of Economic Warfare on the 13th of April, 1942, following the failure of the Reconstruction Finance Corporation to build the government stockpiles of strategic materials which Congress authorized and directed in the summer of 1940.

The delays on the two programs just mentioned were major matters. More annoying, because there are more of them, have been the minor delays which have taken place from time to time throughout this past year. I now desire

to discuss some of these, more by way of illustration than by way of presenting any completely documented case:

Since February, 1943, the Board of Economic Warfare has been negotiating and drafting all imported materials contracts, getting them executed by the sellers, then sending them to the Reconstruction Finance Corporation subsidiaries for execution. This has been done under Order No. 5 to which I referred earlier. The purpose in establishing these new procedures was to eliminate delay and duplication.

These purposes have been in large measure accomplished -- but only in the face of an exasperating rear guard action by Reconstruction Finance Corporation officials who are still fighting the war with peacetime red tape, corporate technicalities, and with what seems to us to be an unnecessary caution. None of the following obstructionist efforts of the Reconstruction Finance Corporation is major in itself, but the cumulative effect has been maddening to the business men with foreign trade background who have left lucrative positions in private industry to work for the Board of Economic Warfare at government salaries for the duration in a patriotic effort to help shorten this war.

The tactics are better illustrated than described. During the past four months, for example, one of the Reconstruction Finance Corporation subsidiaries, Metals Reserve Company:

(1) Took four weeks to execute a group of three metal contracts drafted by the Board of Economic Warfare which the sellers had executed and returned within ten days.

(2) Held a copper contract for five weeks because one letter had been left out of one unimportant word and because two minor clauses "could have been more clearly stated." (The seller had supplied the missing letter and had found no difficulty in understanding the two clauses.)

(3) Wrote three letters to the Board of Economic Warfare complaining because a form recital clause (without legal effect) referred to the Board of Economic Warfare's "direction" that the contract be entered into. (A similar reference to the War Production Board had always been included by the Reconstruction Finance Corporation draftsmen.)

(4) Demanded that a simple five-ton wash sale contract for tantalite be broken up into two contracts -- so that Reconstruction Finance Corporation attorneys might draft one of the two. The wash sale technique was used on this small lot in order to provide Government ownership while in transit, as it was necessary to ship the goods by air and the Air Transport Command carries only Government owned materials.

(5) Refused to sign a contract with a Nigerian tantalite producer before the producer signed it -- even though the alternative meant a three-week delay in getting a new mine into production.

(6) Refused, on a legal technicality, to honor a directive authorizing the "loan or rental" of equipment to the Brazilian Government -- because of information from Government representatives in Rio, received subsequent to our directive, that the equipment would be rented, and not loaned.

(7) Held a Brazilian tantalite contract for four weeks because it had been entered into without a formal approval required by the Secretary of Commerce.

All this, and I want to emphasize it, is bureaucracy at its worst; it is utterly inexcusable in a nation at war.

We are quite willing to rest our case with the Congress and stand on our record. While I realize that the suggestion which I am about to make is not a matter directly before this Committee, I should like to express a personal judgment.

It seems to me that we could end this wrangling and improve the administrative efficiency so essential to winning this war, if program money were appropriated directly to the Board of Economic Warfare for its purchase and development of all imported strategic materials, just as money is now appropriated directly to us for administrative expenses in connection with our imports work. These difficult war time jobs cannot be tackled effectively, as pointed out so truly in the report of the Truman Committee from which I read in the early part of this statement, without the full power to carry out specific assignments.

The Board of Economic Warfare is a war agency; it is not a part of the permanent machinery of Government. We have recruited what we feel to be an extremely competent group of businessmen and technical engineers with foreign trade background to carry out our job of importing strategic materials. Shortly after the war is over most of these men will be wanting to get back to their peacetime responsibilities.

For the duration, however, I feel that they should be given adequate latitude for a job which is extremely difficult even under the best of conditions. They should be free from this hamstringing bureaucracy and backdoor complaining of Mr. Jones and his employees. It is my hope that this statement has cleared up any misunderstandings which may have been caused by Mr. Jones' appearance before the Byrd Committee.

AGENDA

FOR THE BOARD OF ECONOMIC WARFARE MEETING
TO BE HELD JULY 15, 1943, AT 10:00 A.M.
IN ROOM 201 SENATE OFFICE BUILDING

Report by Executive Director on Board of Economic Warfare appropriation amendment and discussion of subsequent action under it.

JUL 15 1943
SECRETARY OF THE BOARD
OFFICE

JUN 30 1943

My dear Mr. President:

In accordance with your request of June 23, 1943, I am enclosing a proposed reply for your signature to the letter of Mr. Charles Engelhard, dated June 22, 1943.

Mr. Engelhard's letter is returned herewith.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,
The White House.

Enclosure

By Messenger *Stungis 11:48*
6/30

KHH:www
6/25/43

initialed and extra copies Thompson

Dear Mr. Engelhardt:

This is written in reply to your letter of June 22, 1943. Your expression of faith in the great possibilities for the future of our country is very encouraging. To realize them in full measure, there must be preserved among the various elements in our population the balance which elicits from each element in our population the greatest possible contribution to national life and to world affairs. It is gratifying that you think such a balance is being approached.

