

January 17, 1942.

My dear Mr. Secretary:

In the absence of Secretary Morgenthau I have your letter of January 16 in regard to the meeting in your office at 2:00 p.m. on Monday, January 19 to discuss problems relating to the food situation in California.

I am planning to attend the meeting and shall bring with me one or two associates who have been working on this problem.

Sincerely yours,

(Signed) E. H. Foley, Jr.

Acting Secretary of the Treasury

The Honorable

The Secretary of Agriculture.

ERF :mp 1/17/42

173

DEPARTMENT OF AGRICULTURE  
Washington

(Seal)

January 16, 1942.

The Honorable  
The Secretary of Treasury

Dear Mr. Secretary:

In view of the important place that Japanese-Americans and Japanese-Nationals have in California vegetable production, representatives of the Treasury Department and this Department made a rapid but comprehensive survey of the factors that might affect the 1942 Japanese vegetable production in California. This survey consisted largely of obtaining information from officials of Federal Reserve Banks, the California USDA War Board, Chairmen of USDA County War Boards, local bankers, business men and other interested individuals in areas with large Japanese farming populations.

On the basis of the information obtained from this investigation, I urge the necessity of immediate action by the appropriate agencies of the Federal Government so that the supply of vegetables for the military forces and the civilian population will not be needlessly curtailed.

It is also evident that the general public is not completely confident that the Federal and local governments have provided sufficient supervision over the activities of Japanese-Nationals and Japanese-Americans to prevent them from possible acts that will be detrimental to the military efforts of our armed forces or to the Nation's food supply. Isolated incidents and rumors of incidents may have created more concern among the general public than is justified. However, if this public confidence is not obtained, individual groups or groups in local communities may soon attempt to arrange their own and perhaps improper methods of obtaining this supervision.

In arranging this protection for ourselves from possible subversive Japanese activities, we can at the same time furnish certain limited protection to all Japanese whose conduct is above suspicion, so that we will more likely avoid incidents that might provide an excuse for cruel treatment of our people in Japanese occupied territory. Also, with this limited protection the Japanese in California will be in a better position to carry on their normal farming operations.

In order to provide the proper Federal action for this problem as speedily as possible, I suggest that representative of your Department arrange to confer in the very near future with representatives of the

- 2 -

Departments of State, War, Navy, Justice, Labor, and Agriculture. This conference should consider the possibility of immediately removing Japanese from all strategic military areas so that this land which is suitable for farming can be operated by proper individuals before it is too late to obtain a 1942 crop. The question has also been raised of bringing in Mexican labor to assist in meeting the California vegetable and fruit labor needs at harvest time, particularly on Japanese operated farms, inasmuch as the usual supply of Filipino labor will not be available to the Japanese. Finally, this conference should attempt to arrange supervision of all Japanese farming operations in such a way that the general public will have confidence in this supervision, and the 1942 production of vegetables will not be too seriously decreased.

A similar letter is being addressed to other agencies involved in the control of this situation. Will you please have a representative at my office to discuss this matter at 2:00 p.m., Monday, January 19.

Sincerely yours,

/s/ CLAUDE R. WICKARD

Secretary

JAN 1942

Dear Mr. Attorney General:

In the absence of Secretary Morgenthau, I am replying to your letter of January 15, 1942, enclosing a copy of a letter which you received from the United States Attorney at Los Angeles with respect to discrimination against Japanese commission merchants and produce dealers.

I am enclosing a copy of General License No. 68, as amended. This General License unblocks the accounts of Japanese nationals who have resided continuously within the continental United States since June 17, 1940, and permits business enterprises within the continental United States owned and controlled by such Japanese nationals to continue to operate, except in those cases in which Treasury representatives are maintained on the premises or an official Treasury notice is posted indicating that such premises are under government control. It is believed that, so far as foreign control is concerned, all of the Japanese commission merchants and produce dealers are licensed to conduct their domestic business. In cases not comprehended by this general license, applications for business operating licenses may be filed with the Federal Reserve Bank of San Francisco. I am also enclosing a copy of General License No. 77.

As you know, representatives of this Department have recently concluded a series of conferences in California with representatives of the Department of Agriculture with regard to this situation. Representatives of the Department of Agriculture of the State of California and other interested persons were also present at these conferences.

Very truly yours,

(Signed) E. H. Foley, Jr.

Acting Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

Enclosures

RE:HRF/sp 1/17/42

THE ATTORNEY GENERAL  
Washington

(Seal)

January 15, 1942

Dear Henry:

Enclosed is a copy of a telegram from the United States Attorney in Los Angeles with respect to discrimination against Japanese commission merchants and produce dealers. I understand that the Treasury has issued a license permitting them to do business and I shall appreciate your in advising me so that I may use my efforts to see that there is as little of this confusion and discrimination as possible.

I have sent a copy of the telegram to Claude Wickard, who will also use his efforts to work out the situation.

Sincerely yours,

/s/ FRANCIS BIDDLE

The Honorable

Henry Morgenthau

Secretary of the Treasury

Copied 1/19/42 - mp

LOS ANGELES, CALIFORNIA

January 12, 1942

Honorable Francis Biddle  
The Attorney General

THE BUREAU OF MARKET ENFORCEMENT DEPARTMENT OF AGRICULTURE OF CALIFORNIA IS REPORTED TO BE DENYING LICENSES TO JAPANESE ALIEN COMMISSION MERCHANTS AND PRODUCE DEALERS STOP THESE DEALERS HAVE BEEN CARRYING ON THIS BUSINESS FOR FIFTEEN OR TWENTY YEARS. THEY ADVANCE FUNDS TO TRUCK FARMERS WHICH ENABLES THEM TO MAKE THE CROP AND A REFUSAL OF RENEWAL OF THEIR LICENSES WILL STOP THE PRODUCTION AND MARKETING OF NECESSARY FOOD STUFFS. THIS WILL PUT APPROXIMATELY TWO THOUSAND JAPANESE GROWERS AND EMPLOYEES OUT OF BUSINESS AND CAUSE GREAT HARDSHIP TO SUCH PRODUCERS AND THE CONSUMING PUBLIC CAN YOU HELP?

UNITED STATES ATTORNEY

Copied 1/19/42 - mp

STANDARD FORM NO. 18-A  
 APPROVED BY THE PRESIDENT  
 MARCH 10, 1926

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

TREASURY DEPARTMENT  
 WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

**Official-Expenses of Loans**

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

January 17, 1942

Clark Gable  
 care Metro-Goldwyn-Mayer Studios  
 Culver City California

My deepest sympathy goes to you today. Your wife died in the service of her country. Her brilliant work for the Treasury this week in selling Defense Bonds in Indianapolis will be long remembered and honored by us all.

Henry Morgenthau, Jr.  
 Secretary of the Treasury.

Miss MacDonald, Mr. Shaeffer  
 and Room 463 FK/hkb



OFFICE OF THE DIRECTOR

## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 17, 1942

MEMORANDUM TO THE SECRETARY

There is submitted herewith the operating report of Lend-Lease purchases for the week ended January 17, 1942.

At the request of the Office of Lend-Lease Administration, conferences will be had Monday with representatives of that office in an effort to avoid duplication in the purchasing of the same commodities by the procurement agencies participating in the Lend-Lease program.

It was indicated that we may be called upon to handle the procurement of all machine tools, involving a program of about \$135,000,000, and certain other commodities which are not of a strictly military nature which have heretofore been purchased by the military services.

*Clifton E. Beck*  
Clifton E. Beck  
Director of Procurement

FOR DEFENSE



BUY  
UNITED  
STATES  
SAVINGS  
BONDS  
AND STAMPS



## OPERATING REPORT - LEND-LEASE PURCHASES

WEEK ENDED JANUARY 17, 1942

TOTAL ALLOCATIONS		\$817,021,188.00
LESS: FUNDS AWAITING CLEARANCE BY O.P.M.		8,719,375.00
NET ALLOCATIONS		<u>\$808,301,813.00</u>
*REQUISITIONS APPROVED FOR PURCHASE		\$533,663,380.09
PURCHASES PREVIOUSLY RE- PORTED	\$380,749,989.76	
PURCHASES THIS WEEK	<u>28,367,633.73</u>	
TOTAL PURCHASES		409,117,623.49
REQUISITIONS IN PROCESS IN- CLUDING THOSE AWAITING SPECIFICATIONS		\$124,545,756.60

\*THE DIFFERENCE BETWEEN NET ALLOCATIONS AND REQUISITIONS APPROVED FOR PURCHASE REPRESENTS ALLOCATIONS IN EXCESS OF COMMITMENTS, REQUISITIONS TRANSFERRED TO OTHER AGENCIES, AND CANCELLED REQUISITIONS.

PARAPHRASE OF TELEGRAM RECEIVED

179

FROM: ANDELGAT, Rio de Janeiro, Brazil.

DATE: January 17, 1942, 10 a.m.

NO.: 19.

SECTION ONE.

The following is confidential from Welles for the Secretary of the Treasury.

Reference is made to telegram No. 9, 5 p.m., dated the 15th of January.

I appreciate fully that it is difficult to clear the resolution in a time so brief as was indicated in my earlier telegram. However, I have succeeded in having the deadline for the presentation of the resolution extended to Monday. Personally I do not feel that a prior clearance on this matter with the British or any other Government is necessary. It would be most helpful, in view of developments at the conference, if the resolution could be presented by the United States and I hope that you can find it possible to give your approval to it.

Following is a redraft of the resolution on simpler lines:

WELLES

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

Rio de Janeiro  
 Dated January 17, 1942  
 Rec'd 10:15 a.m.

Secretary of State,  
 Washington.

TRIPLE PRIORITY

19, January 17, 10 a.m. (SECTION TWO)

Resolution on the stabilization fund of the  
 united and associated nations.

WHEREAS:

One. In the attainment of the economic objectives  
 of the Atlantic Charter a more effective mobilization  
 of foreign exchange resources is of indisputable  
 importance, and would be of assistance in the struggle  
 against oppression;

Two. The nations which are combined in a  
 common effort to maintain their political and economic  
 independence can cooperate in creating an organization  
 to promote stability in foreign exchange rates,  
 encourage the international movement of productive  
 capital, facilitate the reduction of artificial and  
 discriminatory barriers to the movement of goods,  
 help correct the maldistribution of gold, strengthen  
 monetary systems, and facilitate the settlement of  
 public and

-2- #19, January 17, 10 a.m. (SECTION TWO) , from Rio de Janeiro

public and private international debts and the maintenance of monetary policies that avoid serious inflation or deflation;

THREE. Participation by the American Republics in the common effort more effectively to mobilize and use their foreign exchange resources would contribute to the realization of the economic objectives set forth at the first and second meetings of the Ministers of Foreign Affairs of the American Republics at Panama and Habana.

WELLES

NPL

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

Rio de Janeiro  
Dated January 17, 1942  
Rec'd. 10:41 a. m.

Secretary of State,  
Washington.

TRIPLE PRIORITY.

19, January 17, 10 a. m. (SECTION THREE)

The Third Meeting of Consultation of the  
Ministers of Foreign Affairs of the American  
Republics.

RESOLVES:

One. To recommend that the Governments of the  
united nations in a special conference of Ministers  
of Finance or their representatives to be called for  
the purpose of considering the establishment of a  
stabilization fund of the united and associated  
nations;

Two. To recommend that participation in the  
conference shall be open to all nations that sub-  
scribe to the objectives to the Atlantic Charter;

Three. To recommend that the conference in  
considering the establishment of such a fund shall  
formulate the plan of organization, powers and  
resources

-2- #19, January 17, 10 a.m. (SECTION THREE), from Rio de Janeiro.

resources necessary to the proper functioning of the fund, and shall determine the conditions requisite to participation in the fund, and shall propose principles to guide the fund in its operation.

(END OF MESSAGE).

WELLES

NPL

January 17, 1948

Mr. Liversy

Mr. Bell

Will you please send the following cable to the American Delegation,  
Rio de Janeiro.

"Confidential for Under Secretary Welles from Secretary Morgenthau

Reference to your No. 19, January 17. I still feel that  
idea of stabilization fund should not be formally presented at  
Rio. I have been thinking about this matter since your cable  
of January 15 and believe this more strongly than before.

In addition to the desirability of giving the British and  
other United Nations an opportunity to react, it may be desirable,  
in order to assure success, to confer with the appropriate  
Congressional committees."

FBI:ch:1/17/48

Following is a paraphrase of section one of telegram no. 22, January 18, 7 p.m., from the UnderSecretary of State for the Secretary of the Treasury, in reply to the Department's telegram no. 24, January 17, 10 p.m.:

Appended is a new draft of the resolution which, I believe, may satisfactorily cover the points mentioned in your cables to me regarding the wording to the earlier draft.

In this new draft you will note that no reference is made to nations other than the American Republics. There is nothing in the resolution committing the United States to a meeting which need necessarily include the Finance Ministers of nations other than the American Republics although it is to be hoped that, when called, the meeting referred to in the new draft would include representatives of other countries and may be so interpreted by some. Before the calling of the conference there will of course be ample time for sounding out other governments and their participation therein assured beforehand.

I would appreciate it if you could have your reply and any possible suggestions regarding further changes telephoned rather than cabled in view of the fact that Monday noon Rio time (which is two hours earlier than Washington time) January 19 is the absolute deadline. Monday morning White will stand by in his room at the Copacabana Palace to receive any telephone messages from Washington.

Copy:bj:l-19-42



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186

HMC

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

Rio de Janeiro

Dated January 18, 1942

Rec'd 10:50 p.m.

Secretary of State

Washington.

TRIPLE PRIORITY

22, January 18, 7 p.m. (SECTION TWO)

Resolution on the stabilization fund of the united and associated nations.

Whereas

One. A more effective mobilization and utilization of foreign exchange resources of would be of assistance in the struggle against aggression and would contribute to the realization of the economic objectives set forth at the first and second meetings of the Ministers of Foreign Affairs of the American Republics at Panama and Habana; and

Two. The American Republics which are combined in a common effort to maintain their political and economic independence can cooperate in the creation of an organization to promote stability in foreign exchange rates, encourage the international movement of productive capital, facilitate the reduction of artificial and discriminatory barriers to the movement of goods, help correct the maldistribution of gold, strengthen monetary systems, and facilitate the settlement

-2-

of public and private international debts of public and private international debts and the maintenance of monetary policies that avoid serious inflation or deflation;

**Resolves**

One. To recommend that the Governments of the American Republics participate in a special conference of Ministers of Finance or their representatives to be called for the purpose of considering the establishment of an international stabilization fund;

Two. To recommend that the conference in considering the establishment of such a fund shall formulate the plan of organization, powers and resources necessary to the proper functioning of the fund, and shall determine the conditions requisite to participation in the fund, and shall propose principles to guide the fund in its operation.

(END OF MESSAGE)

WELLES

JRL

Copy:lc:1/19/42

12  
This telegram must be  
paraphrased before being  
communicated to anyone  
other than a Governmental  
Agency. (BR)

Rio de Janeiro

Dated January 17, 1942

Rec'd. 12:34 p. m.

Secretary of State,  
Washington.

162, January 17, 1 p. m.

FOR E. M. BERNSTEIN DIVISION MONETARY RESEARCH  
TREASURY DEPARTMENT FROM WHITE.

Send air mail to Embassy two complete sets  
census report and public circular number four.

CAPPERY

BB

NOTE: Mr. E. M. Bernstein advised Mr. F. Dietrich that he  
had already taken care of this matter.

Init.: R.H. 1/19/42

C  
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P  
YDEPARTMENT OF STATE  
WASHINGTON

January 17, 1942

In reply refer to  
FD 860R.51/1050

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch No. 6237, dated January 10, 1942, from the American Embassy, Rio de Janeiro, Brazil, concerning dollar deposits of the National Bank of Yugoslavia with the Bank of Brazil.

Despatch No. 6237 refers to the Embassy's telegram No. 1224, dated September 5, 1941, which was transmitted to the Secretary of the Treasury in the Department's letter of September 8, 1941.

## Enclosure:

From Embassy, Rio de Janeiro,  
Despatch No. 6237, dated  
January 10, 1942.

Rio de Janeiro, Brasil, January 10, 1942

No. 6237

Subject: Dollar Deposits Of The National Bank Of Yugoslavia With  
The Bank Of Brazil.

The Honorable

The Secretary of State,  
Washington.

Sir:

With reference to my telegram No. 1224 of September 5, 1941, 2 p.m., I sent a letter on December 30, 1941 to the Minister of Foreign Affairs stating that "my Government would be interested to know whether there are any recent developments in this matter".

I am now in receipt of the following letter dated January 5, 1942, from the Minister of Foreign Affairs:

" I acknowledge the receipt of your letter of December 30, 1941, regarding the transfer to the Federal Reserve Bank of New York, of the amount of \$11,225,000 deposited with the Bank of Brazil by the National Bank of the Kingdom of Yugoslavia.

" In reply, I wish to inform Your Excellency that the Bank of Brazil, wishing to fulfil its obligations as trustees, will oppose no difficulty in effecting the transfer of funds mentioned, so long as the United States Government, or the Federal Reserve Bank shall give the Bank of Brazil a complete release, exempting it from all future responsibility in the matter. "

Respectfully yours,  
For the Ambassador:

John F. Simmons,  
Counselor of Embassy.

File 701  
WJD:KF.

Copy:bj:l-19-42

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: United States High Commissioner to the  
Philippines, (Manila), Fort Mills via R. R.  
DATE: January 17, 1947, 9 P.M.  
NO. 1 23

The following is for the Treasury from the United States High Commissioner to the Philippines.

Light. In accordance with Interior's telegram No. 770, via radio, dated the 14th of December, a Committee consisting of the following members on January 14 burned 12 boxes of U.S. currency:

Wett D. Mester, My Economic Adviser;  
Lieutenant Colonel Sidney L. Huff, U.S. Army;  
Colonel B. F. Smith, U.S. Army;  
Lieutenant Colonel Nieto, Philippine Army; and  
James Maxon, Head Commercial Specialist,  
Treasury Department.

These cases contained a total sum of \$2,430,300 being the property of the Treasury of the Philippines, and are the cases referred to in my radio of January 7, 3 P.M.

CAIRG

## PARAPHRASE OF TELEGRAM SENT

TO: AMLEGATION, Bern  
DATED: January 17, 1942, 9 p.m.  
NUMBER: 139

Reference is made to Department's 113, January 12, 9 p.m.

As a reply to the Political Department's note, you should state that a credit for an amount approximating the counter-value of one million dollars will be established by the United States with the Swiss National Bank in favor of the American Legation at Bern. Such credit will be covered with Swiss francs as suggested by the Political Department. In a few days the counter-value of \$350,000 will be remitted, the remainder following at a later date. Confidentially, for the Legation's information, the necessary Swiss francs to cover this credit, the United States plans to acquire by purchase from Portugal via earmarking gold for the Portuguese in New York in an equivalent amount as the Banco di Portugal has indicated its willingness to sell Swiss francs on this basis.

Point out, however, that while this Government intends to use such credit for funds to be transmitted to enemy territory for expenditures made on its behalf and on behalf of other American republics, it proposes the creation of a series of clearing accounts for the purpose of remittances between

-3-

between various enemy countries and the United States. When such accounts are established it is contemplated that this credit in favor of the American Legation with the Swiss National Bank primarily will be utilized for the purpose of covering the excess of the amounts remitted from the United States to enemy territories over the amounts remitted to the United States from enemy countries. The Swiss Government will be consulted in working out the details, as yet unsettled, of these accounts. You should indicate, however, that these accounts will merely be a means for providing the Swiss Government necessary funds for the representation of American interests without the Swiss having to take substantial dollar credits and thus will not impose any additional burdens on the Swiss in providing the United States with currencies of a third country in any way inconsistent with the statements by the Department in its 558.



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE January 17, 1942.

TO Secretary Morgenthau

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£34,000
Purchased from commercial concerns	£ 1,000

Open market sterling held at 4.03-3/4, with no reported transactions.

In New York, closing quotations for the foreign currencies listed below were as follows:

Canadian dollar	12% discount
Argentine peso (free)	.2370
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5250
Venezuelan bolivar	.2675
Cuban peso	Par

We sold \$8,000,000 in gold to the Central Bank of Venezuela, which was added to its earmarked account. No new gold engagements were reported.

The report of January 7, 1942, received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$4,190,000, an increase of \$194,000 in the short position since December 31, 1941. Net changes were as follows:

Country	Short Position December 31, 1941	Short Position January 7, 1942	Change in Short Position*
England	\$ 152,000 (Long)	\$ 132,000 (Long)	+ 20,000
Europe	2,593,000	2,625,000	+ 33,000
Canada	862,000 (Long)	641,000 (Long)	+ 221,000
Latin America	13,000 (Long)	19,000 (Long)	+ 24,000
Japan	159,000	159,000	---
Other Asia	2,286,000	2,294,000	+ 12,000
All others	15,000	101,000 (Long)	- 116,000
Total	3,996,000	4,190,000	+ 194,000

\* Plus sign (+) indicates increase in short position, or decrease in long position.  
 Minus sign (-) indicates decrease in short position, or increase in long position.

1945

RESTRICTED

O-2/2657-220; No. 608 H.I.D., W.D. 1100 A.G., January 17, 1945

SITUATION REPORTI. Pacific Theater.

Philippines: Enemy activity continues with varying intensity. Powerful Japanese thrusts have been made and repulsed. Hostile air activity continues. Hawaii: No further verified reports. Malaya: Press reports indicate Australian units have made contact in successful small scale counter-attacks. Air raids on Singapore continue. Burma: Minor Japanese penetrations into southern Burma have been reported. Air action on both sides continues. Sumatra: According to the press, the military airbase at Medan on the east coast of Sumatra has been bombed twice by Japanese planes within the last 24 hours. Caroline Islands: An Australian communique states that Australian planes raided the Japanese garrisoned Caroline Islands last night. West Coast: No further reports.

II. Eastern Theater.

Ground: Fighting continues along the general front. The German report had defensive fighting on the central front. (No situation map issued this date.)

Air: The German High Command reported that air attacks had been made on Russian shipping off the Crimea. It was claimed that a 1500-ton Russian transport was sunk, and a destroyer and a larger transport were damaged. The Russians allege that 45 German planes were shot down yesterday.

III. Western Theater.

A German communique admitted that British bombers had attacked Emden and other points on the north German coast last night, causing civilian casualties and damage to civilian property. The communique stated that German bombers had attacked British coastal harbor installations.

IV. Middle Eastern Theater.

Ground: The press reports that the British captured Halfaya Pass on the morning of January 17. British possession of this pass will shorten by almost 100 miles their line of supplies to the forward areas in Tripolitania. No major actions have been reported in the Agadabia sector.

Air: The Axis air forces continue their aerial bombardment of Malta unabated. Both day and night bombing raids are now being made. Air activity in the Tripolitania-Cyrenaica sector continues to be confined largely to raids on supply bases and routes.

RESTRICTED

U. S. COAST GUARD

196

FORM 1079  
TREASURY DEPT.

READING

WU B19 55 NT GOVT COLLECT-HB HOLLYWOODBBACH FLO JAN 18 1942

FROM  
SECTION  
INFORM

HENRY MORGENTHAU JR

COMDT

TEXT

FOR EUGENE SLOAN TREASURY AND COPY TO MRS KLOTZ.  
PLEASE ADVISE ME HOW MANY NEWSPAPERS AND OTHER PUBLICATIONS AND  
RADIO STATIONS HAVE INSTALLED PAYROLL DEDUCTION PLAN AS OF CLOSE  
OF BUSINESS ON JANUARY 17TH. PLEASE MAKE SPECIAL DRIVE ON THESE  
PUBLICITY AGENCIES AND GIVE ME A REPORT WEEKLY THROUGH GEORGE  
HAAS FROM NOW ON

TOR: 1231 19 JAN 1942

WU #1 RECD/TH/RB

3

STAMP OR RECORD AND DATE

OFFICIAL INITIALS

TO:

HK

197

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Herewith copy of  
my letter & memo of  
the Secretary  
supplementing my note  
to you yesterday.

W

From Mr. Mack

Washington, D. C.  
January 18, 1942.

Dear Mr. Morgenthau:

Attached is a memorandum relative to my discussions with Mr. Nelson and others relative to the procurement program. Please excuse the typing but I thought it best to do it myself.

While I feel pleased at the comments made it has been your interest in procurement and anticipating the next move that has placed us in a favorable position. For example, about a month ago you approved the consolidated purchase program to be undertaken by Treasury Procurement in conjunction with OPM. Since that time Mr. MacKeachie and I have made good progress and he has assigned about ten or twelve commodity and purchasing specialists to work with me. As I get it, that plan of assigning men from MacKeachie's group to the procurement agencies is to be extended and in effect, decentralize MacKeachie's organization. I have an idea that MacKeachie may be selected as Mr. Nelson's assistant on procurement matters. My information from Mr. MacKeachie's men is that Treasury Procurement has cooperated but that the military procurement services have been a bit stiff although the present indications are that the civilian purchasing men from OPM will be infiltrated in the military purchasing organizations in an advisory capacity.

I am glad that you are taking a few days rest as your responsibilities are great and it is vital that you be physically ready for the greater tasks ahead.

With all good wishes, I am

Very truly yours,

*Clifton E. Mack*  
Clifton E. Mack.

Washington, D. C.  
January 1<sup>st</sup>, 1948.

MEMORANDUM TO THE SECRETARY OF THE TREASURY:

Immediately following your call I 'phoned Mr. Nelson's office but there was no response and I then called his apartment receiving word that he would return during the afternoon and would call me. Not having heard yet I am preparing this memo to avoid delay in forwarding as other information received today will be of interest to you.

Talked with Mr. MacKeachie about the progress of the consolidated purchasing program we are working on and asked him if there is further to be done to cooperate with any plans Mr. Nelson may have in mind as your instructions are to do all possible as quickly as can be done to help in the war effort. Mr. MacKeachie stated that he "spent the last two days and until midnight last night" with Mr. Nelson and that the procurement program will call for a "general tightening up" but as far as Treasury Procurement is concerned they (MacKeachie and Nelson) feel that there must be more centralization along the lines of the present program we are working on in conjunction with OPM. Mr. MacKeachie volunteered the comment that "others backed up" while we "stepped in", which I interpreted to mean that certain of the other procurement agencies have not been as cooperative as Treasury Procurement. He added that it is the intention to utilize existing procurement facilities but to "speed up" as much as possible also to place more emphasis on the consolidation of purchases. The present plan we have been working on with OPM is to consolidate in Treasury Procurement those commercial items of a non-military nature.

Discussed with Mr. James MacPherson, Deputy Director of Purchases (OPM), the matter of automotive equipment purchases and during the conversation asked him if there had been any developments since Mr. Nelson's appointment which indicated the advisability of amending our consolidated purchasing program to work more closely with the War Production Board. His response was, in substance, that the program will call for more of the work now being done by Treasury Procurement and said, "You fellows are ahead of the parade because you are already working in conjunction with the OPM Purchase Division", indicating that it is proposed to assign certain of OPM commodity specialists from the Purchase Division to Army and Navy procurement agencies as is being done in Treasury

Procurement. Illustrating his point he mentioned that he has just returned from Wright Field (Akron) where he has been for the past few days surveying procurement practices there. He explained that Mr. MacKeachie assigned two of his purchase men to Wright Field, both outstanding men, but indicated that the cooperation on the part of the procurement group had not been good. He said that the two men had been assigned an office in the basement of one of the buildings, the procurement group was in another place and the officers in charge were on another floor, also that there was not good coordination in getting things done. Mr. MacPherson told me that he had outlined the Treasury Procurement procedure to the officers in charge at Wright Field as a means of doing a better job and commented several times that now the military procurement groups must "groove-in" with OPM Purchase Division to make for better results. I mentioned again that Treasury Procurement is endeavoring to coordinate and speed up to the utmost and his response was that "Treasury Procurement has come the nearest to doing a job" and that "we are on the right track".

Also talked with Mr. Guy Tompson of Mr. MacKeachie's staff, who is assigned to work with me on Lend Lease matters and his reaction was that the development insofar as procurement is concerned would be the assignment of OPM purchasing men to the procurement agencies of the Army and Navy. This has already been done in the case of Treasury Procurement as we have about ten or twelve of Mr. MacKeachie's commodity men working with us on the consolidated purchasing program discussed with you about a month ago. In fact, Tompson has been asked by Mr. MacKeachie if he would accept an assignment as a procurement advisor to the Army. Mr. Tompson expressed the opinion that the OPM Purchase Division will decentralize and its personnel will be assigned to the Army, Navy and Treasury Procurement groups which might mean a few more men being assigned with us. He said that this subject had been discussed at the MacKeachie staff meetings since Mr. Nelson's appointment and it had been concluded that this would be more effective than the independent operations as heretofore and mentions had been made that the plan is working well in Treasury Procurement therefore will be extended to the military services. Mr. Tompson is to participate in the conference at Lend Lease headquarters tomorrow relative to the routing of Lend Lease requisitions to avoid duplication.

I have been keeping in touch with Mr. Swope and he plans to make inquiry relative to the shipping situation at New York City next Tuesday. This memorandum will be supplemented if I am able to reach Mr. Nelson before mailing time.

Page 3 - Memorandum to the Secretary

Just now talked with Mr. Nelson (4.45 p.m.) and conveyed your best wishes for his success and added that you had asked me to do everything possible to help him. He said that he is appreciative of your good wishes and insofar as Treasury Procurement is concerned he feels that a "100% job" is being done also that he has no desire nor any intention to change anything as we are working closely with DPM right now. I extended your invitation to have him for lunch next Friday (1/23) and he said he would be delighted also asked me to drop a note to his secretary to remind him which I will do.

*Clifton E. Mack*  
Clifton E. Mack.



Washington, D. C.  
January 18, 1949.

Dear Mr. Morgenthau:

Attached is a memorandum <sup>relative to</sup> my discussions with Mr. Nelson and others relative to the procurement program. Please excuse the typing but I thought it best to do it myself.

While I feel pleased at the comments made it has been your interest in procurement and anticipating the next move that has placed us in a favorable position. For example, about a month ago you approved the consolidated purchase program to be undertaken by Treasury Procurement in conjunction with OPM. Since that time Mr. MacKeachie and I have made good progress and he has assigned about ten or twelve commodity and purchasing specialists to work with me. As I get it, that plan of assigning men from MacKeachie's group to the procurement agencies is to be extended and in effect, decentralize MacKeachie's organization. I have an idea that MacKeachie may be selected as Mr. Nelson's assistant on procurement matters. My information from Mr. MacKeachie's men is that Treasury Procurement has cooperated but that the military procurement services have been a bit stiff although the present indications are that the civilian purchasing men from OPM will be infiltrated in the military purchasing organizations in an advisory capacity.

I am glad that you are taking a few days rest as your responsibilities are great and it is vital that you be physically ready for the greater tasks ahead.

With all good wishes, I am

Very truly yours,

Clifton E. Mack.

Washington, D. C.  
January 1<sup>st</sup>, 1942.

MEMORANDUM TO THE SECRETARY OF THE TREASURY:

Immediately following your call I 'phoned Mr. Nelson's office but there was no response and I then called his apartment receiving word that he would return during the afternoon and would call me. Not having heard yet I am preparing this memo to avoid delay in forwarding as other information received today will be of interest to you.

Talked with Mr. MacKeachie about the progress of the consolidated purchasing program we are working on and asked him if there is further to be done to cooperate with any plans Mr. Nelson may have in mind as your instructions are to do all possible as quickly as can be done to help in the war effort. Mr. MacKeachie stated that he "spent the last two days and until midnight last night" with Mr. Nelson and that the procurement program will call for a "general tightening up" but as far as Treasury Procurement is concerned they (MacKeachie and Nelson) feel that there must be more centralization along the lines of the present program we are working on in conjunction with OPM. Mr. MacKeachie volunteered the comment that "others backed up" while we "stepped in", which I interpreted to mean that certain of the other procurement agencies have not been as cooperative as Treasury Procurement. He added that it is the intention to utilize existing procurement facilities but to "speed up" as much as possible also to place more emphasis on the consolidation of purchases. The present plan we have been working on with OPM is to consolidate in Treasury Procurement those commercial items of a non-military nature."