The thoughtful suggestions which you have made for the financing of our great war effort without inflation have been referred to the Treasury Department for study by their officials. I think there will be general agreement with your view that the national debt should be reduced when the national income is high. Fiscal policies must be flexible so that they may be applied in an appropriate manner under suitable conditions. For example, an unvarying rate of debt reduction in fixed proportion to national income might in some periods do too little to restrict inflation, and in other periods it might contribute to deflation.

With regard to post-war financial arrangements our policy certainly must blend as completely as possible the elements you stress. Any arrangements made must assure the economic strength and independence of all cooperating nations regardless of size.

Sincerely yours,

Mr. Charles Engelhardt,
30 Church Street,
New York, New York.

ESH:maw 6/25/43

**THE WHITE HOUSE
WASHINGTON**

June 23, 1943

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY
FOR PREPARATION OF REPLY
FOR MY SIGNATURE.

F. D. R.

Lin



CHARLES ENGELHARD
110 CHURCH STREET
NEW YORK

June 22, 1943.

My dear Mr. President:

I follow with the deepest concern, the ever increasing demands of labor to be recognized as one of the governing bodies of our economic life, and I see in your present attitude towards these labor problems, your firm determination that you, Mr. President, intend to maintain the sovereignty of our government institutions towards ALL, inclusive of labor.

Labor without doubt is a most important part of our community, but without the genius of our political, technical and commercial leaders, inclusive those of finance, labor would very soon be at their wit's end.

We need the best efforts of all sections of our community in order to reach that level of perfection which will make us the predestined leaders of the economic life of the world for the next hundred years.

I envy our younger people, who can live and work in such a brilliant period.

The present war proves beyond peradventure that we must CONTINUE to participate in world affairs, or we will have another world war in twenty-five years from now, which in itself could ONLY mean the destruction of our civilization in the end.

The problems of peace will be even more difficult than the problems of war, and I even go further: WITHOUT our practical and effective leadership, peace will finally become impossible.

Providence has given you the power, Mr. President, to show the way.

You have convinced the world that the capital resources of America do prove a prime factor in winning this war, and if we are prepared to show to the world that we mean to maintain our financial strength INVIOLEATE, WE MUST WIN THE PEACE.

I contend that our Banks hold too many of our Bonds, and their burden should be EASED.

On the other hand, our capitalists are OVERTAXED,

CHARLES ENGELHARD
30 Church Street
New York

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June 22, 1943.

and they must and will disappear, to the great detriment of our people, inclusive "labor." To make both ends meet, we should offer substantial inducements to all those who show their real patriotism, by assuming a proportionate share of our national burden.

If it could be arranged that the interest on the bonds be reduced to half of what it is, but AT THE SAME TIME a guarantee be given that our bonds would be redeemable every year to the extent of at least 5% of our national income, much would be accomplished to restore general confidence and thus PREVENT INFLATION.

More than that, if our people could be assured that by buying bonds and holding them at least three years before their demise, their death duties would be reduced accordingly by a very generous discount, and thereby a general rush would be initiated to buy bonds, which might be the surprise of the world.

Only in some such manner could we MAKE OUR CREDIT INVIOULATE, inflation would become impossible, and our financial leadership of the world would be ASSURED.

In addition, all government owned plants would INSTANTLY become very valuable, and could be reconditioned, to supply the urgent PEACE needs of the outside world BY PRIVATE ENTERPRISE.

I agree with those who claim that a Bank for International Settlements, in America, is only advisable AFTER we have concluded specific treaties with friends and foes BEFOREHAND--how the future world is to be run--because I am convinced that our gold and silver resources can be the ONLY fundament which will insure the ECONOMIC SOVEREIGNTY of big and small nations alike.

As long as we are the nation who will and can make these loans AT LOW INTEREST, it will seem imperative that the gold and silver SHOULD REMAIN, by adequate arrangements, in an International Bank, located in New York, to insure that these loans, unless repaid, will never be used to our detriment.

This arrangement will go a far way to assist in maintaining peace.

CHARLES ENGELHARD

30 CHURCH STREET
NEW YORK

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June 22, 1943.

I also believe it would be the greatest economic error if we SHOULD EVER ABANDON the Silver Purchase Acts, because these Purchase Acts give us complete monetary control of both gold and silver, and will greatly assist in making good customers out of our friends in China, India, Canada, Mexico, and South America, inclusive our friends in the Silver States. The United States would realize, incidentally, a very handsome and permanent profit out of our past silver purchases, to the highest credit of your Administration, Mr. President, in view of the sometimes severe criticism from responsible quarters.

In short, your monetary initiative both as regards gold and silver, must finally prove the cornerstone of a new world, under American leadership.

Permit me to congratulate you on these momentous results, and believe me,

Yours very faithfully,

Charles Engelhard.