Discussed with Mr. James MacPherson, Deputy Director of Purchases (OPM), the matter of automotive equipment purchases and during the conversation asked him if there had been any developments since Mr. Nelson's appointment which indicated the advisability of amending our consolidated purchasing program to work more closely with the War Production Board. His response was, in substance, that the program will call for more of the work now being done by Treasury Procurement and said, "You fellows are ahead of the parade because you are already working in conjunction with the OPM Purchase Division", indicating that it is proposed to assign certain of OPM commodity specialists from the Purchase Division to Army and Navy procurement agencies as is being done in Treasury

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Clifton E. Mack.

RESTRICTED

5-2/2657-220: No. 604 F.I.D., W.D. 11:00 A.M., January 18, 1942.

SITUATION REPORTI. Pacific Theater.

Philippines: Fighting was less severe yesterday along our front. Several sharp skirmishes were successful in reestablishing our lines. Our Air Corps and Antiaircraft accounted for four enemy planes. Hawaii: There are no further reports of hostile activity. Malaya: Japanese continue to threaten British left flank on the west coast. Patrol action reported in all sectors, with sharp fighting around Gemas. Aerial activity intensified on both sides. Burma: Increasing Japanese pressure on Burma is indicated, particularly in the southern and central regions. I.I.C.: Hostile air activity continues throughout the Indies with bombings at Rabaul and Amboina. China: No further reports have been received. West Coast: There have been no further reports.

II. Eastern Theater.

The Russians continue on the offensive and claim advances on the Moscow front. The Germans report heavy defensive fighting on the central and northern sectors of the Eastern Front.

In the Crimea, the Germans claim that Russian attacks on the Sevastopol front were repulsed.

III. Western Theater.

The German communique announces this morning that the B.A.F. bombed various places in northwest Germany last night. No results were given.

IV. Middle Eastern Theater.

Ground: Axis position defenses seem for the time being to have stopped further British advance into Tricolitania. The Axis line of defense is generally north-south, approximately 15 miles east of EL ARBILIA. The southern flank of this line now lies along the EL AGH ILA-ALWADA trail.

Air: HALKA is still under aerial bombardment by Axis planes, and a definite increase in Axis aerial action is noted in the ARBILIA sector. Both forces are continuing the usual bombing of supplies in rear areas.

RESTRICTED

TREASURY DEPARTMENT

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Washington

FOR IMMEDIATE RELEASE,  
Monday, January 19, 1942.

Press Service  
No. 29-72

The Secretary of the Treasury today announced the final subscription and allotment figures with respect to the current offering of 2 percent Treasury Bonds of 1949-51.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

Federal Reserve District	Treasury Notes Series A-1942	3 Percent FPMC Bonds	2-3/4 Percent FPMC Bonds	RFC Notes Series R
Boston	\$ 29,451,500	\$ 6,159,900	\$ 2,135,800	\$ 3,410,000
New York	272,205,600	106,143,000	64,021,000	241,549,000
Philadelphia	10,500,500	21,766,600	6,417,700	5,189,000
Cleveland	13,900,400	7,118,700	1,452,600	7,856,000
Richmond	7,121,500	6,931,900	2,863,400	2,825,000
Atlanta	1,595,300	512,800	733,400	2,130,000
Chicago	38,172,800	32,839,800	6,398,300	32,439,000
St. Louis	7,917,200	3,556,000	1,293,100	2,534,000
Minneapolis	1,337,000	4,084,900	2,009,600	2,806,000
Kansas City	11,553,600	6,389,600	2,332,700	4,669,000
Dallas	2,079,900	932,400	524,100	751,000
San Francisco	9,038,600	7,775,300	5,537,100	1,421,000
Treasury	783,900	448,200	158,500	10,000
Total	\$405,657,800	\$204,659,100	\$95,933,400	\$307,589,000

Federal Reserve District

Total Subscriptions Received  
(Allotted in full)

Boston	\$ 41,157,200
New York	683,918,700
Philadelphia	43,873,800
Cleveland	30,327,700
Richmond	19,741,800
Atlanta	4,971,500
Chicago	109,249,900
St. Louis	15,300,300
Minneapolis	10,237,500
Kansas City	25,000,900
Dallas	4,287,400
San Francisco	23,772,000
Treasury	1,450,600
Total	\$1,013,839,300

THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

January 19, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

At 6:45 Saturday evening the Secretary called me at home to say that he had been thinking about the cable that we had sent to White disapproving the resolution on an international exchange fund. He said that he thought probably he was leaving White out on a limb by giving him this cable, so he had decided to talk to him on the phone. He asked Harry if he was pushing this resolution or if Welles really wanted it.

White said Welles really wanted this resolution and he thought it would help a great deal in the conference if some such resolution could be put through. The Secretary then told Harry that he would be willing to approve the resolution if it were confined to this hemisphere alone, then when they all get back to Washington we can discuss the question of inviting the other united and associated nations to join the conference. The Secretary said White thought that Mr. Welles might like to have this form of a resolution even better than the other one. The Secretary told White to send us another cable along these lines and we would get him a return cable approving this resolution.

The cable from Welles, No. 22 of January 18, 1942, came in about eleven o'clock last evening. In view of the fact that it would not be available until after one, I did not pick it up until 8:15 this morning. Mr. Foley, Mr. Cow, Mr. Bernstein, Mr. Southard and I studied the resolution and could see no objection to it except the title. It still referred to the stabilization fund of the united and associated nations, which White said later in a telephone conversation was an error and one which they failed to catch in the pressure of getting the cable off.

I talked over the telephone to the Secretary at Hollywood, Florida, at 9:15 and read Welles' message and the form of the resolution to him. He insisted that the reference to "the settlement of public and private international debts" in Number Two of the preamble be eliminated.

FOR DEFENSE



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FOR DEFENSE






- 2 -

I then tried to get Secretary Hull, but he was out of his office and I could not get hold of him as the time for me to get Harry on the telephone was fast approaching. I then called Dr. Feis, who had Livesey in the room, and we discussed the cable and changes suggested by the Secretary. They said that they had not talked to Secretary Hull but they did not see any objection to the resolution. I told them I had Harry White on the telephone at the time and was clearing it by telephone so far as the Treasury was concerned, that if Secretary Hull had any objections whatever to the resolution he should call Welles directly by telephone. I told Dr. Feis and Livesey that Welles had said in his cable that twelve o'clock noon Rio time, which is ten o'clock Washington time, was the absolute deadline and this was the reason for my pressing them for an answer.

At ten o'clock the Secretary called me back and asked me if White had objection to the changes and I told him that he had none, that we had approved it and Harry was on his way to the meeting. I then told him of my attempt to get Secretary Hull and my conversations with Feis and Livesey. He asked me to send a letter to Secretary Hull telling him that I had tried to reach him but could not.

*AWB*



TREASURY DEPARTMENT  
Washington,

January 19, 1942

Dear Mr. Secretary:

Here is another copy of the first draft of your Cleveland speech. I am very unhappy to hear that the first one did not reach you, after all the efforts that were made to get it to you on time.

This first draft has been approved by Randolph Paul, who helped greatly on it, and by Roy Blough, whose office checked the figures carefully. I have sent copies today to Messrs. Gaston, Sullivan, Foley, Haas and Roswell Magill, as you suggested.

There are 3,073 words in it, or about twenty-five and one-half minutes.

Sincerely,

*Frederic Kuhn*

Hon. Henry Morgenthau, Jr.,  
Hollywood Beach Hotel,  
Hollywood, Florida.

Enclosure.

DRAFT OF SECRETARY MORGENTHAU'S ADDRESS  
TO THE CITY CLUB OF CLEVELAND  
JANUARY 24, 1942

I am very happy to be with you in Cleveland this afternoon, because it gives me an opportunity to pay my tribute to the wonderful response that your community is giving to the country's call. Here in the Cleveland area you have a great concentration of the forges and assembly lines which are America's front lines at this moment; day and night your industrial wheels are turning, your hammers are pounding, your fires are burning and your workers are toiling to win the war. Here in Cleveland you have great numbers of foreign-born neighbors who value our precious freedoms and who have pooled their skills with ours in this mighty production effort in which we are engaged.

- 2 -

Here in Cleveland you have responded to every call the Government has made upon you, and I take off my hat to you.

This war will bring us many tests of our spirit and our stamina. It has brought us some severe tests already. Our national will-power has been tested and proved by our ability to take the shock of Pearl Harbor, and to take it without flinching. Our willingness to take marching orders has been tested and proved by the nation-wide acceptance of the great task the President set for us the other day, the task of making such an overwhelming number of planes, tanks and other weapons of war that the Nazis and the Japanese will be utterly unable to match us. We have set our minds to accomplish that task, and we are going to do it. Our patriotism

D-A

- 3 -

has had still another test, and another proof, in the sale of Defense Bonds and Stamps, which doubled in December and which, I am glad to tell you, will reach new records in January, both in the amount of money subscribed and in the number of individuals who are buying their share in America.

But we shall have, in the very near future, still another test of a kind which I think too few of us have planned for or even considered. That test will come on March 16th, when fifteen million Americans will be called upon to pay their income-taxes for war and victory. It will give fifteen million men and women an opportunity to contribute directly to the war machine that will smash the Axis and set the whole world free.

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Never before have so many Americans been asked to pay direct taxes at one time. There will be millions who have never had to pay on such a scale, and there will be seven and one-half million who have never had to pay a penny of direct taxes before.

The taxes payable on March 16th will not reach the level of those now being paid by our Allies in Great Britain, Canada or Australia; they will be slight compared to the huge taxes the Nazis and the Japanese have exacted from their people for years; they will be slight, also, compared to the war taxes we shall have to impose upon ourselves in the new financial year. Yet the present taxes will be severe, and they will involve a good deal of scrimping and saving on the part

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of those who pay them. It is high time, therefore, that all of these fifteen million taxpayers should think and plan and save, now, so that they can pay the bill when it becomes due six weeks from now.

I am disturbed at times--and I am bound to be disturbed, as Secretary of the Treasury--when I hear that so many taxpayers wait until the very last moment before putting aside the money that will be needed on March 16th. It is not too early for every taxpayer to find out how much he will have to pay, and how and where to pay it. If every taxpayer takes a few elementary precautions like this, instead of waiting until the last day, it will not only make the Treasury's task much easier but it will be a most useful contribution to the financing and the winning of the war.

D-A

This Administration has tried hard for years to spread the tax load more fairly among our people. The President has spoken again and again of the need of making our taxes effective and equitable as well. Only the other day, in his Budget Message, the President repeated that "a fair distribution of the war burden is necessary for national unity." Yet I am sorry to say that the tax structure as it now stands does not conform in many respects, in the Administration's opinion, either to the requirements of equity or to the insistent needs of a nation at war. In spite of all our efforts of recent years--and we have made some headway every year, especially in 1957--our tax structure is still weakened by inequality and unfairness, still riddled with loopholes through which a small and favored group can escape its fair share of the common contribution.



- 7 -

Perhaps the American public is inclined to shrug its shoulders at the defects in our tax laws; perhaps these blots on our tax system have been with us for so long that we regard them as natural and indelible. Yet they are not a small matter, either morally or materially. It is not a small matter in wartime to see a few thousand men and women escape almost scot-free from the payment of taxes, although they are well able to pay. Every time one of our citizens manages to take advantage of loopholes in the tax laws, it means that the rest of us must shoulder the load which he has escaped carrying. I just cannot believe that the war efforts of our people can reach their peak level if most of our citizens feel that a few are being allowed to escape their fair share.

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- 8 -

War knows no avoidance; the Nazis and the Japanese do not pick and choose among us. As the President said, "When our enemies challenged our country to stand up and fight they challenged each and every one of us." Each and every one of us has a direct stake in the outcome of this war. Each and every one of us, therefore, must pay his fair share of the cost.

Just to satisfy my own curiosity, I asked our Treasury tax experts the other day to compute the total amount of revenue that had to be passed onto the shoulders of other taxpayers because of the existence of loopholes in the law. The answer was a billion dollars, about one-seventh of the entire

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income-tax receipts in the fiscal year that ends in June. That is, for every dollar you as an unprivileged taxpayer will have to pay on March 15th you would have paid only 86 cents if these evils had been stricken from the statute books.

It is not very difficult to slip through existing loopholes, so long as a taxpayer can afford to split his income into parts and to pay the fees of a tax lawyer. Tax avoidance in most cases is perfectly legal--I could call it by other names that would not be half so sweet, so I had better stick to the word "legal." Tax avoidance is made possible by faulty statutes which have been exploited, quite legally, by thousands of wealthy taxpayers. The philosophy

of habitual tax avoiders is that it's perfectly all right if you can get away with it. You may have heard the remark attributed to one of our leading financiers: "If the Government doesn't know enough to collect its taxes, a man is a fool to pay them." Yet this is not a competition between the Government and the citizens. It is a never-ending attempt by a few citizens to make many citizens pay more than their share.

In peacetime it is harmful enough; in wartime, when we are drafting young men to fight and give their lives for their country, it becomes inexcusable and intolerable.

So that you may know exactly what I have in mind, I should like to turn now to three specific examples of inequalities--and I could name a great many more than three--which have been allowed to remain on the statute books at the expense of the majority of our taxpayers.

The first of the loopholes which this Administration regards as inexcusable on material and moral grounds is the continued existence of tax-exempt securities. At present, as you know, the interest from State and municipal bonds is exempt from Federal income tax. This provision gives many wealthy taxpayers a delightful refuge, not from some income tax, but from all income taxes. The dice are loaded in favor of the wealthy. No matter how much money may be needed for

D-A

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the war, no matter how high tax rates may go, no matter how pressing and urgent the need may be, a taxpayer may laugh at our tax laws and contribute nothing in this hour of his country's peril, if only he can afford to lay his hands upon a sufficient amount of tax-exempt securities.

Wealthy individuals are not the only taxpayers who are in a position to take advantage of this glaring inequity. Insurance companies control a large part of the wealth of this country, yet because they have invested a large part of their capital in tax-exempt bonds, and because of other favoring provisions in the law, they pay almost nothing to the Federal Government in income taxes. Most large corporations pay taxes

D-A

at rates ranging from 21 to 72 per cent upon their incomes, yet in 1939 our 26 largest life insurance companies, controlling over \$24 billion worth of assets, paid not one cent in income taxes. I wonder how the seven million new taxpayers will like these figures when they pay their taxes on March 16th. I wonder what will be in the minds of many of these hard-pressed taxpayers if they realize that a few wealthy individuals and a few great corporations are allowed to escape in this way.

A second loophole, a second widespread method of avoidance, is the splitting of taxable income between husband and wife, in such a manner that two families having virtually the same economic position pay vastly different taxes. Under the present law,

D-A

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if a husband has income and his wife has income, each pays a tax on the separate income. Because the income-tax rates are progressive--that is, because the higher the income the greater is the rate of tax--a family in which both husband and wife have income pays less tax, in many instances, than a family having the same amount of income all of which is received either by the husband or the wife. For example, a family in which the husband earns \$10,000 pays \$300 more tax than a family in which the husband earns \$7,000 and the wife \$3,000. The higher the income, the greater this discrepancy becomes; and it will become still greater under the higher rates that are bound to come in the near future.

D-A



If we turn from the salary-earners to those who live on dividends, we find even more striking ways in which the separate taxation of husbands and wives can be exploited for tax purposes. Let us take the case of a taxpayer in the upper brackets having a \$100,000 income from securities. Under the present law he would pay a tax of \$52,704. But if he turns over half of these securities to his wife, he will pay a tax of \$20,881 on \$50,000 income and his wife will pay a tax of the same amount. This couple, at the cost of a moderate gift tax, has thus secured a perpetual reduction of \$10,941 in its income tax liability. The loophole could be closed and the unfairness to the great mass of taxpayers removed by taxing each family as a unit. The family is the economic unit, and a realistic tax would treat it as such.

- 16 -

If families were taxed in this fair and sensible way we would remove still another source of tax discrimination. A husband who earns a \$10,000 salary must, in the great majority of our States, report that salary as his income and pay a tax of \$1,305 on it. If, however, he is fortunate enough to live in one of the eight States having what is called the community property system, he is allowed to report only \$5,000 of that salary as his income and his wife may report the other \$5,000 as hers. The two of them together will pay a total tax of only \$965. Thus, the married citizens of nine out of forty-eight States are able, because of a legal technicality, to escape their fair share of the load at the expense of our married citizens in the rest of the country.

D-A

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At the time the last tax bill was being enacted, Congress considered a provision requiring husbands and wives to report and pay tax on their combined incomes. When this provision was in the bill before Congress, a married couple in which the husband earned \$4,000 would have had to pay a tax on March 16th of this year amounting to \$180. When this so-called mandatory joint return provision was stricken from the bill, Congress made up the revenue which was thereby lost by increasing the tax on this family to \$249. I can think of no more graphic illustration of what happens when we perpetuate provisions in our laws which unduly favor special classes of our citizens.

The final loophole which I shall mention this afternoon is a bit more technical. If you use a machine

D-A

in your business and that machine can be expected to last for ten years, you are permitted to deduct each year for ten years one-tenth of the cost of that machine. Because you will probably have to buy a new machine at the end of ten years, this deduction is a fair and reasonable method of allowing you to recover your capital tax free. Needless to say, you are never permitted to deduct more than the cost of the machine.

There are some types of business, however, which are permitted over the years to deduct far more than the amount of money which they have put into the property with which they conduct their business. A mine or an oil well wears out eventually, just as the machine does, and companies in the mining and oil

D-A

business must acquire new mines or wells in order to continue their business. They must fairly be allowed, therefore, to deduct each year a portion of the original cost of the mines and wells which they have acquired. However, we let them do much more than that in certain instances. The so-called percentage depletion provision of the income-tax law allows these companies to deduct an arbitrary percentage of their income indefinitely, instead of deducting a percentage of the cost of their wells and mines each year until the entire cost has been made good. An oil company which may long ago have recovered tax free many times the cost of the wells which it is operating is still permitted a deduction of 27½ per cent of the gross income from those very same wells.

D-A

I wish that I could ask every one of the sixteen million taxpayers on March 16th, "Well, how do you like it? How do you like this kind of subsidy to a few oil companies, or a few insurance companies, or a few thousand wealthy individuals?" The question would be quite appropriate, since, after all, the great majority of taxpayers have to pay more because the few are allowed to escape. What is more, the remedy for this state of affairs lies in the taxpayers' hands. It has been difficult until now to change the tax laws because the majority of taxpayers have been indifferent. It will be easy to change the tax laws as soon as the great body of American taxpayers become aroused to the evils and the abuses which have <sup>been</sup> left on the statute books year after year.

D-A

This is not the time for me to discuss the new tax program. The President has said that we must have \$9 billion in new revenue. We have no more right to question that estimate, or to fall short of that goal, than we would have to fall short of the President's announced goal of sixty thousand planes and forty-five thousand tanks in 1942. It will produce hardship; of course it will. We might as well start from the assumption that the coming taxes will be hard for everybody, just as we must realize that our huge production program will involve sweat and sacrifice for everybody. How can you divert half of our national income to war production without "dislocating" our economy? How can you spend \$40 billion in this year 1942 without "disturbing" ordinary business

D-A

and ordinary living? How, for that matter, can you fight and win a life-and-death struggle, a war that encircles the whole planet, without discarding old habits, old fears, the dead old notions of business-as-usual?

We are entitled to lay down just this one premise: that the sweat and sacrifice be distributed fairly and borne by all in their fair proportion. We shall be failing in our duty if we ask millions upon millions of our people to contribute heavily while a few thousand are allowed to escape. I believe in all earnestness that the existence of abuses in our tax system represents a real threat to our national unity and our national morale.

D-A



National unity is a precious thing; it will be subjected to many strains in the months and years of trial ahead. Special privilege and national unity do not go hand in hand. Tax favoritism and national morale cannot survive together; one or the other must go. I have so much confidence in the American people that I think I know in advance what their choice will be.

D-A

TREASURY DEPARTMENT

234

INTER OFFICE COMMUNICATION

DATE  
January 19, 1942

TO Mrs. Flots  
FROM Ferdinand Kuhn, Jr.

The Secretary telephoned me from Florida on the morning of January 18 with the following suggestions:

1. We would like to use cash register companies to help us with Defense Stamps; specifically, he suggested that the repairmen who make the rounds for cash register companies should see that stamps are sold wherever there is a cash register and that a poster is also displayed alongside every cash register. He has already mentioned this to Mr. Eugene Sloan.
2. The Secretary suggested that the coming annual award by the motion picture industry be turned somehow into a tribute to Carole Lombard and that it should take the form of Defense Bonds. Postmaster General Walker is bringing someone to the Treasury Thursday to discuss this matter, and the Secretary wanted to offer his suggestion at that time.
3. He wanted a first draft of his Cleveland speech sent to Roswell Magill for his comments and suggestions.
4. The Secretary thought that we should do something about Carole Lombard. I told him that telegrams had been written in his name and sent to Will Hays and to Clark Gable, and he was pleased.

Secretary Hargunthan

JAN 19 1942

L. H. Foley, Jr.

My advice has been requested on the question whether a "Pledge for Regular Investment in Defense Savings Bonds" is enforceable by the United States. A copy of the form of "Pledge" is attached. It will be noted that the signer agrees to purchase in the future a specific amount of Defense Savings Bonds (or Stamps) at regular intervals through various agencies or plans. The promise by the signer is for the duration of the war or as long as the promisor is "financially able to do so."

It is my opinion that the aforementioned "Pledge" is not enforceable by the United States against the signer for the amount of the pledge.

It does not appear that the United States promises to sell the aforementioned Bonds or Stamps to the person executing the "Pledge". In fact, it is doubtful whether any officer of the United States has authority to promise to a private individual that the Government will afford him an investment as long as the individual is financially able to make the investment. The authority of the Secretary of the Treasury to issue savings bonds is derived from section 3 of Public Debt Act of 1941 (Public, No. 7, 77th Congress). Under that statute, the Secretary

- 2 -

of the Treasury can not issue such savings bonds beyond the debt limitation provided in section 2 of the same Act. It is also doubtful that any officer of the United States has authority to agree that the United States will sell a particular form of bond for the duration of the war. The Congress may possibly decide to cease financing by the sale of defence savings bonds.

The "Pledge" is, therefore, nothing but a mere promise by the signer with no obligation on the part of the United States. Under these circumstances, it is difficult to see how the United States could enforce the signer's promise. An analogous situation exists with respect to subscriptions to the capital stock of a corporation. In 2 Fletcher, *Cyclopedia of the Law of Private Corporations* (1917) sec. 526, it is stated:

"In the absence of provision to the contrary in the charter of a corporation or the general law, a subscription to its capital stock is not binding unless there is a consideration. In this respect, it is like any other contract. Obviously there must be mutuality of obligation, as in other bilateral contracts. If for any reason the corporation is not bound, the subscriber is not bound, and vice versa.  
\* \* \*

In The Macedon and Bristol Plank Road Company v. Sadikar, (N.Y. 1884) 18 Barb. 317, the defendant signed his name to the following instrument:

"Provided the Macedon and Victor plank road crosses at Brewsville and passes through by Geneva's, we agree to take stock to the amount set opposite our several names."

The amount set opposite the name of the defendant was \$500. The plaintiff was the plank road corporation and sued to recover the sum of \$500. The court said:

The agreement of the defendant, upon which the plaintiff's rely, created no liability on the part of the former, for the reason that, at the time it was made, there was no consideration to support it. It was nothing more than a proposition on the part of the defendant and others to take certain amounts of stock, provided the road should cross at Brownsville, and pass through by Governor's. At the time this paper was executed by the defendant, there was no valuable consideration given by the company, and no agreement entered into by them, as a consideration for the agreement by the defendant. There was an entire want of actuality--nothing was given by the company and nothing binding on their part. The fact that the company afterwards located and built the road agreeably to the conditions of the subscription, of itself, amounts to nothing, as it does not appear that at the time the defendant executed the agreement, the company agreed, as the consideration therefore, than to locate and build the road. In case of mutual promises, where the promise of one party is the consideration of that of the other, they must be concurrent and obligatory upon each at the same time, in order to render either binding. . . .

The instant pledge' is, of course, more analogous to a promise to subscribe for stock in the future than to a subscription. It is settled that where even a good agreement to subscribe is made, the only remedy of the corporation, in case a party refuses to subscribe in accordance with his agreement, is an action against him for damages for breach of the agreement. In such an action, the measure of damages is the actual loss sustained by the corporation, which is ordinarily the difference between the par value and

the actual value of the stock. 3 Fletcher, *Cyclopedia of the Law of Private Corporations* (1917) p. 1164; Ballentine, *Manual of Corporation Law and Practice* (1930) n. 111; *Hala v. Fallon*, (1919) 83 Atl. 947, 948. Assuming, arguendo, that the "Pledge" is a valid agreement, it is obvious that the application of that rule of damages would bring the United States in a suit exactly zero. It is clear, of course, that an agreement to subscribe for shares can not be enforced by a bill in equity for specific performance. *Strasburg Railroad Company v. Eshersbach*, (1883) 21 Pa. St. 230, 232.

It should be noted that the "Pledge" is not signed, as are many charity subscriptions, in consideration of similar "Pledges" by other individuals. In some jurisdictions, charitable subscriptions are sustained on the theory that the promise of each subscriber is consideration for the promises of the others. 1 Williston on Contracts (Rev. ed. 1936) p. 406.

Furthermore, the "Pledge" is not open to the construction that it is a continuing offer for a unilateral contract. An individual could offer the United States to purchase all bonds up to a certain amount per specific period which the United States would deliver. If, acting upon such an offer, the United States delivered bonds, it could undoubtedly sue for their purchase price. The form of the

attached "Pledge", however, indicates that the next step is to be taken by the signer, rather than by the United States. That is, the "Pledge" indicates that the signer will apply for the purchase of bonds through a post office, a bank, the Treasurer of the United States, or otherwise.

(Signed) E. H. Foley, Jr.

General Counsel.

Attachment.

HRF:fn  
1/17/48

January 19, 1942

Secretary Morgenthau  
E. H. Foley, Jr.

My advice has been requested on the question whether a "Pledge for Regular Investment in Defense Savings Bonds" is enforceable by the United States. A copy of the form of "Pledge" is attached. It will be noted that the signer agrees to purchase in the future a specific amount of Defense Savings Bonds (or Stamps) at regular intervals through various agencies or plans. The promise by the signer is for the duration of the war or as long as the promisor is "financially able to do so."

It is my opinion that the aforementioned "Pledge" is not enforceable by the United States against the signer for the amount of the pledge.

It does not appear that the United States promises to sell the aforementioned Bonds or Stamps to the person executing the "Pledge." In fact, it is doubtful whether any officer of the United States has authority to promise to a private individual that the Government will afford him an investment as long as the individual is financially able to make the investment. The authority of the Secretary of the Treasury to issue savings bonds is derived from section 3 of Public Debt Act of 1941 (Public, No. 7, 77th Congress). Under that statute, the Secretary of the Treasury can not issue such savings bonds beyond the debt limitation provided in section 2 of the same Act. It is also doubtful that any officer of the United States has authority to agree that the United States will sell a particular form of bond for the duration of the war. The Congress may possibly decide to cease financing by the sale of defense savings bonds.

The "Pledge" is, therefore, nothing but a mere promise by the signer with no obligation on the part of the United States. Under those circumstances, it is difficult to see how the United States could enforce the signer's promise. An analogous situation exists with respect to subscriptions to the capital stock of a corporation. In *2 Fletcher, Cyclopedic of the Law of Private Corporations (1917) sec. 526*, it is stated:

"In the absence of provision to the contrary in the charter of a corporation or the general law, a subscription to its capital stock is not binding unless there is a consideration. In this respect, it is like any other contract. Obviously there must be mutuality of obligation, as in other bilateral contracts. If for any reason the corporation is not bound, the subscriber is not bound, and vice versa.  
\* \* \* "

In *The Macedon and Bristol Plank Road Company v. Shediker*, (N.Y. 1854) 18 Barb. 317, the defendant signed his name to the following instrument:



"Provided the Macedon and Victor plank road crosses at Brownville and passes through by Conover's, we agree to take stock to the amount set opposite our several names."

The amount set opposite the name of the defendant was \$300. The plaintiff was the plank road corporation and sued to recover the sum of \$300. The court said:

"The agreement of the defendant, upon which the plaintiffs rely, created no liability on the part of the former, for the reason that, at the time it was made, there was no consideration to support it. It was nothing more than a proposition on the part of the defendant and others to take certain amounts of stock, provided the road should cross at Brownville, and pass through by Conover's. At the time this paper was executed by the defendant, there was no valuable consideration given by the company, and no agreement entered into by them, as a consideration for the agreement by the defendant. There was an entire want of mutuality—nothing was given by the company and nothing binding on their part. The fact that the company afterwards located and built the road agreeably to the conditions of the subscription, of itself, amounts to nothing, as it does not appear that at the time the defendant executed the agreement, the company agreed, as the consideration therefor, thus to locate and build the road. In case of mutual promises, where the promise of one party is the consideration of that of the other, they must be concurrent and obligatory upon each at the same time, in order to render either binding.\* \* \*"

The instant "Pledge" is, of course, more analogous to a promise to subscribe for stock in the future than to a subscription. It is settled that where even a good agreement to subscribe is made, the only remedy of the corporation, in case a party refuses to subscribe in accordance with his agreement, is an action against him for damages for breach of the agreement. In such an action, the measure of damages is the actual loss sustained by the corporation, which is ordinarily the difference between the par value and the actual value of the stock. 2 Fletcher, *Cyclopedia of the Law of Private Corporations* (1917) p. 1164; Ballantine, *Manual of Corporation Law and Practice* (1930) p. 111; *Bole v. Fulton*. (Pa. 1912) 82 Atl. 947, 948. Assuming, arguendo, that the "Pledge" is a valid agreement, it is obvious that the application of the rule of damages would bring the United States in a suit exactly zero. It is clear, of course, that an agreement to subscribe for shares can not be enforced by a bill in equity for specific performance. Strasburg Railroad Company v. Echternacht. (1853) 21 Pa. St. 220, 222.

It should be noted that the "Pledge" is not signed, as are many charity subscriptions, in consideration of similar "Pledges" by other individuals. In some jurisdictions, charitable subscriptions are sustained on the theory that the promise of each subscriber is consideration for the promises of the others. 1 Williston on Contracts (Rev. ed. 1936) p. 406.

Furthermore, the "Pledge" is not open to the construction that it is a continuing offer for a unilateral contract. An individual could offer the United States to purchase all bonds up to a certain amount per specific period which the United States would deliver. If, acting upon such an offer, the United States delivered bonds, it could undoubtedly sue for their purchase price. The form of the attached "Pledge", however, indicates that the next step is to be taken by the signer, rather than by the United States. That is, the "Pledge" indicates that the signer will apply for the purchase of bonds through a post office, a bank, the Treasurer of the United States, or otherwise.

(Signed) E. H. Foley, Jr.  
General Counsel

Attachment.

C O P YTELEGRAM

CONFIRMATION

January 17, 1942 10:45 a.m.

HAY CONWAY  
State Administrator  
Defense Savings Staff  
Portland, Oregon

In reply to your inquiry concerning form of pledge for regular investment in defense savings bonds it is my opinion that such form is not a pledge enforceable as a contract or otherwise by the United States against the pledgor for the amount of the pledge indicated by him thereon but is merely a promise without legal consideration to purchase periodically defense bonds so long as the pledgor is financially able to do so. I have given a formal opinion to the Secretary of the Treasury to this effect.

E. H. FOLEY  
GENERAL COUNSEL  
TREASURY DEPARTMENT

CLAIM OF SERVICE

This is a notice of claim of service in accordance with the provisions of the Federal Rules of Civil Procedure, Case No. 1:00-cv-00000-UNA, filed in the United States District Court for the District of Columbia.