Hon. Franklin D. Roosevelt,
President of the United States,
The White House,
Washington, D.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

June 30, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS

With the end of the fiscal year tomorrow and a Congressional recess scheduled to start Saturday, both the House and Senate are busy with major appropriation bills:

1. The War Agencies Bill, providing funds for 16 agencies - This bill may not get in under the fiscal year deadline tomorrow night because a Senate committee reappropriated practically all of OPA's funds and also money for a modified domestic program for OWI, both of which had been drastically slashed in the House. If the Senate supports its committee's action today as expected, differences will, of course, have to be ironed out in conference.
2. The Army Appropriation Bill of 71 billion dollars - Despite insistent criticism of unnecessary extravagance from Senators Byrd, Maloney, Lafollette, and Truman, the Senate passed this measure and sent it to conference with the House on ~~four~~ four minor points, which are expected to be ironed out immediately so the bill can be sent to the White House tonight. Senator Byrd, however, served notice that the Joint Committee for the Reduction of Non-essential Expenditures would begin an immediate investigation of war expenditures and Senator Lafollette observed with some heat that if "Congress refused to appropriate another dollar, this war could be carried on for a year or two without difficulty."
3. The Commodity Credit Corporation Extension Bill - Most important about this measure, of course, is its anti-subsidy rider which House and Senate conferees agreed upon yesterday. Both houses are expected to approve the report in time for White House action by tomorrow night. So stringent is the anti-subsidy amendment which prevents any use of food subsidies without Congressional consent, however, that some quarters predict a Presidential veto.

4. The Urgent Deficiency Bill - This measure appears to be hopelessly deadlocked as both the House and Senate yesterday again disagreed on the House amendment barring use of any of the bill's funds for three Federal employees accused of subversive activities. Yesterday's vote was on a conference modification of the amendment which would have removed the three employees from the Federal payroll on November 15. The Senate, however, found this delayed-action clause equally obnoxious and unjust.
5. The Labor-Federal Security Appropriation Bill - If this measure doesn't reach the White House tomorrow, it will be chiefly because of some 48 million dollars voted by the Senate yesterday for the NYA, although the House previously had decided upon liquidation of the agency.
6. Agriculture Appropriation Bill - Like most of the measures previously discussed, this bill is of interest chiefly for its controversial provisions. Yesterday the House refused to accept the Senate amendment reinserting the Crop Insurance program and also insisted upon their provision, deleted by the Senate, prohibiting use of any of the bill's funds for incentive payments.
7. Other appropriation bills before Congress, but reasonably certain of being sent to the White House today, are the Interior Department Appropriation and a Second Deficiency Bill. By the time Congress has finished with all of these measures, it probably will have appropriated more than 115 billion dollars--a record-breaking total.

JUN 30 1943

Excellency:

As you will be informed by Mr. Octavio Bulhoes of your staff, the technical experts of the United States have been holding discussions with the technical experts of other countries on the feasibility of cooperation among the United Nations for the maintenance of international monetary stability and the restoration and balanced growth of international trade. As a result of these unofficial discussions, I hope we shall soon be in a position to know whether there is sufficient area of agreement to warrant proceeding on a more formal basis.

I particularly wish to express to you the gratitude of the Treasury staff for the opportunity of discussing with Mr. Bulhoes the tentative proposal of the technical experts of the Treasury. The discussions with Mr. Bulhoes have been helpful in clarifying many important points. I feel sure that the final draft of any proposal will be improved because of the contributions that have been made by Mr. Bulhoes.

We are enclosing for your interest and study a revised draft proposal embodying the suggestions growing out of discussions of the technical experts. If prospects of agreement appear to warrant pursuing the matter further, we shall wish to have your views on the basic points covered by the proposal.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

His Excellency, Arthur de Sousa Costa,
The Minister of Finance,
The United States of Brazil,
Rio de Janeiro, Brazil.

Mailed by Dr. White's office
on 6/30/43

(copy of ltr and encl. in
Diary)

EMB/jm
6/25/43

JUN 30 1943

My dear Mr. Minister:

Thank you for sending two such excellent men as Mr. Antonio Espinosa de los Monteros and Mr. Rodrigo Gomez to participate in discussions with respect to the post-war financial problems. I am informed that they were both very helpful in their criticism and in their suggestions and that their contributions will help make any proposal that emerges a better one.

We regret that they could not stay for the general informal conference which has just been completed, as I am sure they would have contributed a good deal to that discussion.

There is enclosed for your interest and study a revised draft of the proposed International Stabilization Fund which embodies many of the suggestions made by delegates from various countries and some modifications of the original draft designed to meet some general points of criticism.

We expect soon to finish exchanging views with the technical experts of most of the remaining countries and hope that before long we will be in a position to judge whether there is a sufficient area of agreement on the basic points to warrant proceeding on a more formal basis. Before, however, a decision is made to hold formal conferences, we shall wish to obtain your views on some of the basic aspects of the proposal.

Sincerely,

(Signed) H. Mergenthau, Jr.

Secretary of the Treasury

His Excellency, Eduardo Suarez,
Minister of Finance,
The United States of Mexico,
Mexico City, Mexico.

Mailed by Dr. White's office
on 6/30/43

(copy of ltr and encl. in
Diary)

Enclosure

HDW:mww 6/25/43

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

Preamble

1. There is a growing recognition that progress toward establishment of a functioning democratic world in the post-war period will depend on the ability of free peoples to work together in solving their economic problems. Not the least of these is the problem of how to prevent a wide-spread breakdown of currencies with resultant international economic disorder. We must assure a troubled world that the free countries will solve these perplexing problems, and that they will not resort to competitive exchange depreciation, multiple currency practices, discriminatory bilateral clearing, or other destructive foreign exchange devices.

2. These are not transitory problems of the immediate post-war period. Nor can countries adopt an attitude of indifference in the expectation that these problems will not touch them. There must be a general realization that world prosperity, like world peace, is indivisible. Nations must act together to restore multilateral international trade and to provide orderly procedure for the maintenance of balanced economic growth. Only through international cooperation will it be possible for countries successfully to apply measures directed toward attaining and maintaining a high level of employment and income which must be the primary objective of economic policy.

3. The International Stabilization Fund of the United and Associated Nations is proposed as a permanent institution for international monetary cooperation. The resources of this Fund would be available under adequate safeguards to maintain currency stability, while giving member countries time to correct maladjustments in their balance of payments without resorting to extreme measures destructive of international prosperity. The resources of the Fund would not be used to prolong a basically unbalanced international payments position. On the contrary, the Fund would be influential in inducing countries to pursue policies making for an orderly return to equilibrium.

4. The Fund would deal only with member governments and their fiscal agents and would not intrude in the customary channels for conducting international commerce and finance. The Fund is intended to provide supplemental facilities for the successful functioning of the established foreign exchange institutions and to free international commerce from harmful restrictions.

5. The success of the Fund must ultimately depend upon the willingness of nations to act together on their common problems. International monetary cooperation should not be regarded as a matter of generosity. All countries have a vital interest in the maintenance of international monetary stability and in the balanced growth of multilateral international trade.

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I. Purposes of the Fund

The United Nations and the countries associated with them recognize, as declared in the Atlantic Charter, the need for the fullest cooperation among nations with the object of securing economic advancement and rising standards of living for all. They believe that attainment of these objectives will be facilitated by international monetary cooperation. Therefore, it is proposed that there be established an International Stabilization Fund with the following purposes:

1. To stabilize the foreign exchange rates of the currencies of the United Nations and the countries associated with them.
2. To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.
3. To help create conditions under which the smooth flow of foreign trade and of productive capital among the member countries will be fostered.
4. To facilitate the effective utilization of the blocked foreign balances accumulating in some countries as a consequence of the war situation.
5. To reduce the use of such foreign exchange restrictions, bilateral exchange clearing arrangements, multiple currency devices, and discriminatory foreign exchange practices as hamper world trade and the international flow of productive capital.

II. Composition of the Fund

1. The Fund shall consist of gold and the currencies and securities of member governments.
2. Each of the member countries shall subscribe a specified amount to be called its quota. The aggregate of quotas of the member countries shall be the equivalent of at least \$5 billion.
3. Each member country shall meet its quota contribution in full on or before the date set by the Board of Directors for the Fund's operations to begin.
 - a. A country shall pay in gold an amount determined as follows. If its gold and free foreign exchange holdings are:
 - i. In excess of three times its quota, it shall pay in gold 50 percent of its quota.
 - ii. More than two but less than three times its quota, it shall pay in gold 40 percent of its quota plus 10 percent of its gold holdings in excess of twice its quota.

- iii. More than its quota but less than twice its quota, it shall pay in gold 30 percent of its quota plus 10 percent of its gold holdings in excess of its quota.
- iv. Less than its quota, it shall pay in gold 30 percent of its gold holdings.

The gold payment required of a member country, substantial parts of whose home areas have been wholly or partly occupied by the enemy, shall be only three-fourths of the above. (For other gold provisions, see V-2(a) and V-6, 7.)

- b. It shall pay the remainder of its quota in local currency, except that a member country may substitute government securities (redeemable at par) for local currency up to 50 percent of its quota.

4. A quota for each member country shall be computed by an agreed upon formula which gives due weight to the important relevant factors, e.g., a country's holdings of gold and foreign exchange, the magnitude and the fluctuations of its balance of international payments, its national income, etc.

Before computing individual quotas on the basis of the agreed upon formula, there shall be reserved an amount equal to 10 percent of aggregate quotas to be used as a special allotment for the equitable adjustment of quotas.

Where the initial quota of a member country as computed by the formula is clearly inequitable, the quota may be increased from this special allotment.

5. Quotas shall be adjusted on the basis of the most recent data three years after the establishment of the Fund, and at intervals of five years thereafter, in accordance with the agreed upon formula. In the period between adjustment of quotas, the Fund may increase the quota of a country, where it is clearly inequitable, out of the special allotment reserved for the equitable adjustment of quotas.
6. Any changes in the formula by which the quotas of member countries are determined shall be made only with the approval of four-fifths vote of the Board.
7. No increase shall be made in the quota of a member country under II-5 or 6 without the consent of the representative of the country concerned.

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III. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the Unitas (UN) equal in value to 137 1/7 grains of fine gold (equivalent to \$10 U.S.). No change in the gold value of the Unitas shall be made except with the approval of 85 percent of the member votes. When such change is made the gain or loss sustained by the Fund on its holdings of gold shall be distributed equitably among the members of the Fund.

The accounts of the Fund shall be kept and published in terms of Unitas.

2. The value of the currency of each member country shall be established in terms of Unitas and may not be altered except as provided in IV-5, below. (See IV-1, 2, below.)

No member country shall purchase or acquire gold, directly or indirectly, at a price in terms of its national currency in excess of the parity which corresponds to the value of its currency in terms of Unitas and to the value of Unitas in terms of gold; nor shall any member country sell or dispose of gold, directly or indirectly, at a price in terms of its national currency below the parity which corresponds to the value of its currency in terms of Unitas and to the value of Unitas in terms of gold. (See also VII-1.)