# WESTERN UNION

24

SYMBOLS	
DL	Day Letter
NT	Overnight Telegram
LC	Deferred Cable
NLT	Cable Night Letter
	Ship Radiogram

H. B. WHITE  
PRESIDENT

NEWCOMB CARLTON  
CHAIRMAN OF THE BOARD

J. C. WILLEVER  
FIRST VICE-PRESIDENT

(53)

The date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination.

182042 120 GOVT=WASHINGTON DC 19 600P

HONORABLE HENRY MORGENTHAU JR  
HOLLYWOOD BEACH HOTEL HOLLYWOOD FLO=

ACCORDING TO INFORMATION AS OF JANUARY 10 FROM DEFENSE SAVINGS STAFF STATE ADMINISTRATORS 165 OF LARGE NEWSPAPERS AND OTHER PUBLICATIONS HAVE INSTALLED PAYROLL SAVINGS PLAN. THE NUMBER OF EMPLOYEES COVERED IS ABOUT 81000. THESE FIGURES ARE KNOWN TO EXCLUDE A GREAT MANY OF THE SMALLER PUBLICATIONS THAT THE DEFENSE SAVINGS STAFF IS SURE HAD INSTALLED THE PLAN.

WITH RESPECT TO RADIO STATIONS LAST WEEK DEFENSE SAVINGS STAFF SENT TELEGRAMS TO EACH OF THE 868 STATIONS IN THE COUNTRY ASKING THEM IF THEY HAD INSTALLED A PAYROLL SAVING PLAN BY JANUARY 17TH THE INSTALLATION OF SUCH PLANS HAD BEEN REPORTED BY 194 OF THE STATIONS. THE NUMBER OF EMPLOYEES COVERED WAS NOT STATED BUT IS PROBABLY IN THE NEIGHBORHOOD OF 5000=

EUGENE W SLOANE EXECUTIVE DIRECTOR DEFENSE SAVINGS STAFF

( ) 165 81000 868 17 194 5000=

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

Jan. 20, 1941

Coast Guard - Room 322

Defense Savings Staff

Below is copy of the telegram which I phoned to you at 5:55 P.M. yesterday, January 19th, to be sent to the Secretary.

MR. HENRY WORGENTHAU, JR.,  
HOLLYWOOD BEACH HOTEL,  
HOLLYWOOD, FLORIDA.

According to information as of January 10, from Defense Savings Staff State Administrators, 165 of larger newspapers and other publications have installed Payroll Savings Plans. The number of employees covered is about 21,000. These figures are known to exclude a great many of the smaller publications that the Defense Savings Staff is sure had installed the plan.

With respect to radio stations, last week Defense Savings Staff sent telegrams to each of the 868 stations in the country asking them if they had installed a Payroll Savings Plan. By January 17th the installation of such plans had been reported by 194 of the stations. The number of employees covered was not stated, but is probably in the neighborhood of 5000.

EUGENE W. SLOAN  
EXECUTIVE DIRECTOR  
DEFENSE SAVINGS STAFF

SQT:AWS:fgt

Copies to Mr. Tickton  
Miss Flucane  
Miss Chauncey

226  
 Unfilled Orders for Savings Bonds at the  
 Federal Reserve Banks and the Post Office Department  
 January 5 to date

(In thousands of pieces)

	: Unfilled : : orders at : : opening of : : business :	New orders received today	: Bonds : manufactured : today	Unfilled orders at close of business	Stock of "B" type bonds on hand	: IBM : deliveries : this day
Jan.						
5	1,171	257	445	1,255	333	310
6	1,255	425	450	1,408	511	520
7	1,408	639	450	1,597	511	525
8	1,597	460	460	1,597	511	450
9	1,597	649	500	1,471	236	550
10	1,471	155	525	1,101	236	575
11	1,101	none - no mail	560	541	236	600
12	541	359	595	805	236	625
13	805	423	630	598	236	650
14	598	622	670	550	236	625
15	550	660	750	455	231	1,000
16	455	773	775	426	204	750
17	426	672	800	298	204	1,000
18	298	none - no mail	none-closed	298	204	800

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

January 19, 1942

## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 First Fifteen Business Days of January 1942 and December and November 1941  
 (November 1-19, December 1-17, January 1-17)  
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	January 1942	December 1941	November 1941	January over December	December over November	January over December	December over November
Series M - Post Offices	\$ 93,828	\$ 36,815	\$ 25,095	\$ 55,013	\$ 13,760	141.7%	54.1%
Series N - Banks	<u>258,108</u>	<u>72,761</u>	<u>46,025</u>	<u>185,347</u>	<u>26,736</u>	<u>214.7</u>	<u>58.1</u>
Series M - Total	351,936	111,577	71,080	240,359	40,497	215.4	57.3
Series F - Banks	38,409	12,519	11,858	25,890	661	206.8	5.6
Series G - Banks	<u>155,101</u>	<u>74,340</u>	<u>72,484</u>	<u>80,761</u>	<u>1,876</u>	<u>108.6</u>	<u>2.6</u>
Total	<u>\$545,446</u>	<u>\$198,435</u>	<u>\$155,421</u>	<u>\$347,011</u>	<u>\$ 43,014</u>	<u>174.9%</u>	<u>27.1%</u>

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

January 19, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

## UNITED STATES SAVINGS BONDS

Daily Sales - January, 1942  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales  Series H	Bank Bond Sales				All Bond Sales			
		Series H	Series F	Series G	Total	Series H	Series F	Series G	Total
January 1942									
1	\$ 3,982	\$ 10,229	\$ 1,964	\$ 7,605	\$ 19,798	\$ 14,211	\$ 1,964	\$ 7,605	\$ 23,780
2	4,602	10,736	2,056	7,779	20,571	15,538	2,056	7,779	25,373
3	4,457	9,557	1,278	5,453	16,289	14,015	1,278	5,453	20,747
5	9,684	26,724	3,240	13,704	43,668	36,408	3,240	13,704	53,352
6	6,711	7,659	1,341	6,778	15,778	14,369	1,341	6,778	22,489
7	6,748	21,267	3,692	18,832	43,790	28,015	3,692	18,832	50,539
8	7,509	21,297	3,821	12,871	37,989	28,806	3,821	12,871	45,498
9	5,746	12,359	1,798	4,765	18,923	18,105	1,798	4,765	24,669
10	4,398	16,031	1,858	6,355	24,244	20,429	1,858	6,355	28,641
12	10,187	37,483	3,830	14,353	55,666	47,670	3,830	14,353	65,853
13	7,902	15,059	2,507	11,944	29,510	22,961	2,507	11,944	37,412
14	4,706	19,939	3,701	14,293	37,933	24,645	3,701	14,293	42,639
15	6,444	16,597	2,243	13,283	32,123	23,041	2,243	13,283	38,567
16	5,721	26,239	4,319	14,078	44,637	31,960	4,319	14,078	50,358
17	4,830	6,933	759	3,008	10,700	11,763	759	3,008	15,530
Total	\$ 93,828	\$258,108	\$ 38,409	\$155,101	\$451,618	\$351,936	\$ 38,409	\$155,101	\$545,446

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

January 19, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.



TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

249

DATE January 19, 1942

TO Secretary Morgenthau  
FROM George Buffington

no

Would the President permit his picture to be taken making out his income tax? It would be helpful in our tax publicity for two reasons: (1) Many people do not know the President pays income tax, (2) it would be helpful in stimulating people to make out their own income tax promptly.

G.B.

250

*2/10/44*



**HOLLYWOOD BEACH HOTEL**  
HOLLYWOOD, FLORIDA

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE JAN 19 1942

TO Secretary Morgenthau  
FROM Mr. Foley

Re: American Bosch Corporation,  
Springfield, Massachusetts.

We are contemplating making an investigation of American Bosch Corporation, beginning next Wednesday, if it meets with your approval. Although American Bosch Corporation contends that it is no longer connected with, or controlled by, Robert Bosch A.G. of Germany, it is questioned that this is true. Approximately 75% of the stock is at present alleged to be owned by certain Swedish interests, which ownership is asserted to have been acquired in the liquidation of a Dutch banking house in 1939. This stock is held in a voting trust, the trustee of which is George Murnane, one of the partners of the New York firm of Monnet, Murnane & Co.

The American Bosch Corporation has a German background, much personnel of German ancestry, and a long history of relationships with Robert Bosch A.G. of Germany, including important patent connections. The Corporation is at present engaged in vital defense work especially in the construction of magnetos for airplanes and tanks, and fuel injection devices

- 2 -

for Diesel engines. Approximately 75% of its products go directly into military uses. It is obvious that such activities furnish an excellent opportunity for doing great harm to the defense program, if the management and personnel of this plant is not entirely independent of unfriendly foreign connections.

It will be necessary not only to investigate the Corporation but also to examine George Murnane, a partner of Monnet, Murnane & Co. Eventually it may even be necessary to investigate some aspects of the activities of Monnet, Murnane & Co.

It is contemplated that the investigating group will be headed by Thurman Hill, Chief of the Reorganization Division of the Bureau of Internal Revenue. Among those associated with him will be the following persons from the Treasury staff: Quint, Edelman, Feigenbaum, and Morrison, all attorneys; Mangam, from Pehle's administrative staff; McEacherin, electrical engineer; Wallerstedt and Harrill, accountants; and Thompson, Internal Revenue agent.

Thurman Hill and Quint will go to New York on Monday for a discussion with Joe O'Connell as to the procedure which has been used in General Aniline & Film Corporation.

- 3 -

The entire group to be sent into American Bosch Corporation will then meet in Washington on Tuesday for a conference and proceed to New York and Springfield that night with the intention of beginning the investigation on Wednesday.

I am clearing this investigation with War and Navy and arranging to coordinate our activities with them.

S. W. Fh.

(11)

January 19, 1942.

Mr. Byron Price,  
Director, The Office of Censorship,  
Washington, D.C.

My dear Mr. Price:

This will acknowledge receipt of your letter of January 13 to Secretary Morgenthau asking advice as to the classes of information to be gleaned from an examination of international communications during the censorship process which may be of interest to the Treasury Department and asking also to whom in the Treasury Department such information should be sent.

General classes of information in which the Treasury is interested are as follows:

(1) Safety of the President - Any threats against the President of the United States or members of his family, or high officers of foreign governments who are visiting or expected to visit the United States, and any indications of plots or suspected plots against him or their lives or safety.

(2) Credit of the United States - Any communications disparaging the credit of the United States, impugning the value of its money or obligations, or advising against investment in Defense Savings Bonds or other securities offered for sale to the public, and especially any communications giving evidence of concerted attempts to damage the National credit.

(3) Foreign Funds - Any and all information bearing on the movements of funds whether between the United States and foreign countries, or between foreign countries, or relating to foreign owned property in the United States, and especially information which may indicate or suggest attempted or possible evasions of the laws and regulations administered by the Treasury Department with respect to the control of foreign funds. (Enclosed is a memorandum briefly outlining the types of censorship material which Foreign Funds Control is particularly interested in receiving and also a memorandum briefly describing the more important work performed by Foreign Funds Control.)

(4) Shipments of Merchandise - Any and all information with respect to imports and exports of merchandise and especially information indicating or suggesting evasions or attempts to evade foreign funds control or Customs laws and regulations, or other import and export control laws and regulations with respect to which the Bureau of Customs of the Treasury Department has enforcement responsibility.

- 2 -

(5) Communications - Any and all information which would indicate or suggest attempts to evade those provisions of Section 3(c) of the Trading with the Enemy Act for whose administration the Treasury Department is responsible; that is, provisions forbidding, except under license, carrying into or out of the United States any form of tangible communications other than in the course of the mails.

(6) Foreign travel - Any and all information bearing on evasion or attempted evasion of laws and regulations of the United States with respect to the entry of persons into the United States or the exit of persons from the United States, in view of the joint responsibility of the Treasury Department along with other agencies of the United States Government to prevent illegal exit or entry.

(7) Shipping - Information as to ship movements which might indicate efforts to violate Customs statutes and regulations or navigation laws as to the enforcement of which the Treasury Department (Bureau of Customs and/or Collectors of Customs) has specific or joint responsibility.

(8) Internal Taxation - Any information which would indicate schemes or efforts to avoid or escape income, profits or other internal taxes of the United States, including taxes on alcoholic liquors.

(9) Narcotics Traffic - Any information with respect to traffic in narcotics, whether internally in the United States, between the United States and foreign countries or between foreign countries.

(10) Counterfeiting - Information bearing on counterfeiting or plans to counterfeit any currency or other obligations of the United States, or to introduce into the United States, or to produce in the United States, counterfeits of the currency or other obligations of any foreign country.

(11) General information on foreign trade and monetary transactions.

Representatives of various branches of the Treasury Department have discussed with the Army and Navy censors some particulars of the information desired by the Treasury Department. It is our hope that we may continue to have direct contact with those in charge of censorship operations with respect to particular cases and particular information desired by such agencies of the Treasury Department as the Foreign Funds Control and the Bureau of Customs, and also with respect to information which these and other agencies may supply to the censors.

For purposes of coordination within the Treasury Department it is desired that the information supplied by the censorship to the Treasury

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Department be addressed to me at Room 272, Treasury Department.

By direction of the Secretary:

Very truly yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston  
Assistant Secretary of the Treasury.

HEG/mah



MEMORANDUM

Brief outline of the type of censorship material which Foreign Funds Control is particularly interested in receiving. This brief outline will be supplemented from time to time with detailed statements as to the material in which Foreign Funds Control is particularly interested.

The Foreign Funds Control Division of the Treasury Department is charged with the duty of administering Executive Order No. 8389, as amended. This Order prohibits, except as specifically authorized or licensed, transactions involving any country designated therein or national of such countries. At present the control covers all the countries of continental Europe (except Turkey), China, Japan, Thailand, Hongkong and the Philippine Islands, as well as all colonies and possessions of such countries and any territory overrun by the Axis powers.

Persons both in and outside the United States attempting to evade or avoid the prohibitions of the Executive Order and to consummate directly or indirectly the transactions which it prohibits, are constantly developing new techniques, which must be promptly detected. It will be of great assistance to us in carrying out the purposes of the Foreign Funds Control, if censorship stations would make available to Foreign Funds Control any information having to do in general with the following:

Any significant transaction involving persons

- (a) in Europe, or the Far East, excluding unoccupied British and Netherlands Possessions;
- (b) whose names appear on the Proclaimed List of Certain Blocked Nationals or whom the communication suggests may be acting as clerks for such Proclaimed List nationals, or

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- (c) in any countries of the Western Hemisphere, whom the communication suggests may be acting for the benefit of persons referred to in (a) or (b) above.

The term "transaction" as used above, included not only commercial and financial transactions, but also transactions involving property in which any of the persons listed in (a), (b) or (c) above appears to have an interest. The definition of "property" as used in the Executive Order is exceedingly broad and may be helpful in indicating the various types of transactions in which the Foreign Funds Control has a direct interest. As defined, the term includes the following:

"\*-\* money, checks, drafts, bullion, bank deposits, savings accounts, any debts, indebtedness or obligations, financial securities commonly dealt in by bankers, brokers, and investment houses, notes, debentures, stocks, bonds, coupons, bankers' acceptances, mortgages, pledges, liens or other right in the nature of security, warehouse receipts, bills of lading, trust receipts, bills of sale, any other evidences of title, ownership or indebtedness, goods, wares, merchandise, chattels, stocks on hand, ships, goods on ships, real estate mortgages, vendors' sales agreements, land contracts, real estate and any interest therein, leaseholds, ground rents, options, negotiable instruments, trade acceptances, royalties, book accounts, accounts payable, judgments, patents, trademarks, copyrights, contracts or licenses affecting or involving patents, trademarks or copyrights, insurance policies, safe deposit boxes and their contents,

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annuities, pooling agreements, contracts of any nature whatsoever, etc."

There is also enclosed as background material for your confidential information, a memorandum describing in a general way the more important work being performed by the Foreign Funds Control.

1-14-42

4:35 P.M.

Brought in by 260  
Miss Chauncey.

FROM: MR. GASTON

THE OFFICE OF CENSORSHIP  
WASHINGTON

January 13, 1942.

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

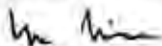
Dear Mr. Secretary:

The censorship of communications between the United States and foreign countries results in the interception of much information of value to various agencies of the government concerned with the conduct of the war.

So that this data may be utilized to the best advantage, the Office of Censorship plans to establish in its headquarters here a special unit charged with the responsibility of forwarding the intercepted information to the departments and agencies interested. This method of procedure has been found highly beneficial in the censorship experience of other countries.

I am writing to ask that you advise me as soon as convenient what particular class or classes of information, gleaned from the examination of international communication during the censorship process, would be of interest to your Department. Will you please let me know also to whom in your Department such information should be sent?

Sincerely yours,



Byron Price,  
Director.

January 19, 1948.

Dear Mr. Eccles:

On behalf of the Secretary I want to thank you for sending a copy of your address before the annual conference of Mayers. Mr. Morgenthau appreciated your thought in sending this.

Sincerely yours,

(Signed) H. S. KLOTZ

H. S. Klotz,  
Private Secretary.

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

GEF/dbs

ADDRESS BEFORE THE  
ANNUAL CONFERENCE OF MAYORS  
AT WASHINGTON, D. C.  
TUESDAY, JANUARY 13, 1942

BY

MARRINER S. ECCLES  
CHAIRMAN OF THE BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

FOR RELEASE UPON DELIVERY AT  
2:30 P.M. TUESDAY, JANUARY 13, 1942

Your distinguished President, Mayor LaGuardia, invited me to address this Conference on the subject of "Post-War Programs and the Cities". His invitation came to me three weeks before Pearl Harbor. Post-war programs now seem less significant and more remote than ever. The country has only faintly begun to grasp the immensity of the effort we must make to win the war. Whatever illusions we have held about our geographic aloofness from the conflict or about the possibilities of an early peace are swept away. As Mr. Walter Lippmann pointed out the other day, by cutting us off from our supply of rubber, the enemy has as effectively paralyzed our great automobile industry and all that implies in the transport and daily lives of our people as if it had been captured in an invasion. We are committed to destroy completely the barbaric forces let loose beyond the two oceans that we foolishly supposed to guarantee our defense. There is no more talk of a negotiated peace. There is too much wishful thinking about an internal collapse in Germany or Japan. We cannot base our plans on any such vague hopes. The possibility of collapse of our enemies depends upon the speed and effectiveness of our war effort. We cannot today estimate how long it will take or how much of our men and resources must be devoted to winning the victory. The cost we cannot count, for, as the President has said, the victory is worth whatever it may cost.

I had first hoped that this Conference would be called off, as others have been in the face of the emergency. For one thing, I feel reluctant to stand here dealing in words when what we so critically need is action. Yet, on reflection, I think this is one group that should continue



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to meet, both now and in the future, for it is a medium by which the coordinated action by States and municipalities with the Federal Government can be promoted. It is vitally important now, as it will be later, to have that coordination. Without it, the necessary concerted action by the nation, both during the war period and thereafter, is impossible. With it, we can move in the same general directions without abandoning our traditions of local governmental responsibility. It is of the highest importance that you who are the chief executives of your respective cities and that the governors of your States take counsel with the Federal Government in the prosecution of war as well as in the plans of peace. The day is gone -- if it ever existed -- when we can have economic health in this great nation unless the body politic functions as a united organism rather than a vast collection of separate units. The great depression should have taught our local governments as well as our business and financial leaders that they cannot provide for their own security. Only by joint action, through Government leadership and assistance can we achieve economic and political security. You who are in this room today have certain great responsibilities and powers within your own sovereignties, but you are not independent sovereigns.

We all accept without question the necessity for united action in time of war. We are not so ready to accept in times of peace the necessity for united action against economic evils that are the breeders of war and can be quite as destructive. You would agree, probably, that our economic objective is the fullest possible employment of our productive facilities at all times.

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In war time we propose to employ these productive facilities to the maximum in the shortest possible space of time. Except for such human failures of organization as are more or less inevitable, we succeed fairly well on the whole. We grasp the fact that the quicker we turn out planes, tanks, battleships, munitions, and all the other necessities of the hour, the sooner the victory will be achieved. We do not count the financial cost but we are prepared to manage the economic front in a way that will safeguard us from dangerous inflation. This latter is not altogether an easy task, but it is one we should be able to understand and accomplish.

We do not propose, however, to fall into the error of setting up the avoidance of inflation, rather than the maximization of defense output, as the supreme aim. The financing of this great effort is and should be secondary. As the President so well stated in his Budget Message, "There need be no fiscal barriers to our war effort and to victory." Yet, in peace times, we lose sight of the objective of full production and employment and see only the fiscal barriers. That has been the great mistake that the democracies have made in the past. It is the great lesson they are beginning to learn today. The truth is that there are never any fiscal barriers to full production and employment, and there could be no greater tragedy for the free peoples of the world than to fail to learn this lesson. Indeed, there could be no greater tragedy for the world than to assume that mankind can only mobilize for united action in war and in the building of instruments of destruction. The world would be freed from the devastation of war and it would be an immeasurably better place in which to

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live if we could learn to turn all our productive powers to the making of things of peace as effectively as we fabricate the things of war -- recognizing always that there are no insurmountable fiscal barriers. There are only the limitations of our economic understanding and management.

You, as executives of your cities, have a responsibility not merely to your own communities but to the nation at large. By clearly understanding the economic forces and problems of the country, you can contribute immensely to their management and solution. You will agree no doubt that poverty and distress are the breeders of crime and disease in your cities, that the goal of democracy is the steady improvement in the standard of living of your people and of all of our fellow citizens. Your energies and best thought must be bent upon progressive improvement, for certainly no informed man will say that our civilization has reached the peak, that our economy has come to a stagnation point, or that the future does not hold infinitely greater potentialities of human happiness than the past. It is only the blind men through history who have thought of their day as the golden age and failed to understand that we have only begun to make progress along the road of human betterment.

But while we all accept readily enough these philosophic conceptions of a better future, we fall out among ourselves when it comes to intelligent action and planning to make the dreams of a better day a reality. And we disagree mainly because we fail to understand the economy in which we live and the way it can be made to function. We can budget our economy to produce fully for war. There is no earthly reason why we cannot do the same in peace and with infinitely fewer complications and dislocations.

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I am not for a moment proposing, and I never have proposed, that public budgets should be a substitute for private activity and enterprise. I have contended for a good many years that the growing and inevitable magnitude of Federal, State and local budgets imposes new problems of coordination, of timing and management, and that these public budgets should be so timed and used as to supplement the budget of all private enterprise. Thus, in deflation, deliberate expansion of public budgets is a stimulating and reviving force. Conversely, in a period of rapidly expanding private employment and production, contraction of these budgets tends to prevent inflationary dangers. I am speaking of normal, not war, times. Unfortunately, under boom conditions brought about by war expenditures, the Federal Government cannot contract, but must continue to expand its budget -- and this makes all the more imperative the need for contracting so far as possible all other budgets, both public and private.

It is clear that this compensatory management of the Federal budget must be coordinated with budgetary management in your cities and States in order to achieve the objective of stable economic progress upon which full production and employment depend.

The basic problem, therefore, is one of intelligent management. That means balancing the Federal budget on a basis of business accounting or reducing public debt when we are at full production. In war times, as we have seen, the Federal budget cannot be balanced, which makes it all the more necessary that all other public budgets be balanced as one offset against the inflationary effects of Federal expenditures. Those of us who

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have long advocated compensatory management of public budgets as a means to stable economic progress and, indeed, the very preservation of our democratic institutions, come in for a variety of reproaches. A favorite one is to the effect that we regard public debt as a blessing. Any such superficial criticism would scarcely deserve notice were it not that so many people fail to understand the functioning of the debtor-creditor system under which we live. They fail to see the potentialities of national economic welfare in wise budgetary management and fail to realize that debt is a relative thing. The British public debt, for instance, has continued to rise for the past three centuries, but at the same time the wealth, incomes, and standard of living of the British people have risen far more. While our own debt is by no means a blessing, our national income and living standards have risen much faster than the debt in the last decade. The prospect of the enormous war debt need not alarm us so long as we have the wisdom and the will to offset its inflationary effects. Moreover, so long as our debt is owed to our own people and the income from it is not tax free, our problem is mainly one of servicing the debt.

The President stated the matter very simply in his Budget Message. The Federal debt, he pointed out, will increase to at least \$110 billions within the next three years. This means that the servicing of that debt at approximately the present levels of interest rates will require \$2.5 billions a year. As the President said, "Paying 2.5 billion dollars out of an extremely low national income would impose an excessive burden on taxpayers while the same payment out of a 100-billion-dollar national income, after

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"reduction of armament expenditures, may still permit substantial tax reductions in the post-war period." And he added significantly, "Our capacity to carry a large debt in a post-war period without undue hardship depends mainly on our ability to maintain a high level of employment and income."

The very large Federal debt that will be incurred as a result of the war, and even the war itself, will only have been in vain if we fail to learn the lesson that we did not understand after the first World War. For not only did we fail then to join other nations in organizing for lasting peace, but we failed to establish the very foundations of that peace by providing economic security and stability for ourselves and indirectly for other nations.

On the whole, the rest of the world also failed miserably to achieve the full and efficient use of its productive resources in the two decades between the two world wars. The great industrial nations which command control of the bulk of the world's resources failed to make adequate use of these resources and hence were plagued by vast unemployment. This failure is the basic cause of the present world chaos and conflict. It is well to remember that between the two wars we saw the destruction of free enterprise and free political institutions in approximately half of the western world. We are fortunate, as are the British, that so far, even though with difficulty, we have been able to adapt through evolutionary process rather than by revolution.

I have ventured to say before, and I want to repeat again, that we are not proposing to save democratic institutions and free enterprise in order to produce another era of economic misery and general unemployment. We are

fighting to preserve our institutions because we believe them to be the best adapted for producing the greatest good for the greatest number. That means not simply spiritual values -- vitally important as they are -- but material well-being. That, in turn, means full production of all the necessary, useful and good things of life that our inventive genius and our mechanical capacity are capable of turning out, not for a privileged few but for the masses of mankind. We have made some progress toward minimum standards of consumption. We must make much more after peace is restored.

We must enable all members of the community to have the minimum food requirements necessary for an adequate nutrition standard. Our entire population should be supplied with public health services and with hospital and medical care sufficient to overcome preventable disease. Likewise, decent housing must be provided for the entire population on a basis adequate to insure modern sanitation and health conditions and to afford living quarters commensurate with modern standards. Similarly, we should provide minimum educational standards for our entire population, whether they happen to live in poor backward communities or in the richer advanced States, and in addition we should provide advanced educational opportunities for the gifted members of the community without regard to the income class in which they happen to be born.

By the same token the replanning of our cities, the reclamation of slum areas, the extension of super-highways, the development of recreational facilities are all part of the better future which we can and must provide. Not only are all these things possible within the framework of our insti-

tutions, both political and economic, but they are essential to preserve and vindicate all that we are fighting for. You will understand, of course, that what I am saying applies to the post-defense period. In the interim, as long as we must make the supreme war effort, the standard of living of all of our people, except those already at the subsistence level, must gradually decline.

I have mentioned briefly various post-defense projects, but I should like to discuss a little more fully with you the necessity for urban re-development and housing, because it is possibly of greater economic and social importance to the country and especially to this group than any other post-defense subject.

The story is much the same in all of our large cities -- many decades of unplanned, haphazard growth, beginning with the development of a downtown business center surrounded by good residential neighborhoods; then expansion of the business area and removal of the residential districts farther out; infiltration of industries; the resort to zoning; the advent of rapid transit and the further shifting of the population to the suburbs; then the spreading of zones of blighted areas around the business centers and sub-centers, with all that has meant in tax delinquencies and stagnation of improvements.

Meanwhile, as so many of you know, the cities have faced an increasingly acute financial problem in providing municipal services, including streets, police and fire protection, water supply, etc., for the expanding suburban areas, which sometimes have become separate municipalities with the



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resultant loss of tax revenues to the parent city. I mention this familiar picture only because it opens up an enormous avenue for a well-planned future improvement program that must be undertaken primarily with Federal help in the post-war era.

The two chief obstacles that must be overcome involve, first, the granting to the cities of increased powers from the State to assure permanent control over their metropolitan areas, and, secondly, the cities must obtain adequate legal powers of condemnation to take over the blighted areas. This latter task can only be financed with the aid of the Federal Government. It is something that we must plan for even while we are at war if an intelligent attack on the problem is to be made after peace comes.

Let us suppose that the various cities and towns have obtained from their States the legal powers I have referred to; that they have then proceeded, with such help from the Federal Government as was necessary, to draw up long-range plans, each for the entire metropolitan area; that these overall plans, one by one, have been examined and found satisfactory by an appropriate agency of the Federal Government. The local government would then begin by defining the worst of its slum and blight areas with a view to acquiring all the real property therein, either by purchase or through condemnation. It would apply to the Federal agency for a loan, if need be, large enough to cover part or all of the acquisition cost. Such cities as could afford it should greatly lessen the amount of Federal participation by making larger contributions themselves.

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The Federal loan would be granted on three main conditions. First, the acquired properties should be used or leased (not resold) only in accordance with the approved plan as from time to time developed. Second, the ground rents for the leaseholds should be based reasonably on the future use-value in accordance with the plan, irrespective of what it has cost to acquire the land. Finally, the local government should repay the Federal advances out of their own subsequent receipts from leasing such of the land as is not used for public purposes.

It is quite clear to students of the problem of blight that the areas involved are for the most part suitable only for residential purposes. Some of the land, of course, would be used for public purposes, such as new street layouts, parks, playgrounds, and the like. Some might very well be needed for reorganized and relocated transportation terminal facilities. Probably a small portion might be required for incidental business structures. But mainly the land should be used for residential purposes -- for everything from high-priced apartments to low-cost housing. Generally speaking, the geographical locations are ideal for the purpose. This is immediately evident if we can forget the present dismal surroundings. Whether on the whole the effect might be to arrest the flight of population to the suburbs, it is a certainty that there are large numbers of people who would prefer to live within walking distance of their work if they could do so in pleasant surroundings, rather than to travel for an hour or so every day to and from their dwellings.

Subsidiary to the entire program of replanning and rebuilding, all

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the activities of the Federal Government with respect to urban housing should be reorganized and rationalized. Among other things, an extensive program of research and experiment should be inaugurated to tackle the entire problem of producing a good low-cost dwelling unit -- low-cost in terms of what the occupant has to pay to live in it. This would require a thorough overhauling and reorganization of the residential construction industry, to bring its level of efficiency up to something comparable to that reached in other countries and by our other great basic industries.

You, as mayors of the cities, are all concerned in what can be done, primarily for the cities and towns in the period after the war. Equally desirable and valuable programs should be undertaken for the rural areas as well. Although all of this looks to the future, preparation must begin now. Nor do I think it wholly inappropriate, even in these grim days, to keep before us a vision of the future as an inspiration and a symbol of what it is we are fighting for.

Let's keep this vision of the future -- but at the moment there are urgent problems of civilian defense before you that are all-important, as the President of this Conference so well knows. In addition, there are two particularly timely subjects that I should like to mention, though I suspect they will not be popular with many of you. Specifically, you can oppose tax reductions in your cities and you can exert all your influence to put an end to the issuance of tax-exempt securities. As to the latter, the Federal Government has led the way. Your States and cities should follow. Let me tell you why these two lines of action are so necessary and important.

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As you all know, the enormous military demands for materials and man power have made it necessary for the President to call upon the public to reduce its expenditures and thus to release resources urgently needed for war purposes. The same considerations should lead government at every level, Federal, State and local, to reduce or postpone all expenditures that are not essential for the war effort and maintenance of civilian morale. Public works, all plans for capital improvements, should be deferred so far as possible until after the war, when such expenditures can be timed to stimulate production and maintain employment.

There is one exception to this rule so far as your cities are concerned. In those communities experiencing rapid expansion because of defense activities and the influx of population, it is manifestly impossible to curtail -- for you must extend police and fire protection and all the other essential public services needed to take care of this sudden but probably temporary growth. Because, in all probability, this growth is not permanent, part, if not all, of the costs of extending public services should be treated as defense work and thus should be financed with Federal help.