3. No change in the value of the currencies of member countries shall be permitted to alter the value in Unitas of the assets of the Fund. Whenever the currency of a member country has depreciated to a significant extent, that country must deliver to the Fund when requested an amount of its local currency equal to the decrease in value of that currency held by the Fund. Likewise, if the currency of a particular country should appreciate, the Fund must return to that country an amount (in the currency of that country) equal to the resulting increase in the Unitas value of the Fund's holdings. The same provisions shall also apply to the government securities of member countries held by the Fund.

IV. Exchange Rates

1. The Fund shall purchase for local currency or needed foreign exchange any member currency in good standing acquired by another member country, where such currency cannot be disposed of in the foreign exchange markets within the spread established by the Fund.

The rates at which the Fund will buy and sell one member currency for another and at which the Fund will buy and sell gold for local currency shall be established in accordance with the provisions below. (See also III-2 and V-2.)

2. The initial rates of exchange for member countries' currencies shall be determined as follows:

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- a. For any country which becomes a member prior to the date on which the Fund's operations begin, the rates initially used by the Fund shall be based upon the value of the currency in terms of U.S. dollars which prevailed on July 1, 1943.

If, in the judgment of either the member country or the Fund, the above rate is clearly inappropriate, the initial rate shall be determined by consultation between the member country and the Fund. No operations in such currency shall be undertaken by the Fund until a rate has been established which has the approval of the Fund and of the member country in question.

- b. For any country which has been occupied by the enemy, the Fund shall use the exchange value fixed by the government of the liberated country (in consultation with the Fund). The Fund shall undertake no operations in such currency until the liberated country has fixed a rate acceptable to the Fund.
 - c. For any country which becomes a member subsequent to the date on which the Fund's operations begin, the exchange value of its currency shall be determined in accordance with the appropriate provisions under IV-2(a) or (b), above.
3. The Fund shall not come into operation until agreement has been reached on the exchange rates for currencies of countries representing a majority of the aggregate quotas.
 4. The Fund shall determine the range within which the rates of exchange of member currencies shall be permitted to fluctuate. (See also VII-1).
 5. Changes in the exchange value of the currency of a member country shall be considered only when essential to the correction of fundamental disequilibrium in its balance of payments, and shall be made only with the approval of three-fourths of the member votes and of the representative of the country concerned.

Because of the extreme uncertainties of the immediate post-war period, the following exceptional provisions may be used during the first three years of the Fund's operations:

- a. When the existing rate of exchange of a member country is clearly inconsistent with the maintenance of a balanced international payments position for that country, changes from the established rate may be made at the special request of that country and with the approval of a majority of the member votes.

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- b. A member country may change the established rate for its currency by not more than 10 percent provided that the member country shall notify the Fund of its intention and shall consult with the Fund on the advisability of its action.

V. Powers and Operations

The Fund shall have the following powers:

1. To buy, sell and hold gold, currencies, bills of exchange, and government securities of member countries; to earmark and transfer gold; to issue its own obligations, and to offer them for discount or sale in member countries.
2. To sell to the Treasury of any member country (or stabilization fund or central bank acting as its agent) at the accepted rate of exchange, currency of any member country which the Fund holds, provided that: (See IV-1, above).
 - a. The foreign exchange demanded from the Fund is required to meet an adverse balance of payments predominantly on current account with any member country. (See V-3 for capital transfers).

When the gold and free foreign exchange holdings of a member country exceed 50 percent of its quota, the Fund in selling foreign exchange to such member country shall require that one-half of such exchange shall be paid for with gold or foreign exchange acceptable to the Fund. (See also V-6, 7; on gold collateral see V-2(c)).

- b. The Fund's total holdings of the currency and securities of any member country shall not exceed the quota of such country by more than 50 percent during the first year of operation of the Fund, and thereafter shall not exceed such quota by more than 100 percent (except as otherwise provided below). The total holdings thus permitted are termed the permissible quota of a country. When the Fund's holdings of local currency and securities are equal to the permissible quota of a country, the Fund may sell foreign exchange for such additional local currency only with the specific approval of the Board of Directors and provided that at least one of the following two conditions is met:

1. In the judgment of the Fund satisfactory measures are being or will be taken by the country whose currency is acquired by the Fund, to correct the disequilibrium in the country's balance of payments; or
- ii. It is believed that the balance of payments of the country whose currency is acquired by the Fund will be such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time;

provided, further, that when the Fund's holdings of the currency of any member country or countries fall below 20 percent of their respective quotas, the sale shall also require the approval of the representatives of these countries.

- c. When the Fund's holdings of local currency and securities exceed the permissible quota of a country, the Board may require the member country to deposit collateral in accordance with regulations prescribed by the Board. Such collateral shall take the form of gold, foreign or domestic currency or Government bonds, or other suitable collateral within the capacity of the member country.
 - d. When in the judgment of the Fund a member country, whose currency and securities held by the Fund exceed its quota, is exhausting its permissible quota more rapidly than is warranted, or is using its permissible quota in a manner that clearly has the effect of preventing or unduly delaying the establishment of a sound balance in its international accounts, the Fund may place such conditions upon additional sales of foreign exchange to that country as it deems to be in the general interest of the Fund.
3. The Fund may sell foreign exchange to a member country, under conditions prescribed by the Fund, to facilitate a transfer of capital, or repayment or adjustment of foreign debts, when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation, provided the Fund's holdings of the currency and securities of the member country do not exceed 150 percent of the quota of that country. When the Fund's holdings of the local currency and securities of a member country exceed 150 percent of the quota of that country, the Fund may, in exceptional circumstances, sell foreign exchange to the member country for the above purposes with the approval of three-fourths of the member votes. (See V-2(a), above.)