Otherwise, it is urgently necessary that you practice every economy consistent with the maintenance of essential services. This does not mean that you should reduce local taxation, however plausible that may seem at first. For to the extent that you reduce local taxation, you negative what the Federal Government is seeking to accomplish in controlling inflation through increasing Federal taxation. The taxpayer's contribution to the war effort is made by reducing his personal expenditures for goods and services,

thus aiding in the shift of economic resources to military purposes. To the extent that the Federal tax pressure upon the taxpayer is offset by reduction of State and local taxes, the economic purpose of the Federal tax program is defeated. Accordingly, instead of reducing local taxes, you should maintain them, thereby enabling you to pay off your public debts. If you have no such obligations, then invest the funds in Government securities, thus helping to finance the war. This is the time to pay off or reduce local public debts as well as private debts, thereby helping to offset the inflationary factors arising from expansion of the Federal debt, while at the same time building up a credit reserve for use in the post-war era. Repayment of your securities would make available to those who hold them funds which they could invest in Government securities. Indeed, you have a rare opportunity for a major achievement in financial statesmanship. I hope that opportunity will be grasped.

You can make another real contribution to financial statesmanship by opposing any further issuance of tax-exempt securities by your States and cities. In these critical times it is more important than ever that our tax structure be as fair and equitable as we can make it. There is no more glaring loophole in the tax picture than that afforded to the wealthy by reason of tax-exempt securities. They are a hide-out and a haven where the man of means can put his money and insulate himself from paying the increased taxes that must be exacted today all down the line, extending to small groups that have not been subjected heretofore to income taxes. While I do not see how taxation can be levied in good faith on the tax-exempts

already issued, there should be a discontinuance of this inequitable practice so far as all future refunding or new issues are concerned.

How can anybody justify raising tax rates all down the line, even to the low income groups as is necessary both to war-financing and to the control of inflation, while allowing those of large means to escape by investing in tax-exempts? It is indefensible. And bear in mind that the more taxes have to be increased, the more valuable the tax-exempt privilege becomes. For example, by putting his money into tax-exempts, even under the present income tax, the man with a million-dollar income saves \$79 for every \$100 of income derived from tax-exempts. The man with an income of \$100,000 thus saves \$69 on every \$100 of income from tax-exempts -- and so on. The tax-exempt privilege is worth the most to the wealthy and the least to those of small means -- quite the opposite of democratic conceptions of justice. To the man with the million-dollar income, the tax-exemption privilege afforded by a municipal bond yielding 2 per cent is worth as much as a taxable security that yields 9-1/2 per cent.

All other types of incomes -- salaries, wages, dividends -- are subject to the rising rates of taxation, to say nothing of business and other risks. It is only the recipient of the tax-exempt income who is free of all risks. Taxes that compel all other groups to curtail their living standards as a necessary contribution to the winning of the war do not touch him. As for the comparatively small saving in the amount of interest paid by the public bodies which issue tax-exempts, far more is lost to the economy by allowing the wealthy to escape through this loophole than is saved in interest.

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Remember also that your local citizens pay Federal taxes -- and the bulk of them pay heavily for the exemptions thus afforded to the wealthy.

You, as mayors of the cities, have a real responsibility in these matters, just as you are vitally concerned in post-war possibilities of local reconstruction not merely because of the betterments in your own communities but, indirectly, because of the effects upon the national economy. For surely you recognize today that you are no more isolated from the general welfare than the nation is from events across the seas. You cannot prosper when the rest of the nation, or any major part of it, is in severe economic distress. Your tax receipts rise and fall as national income goes up or down. You could not, even if you would, separate yourselves from a direct concern in means and measures designed to assure national economic stability and progress. The cities were bankrupt in the early 30's because the nation was in the depths of deflation and no community, however foresighted and prudent, was able to immunize itself from the devastation. You are relatively prosperous today because we have had a war boom -- incidentally one that does little credit to us as a nation. For we see now that while we sought to make our defense efforts a mere supplement to a business boom, we should have discarded long ago all business-as-usual day-dreaming and made much sooner the sacrifices we talked about and did not make, but must perforce make now or perish.

No, there may have been a day when you were so self-centered and self-contained that you could get along by yourselves, but that day has long since gone -- your welfare and your public lives are bound up with the

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national well-being. You must know and understand what will help or hurt the national economy. You must be prepared to shape your policies and actions in accordance with national objectives, programs and policies. You must more than ever before take care that the taxpayer's dollar is efficiently used. You must have a responsible civil service -- you must have, in short, the confidence of your citizens that the affairs of the city are run as efficiently and intelligently as is required for the survival of competitive private business. That is certainly not only possible but essential -- and it happens to be the best politics as well.

In the brief time here this afternoon, I have tried to touch on a few of the fundamental principles that I feel should be of interest to you and hence of importance for you to consider. Since Pearl Harbor, the subject assigned to me to discuss post-war programs fades out before the grim necessity for concentrating all our energies upon the winning of this war. Yet we can and we need to keep before us always that vision of the kind of world we mean to have when we have won through again to peace -- a world in which the four freedoms are not empty phrases, but in which mankind will have the security from hunger and want, the assurance of economic well-being, that is the best guarantee of lasting peace and the justification for all the blood, sweat and tears we must devote to the success of our cause.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 19, 1942

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending January 17, 1942.

Summary

(1) Industrial production showed a less than seasonal decline last month, according to preliminary figures, and the adjusted FRB index is estimated to have risen 2 points to a new record high at 166. The index averaged 156 in 1941, as compared with 123 in 1940 and 110 in 1929.

(2) To meet the war emergency, numerous steps have been taken recently to expand raw materials output. In an attempt to relieve the shortages in nonferrous metals, the price ceiling for lead has been raised, and substantial premiums will be paid for lead, zinc and copper produced in excess of 1941 production. Plans are under way to step up the production of aluminum, magnesium and synthetic rubber, while the tin smelter now under construction in Texas will be enlarged.

(3) To meet increased food requirements, the Department of Agriculture has announced a program for expanded agricultural production, substantially above the record goals requested last September. Special emphasis is placed on increased production of fats and oils, livestock products, and feed-stuffs. A shortage of farm labor, however, may prevent full attainment of these goals.

(4) The general price level continues to move higher. The ELS all-commodity index in the week ended January 10 rose 0.7 point to a new high at 95.0, which is 26.7 percent above the August 1939 pre-war level. Basic commodity prices rose again last week, foreshadowing a probable further rise in the general price index.

(5) A renewed upswing in consumer retail buying appears to be under way, prompted in part at least by fears of shortages in such items as rubber and woolen goods. Department store sales in the week ended January 10 widened their gain over year-earlier levels to 32 percent from 26 percent in the previous week.

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Industrial production index at new high

Preliminary figures show that industrial production in December declined less than the usual seasonal amount, and the adjusted FRB index for the month is estimated to have risen 2 points to a new peak at 168. (See Chart 1.) Aggregate industrial output actually has receded slightly from the peak levels attained in September and October, but seasonal adjustments have raised the index. The upward adjustment for seasonal factors will be somewhat greater in January, but thereafter actual production will have to gain steadily until summer to forestall a drop in the adjusted index.

On the basis of last month's preliminary figures, the index of industrial production for 1941 averaged 156, which compares with 123 in 1940. The index averaged 113 in 1937 and only 110 in 1929. The rise in the adjusted index since the beginning of the defense program, starting with an index of 112 in April 1940, has been 56 points or exactly 50 percent.

Steps taken to expand raw materials output

Further expansion in industrial output from present high levels will be determined in large part by the rapidity with which supplies of important raw materials can be increased. During the past week a number of noteworthy steps were taken to stimulate raw materials output, particularly of the non-ferrous metals, of which shortages have been keenly felt.

In addition to OPA action raising the price ceiling on lead, it was announced that the Metals Reserve Company would pay substantially higher than ceiling prices for copper, lead and zinc produced in excess of the 1941 production rate. Inasmuch as the price increases for the excess production are as much as 42 percent for copper and lead and 33 percent for zinc, it is felt that production will be stimulated considerably. The OPM estimates that the production of lead and zinc will be 30 percent above current levels by the end of the year as a result of the steps taken to stimulate output.

It has also been announced that plans are being developed rapidly for a further expansion in the output of aluminum and magnesium. Location of the projected plants will be determined as soon as the OPM is successful in finding areas where adequate electric power can be provided. Other expansion programs under way include plans for increasing

synthetic rubber production to 400,000 tons annually, and the enlargement of the tin smelter now under construction at Texas City to a probable annual capacity of 30,000 tons, from 18,000 tons as originally planned.

No improvement appears to have occurred thus far in the supply situation for steel scrap. However, the recent moderation in weather conditions is likely to be followed by at least some temporary improvement in scrap collections. Among other steps being taken to cope with the problem, the OPM is taking a census of so-called graveyard scrap, and about 35,000 owners of such scrap are being asked for reports on their inventories. Despite the scrap shortage, steel operations last week rose 1.4 points to 97.8 percent of capacity. During the current week operations are scheduled at 97.7 percent of capacity.

#### New agricultural program to aid the war effort

A revised agricultural production program to fill the war-time needs of this country and of the United Nations, with goals far in excess of those set last September, was announced Thursday by the Department of Agriculture. Production goals were expanded sharply for hogs, corn, oil-bearing crops, rice, eggs, milk, dry beans, dried peas, and vegetables and fruits for canning. To supplement feed supplies required for greater output of livestock and livestock products, and to release storage space for 1942 crops, the program provides for releasing some Government-owned wheat for livestock and poultry feed, at prices comparable with those for corn. Although crop control restrictions are to be retained on wheat and cotton, the acreage goal for cotton was raised somewhat from that announced in September, and special premiums will be offered on long staple cotton.

To provide the necessary production incentives, the Department of Agriculture has announced that prices for a number of products will be supported at specified levels. The chief obstacle to full attainment of the stated goals is likely to be the shortage of farm labor, which will undoubtedly be more serious this year than it was in 1941.

#### Government-owned corn to be sold for alcohol production

Government-owned stocks of corn have been offered for sale through the Commodity Credit Corporation to producers of ethyl and butyl alcohol and acetone. If 60,000,000 bushels will be converted under this program, as hoped, one-half of the Government stocks will be disposed of. This program will also further the OPM plan to increase alcohol

production, and conserve sugar and molasses heretofore used in producing ethyl alcohol. The use of corn by distilleries will provide valuable by-products for livestock feeding.

#### Sugar supplies inadequate

That sugar supplies are insufficient to meet the increased demand from consumers was asserted by OPM representatives last Friday at a conference with representatives of the cane sugar trade and the Department of Agriculture. A program for allocation of 1942 raw sugar supplies to refiners, and through them to manufacturers and wholesalers, was announced. The allocation will be under supervision of the OPM rather than the Department of Agriculture, apparently because of the more effective legal powers vested in the OPM.

#### All-commodity index continues to rise

The BLS all-commodity index rose 0.7 percent in the week ended January 10 to a new 12-year high at 95.0 percent of the 1926 average. This is an increase of 3.0 percent since our entrance into the war, and the index has risen 26.7 percent from the August 1939 pre-war level. (See Chart 2, upper line.) The advance, reflecting increases in most of the major commodity groups, was led by an upward movement in prices for farm products, textiles, and foods. Building material prices continued to move higher, with a sharp rise of 5.9 percent for plumbing and heating supplies.

It is likely that the all-commodity index continued its rise in the following week (ended January 17), since the sensitive index of 28 basic commodity prices in that week continued to advance. (Refer to Chart 2.)

#### Price trend compared with that in first World War

A comparison of price movements in the first World War with those in the present war is shown in Chart 3. A noticeable difference is the levelling off of the all-commodity index in the last four months of 1941, in contrast to the steep rise in 1916. On the other hand, it will be noted that food prices are continuing to rise as rapidly as during the first World War. Price controls in that period were not imposed until after the middle of 1917.

Price movements for basic commodities in recent days

Government price policies and price control legislation dominated commodity markets last week. On the whole they were interpreted bullishly, and the BLS index of basic material prices advanced for the third week in succession. The higher level last week reflected a substantial increase in prices of industrial raw materials and some further rise in prices for farm products. (See Chart 4.) The President's stand against inflationary provisions of the price control bill doubtless prevented a sharper rise, but reports that the Conference Committee had no immediate plans to change these provisions tended to sustain prices.

Among the raw industrial materials, the price of lead advanced 11 percent due to an increase in the ceiling price. Rosin prices continued to rise, and prices of flaxseed and tallow were noticeably higher. Cotton prices made a new 12-year high and wheat also advanced.

Cost of living higher in December

Living costs rose again in December, but the advance in the BLS cost-of-living index was less than in any other month since last February. (See Chart 5.) The index for December was 0.3 percent higher than in November, and 12.1 percent above the pre-war level of June 1939. For the first time since November 1940, the cost-of-food index did not advance, but all other components rose moderately.

Private residential construction declines

The impact of materials shortages on the volume of new home construction became more pronounced in the closing months of 1941. Residential construction awards in December, as reported by the F. W. Dodge Corporation, showed a decline of fully 50 percent since the peak reached last August. (See Chart 6, upper section.) This trend was accentuated by the drastic limitations imposed on non-defense construction in October by SPAB, and in the following month residential construction contracts fell below year-earlier levels for the first time since March 1940. Last month the decline continued, and contract awards fell 35 percent below the corresponding month in 1940.

Mortgages selected for appraisal by FHA, exclusive of those under Title VI (defense housing), dipped under year-earlier levels as early as last August. Last month's total

ran 17 percent under December 13<sup>th</sup> 40, and the recent weekly figures show a sharper decline. (Refer to Chart 6.)

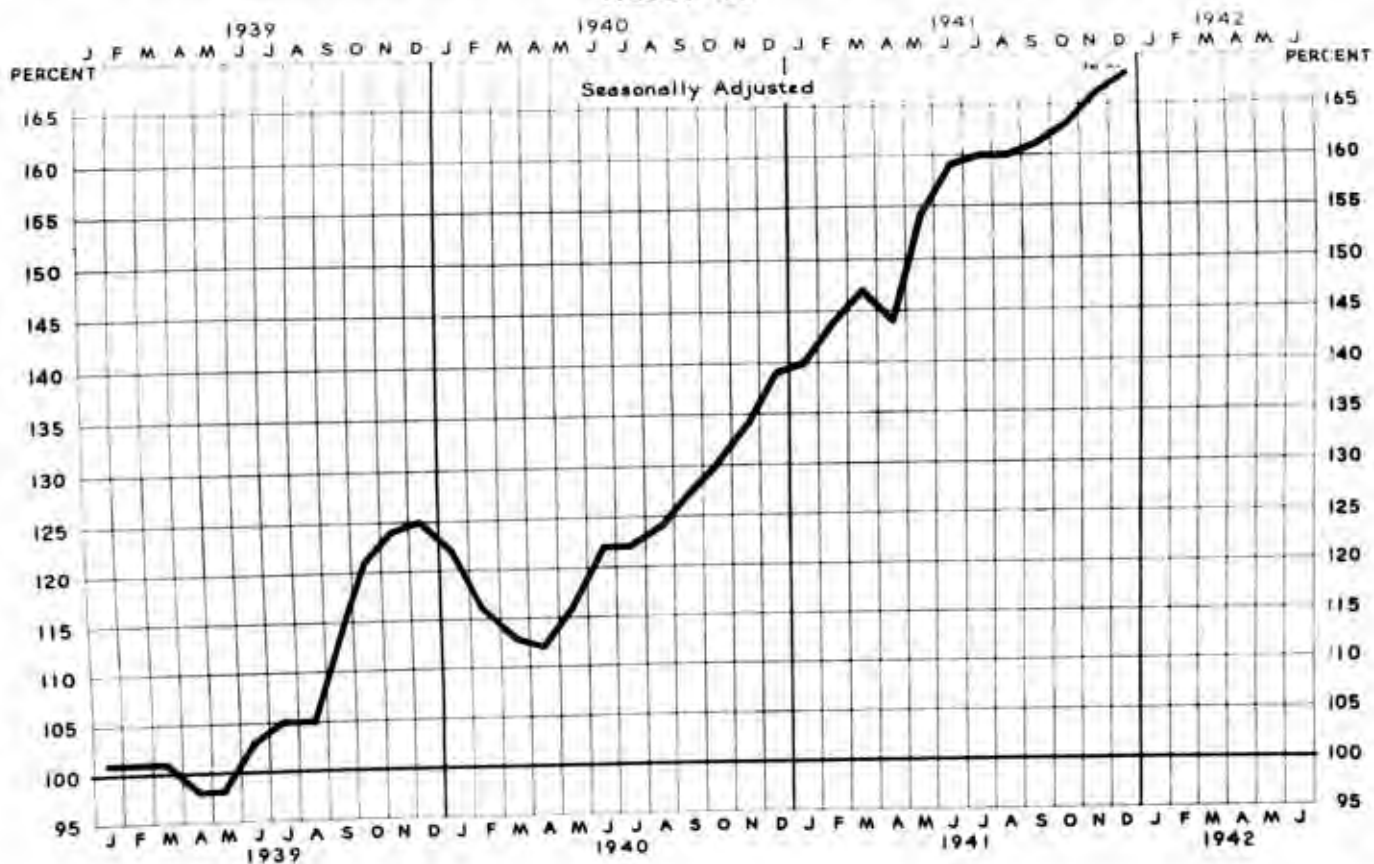
Since Title VI was added to the National Housing Act last March, the FHA has financed a substantial amount of defense housing in addition to that financed under Title II. If this special type of defense housing is included, aggregate home mortgages selected for appraisal by the FHA in December were still 7 percent above year-earlier levels. Although a heavy volume of defense housing is likely to be maintained, the chief of housing priorities of the OPM recently stated that orders would probably be issued shortly halting new home construction by private citizens for the war's duration.

#### Department store sales higher

Department store sales showed further improvement during the week ended January 10 and widened their gain over year-earlier levels to 32 percent, as compared with 26 percent in the previous week. Since retail prices at the beginning of the month were about 15 percent higher than at the beginning of 1941, it is obvious that the volume of goods sold is again well above year-earlier levels, thus reversing the slight lag noted last month. Trade sources report that clearance sales since the first of the year have met with good response, and that consumer buying is again in an up-swing, due in part to fears of shortages in such items as woolen and rubber goods.

# FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION

1935-39=100



Office of the Secretary of the Treasury  
Bureau of Economic Warfare

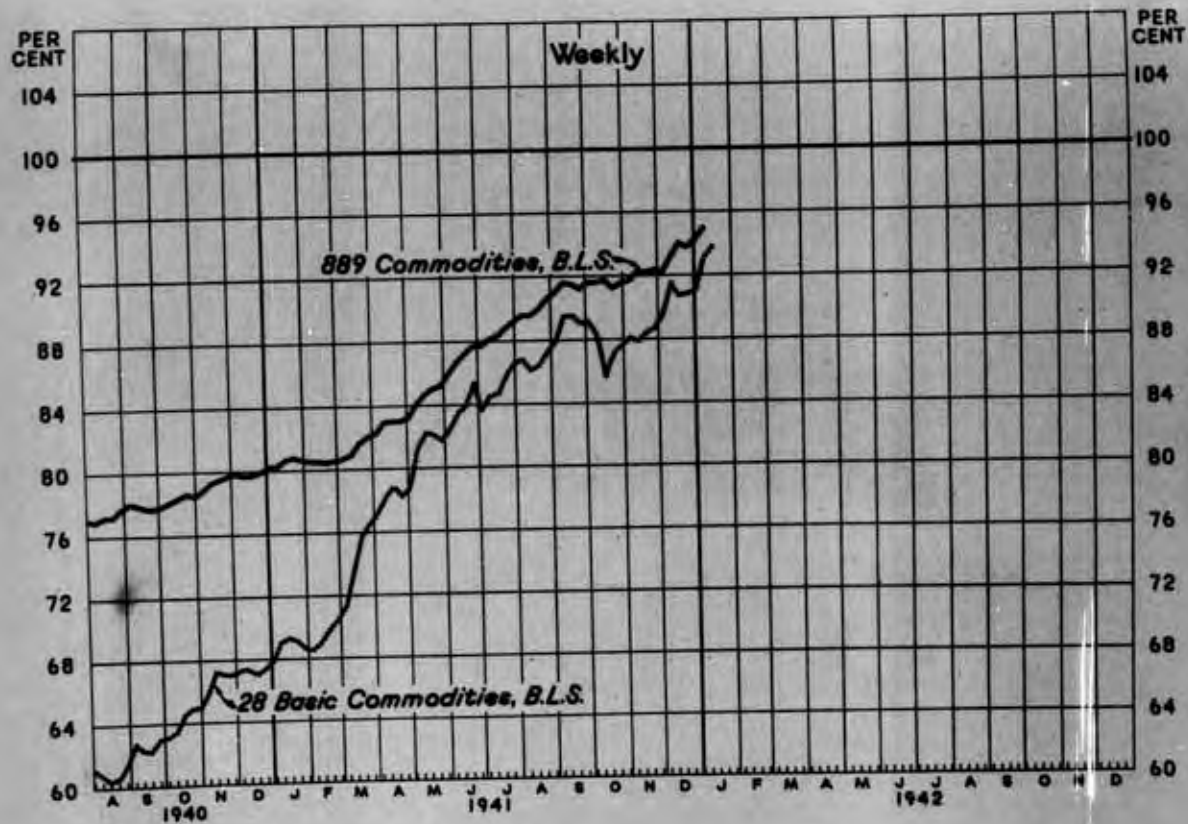
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287

Chart 1

# COMMODITY PRICES

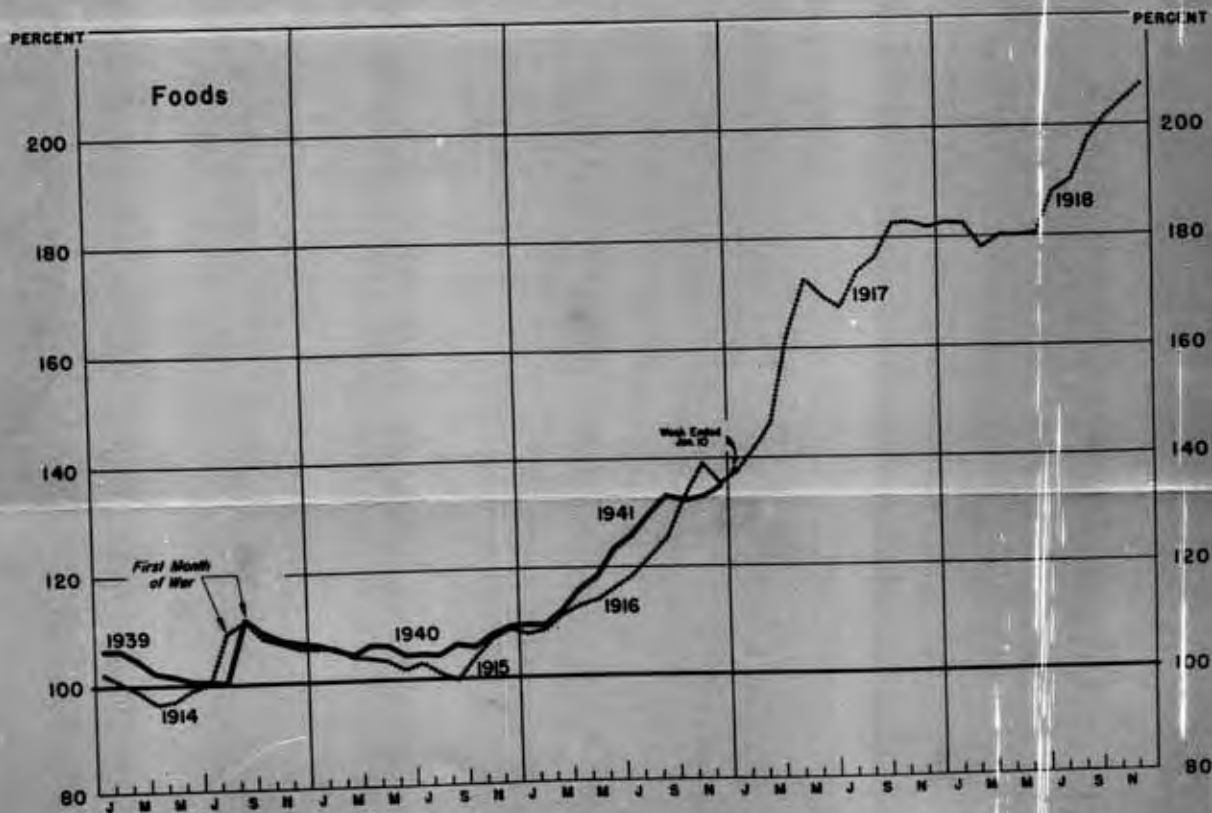
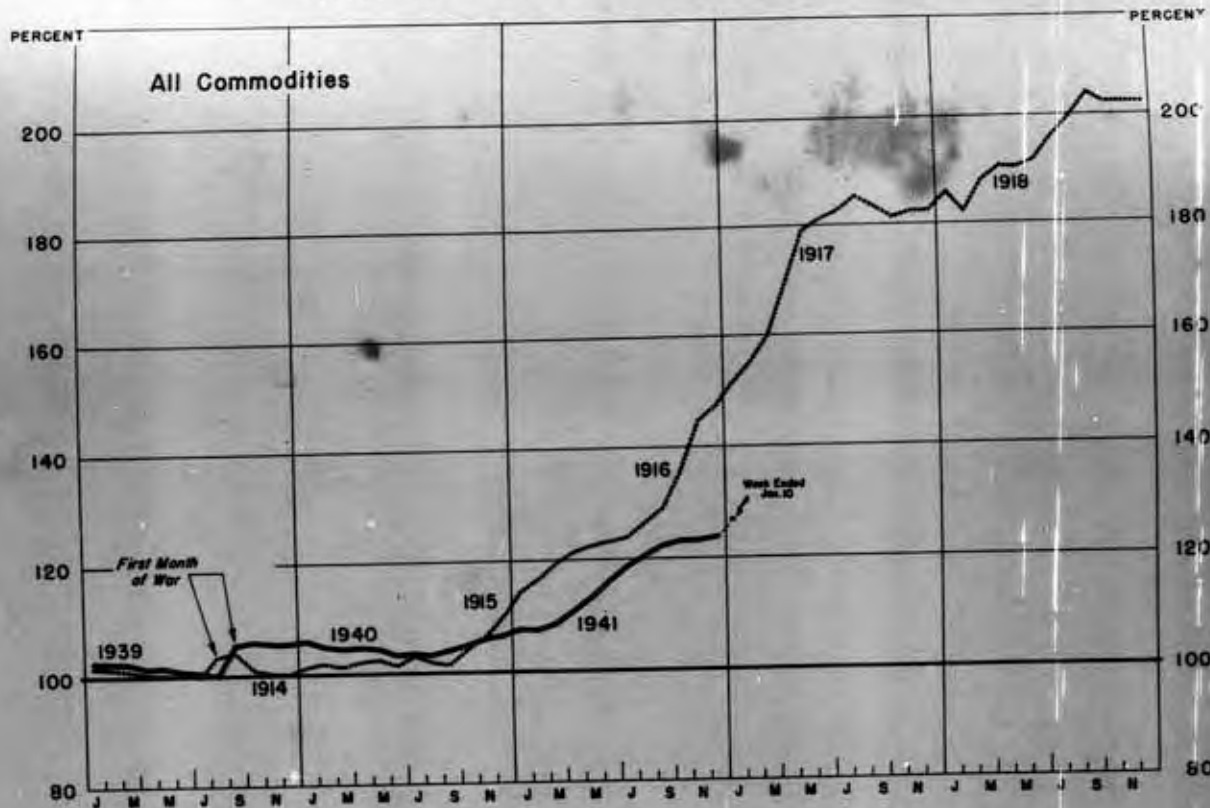
1926=100





# PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1913

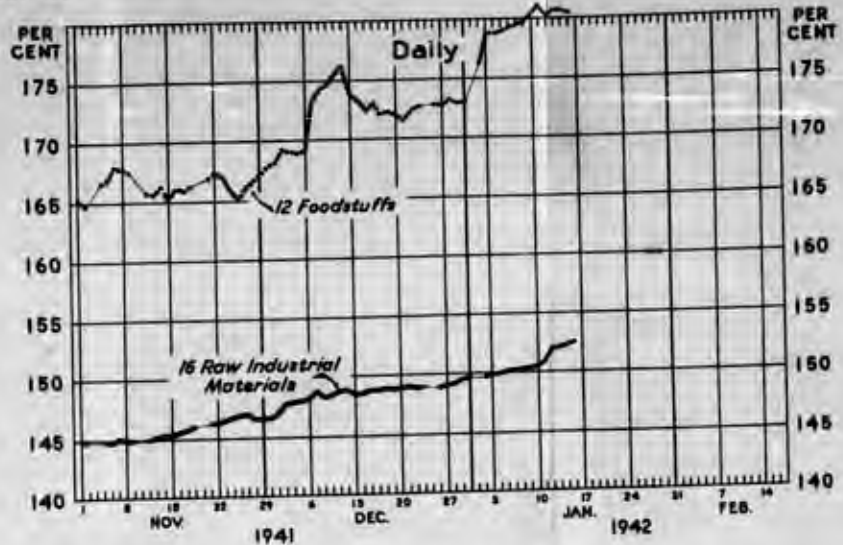
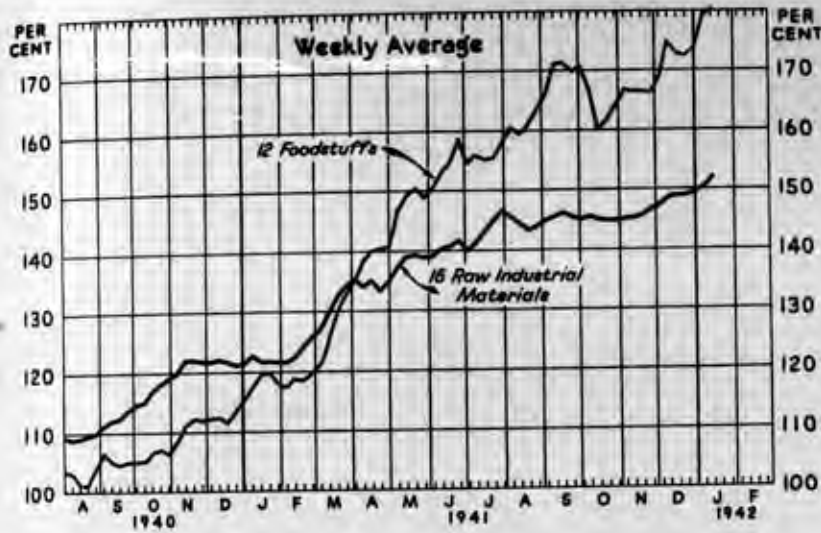
July 1914 = 100 World War Period; Aug. 1939 = 100 Present Period



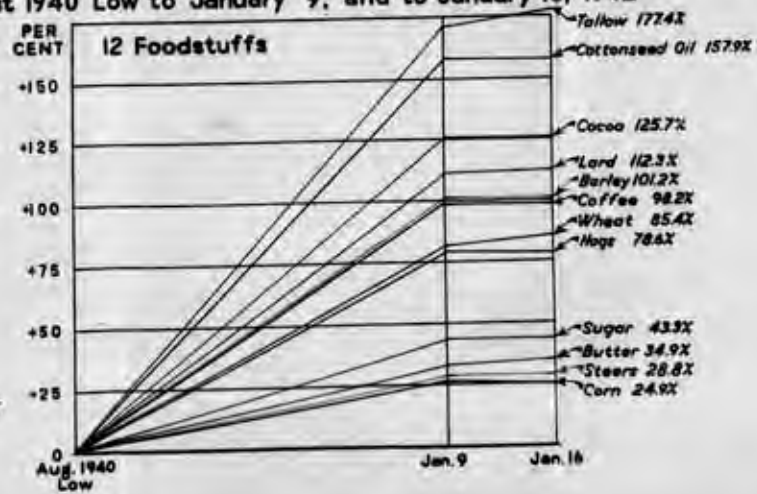
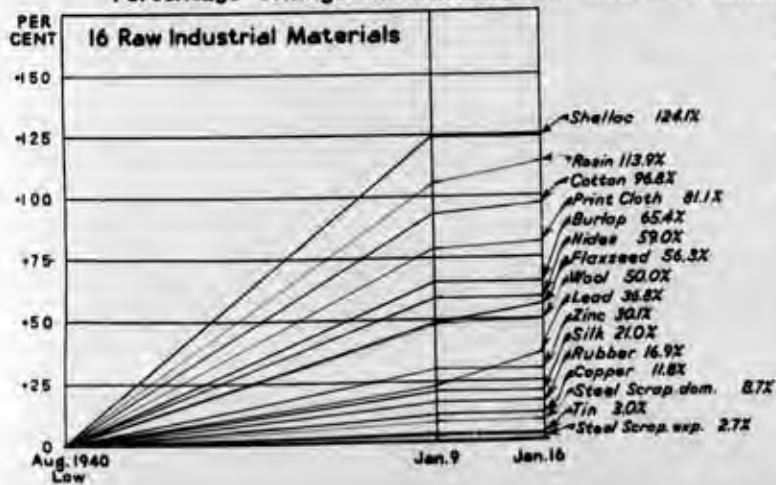
Source: B.L.S.

# MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100

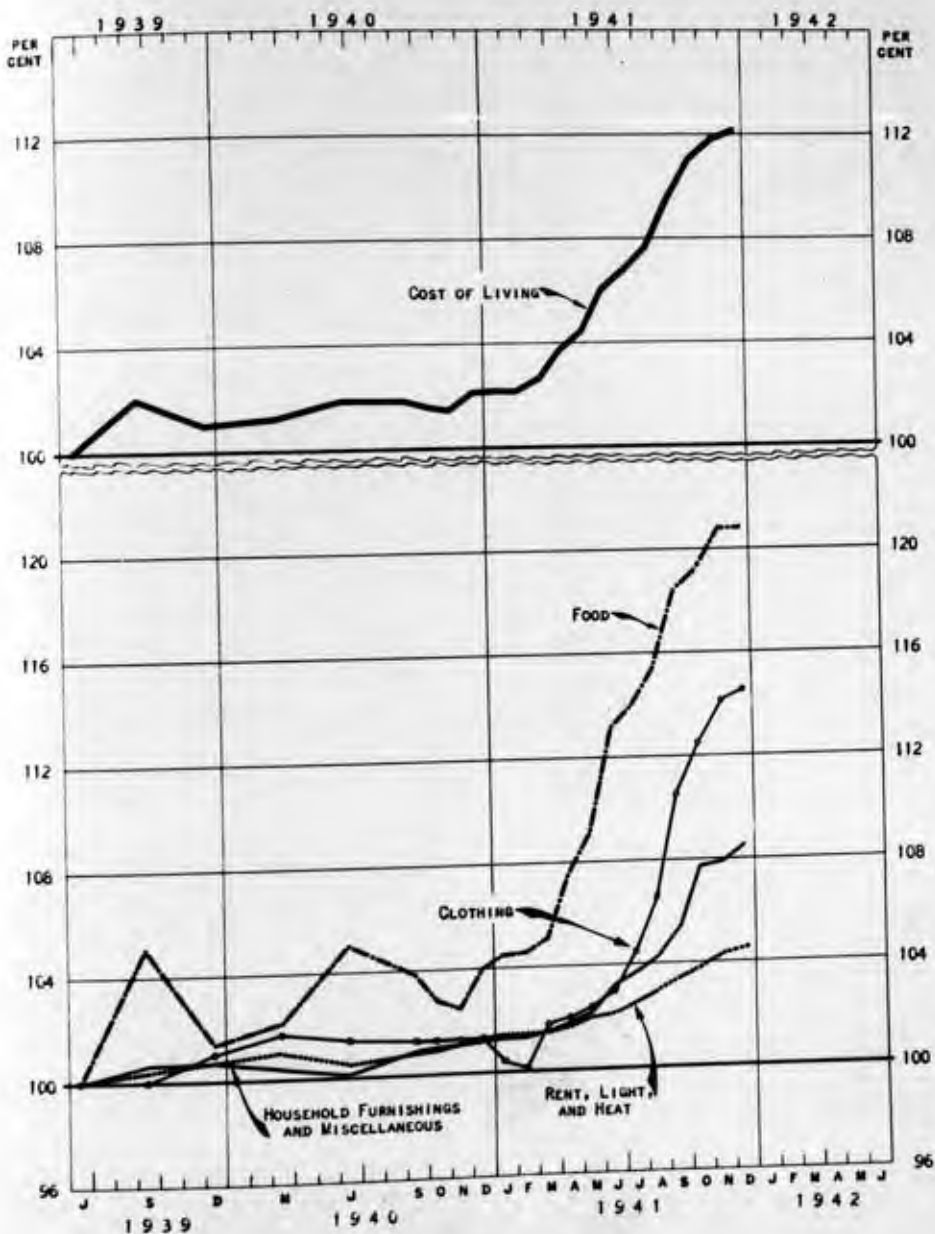


Percentage Change for Individual Commodities, August 1940 Low to January 9, and to January 16, 1942



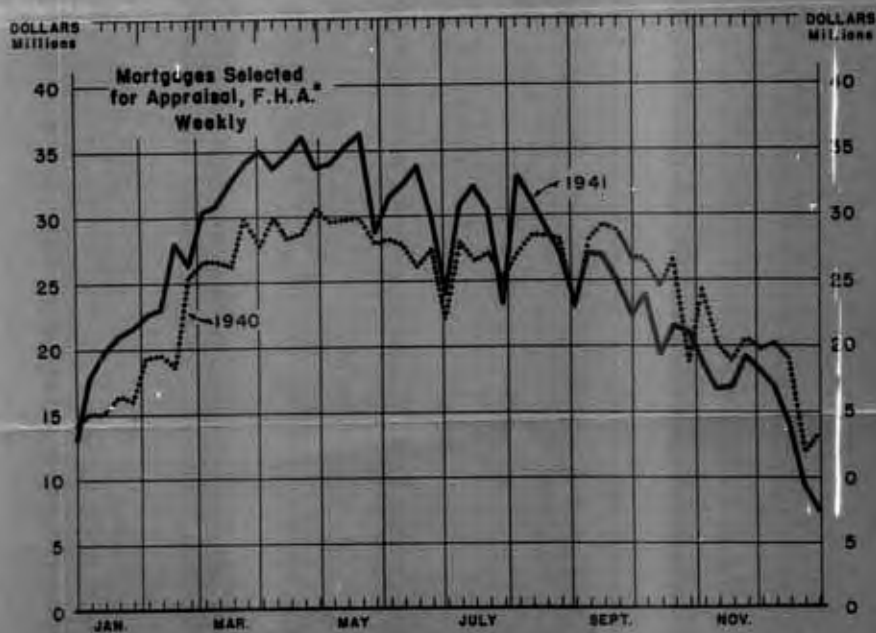
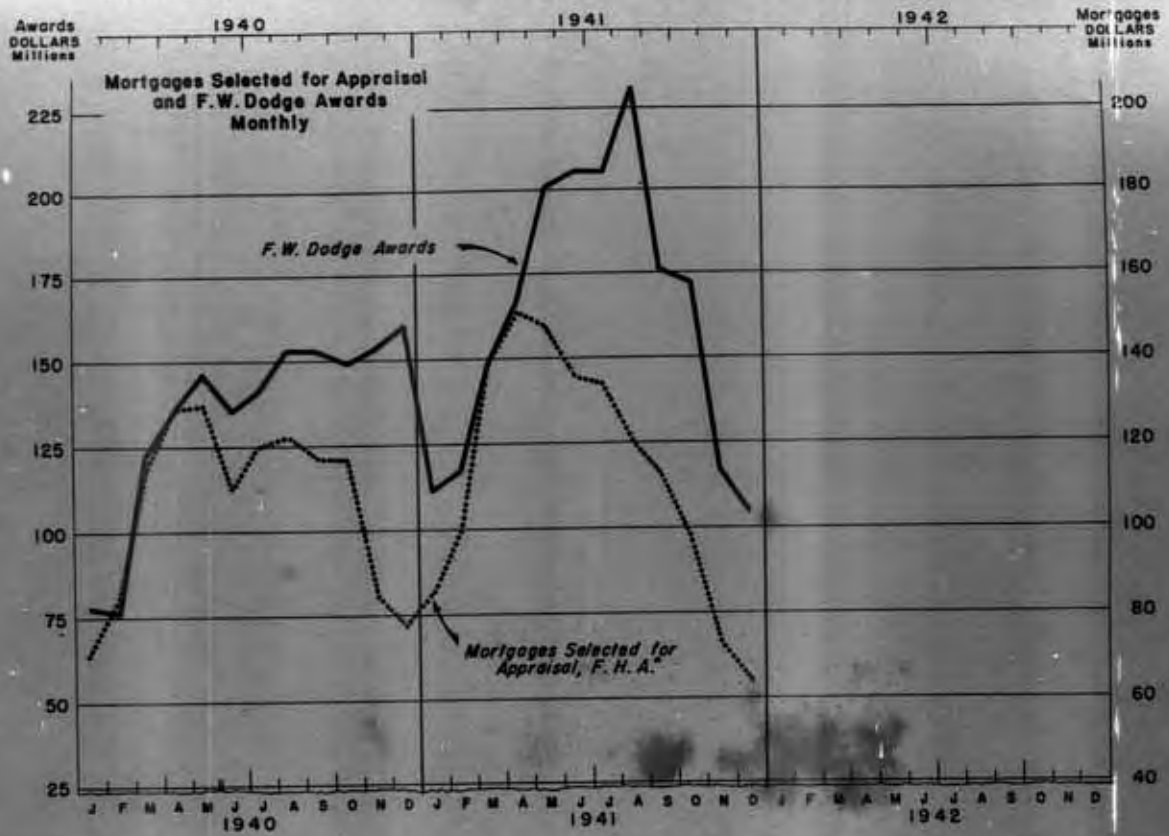
COST OF LIVING AND SELECTED ITEMS

BASE 1939 = 100



SOURCE: B.L.S.

# RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



\*Excluding Title VI Mortgages (Defense Housing)

~~TREASURY DEPARTMENT~~  
OFFICE OF THE SECRETARY

January 19, 1942.

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended January 7, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York, and the means by which these expenditures were financed.

dm/1/19/42

COPY

FEDERAL RESERVE BANK  
OF NEW YORK

January 15, 1942

CONFIDENTIAL

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

I am enclosing our compilation for the week ended January 7, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knocks

L. W. Knocks,  
Vice President.

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

Enclosure

Copy:vw:1-19-42

STATEMENTS OF CANADIAN AND AMERICAN ACCOUNTS  
(in millions of dollars)

First Issue January 1942

PERIOD	BANK OF CANADA (and Canadian Government)									COMMERCE BANK OF CANADA							
	DEBITS				CREDITS					Net Incr. (-) or Decr. (-) in Balance	DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C			Total Debits		Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance	
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+151.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9	
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	37.9	14.5	49.4	62.4	30.1	12.3	+ 4.4	
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 3.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0	
Aug. 28 - Oct. 1 1941	23.1	-	23.1	22.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9	
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2	
Oct. 30 - Dec. 3	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 4.3	
Dec. 4 - Dec. 31 1941	47.2	-	47.2	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1	
<b>WEEK ENDING:</b>																	
Dec. 17	17.8	-	17.8	4.0	2.6	-	-	1.4	- 13.8	1.3	-	1.3	0.2	0.2	0.3	- 0.8	
24	14.7	-	14.7	5.5	4.5	-	-	1.0	- 9.2	0.7	-	0.7	0.1	-	0.1	- 0.6	
31	11.3	-	11.3	7.9	7.4	-	-	0.5	- 3.4	1.8	1.8	-	1.6	-	1.6	- 0.2	
Jan. 7	7.0	-	7.0	1.4	0.1	-	-	1.3	- 5.6	0.7	-	0.7	0.2	-	0.2	- 0.5	

Weekly Average of Total Debits Since Outbreak of War through January 7, 1942 \$ 7.7 million

\* For monthly breakdown see tabulations prior to April 23, 1941.  
\*\* For monthly breakdown see tabulations prior to October 8, 1941.

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS

Week ended January 7, 1942

Monthly

PERIOD	BANK OF CANADA (BRITISH ACCOUNTS)							Net Inur. (+) or Debr.(-) in Balance	DEBITS			CREDITS			Net Inur. (+) or Debr.(-) in Balance
	DEBITS		CREDITS		CREDITS		DEBITS		CREDITS						
	Total Debits	Gov't Expendi- tures(a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official)(b)	Other Credits(c)		Total Debits	Gov't Expendi- tures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(e)	416.6(e)	449.7	1,095.3(e)	900.2	195.1(e)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,366.7	2,792.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	98.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.3	-	0.3	+ 0.2
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	+ 0.2
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.7	69.6	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4
1942															
Dec. 17	17.8	13.2	4.6	14.7	-	-	18.7	+ 0.9	-	-	-	-	-	-	-
24	19.7	14.2	4.5	6.8	-	-	6.8	- 11.9	0.1	-	0.1	-	-	0.1	-
31	22.4	17.6	4.8	18.0	-	-	18.0	- 4.4	0.5	-	0.5	-	-	0.2	- 0.3
Jan. 7	26.4	19.7	6.7	11.5	-	-	11.5(f)	- 14.9	0.1	-	0.1	-	-	0.1	-

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

England (through June 19, 1940) 27.6 million  
England (since June 19, 1940) 41.4 million

\*For monthly breakdown see tabulations prior to April 23, 1941.  
\*\*For monthly breakdown see tabulations prior to October 8, 1941.  
(See attached sheet for other footnotes)

Transfers from British Purchasing Commission to  
Bank of Canada for French Account

Week ended January 7, 1942  
Cumulation from July 6, 1940 162.7

million  
million



- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those affected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes:
  - \$2.1 million of Australian wool transfers;
  - \$4.0 million from British authorized banks;
  - \$1.0 million for account of U. S. Army at Northern Ireland.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE January 19, 1946

TO Mr. Coe  
FROM W. J. Hofflich

Subject: British Opinion on Post-War Problems.

## SUMMARY

The following points summarize briefly the appended digest of British Ministry of Information Press Surveys covering the period September 29 - November 21, 1941, on the subject of post-war planning and reconstruction:

1. There is widespread agreement that post-war planning and reconstruction can be accomplished only by close international cooperation. The greatest emphasis is placed on the necessity of close Anglo-American collaboration, but heavy stress is placed also on the desirability of cooperation between the United States, Great Britain and Russia in the peace settlement and post-war reconstruction. However, there is in England a school of thought which is fearful and suspicious of Russia, and reluctant to accept her as an ally except for the immediate task of defeating the Nazis.

2. There are two lines of opinion with respect to post-war arrangements for the small countries of Europe: (a) restore their pre-war status of complete independence, (b) arrange Europe into a few large federations of states.

3. The Atlantic charter is widely accepted as the logical basis for post-war reconstruction.

## TREASURY DEPARTMENT

299

INTER OFFICE COMMUNICATION

DATE January 19, 1942

TO Mr. Coe  
FROM H. J. Hofflich

Subject: British Opinion on Post-War Problems, as Reflected in the  
British Press.

The following highlights are taken from Home Press Surveys of the British Ministry of Information, covering the period September 29 - November 21, 1941, on the subject of post-war planning and reconstruction:

1. There is virtually unanimous agreement that post-war planning and reconstruction can be accomplished only by close international cooperation. But there can be discerned a difference of emphasis as to which nations are to do the cooperating:

a. Probably the greatest emphasis is placed on the necessity of collaboration among the English speaking peoples after the war.

b. Heavy stress is laid also on the desirability of close Anglo-American-Russian cooperation in building a new world when the war is over.

c. There is still a school of thought which fears the influence of Russia in the post-war European reconstruction. G. D. H. Cole has said that there is still great reluctance to face the conclusion that if Russia is treated as an ally during the war she must be treated as an ally in peace. Mr. Cole sees a conflict in Great Britain between (1) those who look to a close British alliance with the United States to maintain an "anti-Nazi capitalism" after the war, and (2) those who look to unity between Britain and the U.S.S.R. in rebuilding Europe.

As indicative of the fear of Russia, the Catholic Herald has published a number of articles, making the following points, among others: (1) We admire in Russia much the same qualities we loath in Germany, (2) Communism as well as Nazism wants to destroy religion, (3) The Pope has implicitly condemned Axis policy, but this does not imply support of Allied policy except as a means of opposing Nazism. "The Pope might well, for example, have doubts about the ultimate results of the close alliance between London and Moscow, or he might conceivably believe . . . that the evils of protracted war are such that a negotiated peace might be preferable even for the oppressed victims of Nazism."

- 2 -

The London Times appears to have taken the lead in opposing this line of thought. This paper has stated, "The Russian system, based as it is upon planned production and controlled prices, will fit easily enough into a world system if there is a real spirit of accommodation on all sides".

Russia, the Times says, must be a full partner in peace as well as war. The voice of Russia must be heard in the post-war settlement. The consequences of its not being heard at Versailles were disastrous. England and the U.S.S.R. have a large field of common ideals and objectives, e.g., an ordered and peaceful international life, achieved not through military domination of a particular nation or race, but through the recognition of a common interest and common loyalty capable of turning to the best use the diversity of peoples.

The Times says further that while the English people treasure individual freedom, they have in recent years come to understand that the freedom of the individual can be made secure only by a measure of that collective planning, for social ends, which has been the proclaimed ideal of the Soviet order. The war is bound to bring about widespread social changes in both countries, inducing increased sympathy and cooperation between two countries "already united in the defense of common human ideals against the threatened domination of a narrow and cynical racialist creed".

2. There are clearly two lines of opinion regarding the post-war arrangements to be made for the conquered countries of Europe.

a. It seems to be generally taken for granted that all the occupied countries will be liberated and returned to their pre-war national status.

b. There is some opinion favoring a political realignment for Europe after the war. Dr. Benes advocates four confederations of states between Russia and Western Europe, and indicates that Czechoslovakia would make a "partial surrender" of its sovereignty in the interests of such plans.

G. D. H. Cole thinks that the small European nations will be replaced by large national groupings. He envisages a Soviet Germany, and says it might be better for Europe, or the larger parts of it, to be "ruled by Stalin than by the restrictive and monopolistic cliques which dominate western capitalism".

3. A number of editorials refer to the Atlantic Charter, all accepting it as the logical basis for post-war planning.

FEDERAL RESERVE BANK  
OF NEW YORK

January 19, 1942

Dear Mr. Secretary:

Receipt is acknowledged of your letter of January 16, 1942, authorizing us, as fiscal agent of the United States, to advise the Banco Central de Chile that the Treasury Department does not deem it advisable to depart from its policy of not purchasing gold for delivery outside the United States.

We are pleased to enclose a copy of our letter of today written to the Banco Central de Chile, Santiago, Chile, in accordance with your authorization.

Very truly yours,

(Signed) L. W. Knoke

L. W. Knoke,  
Vice President.

Enc.

The Honorable D. W. Bell,  
Under Secretary of the Treasury,  
Washington, D. C.

Copy:lc:1/22/42

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ORIGINAL FORWARDED BY AIR MAIL  
DUPLICATE FORWARDED BY ORDINARY MAIL

302

FEDERAL RESERVE BANK OF NEW YORK

January 19, 1942

Banco Central de Chile,

Santiago, Chile.

Dear Sirs:

Reference is made to your letter of December 20, 1941, relative to your periodical shipments to New York of gold produced in Chile and the difficulties in connection therewith brought about by recent increases in freight and marine insurance rates. In our letter of January 3, 1942, we advised you that we would discuss your suggestion with the Treasury Department in Washington as soon as we had finished our preliminary study of the problem involved.

The United States Treasury Department has now authorized us, as fiscal agent of the United States, to advise you that it has given careful consideration to the suggestion contained in your letter of December 20 but does not deem it advisable to depart from its policy of not purchasing gold for delivery outside of the United States.

Yours faithfully,

L. W. Knobe,  
Vice President.

Copy:sc:1-22-42

January 19, 1942

To: Mr. Livesey

From: Mr. Bell

Will you please send the following cable to the American Delegation, Rio de Janeiro:

"Confidential for Under Secretary Welles from Secretary Morgenthau

Reference your No. 22, January 18. In confirmation of telephone conversation with Mr. White, the new resolution is satisfactory, with the following two changes:

1. The title to read "Resolution on an international stabilization fund."
2. The phrase in section two "the settlement of public and private international debts" should be deleted.

I hope the resolution will prove helpful.

Treasury work makes it desirable that Mr. White should return to Washington as soon as possible and not proceed to Buenos Aires."

PARAPHRASE OF TELEGRAM SENT

TO: American Delegation, Rio de Janeiro, Brazil

DATE: January 19, 1942, 2 p.m.

NO.: 30

This message is in strict confidence from the Secretary of the Treasury for the Under Secretary of State.

Reference is made to telegram no. 22, sent by the Delegation at 7 p.m. on the 18th of January, 1942. The new resolution with the two changes as follows is found satisfactory, in confirmation of a conversation on the telephone with Mr. White:

First. "Resolution on an international stabilization fund" is the way the title is to read.

Second. "The settlement of public and private international debts", a phrase in section two, should be crossed out.

It is hoped that the resolution will prove to be of assistance.

The work of the Department of the Treasury makes it desirable that Mr. White come back to Washington as quickly as possible and not go on to Buenos Aires, Argentina.

IRLI  
(JCB)



Treasury Department 35  
Division of Monetary Research

Date.....1/22/42.....19

To: Miss Chauncey

From: Mr. Southard

This of course need not be  
called to the Secretary's attention.

## PARAPHRASE OF TELEGRAM SENT

TO: United States High Commissioner, Manila,  
(Fort Mills) via N.R.

DATE: January 19, 1948, 5 p.m.

NO.: 11.

Reference is made to the U.S. High Commissioner's telegram No. 15, 11 am., dated January 10, 1948.

It will be appreciated if the Commissioner will repeat the items and total in the above referenced telegram. The figures as received do not produce the total as received in his telegram.

HULL  
(FL)

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BRITISH EMBASSY,  
WASHINGTON, D. C.

January 19th, 1942

PERSONAL AND SECRET

Dear Mr. Secretary,

I enclose herein for your  
personal and secret information a copy  
of the latest report received from  
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

(For the Ambassador)

*R. I. Campbell*

The Honourable,

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

BRITISH MOST SECRET

(U.S. SECRET)

OPREP No. 21

Information received up to 7 a.m., 18th January, 1942.

1. NAVAL

H.M. anti-aircraft cruiser CARLISLE shot down one Junkers 88 off CYRENAICA. A small Dutch vessel was sunk by mine off SINGAPORE on the 16th.

2. MILITARY

LIBYA. The garrison of BALFAZA surrendered unconditionally at 9 a.m. on the 17th. About 5,500 prisoners very weak from lack of food and water were taken together with guns and stores which had not been destroyed. 76 of our troops were rescued. In the forward area sandstorms and rain interfered with operations but extensive clearing of enemy land mines continued.

MALAYA. East. A Japanese landing supported by naval aircraft and dive bombers took place at BEDAU early on 16th. West. In the IKAR area the Japanese crossed the KUAR River and during the 16th reached a point ten miles to the South. A small enemy landing also took place on the 16th near BATU PAHAT.

BURMA. 15th/16th. Contact was made with a Japanese force of about 100 at MYITTA ten miles into BURMA near TAVOY.

BANGOON. A reinforcement arrived safely on the 16th much native labour has left the city.

RUSSIA. The Germans are continuing their attack in the area south-south-east of KURSK and have made some progress in their attack on FEODOSIA in the CRIMEA.

3. AIR OPERATIONS

Western Front. 17th. Three Deaufortes attacked ST. PETER PORT GUERSEY and hit sheds on the jetty, silenced an anti-aircraft gun and machine-gunned troops.

17th/18th. Total bombers sent out 119. HELIEN 83, HELIEN 24, & few others sea-mining. Two are missing and two came down in the sea. About 25 enemy aircraft were operating against shipping off the East coast and were sea-mining in the Western Approaches. One Dornier was damaged by a Navoc.

MEDITERR. IAN. 15th/16th. Six Tallingtons bombed mechanical transport in the AGHILA-SIRIE area.

MALTA. Small attacks between 16th and 17th inclusive caused only slight damage, two aerodromes are still unserviceable.

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FAR EAST

MALAYA. 16th. Three attacks were made against enemy mechanical transport tanks and rolling stock in the GEMAS area. Hits were scored on tanks and mechanical transport and fires were caused at the station and assembly yard. Off MUAR barges were bombed and heavy casualties caused among enemy troops.

SINGAPORE. Two attacks by a total of 21 enemy bombers took place but no damage has been reported. One bomber was shot down and one Buffalo was lost.

NETHERLANDS EAST INDIES. SUMATRA. A United States Military report states that the Japanese attacked LAHAT aerodrome early on the 15th with 26 bombers escorted by about 12 naval fighters. Aerodrome temporarily unserviceable. Two Catalina, two Buffalo and one Hudson aircraft and petrol dumps destroyed.

4. There are indications that the Japanese are preparing to use air-borne troops in or from MALAYA.

BRITISH EMBASSY,  
WASHINGTON, D. C.

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- 2 -

14th. Blenheims continued their attack on MALAYA. Fighters destroyed two enemy aircraft and damaged one losing 6 Hurricanes; 4 pilots probably safe.

MALTA. 14th and 15th. Total of 24 enemy aircraft came over but no serious damage is reported.

FAR EAST.

MALAYA. 14th. 9 enemy aircraft attacked BATU PAHAT and aerodrome which remained serviceable despite slight damage.

One enemy aircraft was destroyed and two damaged by A.A. 12 enemy bombers escorted by fighters flew over SINGAPORE without dropping bombs. Our fighters damaged one of them. Enemy aircraft attacked SEGAMAT, damaged buildings and causing some service casualties.

SINGAPORE. Civilian air raid casualties 13th reported 31 killed, 4, seriously wounded. Bombing occurred through thick low clouds.

BRITISH MOST SECRET

(U.S. SECRET)

DETEL No. 20.

Information received up to 7 a.m., 17th January, 1942.

1. NAVAL

16th. A 12,000 ton liner in outward-bound troop convoy was torpedoed about 600 miles west of BORDEAUX and subsequently bombed by Focke Wulf aircraft. Her steering gear was disabled but she is proceeding at reduced speed. A naval trawler was bombed and sunk off YARMOUTH, and a small naval auxiliary vessel sank off south-west SCOTLAND after colliding with one of H.M. submarines, which was undamaged.

Icebreaker STALIN reported not seriously damaged.

16th. A British 8,600 ton tanker, bound for HALIFAX, was torpedoed off ST. JOHN'S, NEWFOUNDLAND, but is still afloat.

2. MILITARY

LIBYE. A Free French Force has joined our troops in the MALPAYA area.

HALAYA. EAST. An enemy patrol was encountered on the 15th north of the river ENDAU.

WEST. Early on the 15th, an advanced Australian battalion ambushed an enemy column, including some tanks, west of GEMAS, destroying six tanks and inflicting heavy casualties with small losses. Later, the enemy attacked in force and heavy fighting took place, our troops being subjected to constant dive-bombing throughout the day.

Enemy strength reported one brigade with medium and light tanks. Our forward elements have now been withdrawn east of GEMAS.

BORNEO. The Japanese have attacked some of our Indian troops at SILOES in DUTCH BORNEO near the SARAWAK frontier.

RUSSIA. In the central sector, the Russians are maintaining their pressure. In the CRIMEA, the Germans (7are) attacking FEODOSIA.

3. AIR OPERATIONS

WESTERN FRONT. 15th/16th. HAMBURG. Thirty tons high explosive and nearly 23,000 incendiaries.

SWEN. 51 tons high explosive and 4,400 incendiaries. Large fires were left burning at both ports. Fourteen R.C.A.F., six R.A.A.F. and two R.N.Z.A.F. aircraft took part. One Canadian Hampden crashed.

16th and 16th/17th. No offensive operations by us and no activity by enemy reported.



MEDITERRANEAN.

LIBYA. 15th. Blenheims bombed HALFAYA at intervals. Gun emplacements and mechanical transport were hit.

15th/16th. A naval aircraft obtained two probable hits on a vessel off the KERKENNAH ISLANDS.

MALTA. 16th. Nine enemy aircraft bombed the Island, slightly damaging a wharf in the Grand Harbour.

FAR EAST

BURMA. 15th. Our fighters attacked an aerodrome south of BANGKOK and severely damaged seven enemy aircraft. They also attacked an armoured train.

MALAYA. 15th. Our bombers attacked PORT SWETTENHAM, causing considerable damage to oil cisterns, and sank two barges containing troops off the river mouth thirty miles north-west of MALACCA.

SINGAPORE. Fifty enemy bombers escorted by fighters, caused slight damage to the naval base. One enemy aircraft was shot down and another probably destroyed by our fighters, one of which is missing. ENDAU and MUAR were also heavily bombed.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE January 19, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£37,000
Purchased from commercial concerns	£30,000

Open market sterling was again quoted at  $4.03\frac{3}{4}$ , and there were no reported transactions.

The Canadian dollar, which closed at a discount of 12 $\frac{1}{2}$  on Saturday, improved to 11- $\frac{3}{4}$  today.

In New York, closing quotations for the foreign currencies listed below were as follows:

Argentine peso (free)	.2375
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5250
Venezuelan bolivar	.2675
Cuban peso	Par

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$,043,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

In London, spot and forward silver were again fixed at 23-1/2d and 23-9/16d, respectively, equivalent to 42.67 $\frac{1}{2}$  and 42.78 $\frac{1}{2}$ .

The Treasury's purchase price for foreign silver was unchanged at 35 $\frac{1}{2}$ . Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8 $\frac{1}{2}$ .

We made no purchases of silver today.

RESTRICTED

G-2/2657-220: No. 60a H.I.D., W.D. 11:00 A.M., January 19, 1942

SITUATION REPORTI. Pacific Theater.

Philippines: There is intermittent fighting along our entire front. No decisive engagements are taking place. Enemy air operations are comparatively light. Hawaii: No further reports of hostile activity. Malaya: The press reports that the Japanese advance has been slowed down by fresh British troops. Strong Japanese pressure continues in the west, however. Heavy aerial bombardment of Singapore continues. Australasia: Slight enemy aerial reconnaissance is reported over the New Guinea region. China: According to the press, an American volunteer squadron shot down three Japanese bombers not far from the French Indo-China border. West Coast: No further reports.

II. Eastern Theater.

Russian pressure continues along the general line from Rzhev to the Donets Basin. The Russians claim to be in the suburbs of Mozhaik. The German High Command reports the repulse of attacks in the Donets Basin at Sevastopol and the recapture of Feodosiya (on southeastern coast of the Crimea).

III. Western Theater.

The Air Ministry announced today that British bombers attacked Bremen, Emden, and other places last night in continued raids over north-west Germany.

IV. Middle Eastern Theater.

The situation is unchanged.

RESTRICTED

## TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, January 20, 1942.  
 1/19/42

Press Service  
 No. 29-74

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated January 21 and to mature April 22, 1942, which were offered on January 16, were opened at the Federal Reserve Banks on January 19.

The details of this issue are as follows:

Total applied for - \$351,585,000  
 Total accepted - 150,330,000

Range of accepted bids: (Excepting one tender of \$200,000)

High	- 99.980	Equivalent rate approximately	0.079 percent
Low	- 99.942	" "	0.229 "
Average Price	- 99.950	" "	0.196 "

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE January 20, 1942

TO Secretary Morgenthau  
FROM Mr. Hess

1. Attached to this memorandum are tables showing (1) the number of agents qualified to issue Defense Savings Bonds, Series E, at the close of business on January 17, classified by type of agent, and (2) the number of such agents on selected dates since last May.

2. On January 17 there were 13,118 agents other than post offices qualified to issue Series E savings bonds, an increase of 542 since January 10.

3. On January 17 there were 116 corporations qualified to issue Series E savings bonds on payroll allotment plans in accordance with the instructions contained in your telegram of December 27 to the Federal Reserve Banks. There were only 13 corporations so qualified on January 10.

Attachments

Number of agents qualified to issue Series E  
Savings Bonds, May 7, 1941  
to date

Type of agent	1941			1942		
	May 7	Sept. 30	Nov. 30	Jan. 3	Jan. 10	Jan. 17
Commercial and savings banks.....	7,676	11,571	12,746	13,688	13,832	13,966
Building and loan associations.....	739	1,481	1,729	2,064	2,144	2,268
Credit unions.....	8	389	723	1,368	1,529	1,736
Other corporations <sup>1/</sup> .....	-	-	-	-	12	118
All others.....	<u>7</u>	<u>27</u>	<u>35</u>	<u>28</u>	<u>59</u>	<u>30</u>
Total other than post offices.....	8,430	13,468	15,233	17,148	17,576	18,118
Post offices.....	<u>15,812</u>	<u>16,429</u>	<u>16,614</u>	<u>16,883</u>	<u>16,883</u>	<u>17,140</u>
Grand total.....	<u>24,242</u>	<u>29,897</u>	<u>31,847</u>	<u>34,031</u>	<u>34,459</u>	<u>35,258</u>

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

January 20, 1942

<sup>1/</sup> In accordance with telegram of December 27, 1941.

Classification of the number of agents qualified to issue  
Series E Savings Bonds, on January 17, 1942

	Banks	Building and loan associations	Credit unions	Other corporations <sup>1/</sup>	All others <sup>2/</sup>	Total
Corporations and Associations						
Federal Reserve District of						
Boston	831	198	162	-	12	1,203
New York	1,171	241	336	4	-	1,752
Philadelphia	826	99	67	65	-	1,057
Cleveland	1,161	339	245	-	1	1,746
Richmond	1,015	169	98	8	1	1,291
Atlanta	981	126	137	12	-	1,256
Chicago	2,298	422	126	27	4	2,877
St. Louis	1,308	132	44	1	1	1,486
Minneapolis	1,279	53	41	-	2	1,375
Kansas City	1,723	164	119	-	6	2,012
Dallas	825	103	157	1	-	1,086
San Francisco	<u>548</u>	<u>222</u>	<u>201</u>	<u>-</u>	<u>3</u>	<u>977</u>
Sub-total	13,966	2,268	1,736	118	30	18,118
Post Offices	-	-	-	-	-	<u>17,140</u>
Grand Total	<u>13,966</u>	<u>2,268</u>	<u>1,736</u>	<u>118</u>	<u>30</u>	<u>35,258</u>

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

January 20, 1942

<sup>1/</sup> In accordance with telegram of December 27, 1941.  
<sup>2/</sup> Except post offices.

## TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE JAN 20 1942

TO Secretary Morgenthau  
FROM Mr. Foley

The following is typical of the way Foreign Funds Control is using censorship material:

1. Naval Censorship intercepted a cable from the French representative of Columbia Pictures to the New York offices of Columbia Pictures outlining a proposal to sell distribution rights for motion picture films to Italian distributors against payment of French francs. Censorship held the cable and sent a copy to Foreign Funds Control.
2. At the request of Foreign Funds Control the cable was released to Columbia Pictures Corporation and at the same time a Treasury representative was sent to investigate the transaction.
3. The investigator reported that he had discussed the matter with the foreign manager of Columbia Pictures. Columbia Pictures stated they would not consider any proposition to permit distribution of their pictures in Italy.
4. Naval Censorship intercepted and sent to Foreign Funds Control the following outgoing cable from Columbia Pictures to their French representative:  
"Not interested in this or any other proposition for sale of pictures in Italy."

8-7



7-2-3

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SECRETARY  
WASHINGTON

January 23, 1942

My dear Mr. Secretary:

The following radio message for you, from the Honorable Joseph B. Poindexter, Governor of Hawaii, was received by this Department. The message was transmitted in code.

Honolulu, 17th January, 1942.

Regarding liquidation banks. Question. In it your policy in administering Sec. 5(b) of the Trading With The Enemy Act, as amended by the First War Powers Act, to seize (a) assets of Yokohama Specie Bank, which is a Japanese corporation, (b) assets of Sumitoto Bank Hawaiian corporation controlling stock owned by a Japanese corporation, or in the alternative, the shares of stock owned by (1) the Japanese corporation, (2) resident aliens, (3) non-resident aliens, (c) assets of Pacific Bank Hawaiian corporation, controlling stock owned by alien residents of Hawaii, or alternative, the shares of stock owned (2) non-resident aliens by (1) resident aliens (3) Japanese domiciliaries. Question two. Are remaining sections of Trading With The Enemy Act other than Sec. 5(b) to be put into effect, or will all action be taken under Sec. 5(b) as amended. Request early reply.  
(Signed) Poindexter.

Sincerely yours,

(s) John J. Dempsey  
Under Secretary

REC-111  
JAN 25 1942  
MAIL ROOM  
JAN 25 1942  
Mr. Henry Morgenthau, Jr.,

Secretary of the Treasury.

323

Reed  
1/20/42

copy to prove  
photostated to  
parted

✓ 1/20/42

Reference: Defense Aid Allocation No. 529  
OFFICE OF LEND-LEASE ADMINISTRATION  
FIVE FIFTEEN 22d STREET NW.  
WASHINGTON, D. C.

My dear Mr. Secretary:

Reference is made to my letter dated December 27th, 1941, in which it is provided that funds authorized in Defense Aid Allocation No. 529 may be used for requisitions filed by the Union of Soviet Socialist Republics only after the following condition is met:

"Consultation shall have been had with the Division for Soviet Supply of this office as to the cost of supplying the requested item."

Representatives of the Government of the Union of Soviet Socialist Republics have indicated that it will no longer be necessary to consult with this office before commitments under requisitions are made. Accordingly, it will not be necessary to adhere to the above provision in the future.

Sincerely yours,

*Thomas B. Lee Case*  
Deputy Lend-Lease Administrator

The Honorable

The Secretary of the Treasury

My Safe Hand  
No. BIN 63181

BRITISH LEGASSY,  
WASHINGTON, D. C.,  
January 20th, 1942.

SECRET

Dear Dietrich,

I am enclosing a photostatic copy of a communication dated November 18th, 1941 from the Assistant Manager of the Allgemeine Finanzierungs-Gesellschaft K.B.H. of Russelsheim A.M., Germany (a subsidiary of General Motors) to Mr. C.G. Stradelle, Vice President of General Motors Acceptance Corporation, New York City. This deals with the debt-clearing trend in Germany since 1930 and will probably be of interest to you. I am sending two copies to Mr. Pehle direct.

The document was condemned by our censorship, so that it will not have reached the addressee unless a separate example went by another route.

Yours sincerely,

/s/ E. W. Auburn

Mr. Frank Dietrich,  
U.S. Treasury Department,  
Stabilization Office, Room 279,  
Washington, D.C.

Copy:vw:1-21-42

ALLGEMEINE  
FINANZIERUNGS-GESELLSCHAFT M. B. H.  
RUSSELSHEIM A/M

A 5110

Telegraphische Adressen  
143424/45/46/47

INTERNATIONAL ORGANIZATION MEMORANDUM

No. 159

TO: Mr. G. S. Matthews, Vice President ADDRESS: Executive Office  
FROM: Mr. J. J. Gervin, Asst. Manager ADDRESS: Russelsheim a/M  
SUBJECT: Debt-clearing trend since 1930. DATE: November 18, 1941.  
~~\_\_\_\_\_~~ Debt repayments

During the period of stagnation the clearing process both in industry and general economy had up to 1932-33 already led to a halt of incurring new indebtedness and a reduction of existing indebtedness. This general redemption of debts continued afterwards, but no longer because of stagnation or slowing down of turnovers, but because the revival of production was initiated by the state respectively by its orders and credits. In some instances helped also currency depreciations, if exterior loans were concerned. Business required, true enough, more funds again, but it could be taken from existing own means or out of newly built up money capital derived from growing business results. The picture corresponded entirely to expectations: an upward trend sustained by public orders and accompanied by a growing public indebtedness necessarily entailed in the rest of industry a liquidation and with it a relaxation or abatement of credit and capital requirements by the industry. With the beginning of full occupation towards the end of 1937 and middle of 1938, that is to say, with the increasing share of public orders and with a further recession of other investment problems and of consumption, liquidity was increasing still further and debt-clearing tendencies became still more pronounced. A certain revival of private capital flotation after relaxation of issue blocking in 1939 showed, how easily the capital market was now able to carry or absorb beside the Reich's issues also the increased offers of other securities. However, the industrial capital issues did not develop into a great movement, however appreciable the aggregate amounts were. On balance, however, the tendency to clear debts in industry and other provinces of economy continued even at that time. According to industrial balance-sheets loan debts receded from 1932 to 1939 by almost one-third of the level then reached. This picture is being confirmed by the official statistics, which showed for end of 1939 a circulation of

Industrial and similar loans amounting to RM 3.2 billion compared with RM 4.7 billion at end of 1932 and almost 5 billion at end of 1930. The short-term debts show according to these industrial balance-sheets referred to above, in the same period, somewhat more than double the amount, though in small amounts, but more characteristic may be considered that the bank and bill debts among them were 1939 still a little lower than in 1932.

This general liquidity increased with the beginning and continuation of the war still further. Still more than formerly receded opposite urgent war requirements the application of freed or newly built up money capital in the entire national economy. The amounts remarkable if measured by the annual national income, which in the course of development are being released by the renunciation of consumers, by consumption of property and the omission of new investments did by no means appear now to their full extent as liquidity, since loans and taxes (also tax transfers to municipalities) skimmed off means reaching a considerable amount in favor of the treasury. It may, however, be supposed that the additions of money capital have always exceeded the skimmings-off. Releases from working and investment capital may at first have been larger than later on, whereas the money-capital formation flowing from new business results continued and perhaps even increased in many a quarter. It appears, on the whole, certain that the liquidity of single industrial lines, of undertakings and corporations, but also of individual investors, accrued up to date, has in the aggregate reached a very considerable volume, which is increasing still. A growing and in the end extremely strong investment trend made itself felt whereby the desire to keep the acquired readiness to pay by the selection of liquid but without interest-bearing investments, may frequently have turned the scales. This was especially felt on the security markets which, so far as securities of the Reich were concerned, corresponded to the financial requirements of the Reich, but for the rest it led to steadily increasing tensions between the available material of securities and the investment-seeking money capital. In proportion, however, as one investment sector after another was subject to restriction, control and price stop, in which, therefore, the investment possibilities dwindled away, the inclination to use idle money capital for the redemption of debts was bound to grow stronger. One may at present speak of a growing capacity and inclination spread over the whole economic field to redeem debts.

The institutions granting credit on real estate, but other institutions, too, notice this trend very plainly with their private but perhaps also with their public loan debtors. The investors

learn of it by the notices not coupled with offers of new securities given by investment bankers, industries and, also, towns. But the same may be observed in private money circulation, too. To such open manifestations of the repayment trend of many debtors comes frequently a hidden but presumably also very significant one: some issuers have repurchased their own certificates of indebtedness and as a consequence, certain circulating figures appearing in balance-sheets and statistics may to a certain degree at present just have a formal importance only. The inclination to reduce debts or to redeem them entirely will in all those cases be particularly strong in which the debt does no longer appear economically practical, causing but interest burdens, or in which the imagination works that big cash holdings might attract the treasury or other quarters. Debtors counting on the other hand on a quick reapplication of accumulated money capital, will be more reserved and desirous of maintaining their liquidity to that extent. The thought may also play a part here that on a controlled capital market there might possibly not as a matter of course be new money available and that it is preferable to maintain a high readiness to pay; some stress had been placed on such preparations now and then. Practically speaking, therefore, it may be said that the capacity to redeem debts is on the whole very much greater than this seems to be the case at present. Oftentimes the endeavours of the creditors to maintain the interest-bearing indebtedness will be contributive to the continuation of the debt contracted which, judged by the paying ability of the debtors, did not need to be continued: a new accommodation as to the interest rate will in most cases be required, though. The impression is no doubt correct that in spite of continued and reinforced repayments of debts the liquidity has in general not suffered in any way.

In former economic cycles the readiness of undertakings to pay had, above all, the aim and objective to make quick engagements possible as soon as new promising investment possibilities opened up. In a controlled and fully working economy the application of ready means does not depend on the changing possibilities of capital markets and the cyclical fluctuations of the aggregate investment, but on the objectives the State aims at, and on their magnitude. Capital other than cash is the first prerequisite, the money capital is being directed to the place where it is needed most. About a year ago some remarks of the Minister of Economy shed some light on the conditions under such economic system. He said that in shifting over to peace economy there will not fitfully occur a great money and credit requirement, the less so as stocks of goods which have to be filled up, will be available by and by only. Besides, the stream of money and capital

would even after the war be directed into those productive channels which are considered most important, for after the war, too, problems will rank in order of priority and magnitude. It is quite clear that under such conditions neither existing nor wanting liquidity gives advantages or disadvantages to enterprises. There is, moreover, a shortage of money capital hardly to be expected, which was experienced in the last post-war period and hence still in the memory of some people. The capital requirement of industry and of all other economic sectors, which ranked second in this respect during the war, will, true enough, be great. Such requirements can, however, only be realized in proportion as public claims respectively requirements rank behind the provision or supply of real capital. All experiences made with monetary policies have, besides, revealed that there is no reason for a shortage of money capital. Even in countries upholding the liberal trend of thought it is considered possible to maintain the phase of plenty and cheap money, how much more will a country like Germany with a public, economic control know how to manage the monetary instrument in the direction of adequate provision with money capital. In such an economic system the individual-economic readiness to pay diminishes in importance, taking of course, as heretofore, other standards for banks than for industrial undertakings.

*R. A. Berendt*  
R. A. Berendt  
Asst. Manager



TREASURY DEPARTMENT

30

INTER OFFICE COMMUNICATION

DATE January 20, 1942

TO Mr. Coe  
FROM Mr. Hoflich

Subject: British Government Finance.

*Handwritten initials*

Some of the interesting points made by the Chancellor of the Exchequer in the House of Commons, December 16, 1942, on the occasion of the fourth \$4,000 million vote of credit for 1941-42:

1. The expenditures on war services during the present fiscal year probably will reach \$16,000 million, as compared with the Budget estimate of \$15,200 million.

2. Recent war expenditures have been at the rate of nearly \$332 million a week, or \$47 million a day.

3. Tax revenues for the year will substantially exceed the Budget estimates.

4. Proof of the success of the Government in stabilizing the British economy is found in (a) the low interest rate on Government borrowing, (b) the steadiness of living costs, and (c) the maintenance of peace-time social services.

5. The details of the tax anticipation bond scheme will be announced soon.

(Embassy Despatch No. 2407, London, December 23, 1942.)

LONDON, ENGLAND, December 23, 1941

No. 2407

**SUBJECT:** Fourth £1,000 Million Vote of Credit and the Chancellor of the Exchequer's Statement on Expenditure, Revenue, Savings and the Danger of Inflation.

AIR POUCH

The Honorable  
The Secretary of State,  
Washington.

Sir:

I have the honor to refer to the Embassy's despatch No. 1716, dated October 3, 1941, which dealt with the third £1,000 million Vote of Credit for the fiscal year 1941-42, and the statement made by the Chancellor of the Exchequer on the financing of the war up to September 30, 1941.

On December 16 the Chancellor of the Exchequer made a statement in the House of Commons on the Fourth Vote of Credit for £1,000 million, which was debated on that day. A clipping from Hansard (Cols. 1849-1880) comprising the statement and subsequent debate, is enclosed.

Sir Kingsley Wood stated that £252 million remained on December 13 out of the £3,000 million already voted and that this sum would probably suffice until the end of the financial year, though he added that "with the considerable extension of the war into the Far East it is obviously less practicable to advise just how long the new Vote will last."

In accordance with the usual practice when requesting a Vote of Credit, Sir Kingsley Wood gave some figures on the current rate of expenditure out of this Vote, though his information in the present instance was not as full as on former occasions. He said: "We have recently been spending at the

rate

rate of nearly £83 million per week, or £11.75 million a day. Of that £9 million was attributable to the Fighting Services and £2.75 million to Miscellaneous War Services".

These figures may be compared with those contained in Table No. 1 in the despatch above referred to on page 4 of which were tabulated the Chancellor of the Exchequer's previous figures with earlier comparisons. The rate of expenditure from the Vote of Credit for the first five weeks ended September 27 was £11 million, as compared with £11.75 million which he stated was the rate at which "we have recently been spending." The figure attributable to the Fighting Services remained at £9 million, the increase over the September figure being apparently due to expenditure on "Miscellaneous War Services". Since Sir Kingsley Wood did not specify the period during which this rate of expenditure was being met and gave no figure of total expenditure (that is including non-war Civil Services, and Debt Charges) the comparison with previous figures can be carried no further.

With regard to the expenditure in the United States on the purchase of goods not covered by the Lease-Lend arrangements, the Chancellor of the Exchequer stated that his Budget-speech figure of £3,500 million excluded such payments but that this exclusion was made because he was then "concerned primarily with such of our expenditure as would require domestic finance." He stated, however, that this expenditure must be charged to the Vote of Credit and he estimated it tentatively at about £300 million for the whole fiscal year, adding that the £4,000 million expenditure on war services during the year, as compared with the £3,800 million estimated at the time of the Budget, should not be assumed as increasing the so-called "gap" by the same amount, because other factors, such as expenditure out of overseas resources, domestic capital resources and extra-budgetary funds, as well as the apparent under-estimate of revenue receipts, must be taken into account. "It would appear likely that the final balance to be met from new savings may be somewhat greater than I estimated at the time of the Budget, but it seems unlikely that the difference will be such in relation to the dimensions of the figures involved."

The Chancellor of the Exchequer devoted the remainder of his statement to a discussion of the importance of savings and the necessity of avoiding inflation, which he said is not "an economists' bogey" but "a danger which if allowed to develop may threaten the very basis of the material welfare and the peace of mind of us all. If it does that it will also threaten the effectiveness of the war effort."

With

With regard to savings, he said that he would not quote figures because there are as yet no statistics available which show the whole of the present great savings effort in all its forms, the published figures of "small savings" on the one hand, and of the sale of National War Bonds and Savings Bonds on the other hand, giving not a true picture of the whole of savings, since the former figures do not represent all of the individual saving which has been made, while the latter figure includes much that does not represent savings out of current income. He said, "We cannot today publish figures of all the forms of saving, although I hope later it will be possible to furnish some estimate." Here the Chancellor of the Exchequer was doubtless referring to an investigation recently undertaken by the Central Statistical Office with a view to obtaining data for calculating how much of the increase in bank deposits is a counter-part of genuine savings. This investigation is being made through a sample analysis of the deposits of the Clearing Banks to ascertain the changes in personal deposits over the twelve months ending June 30, 1941. It will be remembered that the figure for personal savings contained in the "Analysis of the Sources of War Finance" published in the White Paper at the time of the Budget (Cmd. 6261, forwarded with the Embassy's despatch No. 390, dated April 30, 1941) was calculated by deduction.

Sir Kingsley Wood went on to say that he was sure everyone would agree that the total amount of savings so far achieved, particularly in small sums, has been impressive and has exceeded what most people thought possible, but he added that a greater and more intensive effort is necessary. He ventured a rough estimate that about one third of the population are saving on a scale fully adequate, another third saving on a moderately reasonable scale which might be increased, and a third saving either nothing or very small sums. He urged that all should increase their efforts so that the workers' standard of living "will not be filched away from them by rising prices."

With regard to revenue, the Chancellor of the Exchequer said that, thanks mainly to the buoyancy of Customs (chiefly on tobacco) and Excise (chiefly the Purchase Tax), and also to the fact that income tax, surtax and Excess Profits Tax are coming in well, the revenue would substantially exceed the Budget estimate, but he could not forecast the magnitude of the excess at the present time.

Sir Kingsley Wood then went on to outline a new special security which can be taken up at convenient amounts and convenient times by taxpayers and which can be tendered for certain tax payments, namely, Income Tax (other than income tax on salaries and wages, which is now taken at source from weekly wage and monthly salary

payments

payments), Surtax, Excess Profits Tax and National Defence Contribution, Land Tax and War Damage Contributions. The security is to be issued in units of £25 and multiples thereof. Full details of this issue were published on December 23rd and are being forwarded under cover of a separate despatch.

Emphasizing the necessity of preventing the shortage of goods in war-time leading to inflation, Sir Kingsley Wood noted that taxation is not the only instrument on which the Government relies for this purpose. He mentioned the elaborate system of controls and rationing of essential goods at reasonable prices, but added that these measures would fail if the excess purchasing power were not restricted. He cited as a proof of the success of the various measures adopted, the low rate of interest at which the Government had been able to borrow, the maintenance of peace-time social services and the steadiness of the cost of living.

Though thus emphasizing the importance of the stability of the cost of living index, it is notable that the Chancellor of the Exchequer made no reference in his speech to the question of wages. It will be remembered that in his Budget speech he stated that he was setting aside an increased sum for subsidizing the prices of essential consumption goods in order to stabilize the cost of living with the hope that this would make it possible to "hold the wages position about where it is". Though so far this policy has been successful in holding the cost of living index steady, the hopes that this would result in stability of wages have not been fulfilled. Since Sir Kingsley Wood's Budget speech in April, wage increases have been granted adding some £80 millions to the annual national wages bill (not taking into account overtime and the absorption of new workers into industry). Moreover, some £50 million of these increases have taken place since the issuance of the Government's White Paper on Price Stabilization in July, (forwarded with the Embassy's despatch No. 1077 dated July 30, 1941). The most recent increases of importance, namely those to agricultural workers (increase of 12s per week from 48s to 60s) and to engineering and shipbuilders (5s per week) are estimated as raising the national wages bill by some £40 million per annum, the increase in agricultural wages having, moreover, a direct effect on the food price situation. These two particular increases, and some of the earlier ones, are widely regarded as justified in view of the numerous anomalies in wage rates in different industries. Nevertheless, the inevitability of repercussions from each wage rise are again giving rise to anxiety in many quarters.

Though

Though the Chancellor of the Exchequer omitted to mention the wage problem when discussing the dangers of inflation, speakers in the subsequent debate did not fail to point out the relation of wages to the problem. For example, Mr. Graham White (Liberal) referred to the many directions where increases in remuneration are being demanded which he considered very important, and said: (Col. 1864 in enclosed extract from Hansard)

\*These great matters which will effect the whole financial policy of this country in the midst of this war are not determined by the Government, but are left to tribunals, outside bodies, which are set up for other purposes. It is not right that these matters, which might carry us, if the circumstances were such that they got out of control, into a state of financial uncertainty, with the possibilities of trouble and disaster, should be left to these bodies.... The question I want to ask is whether it is not about time that steps were taken to reach an agreement on what is necessary to prevent inflation.\*

Dr. Russell Thomas (Liberal National) after noting the usefulness of direct controls limiting the quantities of consumption goods, said: (Cols. 1869-70)

\*Although the right hon. Gentleman deplored the fact that people had too much purchasing power, there are increases of wages going on almost weekly. I stated in a supplementary question the other day that the bodies which get these increased wages are those belonging to powerful interests, and they are able to get more of the limited quantity of goods available. But there are also large numbers of people who cannot save at all, who are on the existence line and no more. They have no one whatever to look after their interests and they cannot come in and get hold of more of these very limited goods. It is high time that these matters were considered with greater severity and sternness. The Government has to consider whether some sort of wage policy could not be hammered out which would help to stabilise the conditions we are going through. It would present enormous difficulties, but I think it should be borne in mind.\*

Mr.

Mr. Henderson Stewart (National Liberal) also expressed anxiety as to the "ill balance in wages which is now appearing" and asserted that the problem must be dealt with by the Government (Col. 1874 - Hansard), while Mr. Loftus (Conservative) advocated a system along the lines of that recently adopted in Canada (Cols. 1870-72).

Though such statements on the wages problem have been frequent since the outbreak of war, they are quoted here because for a time after the introduction of the Budget last April, they were less frequent, while of late there has been a recrudescence of such expressions of anxiety not only in Parliament, but in the press.

It is notable that in replying to the debate, the Financial Secretary to the Treasury, like the Chancellor of the Exchequer in opening it, made no reference to the wages problem. However, on the following day, when the pay of the fighting services was debated in the House of Commons, such emphasis was placed on the growing discrepancy between soldiers' pay and the wages of civilian workers, that the Lord Privy Seal stated that "The Government have this matter under their consideration", and promised that the Government "will go very carefully through this Debate, and every suggestion will be examined, including the other suggestion which has been put forward, one which has already been put forward by other people and been examined, and will be examined again, namely, the question of the equality of the man who has served in the Fighting Forces and the man who has served in some other form of National Service at the end of the war in respect of their savings. It is a point well worth looking into."

(The debate of December 17th is being forwarded under cover of a separate despatch in which the various views are summarized.)

This statement, though perhaps mistakenly, has been taken by the financial press as a promise that a general wages policy is to receive the Government's consideration in the near future.

Respectfully yours,  
For the Ambassador

Harold Shantz  
First Secretary of Embassy

Enclosures:

- No. 1. Clipping from Hansard of December 16, 1941, Columns 1849-1880.

KAHE/EWH

SOURCE: PARLIAMENTARY PAPERS, House of Commons, 16 December 1941, London, Coln. Ind. 4-100.

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1849 Supply Committee— 16 DECEMBER 1941 Vote of Credit 1850

## ORDERS OF THE DAY.

### SUPPLY.

Considered in Committee.

[Colonel CLIFTON BROWN in the Chair.]

### SUPPLEMENTARY VOTE OF CREDIT, 1941.

#### EXPENDITURE ARISING OUT OF THE WAR.

Motion made, and Question put.

That a Supplementary sum, not exceeding £1,000,000,000, be granted to His Majesty, towards defraying the expenses which may be incurred during the year ending on the 31st day of March, 1942, for general Navy, Army and Air Services and for the Ministry of Supply in so far as specific provision is not made therefor by Parliament, for securing the public safety, the defence of the realm, the maintenance of public order and the efficient prosecution of the war, for maintaining supplies and services essential to the life of the community and generally for all expenses, beyond those provided for in the ordinary Grants of Parliament, arising out of the existence of a state of war.

The Chancellor of the Exchequer (Sir Kingsley Wood): This is the fourth occasion on which I have had to ask the Committee to approve a Vote of Credit of £1,000,000,000 for the financial year. Out of the £3,000,000,000 already voted, we had about £252,000,000 left on 13th December, and if expenditure continues at the same rate as in recent weeks, that balance, together with the Vote now asked for, will suffice until approximately the end of the financial year. Even in the circumstances of, say, a fortnight ago, however, it would not have been possible for me to estimate fully the rate of expenditure likely to obtain in the next three and a half months. With the considerable extension of the war into the Far East, it is obviously less practicable to advise the Committee just how long the new Vote will last. If further sums are required, I shall have to come to the Committee again in March, and I know that such demands will be readily granted.

The Committee will no doubt desire to be informed of the analysis of our current war expenditure. We have recently been spending at the rate of nearly £83,000,000 a week, or £11,750,000 a day. Of that, £9,000,000 was attributable to the Fighting Services and £2,750,000 to miscellaneous war services. When the last Vote of Credit was before the House, I explained the relation between our Vote

of Credit expenditure and the figure of £3,500,000,000 which I assumed for the purposes of my Budget speech. The Budget figure of £3,500,000,000 excluded whatever might have to be spent in the United States on the purchase of goods not covered by the Lease-Lend Act arrangements. This exclusion was made, as the Committee will appreciate, because I was then concerned primarily with such of our expenditure as would require domestic finance. The expenditure in the United States must, however, be charged to the Vote of Credit, and may be estimated—though the estimate must necessarily be very tentative at this time of the year—at about £300,000,000 for the whole year. If therefore we seem likely to spend about £4,000,000,000 on war services during the year, that figure must be compared with an estimate of something like £3,800,000,000 at the time of the Budget. In other words, our total expenditure may be some £200,000,000 greater than was anticipated at the time of the Budget. It should not, however, be assumed that the so-called "gap" has necessarily been increased by £300,000,000. We have to take into account a number of other important factors before the balance to be met out of new savings can be calculated, in particular the amount of our expenditure financed overseas, the amount provided from domestic capital sources, from extra-Budgetary sources and the out-turn of the Revenue compared with the Budgetary estimates. It would appear likely that the final balance to be met from new savings may be somewhat greater than I estimated at the time of the Budget, but it seems unlikely that the difference will be large in relation to the dimensions of the figures involved.

On the domestic side of our finances, namely, revenue and savings, I would first like to say a few words on the vital question of savings. On this occasion I will not quote figures to the Committee; I have done it so frequently before. In the first place, no figures are yet available which show the whole of our present great savings effort—because that is how we must regard it—in all its forms. It is perfectly true that we have figures which show the rate at which the smaller savings of individuals are being put, for instance, into Savings Certificates and the savings banks. We have also figures for investments in the larger securities, National War Bonds and Savings Bonds, not all of



[Sir K. Wood.] which, of course, will represent savings out of current income. On the other hand, it is important to note that much individual saving goes on which is not necessarily lent to the Government through any of these securities, large or small. Some takes the form of regular payments to insurance companies or building societies, and may be lent to the Government by those institutions. Other savings accumulate in the banks, and help the banks to lend to the Government. Still other savings may remain, although, as I have already said, I wish they did not, as notes in tea-pots, under mattresses, and in all other kinds of receptacles. We cannot to-day, put figures of all these forms of saving, though I hope later it will be possible to furnish the Committee with some estimate. But I think everyone will agree that the total amount of savings which has so far been achieved, and particularly in small sums, has been very impressive, and far greater than many at one time thought likely or possible. But it holds good of savings, as it does for the battlefield and the factory, that the only thing we can foretell with certainty is that still greater and more intensive effort will be necessary before victory is achieved, and that the effort will not be the country's best until everyone—I emphasise that, until everyone—pulls his or her weight. And we have not yet reached that high objective.

Out of many present incomes, and particularly out of the greatly increased incomes which are now being enjoyed by large numbers of our people, a great deal more can undoubtedly be saved and lent to the State. I have heard it said, for example, that perhaps a third of our people are saving on a scale that is fully adequate, that another third are saving on a moderately reasonable scale but might well save more, and that a third are either not saving at all or saving very small sums indeed. Whether these precise proportions are correct is, no doubt, a matter of opinion, but the direct evidence of observers does confirm that there are still large numbers who are not sharing in, or who are taking an inadequate share in, the great savings effort which their fellow citizens are making.

**Mr. Cove (Aberavon):** What sections of the community?

**Sir K. Wood:** I do not wish to particularise. I would appeal to all who influence public opinion—Members of this Committee, leaders in our local life, employers and trade union representatives—to continue to do their utmost to drive home this paramount need for saving and lending to our country. We all want our war effort to be the effort of a people united in the firm will to work and produce to their utmost, secure in the knowledge that while they do so their standard of living will not be filched away from them by rising prices. Inflation is not an economists bogey; it is a danger which, if allowed to develop, may threaten the very basis of the material welfare and the peace of mind of all of us. If it does that, it will also threaten the effectiveness of the war effort. To help to keep such consequences at bay is surely worth the really small effort, but a really important and a vital one, involved in refraining from spending what it is not absolutely necessary to spend. In this connection, I would again venture to refer the Committee to two matters I have so often emphasised. Our total expenditures during this war has now reached the colossal figure of some £8,300,000,000. We have a long and a hard war before us. It is more imperative than ever, first, that all waste and extravagance should be avoided, and, secondly, that all plans and projects not directly connected with the war effort, but involving appreciable extension of Government expenditure, should be considered in relation to the vital necessity of husbanding our resources and maintaining our financial strength.

As regards revenue, I cannot forecast the year's out-turn, but it is clear that, thanks mainly to the buoyancy of the Customs and Excise, the Budget Estimates will be appreciably exceeded. On the Customs side, the bulk of the increase so far has been provided by the Tobacco Duties, while as regards Excise Duties, the increase is due mainly to the Purchase Tax and to the Beer Duties, though the Spirit Duties and Entertainments Tax have also helped that increase over the estimate. I am glad to inform the Committee that the main Inland Revenue taxes are also doing well, but as the bulk of Income Tax and Surtax is payable later in the year, it is too early for me to venture on a prophecy under those

heads, or in relation to Excess Profits Tax.