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4. When the Fund's holdings of the currency and securities of a member country become excessively small in relation to prospective acquisitions and needs for that currency, the Fund shall render a report to that country. The report shall embody an analysis of the causes of the depletion of the Fund's holdings of that currency, a forecast of the prospective balance of payments in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The representative of the country in question shall be a member of the Fund committee appointed to draft the report. This report shall be sent to all member countries and, if deemed desirable, be made public. Member countries agree that they will give immediate and careful attention to recommendations made by the Fund.
5. Whenever it becomes evident to the Board of Directors that the anticipated demand for any particular currency may soon exhaust the Fund's holdings of that currency, the Fund shall inform the member countries of the probable supply of the currency and of a proposed method for its equitable distribution, together with suggestions for helping to equate the anticipated demand for and supply of that currency.

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

To facilitate appropriate adjustment in the balance of payments position of member countries, and to help correct the distortions in the pattern of trade balances, the Fund shall apportion its sales of such scarce currency. In such apportionment, it shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation. It shall also consider the special needs and resources of the particular countries making the request for the scarce currency.

The right of any member country to acquire an amount of other currencies equal to its permissible quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is scarce.

6. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign currencies which the member country needs, one-half of the foreign exchange resources and gold it acquires in excess of 25 percent of its quota. For the purpose of this provision, including computations, only free and liquid foreign exchange resources and gold shall be considered. The Fund may accept or reject the offer. (See also II-3(a), V-2(a), and V-7.)

To help achieve this objective each member country agrees to discourage the excessive accumulation of foreign exchange resources and gold by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately held foreign exchange resources and gold appears unwarranted.

7. When the Fund's holdings of the local currency and securities of a member country exceed the quota of that country, the Fund shall, upon request of the member country, resell to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange. (See V-14, for charges on holdings in excess of quota.)
8. To buy from the governments of member countries, blocked foreign balances held in other member countries, provided all the following conditions are met:
- a. The blocked balances are held in member countries and are reported as such (for the purpose of this provision) by the member governments and are verified by the Fund.
 - b. The member country selling the blocked balances to the Fund agrees to transfer these balances to the Fund and to repurchase from the Fund 40 percent of them (at the same price) with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.
 - c. The country in which the blocked balances are held agrees to transfer to the Fund the balances described in (b) above, and to repurchase from the Fund 40 percent of them (at the same price) with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

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- d. A charge of one percent on the amount of blocked balances sold to the Fund, payable in gold, shall be levied against the country selling its blocked balances and against the country in which the balances are held. In addition a charge of not less than one percent, payable in gold, shall be levied annually against each country on the amount of such balances remaining to be repurchased by it.
- e. If the country selling blocked balances to the Fund asks for foreign exchange rather than local currency, the request will not be granted unless the country needs the foreign exchange for the purpose of meeting an adverse balance of payments, not arising from the acquisition of gold, the accumulation of foreign balances, or other capital transactions.
- f. Either country may, at its option, increase the amount it repurchases annually. But, in the case of the country selling blocked balances to the Fund, not more than 2 percent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.
- g. The Fund has the privilege of disposing of any of its holdings of blocked balances as free funds after the 23-year period is passed, or sooner under the following conditions:
1. its holdings of the free funds of the country in which the balances are held fall below 15 percent of its quota; or
 - ii. the approval is obtained of the country in which the balances are held.
- h. The country in which the blocked balances are held agrees not to impose any restrictions on the use of the installments of the 40 percent portion gradually repurchased by the country which sold the balances to the Fund.
- i. The Fund agrees not to sell the blocked balances acquired under the above authority, except with the permission or at the request of the country in which the balances are being held. The Fund

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may invest these balances in the ordinary or special government securities of that country. The Fund shall be free to sell such securities in any country under the provisions of V-11, below.

- j. The Fund shall determine from time to time the maximum proportion of the blocked balances it will purchase under this provision, provided, however, that during the first two years of its operation, blocked balances purchased by the Fund shall not exceed in the aggregate 10 percent of the quotas of all member countries. At the end of two years of operation, the Fund shall propose a plan for the gradual further liquidation of blocked balances still outstanding indicating the proportion of the blocked balances which the Board considers the Fund can appropriately purchase.

Blocked balances acquired under this provision shall not be included either in computing the amount of foreign exchange available to member countries under their quotas (V-2, 3), or in computing charges on balances of local currency in excess of the quotas (V-14).

9. To buy and sell currencies of non-member countries but shall not acquire more than \$10 million of the currency of any one non-member country nor hold such currencies beyond 60 days after date of purchase except with the approval of the Fund.
10. To borrow the currency of any member country provided the additional amount is needed by the Fund and provided the representative of that country approves.
11. To sell member country obligations owned by the Fund provided that the representatives of the country issuing the securities and of the country in which the securities are to be sold approve, except that the approval of the representative of the issuing country shall not be necessary if the obligations are to be sold in its own market.

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

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12. To invest any of its currency holdings in government securities of the country of that currency provided that the representative of the country approves.
13. To lend to any member country its local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund.
14. To make a service charge on all gold and exchange transactions.

To levy a charge uniform to all countries, at a rate not less than one percent per annum, payable in gold against any country on the amount of its currency held by the Fund in excess of the quota of that country. An additional charge, payable in gold, shall be levied by the Fund against any member country on the Fund's holdings of its currency in excess of the permissible quota of that country.

In case the Fund finds it necessary to borrow currency to meet the demands of its members, an additional charge, payable in gold, shall be made by the Fund sufficient to cover the cost of the borrowing.

15. To levy upon member countries a pro rata share of the expenses of operating the Fund, payable in local currency, not to exceed 1/10 percent per annum of the quota of each country. The levy may be made only to the extent that the earnings of the Fund are inadequate to meet its current expenses.
16. The Fund shall deal only with or through
 - a. The treasuries, stabilization funds, or central banks acting as fiscal agents of member governments;
 - b. Any international banks owned predominantly by member governments.

The Fund may, nevertheless, with the approval of the representative of the government of the country concerned, sell its own securities, or securities it holds, directly to the public or to institutions of member countries.

VI. Management

1. The administration of the Fund shall be vested in a Board of Directors. Each government shall appoint a director and an alternate, in a manner determined by it, who shall serve for a period of five years subject to the pleasure of their government. Directors and alternates may be reappointed.
2. In all voting by the Board, the director or alternate of each member country shall be entitled to cast an agreed upon number of votes.

The distribution of basic voting power shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of basic voting power would seem to be the following: Each country shall have 100 votes plus 1 vote for the equivalent of each 100,000 Units (\$1 million of its quota.)

No country shall be entitled to cast more than one-fifth of the aggregate basic votes regardless of its quota.

3. All voting shall be according to basic votes except as follows:

- a. In voting on proposals to authorize the sale of foreign exchange, each country shall cast a number of votes modified from its basic vote:

1. by the addition of one vote for each \$2 million of net sales of its currency by the Fund (adjusted for its net transactions in gold), and
11. by the subtraction of one vote for each \$2 million of its net purchases of foreign exchange from the Fund (adjusted for its net transactions in gold).

- b. In voting on proposals to suspend or restore membership each member country shall cast one vote as provided in VI-11, below.

4. All decisions, except where specifically provided otherwise, shall be made by a majority of the member votes.
5. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become an ex officio member of the Board and shall be chief of the operating staff of the Fund. The operating staff shall be selected in accordance with regulations established by the Board of Directors.
6. The Board of Directors shall appoint from among its members an Executive Committee of not less than eleven members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be an ex officio member of the Executive Committee.

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

7. The Board of Directors may appoint such other committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not employed by the Fund.
8. The Board of Directors may at any meeting authorize any officers or committees of the Fund to exercise any specified powers of the Board not requiring more than a majority vote.

The Board may delegate any authority to the Executive Committee, provided that the delegation of powers requiring more than a majority of the member votes can be authorized only by a majority (of the Board) of the same size as specified, and can be exercised by the Executive Committee only by like majority.

Delegated powers shall be exercised only until the next meeting of the Board, and in a manner consistent with the general policies and practices of the Board.

9. The Board of Directors may establish procedural regulations governing the operations of the Fund. The officers and committees of the Fund shall be bound by such regulations.
10. The Board of Directors shall hold an annual meeting and such other meetings as it may be desirable to convene. The annual meeting shall be held in places designated by the Executive Committee, but not more than one annual meeting in any five-year period shall be held within the same member country.

On request of member countries casting one-fourth of the votes, the Chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.

11. A country failing to meet its obligations to the Fund may be suspended provided a majority of the member countries so decides. While under suspension, the country shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. At the end of two years the country shall be automatically dropped from membership unless it has been restored to good standing by a majority of the member countries.

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

A country which is dropped or which withdraws from the Fund shall have returned to it an amount in its own currency equal to its contributed quota, plus other obligations of the Fund to the country, and minus any sum owed by that country to the Fund. Any losses of the Fund may be deducted pro rata from the contributed quota to be returned to the country that has been dropped or has withdrawn from membership. Local currency holdings of the Fund in excess of the above shall be repurchased by that country with gold or foreign exchange acceptable to the Fund.

When any country is dropped or withdraws from membership, the rights of the Fund shall be fully safeguarded. The Fund shall have five years within which to liquidate its obligation to such country.

12. Net profits earned by the Fund shall be distributed in the following manner:
 - a. 50 percent to reserves until the reserves are equal to 10 percent of the aggregate quotas of the Fund.
 - b. 50 percent to be divided each year among the members in proportion to their quotas. Dividends distributed to each country shall be paid in its own currency or in gold at the discretion of the Fund.

VII. Policies of Member Countries

Each member country of the Fund undertakes the following:

1. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and not to alter exchange rates except as provided in IV-5, above.

Exchange rates of member countries may be permitted to fluctuate within the specified range fixed by the Fund.

2. To abandon, as soon as the member country decides that conditions permit, all restrictions (other than those involving capital transfers) over foreign exchange transactions with other member countries, and not to impose any additional restrictions (except upon capital transfers) with the approval of the Fund.

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

All member countries agree that all of the local currency holdings of the Fund shall be free from any restrictions as to their use. This provision does not apply to blocked foreign balances acquired by the Fund in accordance with the provisions of V-8, above.