In connection with direct taxation, I have an announcement to make which I think will interest the Committee. High taxation means that extra care has to be exercised in making provision against the time when it falls due. It also means that in so far as such provision is made gradually in advance, large sums of money accumulate in the banks and are in due course paid to the Treasury, much of them in the last quarter of the financial year. I have been considering whether I could not offer some machinery which would help taxpayers who have material sums to meet by direct payment or set aside those sums as their profits or income *accrue*. Some such assistance would be specially helpful, I think, to companies liable to Excess Profits Tax. It is, at the same time, desirable, if possible, to avoid the piling up of tax moneys in the banks, and to encourage their more even flow into the Exchequer. With this triple object in view, I have decided to issue a new special security which can be taken up for such amounts and at such times as any taxpayer finds most convenient. He will be able to tender during a limited period in payment of certain taxes, and if it is so tendered, it will earn interest. The taxes in question will be Income Tax (other than Schedule E), Surtax, National Defence Contributions, Excess Profits Tax, Land Tax and War Damage Contributions.

**Mr. Graham White (Birkenhead, East):** Will this security be issued at a discount?

**Sir K. Wood:** I will say a word about that later. Schedule E tax will not enter into the scheme in view of the existing arrangements for deduction of Income Tax at the source from salaries and wages. The security will be issued in units of £25 and multiples thereof. The scheme is practically complete and I hope to announce full details before the end of the month. This will answer the query of my hon. Friend the Member for East Birkenhead (Mr. Graham White). From the many requests which I have had and the communications which I have received, I have every confidence that the scheme will, for a large body of taxpayers, definitely ease the task of providing for the taxation which they now have to bear and will also be of considerable advantage to the State.

As we are approaching the period when the major part of the Income Tax will be collected, it is perhaps appropriate for me again to speak of the vital part which taxation plays in our war economy. Taxation to-day is such as to demand many sacrifices, but I know that these will be willingly borne. From the highest to the lowest incomes, we shall be taking those contributions which will certainly bring home to our people more than ever the financial implications of our stupendous war effort. Some millions of wage-earners will soon be paying Income Tax for the first time. Others of them will, like all other Income-Tax payers, be paying more this year than last. The necessity is plain. Our war taxation has not been imposed for its own sake. It is an integral part of the whole plan by which the country has been put on a war footing. War conditions necessarily mean that the money incomes of the community largely exceed the supply of goods and services on which those incomes can be spent. The greater our success in directing an ever-increasing proportion of our productive power to the war effort, the greater does that excess become, or, more accurately, the greater it would become if it were not corrected by, among other things, increased taxation. High taxation is indispensable in order to prevent the shortage of goods in war time leading to inflation.

It is not the only instrument on which we rely for this purpose. As the Committee is aware, we continue to take many steps through an elaborate system of controls and rationing to see that the limited supplies of essential goods are distributed fairly and made available at reasonable prices. But I would remind my hon. Friends that these measures will all fail to achieve their purpose if we neglect, on the financial side, to correct the excess of purchasing power. That we do, first by severe taxation, and, secondly, by the savings movement, and as the momentum of war production has increased, we have been bound to intensify our efforts in both those directions. Each of them has greatly contributed to the fact that in the midst of all our difficulties, we have been able, so far, to keep our finances and general economy on an even keel. The most striking proofs of this are to be seen in the low rate of interest at which we have borrowed, in our

[Sir K. Wood.]

maintenance of peace-time social services and in the steadiness of the cost of living.

Everyone in the country has benefited from these achievements, but just as the price of our liberty is eternal vigilance, so the price of our economic security is unrelenting sacrifice. There can be no faltering, either in our ready acceptance of taxation or in our firm determination to save. We may have little choice in the payment of our taxes, but the decision whether to save or spend is mainly ours alone, and in our private lives there is probably no daily question in which the taking of the right decision means so much for the welfare of our fellow-citizens, the maintenance of our firm financial front and the ultimate triumph of our cause.

**Mr. Pethick-Lawrence** (Edinburgh, East): The Chancellor of the Exchequer has, with lucidity and comprehensiveness, put before us the financial position of the country to-day, and in the brief remarks which I propose to address to the Committee I should like, in the first place, to welcome most heartily the new scheme which the right hon. Gentleman has adumbrated. I think that when amounts have to be paid, in taxation, of such dimensions as those now being demanded, both in the figures themselves and in their proportion to the incomes on which they are imposed, the existing system of payment may present great difficulties, and a scheme of the kind which the Chancellor of the Exchequer is now proposing, by which these amounts will, in effect, be payable in instalments should be a relief and should prove of great advantage both to the taxpayer and to the Revenue. Of course, we shall await the details and in particular the rate of discount if there to be any, before we can express final approval, but it seems to me that the scheme is one which will be welcome and which is, I might almost say, overdue, and I am glad that the right hon. Gentleman has taken a step in that direction.

There is no doubt whatever that these decisions which the House of Commons makes from time to time to put another £1,000,000,000 to the credit of the Government for the prosecution of the war are of supreme importance, but we take them now so much for granted that it is not necessary to go into great detail

in Debate in this Chamber. There are, however, one or two things which may be said with advantage. In the first place, with regard to the prospects for the future and the question of how much the Chancellor will be called on to pay out during the remainder of the financial year, I notice that the right hon. Gentleman was somewhat cautious. I do not wonder that that should be so, in view of what is happening not only in those Continents where war had already been raging, but in those in which it has now started to rage and may rage in the future. We now see nearly the whole world brought into the conflict. The areas which are still outside it are so small that we may speak of the war to-day as a world war in the literal sense.

The public, I think, want to know how far the new developments are likely to increase the actual war costs. It seems to me that there are three possible directions in which the actual cost of war might be increased. We might be involved in additional direct expenditure. We might be compelled to make good a certain withdrawal of help from the United States. We might be compelled to increase our aid to Russia, to make up for help which in other ways might be withdrawn. I gather from what the Chancellor of the Exchequer has said, that although in one or in all of these elements the cost might be augmented, he does not seriously expect that it will be on a very large scale, comparatively to the vast expenditure to which we are already committed. That may seem strange to some people, and I think to the country generally, because this war in the East is not a little matter—it may be a very large matter. I suppose that the real answer is that when you are engaged in total war, the fact that your total war is obliged to take place in more than two continents does not necessarily, and, indeed, cannot, add very much to your total war effort or your total war expenditure. I suppose we may take it as more or less true, therefore, that our war expenditure, short of any inflationary process, if it has not exactly reached what you might call a peak, has, at any rate, reached nearly the maximum which it will reach during the remaining period. We have to face the fact that, for whatever time the war continues, somewhat in excess of £4,000,000,000 a year is the sum that the country will have to face.

I had already looked at the progress of Revenue; and my impression was confirmed by what the Chancellor has said, that we may certainly hope to reach the estimated Revenue, and probably some quite useful and substantial additions thereto.

But that will not take away in any degree the tremendous importance of saving, because, if once saving were inadequate to fill the gap between taxation and Revenue, inflation would begin, with disastrous consequences. I would like to join my voice with that of the Chancellor of the Exchequer in urging that everything possible be done to avoid inflation. The Chancellor of the Exchequer made some interesting observations with regard to the fact that the public as a whole were divided between those who were doing their best and really saving manfully, those who were saving half-heartedly, and those who were not doing it at all. My hon. Friend the Member for Aberavon (Mr. Cove) asked how that was divided up between the different sections of the community. I have been thinking about that, not only while the Chancellor was speaking, but even before he began. This is my conclusion. I think that it affects all classes of the community except the very poor, who cannot in any circumstances save with advantage either to themselves or to the community, because if they were to try to do so, on their very meagre incomes, they would fall so far below the poverty line that not only would they suffer themselves, but the community would suffer through their malnutrition.

Let me begin with the well-to-do. When the war began, and Lord Simon, who was then Chancellor of the Exchequer, brought in his first Budget, I was of opinion that the taxation which he imposed was as much as could be borne in the earlier stages, because I knew quite well that, particularly among the very well-to-do, if there were to be any very large burden of new taxes imposed, they could not in a short period so readjust their living economy as to pay those taxes out of income. Since then, two and a quarter years have gone by, and I think the position is now very different. Many of the expenses of the very well-to-do consisted in payments to their staffs. Many of those staffs have been called up or have gone into munitions work, and the cost of paying their

wages has been relieved. In the second place, it has been possible to cut down commitments in various other ways. Many of the well-to-do who at the beginning of the war could not pay their way except by withdrawing capital—which is, of course, negative saving—ought now to have so far pulled in their method of life that they can not only meet the whole of their expenditure out of their income, and pay the whole of the very heavy taxation imposed upon them, but have money to save. Some may not have money to save after paying all that, but just to the extent that they are able, if not to save, at any rate to live within their income, they are making a considerable contribution to the war. If they sell their capital to pay their outgoings, thinking that it does not matter, they are doing a serious injury to the war effort, because not only are they not saving, but they are increasing the gap by the negative saving which comes from expenditure on current necessities out of capital.

When we come to what are called the middle income class, there it must be, I think, largely a matter of one individual against another. There are some individuals in that section of income range who have had their incomes very seriously diminished, quite apart from the effect of taxation, and when increased rates of taxation have fallen upon them as well it has become impossible for them to save. On the other hand, some members of that class may be retaining their full income, or even increasing it. They can meet their taxes, and they have been able to cut down their expenditure very considerably; therefore, they ought to be able to hand over substantial sums to the Chancellor of the Exchequer.

Then we come to the manual working class—those above the poverty line, whom I have already written out of the picture. Here again, there are great differences between one family and another. I would say of these, as of the poorest section, that to sacrifice the standard of life which makes for the full health and efficiency of themselves and their families would be a grave blunder, which would injure not only them but the country which they have to serve. If they took it from their children, again, they would be injuring the future of the country for which this war, above everything, is being conducted. But, on the

[Mr. Pethick-Lawrence.]  
 other hand, there may well be in certain families those who regard the extra income which they get not in the way that will be most beneficial to the State, and therefore, in that class, as well as in the others, this admonition to save all that is possible over and above what is really needed for efficient and healthy life is applicable.

That is my answer to my hon. Friend the Member for Aberavon (Mr. Cove). It depends upon circumstances. I think that in every class of the community there are many people who do not save but who could and should save. It only remains to answer the question, What would be the addition to the savings totals if all those who could save did so on the scale that the most worthy are already doing? As far as I can see at the moment there would be something like double the savings which are being put aside at the present time, and that would be amply sufficient to make sure of non-inflation. I do not think that we ought to rest content until every individual who can save to his own advantage and that of the community comes into line with those who are so faithfully bearing the burden at the present time.

I think that the Chancellor of the Exchequer has helped in this respect, and I want him to continue to help by keeping down the cost of living and preventing any inflationary tendencies from letting the cost of living up. As long as he can do that, and do it successfully, then the appeal to save can be made and should be made to every section of the community. It should be brought home to the people that, if they want to win the war, and if they want to win it most rapidly and want to protect those who are in a weaker financial position than themselves from suffering privation as a result of financing the war, they should spare no effort and consider no sacrifice not involving their own health and efficiency too great, to achieve these ends.

**Mr. Graham White** (Bickenhead, East):  
 The Chancellor of the Exchequer has brought us up to and beyond the normal milestone of our financial year, and in his survey to-day he has been fortunate in that he has been able to recall, since he addressed the House on this subject in September, that there has been no substantial adverse circumstance develop in

our national finances. In fact, the position, has been, in the main, favourable and encouraging. If we look into the road ahead the green light is showing, but in the distance there is one red light beginning to gleam, and there are many matters perhaps to which we shall have to give very close attention. His statement to-day has been reassuring. The so-called gap—why it is always referred to like that I do not know because it is very genuine thing—when he last addressed us, seemed likely to be of the order of £300,000,000 greater than the Budget estimate. To-day he tells us that it is likely to be in the order of £200,000,000. I hope that that may be correct.

The right hon. Gentleman devoted most of his remarks to the matter of saving, and I propose to make one or two observations in that direction myself. I would like, however, to refer to the new proposal that he has made for facilitating the collection of taxes. I think that that proposal is well conceived. It is, in the amounts involved, rather a technical matter than a matter of the greatest financial scope.

If it facilitates—and I think it will—the even flow of revenue it will be a great convenience, but whether it will actually save any money to the State, I am not quite convinced. I thought that if these things were accumulating in the bank they would be available to the State indirectly, but I do see the convenience of the suggested arrangement. I asked my right hon. Friend whether the security which is to be issued in relation to the taxation to be paid would be issued at a discount. He said that this might be of particular help to companies liable to Excess Profits Duty. Therefore, I presume that the security to be issued will be issued at a discount. If it were to receive direct interest payment that would in time become subject to Excess Profits Duty, it might be a great help to the company at that time. Otherwise I am not convinced of the advantage to the company of this arrangement, although I regard it as one making for convenience and the easy control of finance.

I turn now to the vital matter of War Savings. Some influence is coming into play now which may alter the general field of savings, and the way, the rate, and also the volume in which they will accrue to the State. Does my right hon.

friend seek to foretell what effect the spread of the war in the East may have upon the course of economy in this country? It is a fairly safe prediction to say that it will not increase the amount of consumable goods in this country, and to that extent may help the War Savings Movement. On the other hand, the general tightening-up in the great demands upon man-power and the calling up of large numbers of individuals throughout the country are going to have an effect upon War Savings. What that may be I find it very difficult to forecast. If individuals are withdrawn exclusively from the class who up to the present have not been doing their duty in saving, it will not make much difference. If, on the other hand, it falls upon those who are making the maximum effort in that connection, War Savings will not be very much stimulated. I am inclined to take the view that the time has come when, having had a review of the man-power resources of this country and having tightened up the machine and made it more effective, we ought to look into the financial aspect of affairs and see whether a review there might not be helpful in bringing about a change of emphasis which may be desirable to help the effort in the War Savings Campaign, which has already been so extraordinarily successful. My right hon. Friend the Chancellor, if I remember rightly, said that the amount of small savings in this country would shortly reach the £1,000,000,000 mark—

**Sir K. Wood:** It has passed that.

**Mr. White:** It has also passed that figure in Germany. There has been no savings movement and no expenditure of money on a great advertising campaign. I feel that we should now look at our War Savings Campaign effort and make up our minds whether or not in some directions the emphasis should not be changed, with, perhaps, even greater success to the effort. I am very doubtful about the effect of some of our War Savings Campaign methods. As I went through Piccadilly Circus to-day I saw from a bus, in an inverted pyramid, the letters "U.S.S.R.", "U.S.A.", "U.S.", and on the bottom the letter "U", and I wondered whether there was any individual, of the thousands passing through there, whose patriotic duty was stimulated or whose purse-strings were loosened by

reading a display of that kind. Again, there is the slogan, "You can't lose if you lend." That perhaps may touch an answering cord in the minds of some individuals because it is contrary to all human experience. It suggests the possibility that State security is of such a character that it requires to be reinforced by insurance. It rather recalls the criticism of a young lady who, speaking with great temerity of the Ten Commandments said, "They are not a constructive policy; they only put ideas into your head." I am by no means sure that a slogan of that kind does not put the idea into the mind of would-be investors that there is a certain amount of insecurity. Maybe the ingenious exhortations which bespatter our walls bring some return, but I wonder whether they do.

I think there are other aspects of the war effort which might well be advertised to bring a greater sense of responsibility, in relation to those matters, into the mind of the individual who reads them. I think the note in our War Savings Campaign henceforth should be this: The citizen of this country has had impressed upon him, as never before, that he is tremendously important for what he can do. The War Savings Department must say, "You are tremendously important to this country and to the needs of Russia, not only for what you can do but also for what you can do without." That is a slogan which I should suggest might be developed. Wherever we look, we have the need for decreased consumption. Whether it comes from the new threat in the Far East or from the needs of Russia, it is clearly the case that the citizens of this country are very important for what they can do without.

I would like if I may to draw attention for a moment or two to a very remarkable change that has been made quite recently in regard to savings in Germany. The German method of saving money has been the inverse one to that adopted in this country. They have had a great war savings campaign without expensive advertising, and they have said that the German citizen knows his duty so clearly that he does not need to be hustled into it by methods of that kind. In fact, however, the Germans have arranged to stop expenditure by complete rationing, by price fixing and by wage stoppage over the whole field from the very outset. From their last figures it appears

[Mr. White.]

that their small savings groups have reached a total of £1,100,100,000, approximately the same amount as we have achieved in this country by efforts of a different kind. It is a remarkable thing that they should have done that way and should have carried on without such a drastic increase in taxation as we have had in this country. Admirable though this scheme and these methods have been to carry Germany through two years of very costly war, they have within the last three months had to make special concessions and arrangements which seem to indicate apprehensions of something they were not quite so happy about as they appeared to be at a particular time. Now a scheme has been brought in whereby wage and salary earners can contribute a certain amount every month, for a period of not less than three months, which should be free of taxation. It is estimated that by that means £600,000,000 per annum will be accumulated, in addition to the efforts already made, and that it will cost them something like £120,000,000.

I want to draw attention to the reason why this has been done. It is due to the rising discrepancy between the immense amount of unspendable income in the pockets of those in Germany and the decreasing amount of consumable goods. It is clear that the stage has been reached where, in spite of all control, there is great danger of that mass of spending money breaking through all obstacles and being thrown into speculation, black markets and practices of one kind or another, to the great danger of Germany's war finances. In passing, I would like to refer to the fact that this new inducement of saving is free of taxation, not only in capital amount which is saved but also in the interest. That is a matter of great consequence. It is open to several members in one family to open one of these iron savings accounts. As the interest is not taxable, there is great inducement to the married woman to take up work. I am not so sure that there ought not to be something like it to the great advantage of this country. Of course, the merging of the incomes of man and wife is an old complaint in this country, from which there is no escape except divorce. That is still a matter which we might well consider in order to

induce and encourage married women to take up work.

Is there any lesson for us in this, or is there not? Is there any danger in this country that we may, with increasing earnings and incomes, reach a point when there will be set in motion such a rise in costs and prices that we shall find ourselves suddenly in the midst of an inflation which will seriously disturb the whole course of our war finance? It may well be that these things are a mirage before my eyes and not before those of other people; if so, I shall be very pleased. I notice that my right hon. Friend the Minister of Agriculture has opportunely arrived in the Chamber to lend point to my argument, for my right hon. Friend has said that we must expect dearer food in this country. I notice that in many directions there are increasing demands for increased remuneration. Those demands are very important. I do not want to discuss them; I merely state that they exist. These great matters which will affect the whole financial policy of this country in the midst of this war are not determined by the Government, but are left to tribunals, outside bodies, which are set up for other purposes. It is not right that these matters, which might carry us, if the circumstances were such that they got out of control, into a state of financial uncertainty, with the possibilities of trouble and disaster, should be left to these bodies. If there is anything in the House of Commons on which we are unanimous, it is upon the dangers of inflation and the necessity of avoiding it. There is no set of people of which I know who are not in agreement about that. The question I want to ask is whether it is not about time that steps were taken to reach an agreement on what is necessary to prevent inflation. I ask hon. Members to direct their minds to that question, because although it may be that I am taking a pessimistic view—if so, I shall be glad to be told so—of the possibilities of the situation, it seems to me that there are tendencies on foot to which we should give very careful attention, not in any spirit of controversy, but with a desire to stop this process at the outset.

Our situation is better than anybody could have anticipated it would be when we were thrust into this great war. I agree that there are many who do their

most to help on the financial side, but there are others who, up to now, have not realised what is possible. It does not occur to many people that if they refrained from listening to one news bulletin in the course of the day, they would make a saving in their demands upon electricity supply. I think that now the slogan of Lord Kindersley and his colleagues should be, "You are important for what you can do; you are just as important for what you can do without." People should remember that they must make no demand upon public services of any kind—travel, heat, light, or whatever it may be—if they can avoid it; that they must not buy anything they can do without, that they must review the whole course of all their transactions, large and small, and make sure that they are not making a demand for something that is needed in Russia or somewhere else. I think that—rather than the literary eccentricities which bespatter our hoardings—should be the note which the War Savings Campaign should take.

**Sir Adam Maitland (Faversham):** The hon. Member for East Birkenhead (Mr. Graham White) referred, in complimentary terms, to the manner in which Germany has raised war savings from her workpeople. The hon. Member's observations reminded me of an opportunity I had, about six months before the outbreak of the war, of inspecting the wages books of a very large industrial concern in Germany. I found that, in accordance with the usual practice in Germany, the workpeople had been induced or coerced to accept many things, both in regard to wages and other matters, which would not have been accepted in this country. The hon. Member will be aware, I am sure, that long before the war there were many stoppages from wages in Germany that would not have been tolerated here.

**Mr. White:** And in Russia.

**Sir A. Maitland:** The hon. Member referred to Germany, and as I happen to have had an opportunity of seeing something of this matter in Germany before the war, I will confine my observations to Germany. The hon. Member's remarks also reminded me that in pre-war days the Germans accepted another thing which certainly would not have been considered as a matter of practical politics in this

country. The policy of fixed wages for all workers in all industries was instituted in Germany long before the war. It was done by the central authority. The fixing of wages was a very important matter because it meant getting right down to the first basis of costs. Having fixed wages, the leaders of Germany found that, as time went on, prices of goods tended to increase, and it was impossible, with the wages that had been fixed, for the wage earners to buy the things they desired to buy. A second step was then taken, and quite consistently and sensibly, selling prices were fixed. It seems to me that in this country we have done things in the inverse order. We talk about the control of prices and have indeed introduced a certain degree of control, but there has certainly not been so far any very serious attempt to control wages. May I say in this connection that some of the most important steps, and some which have been most harmful, have unfortunately been instituted by Government Departments of one kind and another? I commend that to the notice of my right hon. Friend the Chancellor of the Exchequer.

No Member would for one moment think of opposing this Vote of Credit which the Committee are asked to pass, but perhaps this is not an inopportune moment to emphasise once more how important it is, in giving extensions of credit for such huge sums, for the Chancellor of the Exchequer to see that money is wisely expended. In spite of the enormous demands which are being made upon all sections of the community, and in spite of the colossal financial burdens falling upon this country, there is one thing which is outstanding; I would ask those who at times are tempted to condemn our present economic and financial structure to dwell upon this point. Other countries which have experienced financial and industrial crises, and difficulties arising internally and externally, have had a run on the banks, and chaotic confusion has resulted. On the other hand, we have had our ups and downs, and our problems during the last 10 years, but no Member has had suggested to him the slightest shadow of doubt in regard to the stability of our banking institutions. That is a tribute to our financial and economic structure, however much we may criticise it. I do not, of course, suggest for one



[Sir A. Maitland.]

moment that no improvements could be made to our existing system of finance and industry.

I think that the Chancellor of the Exchequer—and perhaps this is the only bouquet I shall give him—is to be congratulated upon the way in which the money has been raised to meet the cost of the war. It is a great tribute to the stability and solidarity of our British institutions, and to the common sense of our people, that in such a tremendous war, involving such astronomical figures, my right hon. Friend is able to come to the Committee and report that it is possible for him to continue to borrow money at such cheap rates. My hon. Friend the Member for East Birkenhead referred to wasteful expenditure. I believe that the greatest impetus which could be given to the War Savings Movement would be the conviction that the House of Commons is determined to stamp out and eradicate anything in the nature of wasteful expenditure. In this connection I wish to make a suggestion to my right hon. Friend. I do not believe that Ministers, either during war or in peace, have sufficient time to devote to the question of expenditure—they are so busy with high policy and with other matters that it is impossible for them to get down to questions affecting the administration of expenditure. I suggest that in every Government Department someone should be specifically charged with the duty to examine details of administration and to see that expenditure incurred by the Department concerned is wisely and efficiently made. In the case of a small local authority, a county authority, and a national authority there is a definite and practicable limit to the amount of money which in any given period can be wisely spent. That is specially true during a war. Then there is an expansion of organisation, and people are brought in who have not the knowledge and experience—I am not criticising their willingness or their desire to help—to see that a Department's duties are performed in the most economical, efficient and effective way.

At a time when rationing is regarded with favour, and when we have had two and a half years' experience of war, I suggest that a review should be made of the amount of money which a Department can spend with real efficiency and

with due regard to the needs of the nation. I know this is difficult, especially in Service Departments, when some new strategy may be in the offing which would upset calculations. But there are many other Departments which are not affected by strategy and the variations of war where such a scheme could be adopted. If this suggestion cannot be adopted in the case of the Fighting Services, I suggest that it might be applicable in the case of the other Departments which are also spending considerable sums of money. To see that expenditure is wisely administered, some departmental body, charged with the specific responsibility of administering the expenditure of the funds of that Department, should be set up. Hon. Members may suggest that we already have the Select Committee on National Expenditure, but that Committee is limited in its scope and is limited in the kind of work it can do. It is not an executive body, but in reporting to the House completes one of its main functions. The sort of body I am suggesting would be charged with the specific duty and would be capable of exercising some authority in regard to departmental expenditure. I hope that my right hon. Friend will be good enough to consider that suggestion.

None of us would wish to say anything to destroy confidence in our national financial arrangements, but I must point out that I cannot for one moment accept the suggestion that borrowing and taxation can be put in the same category. Borrowing is something the State undertakes to repay to the lender, be it soon or late. Taxation is imposed by the State with no hope of repayment to the taxpayer. There is some suggestion with regard to discount for taxes paid in advance. This is perhaps the first official recognition of the anxiety that is felt in regard to the practicability of collecting taxation at the very high existing rates. It is a warning to the right hon. Gentleman that he is getting to the limit in the practicality of raising and collecting taxation at the present high rates. It is further evidence that the never-ceasing need of greater vigilance in regard to the expenditure of the money is of vital importance.

**Dr. Russell Thomas** (Southampton): I should like to say a few words arising out of the Chancellor's reference to

National Savings. He was careful to explain that he was not merely referring to small savings but that there are considerable savings made, for instance, by insurance companies. He expressed himself on the whole—or that is the impression he gave me—as pretty satisfied that National Savings were going on just as they should and that, as they gathered force, they would probably go a long way to fill up the gap that we all have in mind. But I am not so sure. I do not believe that National Savings are as great as is imagined when you take certain factors into consideration. Even before the National Savings Movement national savings were considerable. Have they risen at the rate that they should when we consider the general expansion of employment? This has increased enormously. Have National Savings gone up *pro rata*? Also wages are constantly rising and have increased enormously. Not only are there more people employed, but a great many are getting extra wages. Is the Chancellor extracting sufficient of these in National Savings? Are National Savings growing *pro rata* with the increased wages? I am not so sure about it. There is also a lack of outlets for investment. Before the war people had considerable scope. There were building societies and that kind of thing, but I do not believe that building societies are taking people's money to-day to any extent. Is the Chancellor extracting the money that would have been invested in building societies and so on, for his own use? I very much doubt whether he is extracting as much as he should. I doubt very much whether people are making greater savings in the direction of insurance policies than before the war. I think they are probably less. People are not able to spend so much to-day on their food and clothes as they used to on account of rationing. Is the Chancellor getting in sufficient in that direction? He referred rightly to the fact of limitation of goods available, indeed regarding a limitation of goods and increased purchasing power as inevitable during a great war.

Although the right hon. Gentleman deplored the fact that people had too much purchasing power, there are increases of wages going on almost weekly. I stated in a supplementary question the other day that the bodies

which get these increased wages are those belonging to powerful interests, and they are able to get more of the limited quantity of goods available. But there are also large numbers of people who cannot save at all, who are on the existence line and no more. They have no one whatever to look after their interests and they cannot come in and get hold of more of these very limited goods. It is high time that these matters were considered with greater severity and sternness. The Government has to consider whether some sort of wage policy could not be hammered out which would help to stabilise the conditions we are going through. It would present enormous difficulties, but I think it should be borne in mind. These are just points that occurred to me while the Chancellor was speaking. I am sure we all wish him well in the great difficulties that lie ahead.

**Mr. Loftus (Lowestoft):** I congratulate the Chancellor on the new proposals by which people will be enabled to buy securities wherewith later on to pay their taxes. I think it will be an immense convenience, and I look forward to studying the details with great interest. I do not know whether these securities will bear a very small rate of interest or will be issued at a discount. If either of these things was to happen, it would, of course, amount to giving a slight discount for payment of taxes in advance. I take it that the rate would vary from month to month as the time for paying the tax got nearer. We have listened in a remarkably thin House to some very interesting speeches, which I should like to comment upon. My hon. Friend the Member for Faversham (Sir A. Maitland) pointed out that examples of waste of Government money have a deterrent effect on the whole Savings Movement. I was reading in a local paper the other day about a rural district council which with great enthusiasm was working up a warship week, and several members pointed out really bad cases of Government extravagance in the near neighbourhood which might have a great effect on the willingness of people to subscribe as they hoped.

My hon. Friend the Member for East Birkenhead (Mr. Graham White), speaking for the Liberal party, said that if we are to avoid inflation he felt it would be necessary to have a wages and prices

[Mr. Loftus.]  
policy. I think that everybody in all parts of the Committee who has thought over the problem of inflation are in general agreement that it is desirable if it can be done to have a policy which would more or less stabilise wages and prices. The difficulty has been to know how to do it. I have thought a great deal about it and that has been the difficulty which I have had to face. I am glad to say that the difficulty is solved for me by the example given to us by the Government of the Dominion of Canada. I do not know whether hon. Members know what has been done in Canada.

**The Temporary Chairman (Mr. Charles Williams):** This Debate does not include anything that has been done in Canada.

**Mr. Loftus:** Can the Debate include the question which has been referred to by nearly every speaker—the danger of inflation?

**The Temporary Chairman:** I am not quite sure what the hon. Member means.

**Dr. Peters (Huntingdon):** We have had references to what has been done in Germany. Cannot we have references to what has been done in Canada?

**The Temporary Chairman:** Only as an example, but we cannot go into anything that has to do with Canadian policy.

**Mr. Loftus:** I submit that when another country, whether a Dominion or not, has passed legislation which would give an indication of the way to solve a problem which we are facing, I might be allowed to mention it.

**The Temporary Chairman:** Only if the hon. Gentleman mentions it as a short illustration and not as involving a separate Debate.

**Mr. Loftus:** It is not my intention to begin a separate Debate. I was going to ask my right hon. Friend the Chancellor to issue a White Paper showing what has been done so that hon. Members could see in detail the legislation that has been passed. The general principle, which I advocate to-day, is to fix prices at a certain level as they were, say, in the first week in November. The prices of all goods and services have to remain at that level. Then wages are stabilised subject to the condition that if there is a rise in

the cost of living every employer has to pay 25 cents a week extra for every one point rise. This alteration takes place every three months. I commend that to my hon. Friend because I feel that we could work on those lines in this country and stabilise the prices of goods and services so that no one in any shop could sell at a greater price than, say, in the first week of November, and so that the charges of rents, railways, water and similar companies could not be more than in November, subject, however, to an appeal to a Government tribunal which could allow an exceptional increase in charges. I appeal to my right hon. Friend to issue a White Paper showing what the Canadian Government have done.

My hon. Friend the Member for Faversham congratulated my right hon. Friend on raising these vast amounts of money at a low rate of interest. I cannot support those congratulations with quite as much enthusiasm because I realise that the Treasury has complete control over the rates of interest to-day, that a considerable proportion of the money raised is created by the banking system at a cost not exceeding 1 per cent., and that, therefore, when we pay 2½ per cent. on that money we are paying far too much. Looking at this huge amount of £1,000,000,000, I again, for the fourth or fifth time, urge my right hon. Friend to follow the warning and advice given him by the "Economist" two or three years ago that for all these moneys created to fill the gap at a cost of about 1 per cent. the State should pay not more than 1 per cent. We are passing a vote of credit for £1,000,000,000. The Chancellor has told us that the total war expenditure is £8,100,000,000. Let us look ahead. The total National Debt left after the last war was in the nature of £7,000,000,000. We all know the immense burden that that was on the nation and how it hindered desirable national expenditure in many ways. The money was raised at an average of 5 per cent. It was a crushing burden on the nation. We have already spent £8,100,000,000—not all, of course, from loans, but partly from taxation. Surely it is not pessimistic to suggest that we may end this war with an additional National Debt of probably well over £10,000,000,000 and possibly £14,000,000,000 at an average rate of 2½ to 3 per cent. Then the burden of this

war will be the same as the terrible burden of 5 per cent. on £7,000,000,000 after the last war. I must confess that I view with apprehension this colossal piling up of debt. I agree that it is necessary under the orthodox financial system. Whether that system is necessary, whether it can continue under the strain of the war, is another question. After all, we are passing a vote of credit for £1,000,000,000.