3. To cooperate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Cooperation shall include, upon recommendation by the Fund, measures that can appropriately be taken, such as:

- a. Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing restrictions on the export of capital except with the permission of the Government of that country and the Fund;
- b. To make available to the Fund or to the Government of any member country such information as the Fund considers necessary on property in the form of deposits, securities and investments of the nationals of the member country imposing the restrictions.

4. Not to enter upon any new bilateral foreign exchange clearing arrangements, nor engage in multiple currency practices, which in the judgment of the Fund would retard the growth of world trade or the international flow of productive capital.
5. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.

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6. To furnish the Fund with all information it needs for its operations and to furnish such reports as the Fund may require in the form and at the times requested by the Fund.
7. To adopt appropriate legislation or decrees to carry out its undertakings to the Fund.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via NR

DATE: June 29, 1943, 11 a.m.

NO.: 1049

This is message no. TF 137 transmitting the weekly economic report from Mr. Adler for the Secretary of the Treasury.

1. Prices:

Wholesale:	<u>April</u>	<u>Increase on March</u>
General	10020	80%
Food	7140	23%

Because price controls were relaxed at the beginning of the month an index was computed for the first time since January using actual market prices as well as official prices. This is partly responsible for the sudden increase in the April index.

2. In April the amount of legal tender in circulation was 8 percent more than in March, totaling CN\$43,735,000,000. It has been rumored that forged fapi is being injected into circulation by the Japanese but only on a small scale up to now.

3. Up to May 24 the total sales of U.S. dollar backed certificates amounted to CN\$755,000,000 and up to June 23 to CN\$838,000,000.

4. In June the regulations for the issue of the new Allied victory bonds for CN\$3,000,000,000 at 6% per annum were issued. These bonds are redeemable between 1948 and 1964. It is thought that most of the issue will be taken up by the government banks and that public subscriptions will be insignificant.

5. The overhold position of the Central Bank in May was 639,000 and U.S. \$824,000.

6. The United States dollar sold at the rate of 62.5 to 63 and the Indian rupee varied between 20.8 and 21 in

the

the Kunming black market as of June 19.

7. In Chungking 65% per annum was the interest rate on a fifteen-day loan in the Black Market and in other cities this was even higher.

8. A Chungking branch of the Chartered Bank of India, Australia and China was opened on the first of June.

9. Purchasers are now required by the operators of the mines to pay for their coal partly in rice.

Small towns in Fukien have also reported that barter is spreading there.

At the beginning of June the Second National Production Conference which was held in Chungking adopted many praiseworthy resolutions, but it is doubtful if any of them will have any noticeable effects.

ATKERSON

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 29, 1943, 5 p.m.

NO.: 1055

This is a Strictly Confidential message, no. TF-136, for the Secretary of the Treasury only from Mr. Adler.

Reference is made to my telegram no. TF-136, sent on June 26, 1943.

Yesterday Dr. Kung told me that he had given Dr. Soong instructions to officially approach the Treasury Department and ask that the 1941 agreement be revised in the spirit of Lend-Lease.

ATCHERSON

BRITISH MOST SECRET
U.S. SECRET

OFFICE
SECRETARY OF TREASURY

OPTEL NO. 212

1943 JUN 31 PM 4 19

Information received up to 7 a.m., 30th June, 1943.

TREASURY DEPARTMENT

1. AIR OPERATIONS

WESTERN FRONT. 28th/29th. COLOGNE. 1,514 tons dropped, including eight 8,000 pound and 231 4,000 pound H.E. and 809 tons of incendiaries in 40 minutes. Complete cloud with top between 7,000 and 10,000 feet. Impossible to estimate success until photographs taken, but glow of fires seen reflected on clouds with column of smoke rising through them. Very heavy A.A. fire and much fighter activity. 3 enemy aircraft shot down. 29th. 77 Fortresses dropped 172 tons at the GNOISE et LE RHONE AERO ENGINE FACTORY at LE MAUS. No anti aircraft over objective and no enemy fighters seen. 148 other Fortresses sent to attack 2 airfields in Northern FRANCE abandoned task owing to complete cloud. Enemy casualties by latter bombers: 2, 5, 3. By fighters in other operations: 8, 1, 0. Typhoons damaged a 1,500 ton ship, a tug and an E-boat off OSTEND. 1 Typhoon bomber missing. 29th/30th. Aircraft despatched: Sea-mining - 16 (one missing), Intruders - 2.

ITALY. 26th/27th. Wellingtons dropped 45 tons on NAPLES. 1 Wellington missing. 27th/28th. Wellingtons dropped 110 tons, including 5 4,000 pound bombs at SAN GIOVANNI, 1 Wellington missing. 28th. Fortresses dropped 233 tons at the PORT OF LECHORN.

SICILY and SARDINIA. 28th. 90 escorted medium bombers attacked 3 airfields in SARDINIA and 24 escorted Spitfires from MALTA bombed an airfield and sulphur refineries in SICILY.

CORRECTION TO OPTEL NO. 210

1. NAVAL

HOLE WATERS. For - "One of H... Cruisers"

to read: "One of H...N.Z. Cruisers...."

OPTEL NO. 211. 1. NAVAL. Insert at end of paragraph:

"During a third attack on convoy off CAPE BON, Bombers shot down 4 more aircraft. No damage reported to convoy in any of the 3 attacks."