What is credit? Credit is the capacity of an individual, or a group of individuals, or a nation to supply goods and services, and that capacity to supply is financed by the creation of monetary means. Therefore, this £1,000,000,000 is a draft, as it were, on the national capacity to supply goods and services for war use, and in due course that national credit will be converted into the monetary means to produce the goods—by the various methods of taxation, war savings, and filling the gap by created money. It is almost a tragic paradox that, drawing as we are on our national credit, the nation should not create its own national credit practically without cost, and I feel that as we go on spending these vast and yet vaster sums we shall have to adapt our technique as to avoid piling up this colossal burden of debt at comparatively high rates of interest.

I am not going to deal with the actual technique by which this £1,000,000,000 will be converted into purchasing power for the Government. I know there are great difficulties in modifying the technique, because the machinery by which the technique is worked consists of the Bank of England working in co-operation with the Treasury. My right hon. Friend, when we ask him about the Bank of England, always informs us that it is a private company, and tucks aside questions in that way, but in actual fact we know that the Chancellor of the Exchequer and the Governor of the Bank of England are really in partnership, though we are never quite certain which of them is the senior partner. We hope that he will persuade the various authorities, the Treasury, the Governor of the Bank and others, to consider with an unprejudiced mind a new technique for reducing this appalling burden of debt interests. I make no attack on the integrity of those who direct the Bank of England and the Treasury, above all not on the Governor

of the Bank of England, but he is a fanatical adherent of the old orthodox system. He is the stern undeviating Calvin of the dogma of deflation, prepared to condemn the great majority of mankind to the hell of economic depression for the sake of the small body of the elect, the rentiers and the moneylenders. I feel that we must break down all those ideas of the past, as we are facing to-day conditions which the men who created the old financial system of the last century could not possibly imagine and could not possibly face to-day, and which we can not face in the future if we adhere rigidly to an outworn financial method.

**Mr. Henderson Stewart (Fife, East):** I have not long in which to speak, and I would summarise my ideas in two or three short questions to the right hon. and gallant Gentleman who is to reply to the Debate. I will say no more about the need for economy, because that has been sufficiently dealt with. Although, as has been observed, the Chancellor of the Exchequer did not say anything about it in his speech I think my right hon. and gallant Friend will appreciate that the country attaches great importance to this question and realises how much the prevalent waste is undermining the War Savings movement. If my right hon. and gallant Friend will deal with that I think he will be satisfying a demand which is heard throughout the country. Secondly, I think he must deal with the problem of wages and prices. I do not agree with my hon. Friend the Member for Lowestoft (Mr. Loftus) that any one period should be fixed, and prices and wages determined at that point. There is in to-day's "Times" an interesting letter dealing with farm servants. It is written by a farmer who points out the disparity between the wages of farm servants even to-day and those of road men and other people working in the same neighbourhoods. He says, referring to farm workers:

"There are men in this neighbourhood who until now have been working to the old maximum. They would be worth anything they like to ask if they thought they could work out of farming, driving a lorry or doing mechanical work."

Therefore, on the question of wages, in addition to preventing a rise in costs we have got somehow to readjust the ill balance which is now appearing. Thirdly, I invite my right hon. and gallant Friend

(Mr. Stewart.)

to say something about War Savings Certificates. I think the whole country had rather looked forward to a statement by the Chancellor of the Exchequer to the effect that the limit of 500 certificates per holder would be extended. The Chancellor did mention the desirability of increasing savings on the part of wage earners and one way by which a great increase could be brought about would be by extending that limit. This may not be the occasion for my right hon. and gallant Friend to deal with the fourth point which I make, but he knows that throughout the country there is the strongest possible objection, based upon the strongest case, to the present system of levying the Excess Profit Tax. Something must be done about that, and it would be interesting to hear that the Treasury are considering the matter. My last point refers to the banks. My hon. Friend the Member for Faversham (Sir A. Maitland) paid a well deserved tribute to the banks and my hon. Friend the Member for Lowestoft (Mr. Loftus) has just spoken of the great increase in the National Debt. The Chancellor of the Exchequer must know that in the City to-day there are many people, including some of the wisest heads in the City, who believe that we ought to revert to the system of a Sinking Fund, even in the middle of war and even with the great increase in expenditure. It is the view of the wisest people in the City that a Sinking Fund ought to be re-established. If that were done it would have a considerable psychological effect, and would give a certain feeling of confidence. I have promised not to speak longer, and I invite my right hon. and gallant Friend to deal with the points I have made.

**The Financial Secretary to the Treasury (Captain Crookshank):** I am not intending to speak long, and if I were to answer all the points put by the hon. Member for East Fife (Mr. Henderson Stewart), each one of which would provide adequate material for a long speech, I am afraid we should not get on with the other business on which he also wants to speak. I should like to thank the hon. Members who have spoken for their reception of this Vote of Credit, and more particularly for the anticipatory welcome which they have given to the new certificates to which my right hon. Friend the Chancellor made reference. I have not much to add to

what he has already said, but I will comment on one or two of the remarks which have been made in the Debate. When these Vote of Credit papers come along I always feel a paternal interest in them, because they are over my signature. That piece of calligraphy is now attached to Votes of Credit for £7,800,000,000 which have been presented in my name in this House. I think that the right hon. Member for East Edinburgh (Mr. Petrick-Lawrence) must have been extremely pleased that the hon. Member for Aberdeen (Mr. Cove) should have interrupted him, because it enabled him to give us a most interesting analysis of what he considers the way in which savings are coming in. On reflection, I am not at all sure that most of us would agree with what he said, but it was a very brilliant, and I think, it must have been impromptu, description of what is going on.

Perhaps a little more emphasis might be put in the savings talk that goes on, upon the non-spending aspect of it, because that is fundamentally the most important. I hope that hon. Gentlemen who are helping the various campaigns will make a special point of that aspect in their speeches, and will try to encourage people to refrain from spending the money which is in their pockets. It may truly be said that the very rich find it difficult to do much direct saving in these days, and that some are fortunate if they can meet their tax obligations without having to liquidate any of their capital. The hon. Gentleman suggested that the campaign as a whole would be helped very much if the limitation of 500 on holdings of National Savings Certificates were removed. My right hon. Friend answered a Question on that point in the House recently and stated that he had no evidence of any real necessity for such a step. Such analyses as can be made of the figures show that the number of people who actually hold 500 certificates is not very great. War Savings Certificates are intended largely for the small saver among the poorer sections of the community, although it is true that the Surtax payer can take out 500, or double that number, of these certificates, which happen to be exceedingly profitable from the point of view of interest, compared with other securities which are available. However, the primary object of the certificates is to encourage small savings, and there is no evidence as yet of

appreciable holdings of over 500 certificates by individuals. There is no reason why every member of a family in the section of the community for which these certificates are intended should not have certificates, and the average family might hold quite a lot of them in that way.

The hon. Member for East Wirral (Mr. G. White)—he is not here at the moment—referred to the national expenditure. I would remind him, in case he reads what I say, that the Chancellor of the Exchequer did not specifically say in his speech that expenditure being up by £200,000,000 over his Budget estimate necessarily meant that the gap would be increased by that amount. My right hon. Friend gave as his reason the fact that the size of the gap depends not only upon expenditure but also upon revenue and other factors. No doubt Lord Kinderley and the organisation which he directs will take note of the criticisms made by the hon. Member about War Savings posters, but as the hon. Gentleman himself has noticed the powers of which he complained, it is evident that these posters have had some effect. If posters are noticed, I imagine that they have already achieved one object for which they are put up.

The hon. Member said something which was countered by the hon. Member for Faversham (Sir A. Maitland), about what was going on in Germany in regard to methods of saving. I say instinctively that I wonder whether what one gets out of Germany to-day in any direction has any relation to the facts. Probably even in the field of savings that is true. After all, the greatest swindle ever perpetrated on a nation was a scheme of saving, invented by the Germans—the buying by instalments of the people's car. It may be that there are other snags of that kind about schemes which are now going on, and I think I should treat them with some reserve.

My hon. Friend the Member for Faversham also said that my right hon. Friend should be very careful to see that Departmental control was instituted over expenditure within the Departments. He suggested, as I understood it, the appointment inside the Departments of someone, not being the permanent head of the Department, to control such expenditure and to see that it was wisely

carried out. It is of vital importance to make sure that these vast sums of money are wisely spent, and it is the duty of all of us to ensure that the maximum economy is achieved, but we are always fortified in that regard by the reports of the Select Committee of this House, which makes such valuable directions to that end. My hon. Friend overlooked the fact that it is already the function of a special financial officer in the Departments to examine what my hon. Friend has in mind. The business of these officers is to criticise proposals for new expenditure and to watch expenditure made on behalf of the heads of the Departments. My hon. Friend can rest assured that we shall try our very best to see that expenditure is kept under constant review.

Another thing he said was in relation to what my right hon. Friend said about tax collection. My hon. Friend thought that doubts were being expressed by my right hon. Friend as to the practicability of collecting taxes at the present high rate, but I must repudiate that interpretation. There are no doubts of the practicability of collecting taxes. What my right hon. Friend has in mind is to devise some way of making it more convenient for the taxes to be paid. The prudent man is supposed to be he who puts aside week by week and month by month during the year something towards what he knows he will have to pay next year or, in the case of the Surtax payer, the year after; but such persons are all too few. Usually taxpayers are somewhat hard pressed when the demands come in and they see exactly what they have to pay. My right hon. Friend has come to the conclusion that some inducement in the way of a certificate which could be bought, and which would have a certain apparent value later on, might be helpful to taxpayers.

Mr. Petrowicz-Lawrence: May I ask the right hon. and gallant Gentleman whether we are to have the particulars of the scheme before the House rises for the recess, or before the end of the year?

Captain Crookshank: I do not think they will be forthcoming before the end of the year. On the other matters raised, my hon. Friend the Member for Lowestoft (Mr. Loftus) as usual told us that we were too orthodox, but on the whole we have

[Captain Crookshank.]  
 not done too badly out of our orthodoxy in our war finance so far. We have raised these vast sums, we have collected large sums in taxation, and I am afraid the fact remains that, from the very glib way in which we are now used to talk of millions, tens of millions and hundreds of millions—and in these Votes, thousands of millions—very few people in this country realise how big these sums are. I am always trying to find some way in which I can put it to people. One very vivid form is this: If we cast our minds back over the Great War, the Napoleonic wars, Marlborough's wars, the Elizabethan wars, the Wars of the Roses, the Crusades, if in fact we take a review of military history back to the Conquest and beyond to Julius Cæsar, the Punic wars and the Persian wars, we have covered the whole field of recorded European warfare, and even then we have to skip back to the reputed date of King Solomon, somewhere about 700 B.C., before reaching a stage in human history from which we can count 1,000,000 days up to the present. If you like to imagine that King Solomon were still alive, and that every day of his life he had spent £1 providing sweets for some of his ladies, he still would not have spent £1,000,000, even though he had spent a pound a day from the time of his birth. That is the meaning of £1,000,000. Here we are talking about £1,000,000,000, and it is the fourth time this year that we have asked for that sum. So we really are dealing with a financial problem of the greatest magnitude. With the present demeanour of the people, the way in which they are paying their taxes and the enthusiasm they have shown in refraining from spending their higher incomes and are investing them in one form or another of Government security, we have every hope that in the future we shall surmount our difficulties as we have been able to up to now, and do the best we can on the financial front towards winning the war.

#### Question.

There is Supplementary sum, not exceeding £1,000,000,000, to be granted to His Majesty, towards defraying the expenses which may be incurred during the year ending on the first day of March, 1942, for general Navy, Army and Air Services and for the Ministry of Supply in so far as specific provision is not made therefor by Parliament, for securing the public safety, the defence of the realm, the maintain-

ance of public order and the efficient prosecution of the war, for maintaining supplies and services essential to the life of the community and generally for all expenses, beyond those provided for in the ordinary Grants of Parliament, arising out of the existence of a state of war."

put, and agreed to.

Ordered, "That the Chairman do report Progress, and ask leave to sit again."—[*Captain Crookshank.*]

Resolution to be reported upon the next Sitting Day; Committee to sit again upon the next Sitting Day.

### WAYS AND MEANS.

Considered in Committee.

[Colonel CLYTON BROWN in the Chair.]

Resolved,

"That towards making good the Supply granted to His Majesty for the service of the year ending on the first day of March, 1942, the sum of £1,000,000,000 be granted out of the Consolidated Fund of the United Kingdom."—[*Captain Crookshank.*]

Resolution to be reported upon the next Sitting Day; Committee to sit again upon the next Sitting Day.

### EDUCATION (SCOTLAND) BILL.

Order for Second Reading read.

The Secretary of State for Scotland (*Mr. T. Johnston*): I beg to move, "That the Bill be now read a Second time."

There are few immediate and practical measures in public health which I could commend to the House with better heart and greater enthusiasm than this little Measure which is now before the House. I have long been interested in the issue of school feeding for children, and my first recollectable conference on the subject was at our school board many years ago. I can recollect the efforts made by the great Conservative Minister for Education, Sir John Ross, and my friend Mr. Martin Haddow, of Glasgow, in endeavouring to arouse public opinion as to the waste and folly of attempting to teach children who, while they were sitting on the school benches, were under-nourished. Then in 1930 I and some others obtained a grant from the Empire Marketing Board of £5,000, and we received also £2,000 from the Minors' Distress Fund in Scotland. We added those two sums together

## RISING CURVE OF WAGES

This week the House of Commons has listened to two contradictory expositions. The Chancellor of the Exchequer uttered one more warning of inflation as a danger which, if allowed to develop, might threaten the very basis of the material welfare of all of us. He was adjured by other members to keep down the cost of living and to prevent inflationary tendencies from causing it to advance. On the following day, there was widespread support for a demand that more generous allowances should be made to the dependants of men in the Services. There can be no quarrel with a desire to see that in these cases financial hardship shall be eliminated, but the question assumes a broader importance on account of the frequency with which the demand was supported by reference to the disparity between pay in the Services and wages to those outside. Up to a point, therefore, the proposals for better treatment for men in the Services and their families are the outcome of a far wider movement which all the time is tending to raise prices against the Government and the country.

In July last, a Ministry of Labour census showed that wages of some 6,000,000 workers had been raised by about 42 per cent. since October, 1938. In the last few weeks, the agricultural minimum has been advanced to 48 per week, shipbuilders and engineers have been given an extra 5s per week, involving some £26,000,000 per annum, and a railway claim for more pay has still to go through the final stages of the negotiating machinery before its fate is settled. Successes in such cases spread contagion, and whatever solid grounds in their favour may be adduced the result is a heavier bill to be met. This may mean larger sums as subsidies to keep down the cost of living, or higher prices to be paid for requisitions and for the goods still available to the public uncontrolled as to price. If industry bears the higher charges in the first place, it will be ultimately at the expense of a smaller E.P.T. contribution to the revenue.

So far the Government has failed to face the issue squarely (although it is again under consideration) and the Trades Union Congress has viewed it only from the sectional standpoint. The pronouncement of the latter against the White Paper of last July left a small loophole for accommodation, it is true. Perhaps the new Bill

designed to secure, after the war, the restoration of pre-war trade practices ~~defined~~ so broadly as to cover all workers' and trade union rights may facilitate a rapprochement. Whether that is brought about or not, such measures as an extension of rationing and price control, together with the sterner action against operators in "black markets" now being initiated would be of value in so far as they would tend to bring about additional saving. Stiffening of existing forms of taxation would be less effective, because it would react least severely upon those benefiting from increased incomes. There can be no question now of retracing the ground already covered by wage adjustments, but the Government and Parliament should go forward with determination to secure that wage stability (with due regard to real hardships) which it hoped, in July, would accompany the pegging of the cost of living.



## WAGES ADRIFT

From to-day two million workers in the engineering and ship-building industries will be drawing an extra five shillings a week, representing an addition of £26,000,000 a year to the national wages bill. It is true that the men had asked for anything up to four times as much. Even so, this decision of the National Arbitration Tribunal is a forcible reminder to the Government that prices subsidisation is not the same thing as a wages policy and cannot be made to serve as a substitute for one. It can now be taken as proven that the policy of subsidising the cost-of-living index, in the hope of "creating the conditions which would make possible a stabilisation of wage rates," has completely failed to justify the great hopes that were placed in it. No doubt the rising trend of wages would have been still steeper had the upward movement in prices been allowed to continue. But the subsidisation has certainly failed to flatten out the trend to any sufficient extent. As early as July, the Government itself was tacitly admitting this by the publication of the plaintive White Paper, with its deprecatory reminder to wage-fixing bodies that the whole policy of stabilisation, as well as the object of the wage increases themselves, would be vitiated by an all-round advance in rates. The stabilisation attempt was doomed as soon as the T.U.C. refused to recognise rising wages as a prime cause of inflation and flatly rejected the White Paper arguments. The increase now granted to the engineering trades merely confirms that in face of this attitude the wages-stop idea has never had any practical reality. In other words, we are as much without a wages policy as we have always been and it is high time to look round for one.

In previous cases, such as the recent increases to agricultural workers and to women in engineering, there has always been some special consideration to justify a concession. It would be difficult to find any special factor in the latest case, and it is for this reason that it is so certain to produce a fresh crop of applications which it will be equally difficult to refuse. It certainly cannot be justified on the grounds of a rising cost of living, though this was one of the reasons given for the demands. In reality the cost of living has been stabilised for a year past. For food alone the index in October was some points lower on the year at 197.1, against 111.6. The general index stood at 122.0, a rise of only 5 points in twelve months. Nor can it be argued that wages have lagged behind the cost of living and have still some leeway to make up. The Ministry of Labour investigation, covering some 6,000,000 workers, showed that by July this year there had already been an average war-time rise in earnings of 43 per cent., compared with a rise of only 29 per cent. in the cost of living. In the engineering group itself the rise was as much as 48.7 per cent. This is hardly a case of a specially depressed industry rightly claiming some adjustment in order to mitigate hardships or bring wages up to levels paid in other industries for work of a similar grade. On the contrary, the engineering group stands easily first among the major industries with an average wage at July last of £5 11s. 5d., against an average of £4 19s. 3d. But the most significant reason given for the demand was the claim that payment of income-tax was causing hardships which should be rectified by an increase in wages. It is not necessary to discuss the rights and wrongs of this contention, though it may be pointed out that the demands ranged up to £1 a week, whereas a married man with two children still pays less than £10 tax on an income of £300. The important point is the question of principle involved. Once Parliament has decided upon a carefully graduated increase in taxation, it would clearly create an intolerable position if the whole intention were to be defeated and the resulting revenue deprived of its value by an increase in wages to pay the tax. In most cases this would be merely an addition to income-tax at the expense of R.P.T. revenue. If the rise in wages were passed on to the consumer it would necessitate an increase in food subsidies. In any case, the only object of raising taxes is to curtail aggregate purchasing power in order to

restrain prices. If rising taxes, as well as rising prices, are to set up a wages spiral, the problem of war finance becomes insoluble.

To point out yet again the futility of an all-round advance in wages from the economic point of view is probably mere waste of breath. It is easy to show that the working class as a whole must accept a curtailment of consumption in some form or other, that any temporary advantage to one section is mainly at the expense of the remaining workers, that a general rise in wages will render even harder the uphill fight which our export industries must in any case face after the war. The trouble is, as everybody knows, that this question of wages policy is primarily one of politics, not economics. The whole issue is clouded by memories of past grievances and the desire to jockey for future position. It is futile to complain of the attitude of the Unions. By definition, their whole function is to press the claims of a particular group of workers, a body so constituted can hardly be expected voluntarily to renounce any bargaining power it possesses. It is the responsibility of the Government to reconcile sectional interests. If agreement with Labour is really impossible, then the Government must ultimately face up to the question how far the community is to be held to ransom for the sake of industrial peace. But even at this stage hope of an agreement should not be abandoned, for the T.U.C. has expressed its readiness to accept widespread rationing. From their point of view, this is probably a necessary guarantee that no class was getting more than its due share of the limited supply of consumption goods. If point-rationing were extended over a sufficiently wide field this would not only pave the way for an agreement, but also make it safe to pay out additional wages where these would help to increase war output. Under the present position, every addition to the wages bill justified by nothing save superior bargaining power must increase the reluctance of the Treasury to pay out additional money where it would really do good. It is this, rather than inflation in the abstract, which is the true cost of the failure to produce a real wages policy after more than two years of war.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 0000

PLEASE QUOTE

REFERENCE NO. \_\_\_\_\_

With the compliments of British Air Commission,  
who enclose Statement No. 16 covering Aircraft  
Despatched for the week ended January 13, 1942

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

January 20, 1942

STATEMENT NO. 16

*Most Secret*

341

AIRCRAFT DESPATCHED FROM THE UNITED STATES  
DURING WEEK ENDED JANUARY 12, 1942

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CANADA
CESSNA T 50	Canada	---	---	---	19
CONSOLIDATED Catalina	Canada	---	---	---	2
CURTISS Kittyhawks	Middle East	Port Sudan	45	---	---
GLENN MARTIN Baltimore	Middle East	Port Sudan	3	---	---
NORTH AMERICAN Harvard II	Canada	Canada	---	---	23
Mustang	U. K.	U. K.	13	---	---
TOTAL			61		44

British Air Commission  
January 19, 1942

for Miss Chauncey

TREASURY DEPARTMENT

342

INTER-OFFICE COMMUNICATION

DATE January 20, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>\$ Proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Jan. 12	Nil	Nil	Nil	
13	Nil	Nil	Nil	
14	Nil	Nil	Nil	
15	1,310	Nil	1,310	
16	Nil	Nil	Nil	
17	Nil	Nil	Nil	
	<u>1,310</u>	<u>Nil</u>	<u>1,310</u>	
Sales from				
Feb. 22, 1940 to				
Jan. 10, 1942	<u>281,856,920</u>	<u>37,437,648</u>	<u>319,294,568</u>	
Sales from				
Feb. 22, 1940 to				
Jan. 17, 1942	<u>281,858,230</u>	<u>37,437,648</u>	<u>319,295,878</u>	319,295,878
\$ proceeds of non-vested securities sold			300,000	
Jan. 5, 1942 - January 10, 1942				
\$ proceeds of non-vested securities sold			<u>241,000,000</u>	
Sept. 1, 1939 - Jan. 3, 1942				
\$ proceeds of non-vested securities sold			<u>241,300,000</u>	<u>241,300,000</u>
Sept. 1, 1939 - Jan. 10, 1942				
			<u>GRAND TOTAL</u>	<u>560,595,878</u>
				\$ 61
Jan. 7, 1942 - Cash Dividend on 156 Shares				125
Jan. 9, 1942 - Partial Liquidating Dividend				42
9 Units sold from Aug. 18, 1941 - Jan. 17, 1942 for				123
11 Shares Stock Dividend sold Aug. 18, 1941 - Jan. 17, 1942 for				102,938
56,007 Rights sold from July 24, 1941 - Jan. 17, 1942 for				

For Miss Chauncey

TREASURY DEPARTMENT

343

INTER-OFFICE COMMUNICATION

DATE January 20, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

STRICTLY CONFIDENTIAL

Official sales of British-dollar securities under the vesting order effective February 19, 1940:

	No. of Shares Sold	Proceeds of Bonds Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
Jan. 12	N11	N11	N11	N11
13	N11	N11	N11	N11
14	N11	N11	N11	N11
15	12	1,310	N11	N11
16	N11	N11	N11	N11
17	N11	N11	N11	N11
	12	1,310	N11	N11
Sales from				
Feb. 22, 1940 to				
Jan. 3, 1942	<u>9,847,583-3/18</u>	<u>281,856,920</u>	<u>45,610,016</u>	<u>37,437,648</u>
Sales from				
Feb. 22, 1940 to				
Jan. 17, 1942	<u>9,847,595-3/18</u>	<u>281,858,230</u>	<u>45,610,016</u>	<u>37,437,648</u>

C A B L E

From: Buenos Aires

Dated: January 20, 1942

Rec'd: January 21, 1942

Federal Reserve Bank of New York,  
New York.

#18

In order to increase our gold reserves please buy  
for our account gold bars for the equivalent of U. S.  
\$5,000,000 keeping the gold bars earmarked for our  
account. Cable execution.

(Signed) Banco Central de la Republica Argentine

(Received by telephone from Federal Reserve Bank, New York,  
12:45 p.m., 1-28-42)

ec

## PARAPHRASE OF TELEGRAM RECEIVED

345

FROM: United States High Commissioner, (Manila) Fort Mills  
Philippine Islands  
DATE: January 20, 1942, 9 a.m.  
NO.: 24

This telegram contains a message for the Secretary of the Treasury.

Twelve. Will you please make a record of the deposit of 39,800 certificates of the Philippine Treasury of 500-peso denomination the total of which is valued at 19,900,000 pesos in my custody at Corregidor. Acting Secretary of Finance Jose Abad Santos and Robert J. Ruffcut of my staff verified the count. These certificates were in one of the twenty-five boxes which were referred to in our telegram sent on the 7th of January, 1942. After my departure from Manila my agent Cecilio Adeguzman signed an undated receipt which indicates that this money was sent on for the accounts of members banks of the Manila Clearing Association by the Philippine National Bank. Evidently this deposit makes up the bank reserves mentioned in first.

Referring to your telegram of December 26 which was transmitted through the Department of the Interior, I do not have any record of ownership of the reserves referred to by the banks individually.

BAYRE

## TREASURY DEPARTMENT

346

## INTER-OFFICE COMMUNICATION

DATE January 20, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	\$24,000
Purchased from commercial concerns	£16,000

Open market sterling was again quoted at 4.03-3/4, and there were no reported transactions.

In a dull market, the Canadian dollar discount narrowed to a final quotation of 11-5/8%, as compared with 11-3/4% last night.

In New York, closing quotations for the foreign currencies listed below were as follows:

Argentine peso (free)	.2375
Brasilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5250
Venezuelan bolivar	.2675
Cuban peso	Par

Swiss francs to meet commercial and certain other requirements within Switzerland are still obtainable from Swiss banks in exchange for dollars at .2331. In New York, the "free" quotation for Swiss francs has advanced steadily from .2375 as of January 7 to the present figure of .2525 bid, with little business being transacted. In contrast to the New York rates, we understand that "free" Swiss francs were recently obtained in Portugal by a New York bank at .2323.

We purchased \$585,000 in gold from the earmarked account of the Bank of Mexico, and \$350,000 in gold from the account of the Central Bank of Chile.

No new gold engagements were reported.

In London, spot and forward silver were again fixed at 23-1/2d and 23-9/16d, respectively, equivalent to 42.67¢ and 42.78¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.



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BRITISH EMBASSY,  
WASHINGTON, D.C.

January 20th, 1942.

Personal and Secret.

Dear Mr. Secretary,

I enclose herein for your  
personal and secret information a  
copy of the latest report received  
from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

(For the Ambassador)

*R. J. Campbell*

The Honourable

Henry Morgenthau, Jr.,  
United States Treasury,  
Washington, D.C.

Copy No. 18

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 22

Information received up to 7 a.m., 19th January, 1942.

1. NAVAL

One of H.M. destroyers escorting a convoy was torpedoed and sunk during the night 17th/18th off the North MURMANSK Coast. Six motor torpedo boats and motor gunboats engaged two enemy trawlers off CAIAWE on 17th/18th. One motor torpedo boat is presumed lost and another suffered damage and casualties. A H.M. destroyer escorting a coastal convoy shot down a Dornier Bomber at dusk on the 18th. One naval trawler sank at GIBRALTAR yesterday and two others were damaged following an explosion. A naval Corvette intercepted an 8,000 ton Italian vessel yesterday 230 miles southwest of LAGOS and is escorting her into port. A medium sized British vessel in convoy from the U.K. was torpedoed late on the 17th off the MURMANSK Coast and taken in tow.

2. MILITARY

LIBYA. There is little further news from the AGHEILA Area but our forward columns are in touch with enemy defensive positions between HURSA BERGA and HARADA.

MALAYA. 18th. Now reported that no enemy landing took place in the ENDAU Area where there is still an Australian infantry detachment. There has been much patrol activity North of the river ENDAU accompanied by heavy Japanese dive bombing attacks. In the GEMAS area our patrols were active throughout the 17th and in the afternoon, after artillery preparation an enemy attack developed in some strength. This is still in progress. In the river MUAR area our situation improved during the 17th.

BORNEO. A strong Japanese attack has been made on the British detachment in Dutch BORNEO southwest of KUCHING. Our forces are withdrawing. The Japanese are suspected to be approaching (TSAIDAKAN).

MURMA. A Japanese force, in contact with our troops, is reported to have penetrated beyond MYITTA towards SAVOY.

3. AIR OPERATIONS

Western Front. 17th/18th. BRITEN, 63 tons and 2,500 incendiaries. WEDEN, 27 tons and nearly 3,000 incendiaries. Visibility was poor but bursts were seen in both ports and fires were started. 13 B.G.A.F. and two B.G.A.F. bombers took part. 18th and 18th/19th. Nothing of interest.

- 2 -

MEDITERRANEAN.

MALTA. During 17th/18th and 18th a total of 25 aircraft attacked causing only slight damage. 17th/18th. Four naval Swordfish attacked an 8,000 ton tanker and two destroyers off LAMPEDUSA. The tanker and one destroyer were hit by torpedo.

FAR EAST.

MALAYA. On the 17th and 18th our bombers successfully attacked launches, sampans and barges in the MUAR-MALACCA area, also bombed the railway centre at GEMAS. One enemy aircraft was shot down and one Blenheim lost.

SINGAPORE. During same period the Island was attacked three times by a total of 249 aircraft. Four oil cisterns at the Naval Base were set on fire and the dockyard was slightly damaged. At one aerodrome a hangar was demolished and at another buildings were burnt. Five of our aircraft were destroyed, eight probably destroyed and five damaged. We lost four Buffalo Fighters but two pilots are safe.

4. There are indications that a third Squadron of Japanese heavy bombers has moved to the CAROLINE, MARSHALL and adjacent Islands in which there are many bases.

RESTRICTED

G-2/2257-220: No. 808 M.I.D., W.D. 11:00 A.M., January 20, 1942

SITUATION REPORTI. Pacific Theater.

Philippines: Hostile pressure increased yesterday with brisk fighting near the center of our line. There was some artillery and air activity with our air force and anti-aircraft destroying four enemy planes. Hawaii: Negative reports. Malaya: The situation is becoming more stabilized as British reinforcements meet Japanese infiltrations. The threat to the British left continues. According to the press, enemy air activity continues over Singapore, with large formations of Japanese bombers over that city today. No results have been announced. Burma: British withdraw from Tavoy, in the Kra peninsula. Sharp air action is reported. Australasia: The press reports that Rabaul, Australian air base in New Britain, was subjected to a heavy Japanese air attack, probably from carrier-based planes. West Coast: No further reports of hostile activity.

II. Eastern Theater.

Fighting continues along the entire Russian front from the Crimea to Leningrad. The Russians are attacking at Leningrad and Schluesselburg and claim the capture of Keneys and Kondrovo (south of Mozhaik). Heavy fighting has developed at Orel. The German High Command claims the interruption of the Murmansk railway by air.

III. Western Theater.

No further reports.

IV. Middle Eastern Theater.

Ground: The situation remains the same.

Air: The Italian High Command announced today that British bombers started fires in Augusta and Syracuse on the east coast of Sicily last night. The Italian Air Force is said to be active in bombing and machine-gunning British motorized columns and supply centers, while German planes continue their bombardment of the ports and airdromes of Malta.

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