DIARY

Book 553

July 23 - 26, 1942

- A -

- C -

- F -

- G -

*Secret Service (Reilly) report - 8/15/42: Book 559, page 84

- L -

- U -

- V -

- W -

July 23, 1942.
2:40 p.m.

HMJr:	Hello.
(W.H.) Operator:	One moment, Mr. Secretary.
HMJr:	Hello. Hello.
Operator:	Shall I ring you back?
HMJr:	I'll hold on a minute.
Operator:	All right.
HMJr:	Hello.
Operator:	Yes, sir. Shall I ring you back?
HMJr:	What did they say over there?
Operator:	It was a man operator - he....
HMJr:	Yes.
Operator:	....I told him I was going to ring you. There you are.
HMJr:	Hello.
Grace Tully:	Hello.
HMJr:	Hello, Grace?
T:	Yes, Mr. Secretary.
HMJr:	How are you?
T:	Fine, sir.
HMJr:	Two things....
T:	Yes, sir.

HMJr: ....the President talked to me yesterday about what he was going to - thinking of doing in regard to this cost of living....

T: Yes.

HMJr: ....and he said he wanted to get the Attorney General to give him a ruling.

T: Yes.

HMJr: Well, over - if you make a note - our boys here are working along some entirely independent lines on the authority that the President could work along....

T: Yes.

HMJr: ....on the monetary authorities, I mean, which may or may not lead anywhere, but we're working very hard on it.

T: Yes.

HMJr: And I was thinking if he's going to do something on this, I'd like to suggest that he get Sam Rosenman down here....

T: Yes.

HMJr: ....because I don't think the Attorney General will give him much, and I think he needs Sam on this.

T: Uh huh.

HMJr: But - I'd like....

T: That's the whole inflation program, is it?

HMJr: Yes, it's a question - if the President goes the way he talked yesterday, he's going to do it through an Executive Order.

T: Yes.

HMJr: I mean - now we've got some suggestions. I understand that Henderson's people worked all last night on some suggestions....

T: Yes.

HMJr: ....and I suppose the Attorney General has. Well, it needs somebody like Sam to put it together.

T: Uh huh.

HMJr: See?

T: Yes.

HMJr: And the President laid great stress on it.

T: Yes. Well, I think he is coming down tomorrow.

HMJr: Oh, he is?

T: Yeah.

HMJr: Well, that's wonderful.

T: He called today, and I think Mac called him back and suggested that he come down here tomorrow.

HMJr: Well, do you suppose the President would mind my suggesting he put Sam on that?

T: No, I think it's the kind of thing he will put him on, when he gets the data together.

HMJr: Right. Now the other thing is that about ten days or two weeks ago the President saw Dr. Weizmann.

T: Yes.

HMJr: And he - the President said he'd like to see him again in ten days....

T: Uh huh.

HMJr: ....and Dr. Weizmann called up McIntyre, and McIntyre never knew who he was and so forth....

T: Uh huh.

HMJr: ....and so on, and at the President's pleasure he - he'd like to come down and see him again.

T: Yes.

HMJr: He's working on rubber, you know.

T: Yes. All right, fine, I'll mention it to him and ask him if he'd like to see him and when.

HMJr: I thank you.

T: Right, sir.

HMJr: You sound very serious.

T: Do I?

HMJr: Yes.

T: I don't mean to. (Laughs)

HMJr: Well, now let me see, who said that they saw the great Grace Tully last night - somebody that I....

T: I was over to Kintner's last night. Did you see Bob?

HMJr: It - no, it wasn't - somebody that had never met....

T: Oh! Ferd Kuhn.

HMJr: What?

T: Kuhn.

HMJr: Oh, that's who it was.

T: That's right. He - he and his wife were there to dinner.

HMJr: Yeah, they're very much impressed with you.

T: Very nice, I liked them both.

HMJr: They are nice.

T: Awfully nice people. Grand....

HMJr: All I could remember was that they said you were great, but I couldn't remember who said it.

T: (Laughs) You couldn't remember who said it.

HMJr: No.

T: But you knew it was somebody who was crazy probably. (Laughs)

HMJr: No, I told him I'd known it a long time.

T: I see. Well, that was very nice.

HMJr: Thank you.

T: Grand, Mr. Secretary, and I'll call you back on it.

HMJr: Goodbye.

T: Fine, goodbye.

July 23, 1942.
4:20 p.m.

Secretary Knox: Hello, Henry.

HMJr: How are you?

K: Fine. Say, Henry, tomorrow - or Saturday noon just - Friday noon....

HMJr: Yeah.

K: ....just at twelve, we're going to have a little ceremony out in front of the - out in front of the building here on our ten percent business.

HMJr: Yeah.

K: And there's a marine band's going to be there, and Ralph Bard and I are going to make a little talk, and we want you to come along and make a little talk too.

HMJr: Well, what time would that be?

K: Get here at twelve o'clock, and the party begins at twelve-ten.

HMJr: You mean at your office at twelve?

K: Yeah, come to my office and have break.. - have lunch with me.

HMJr: Is it Friday or Saturday?

K: Friday.

HMJr: Friday.

K: Yeah.

HMJr: Ah - I'd like to do it.

K: That will be fine. We'll go from here to Cabinet.

HMJr: ....and....

K: Have lunch with me, and we'll have a good talk.

HMJr: Ah - I don't know that I'll talk, but I'll stand up there and grin anyway.

K: (Laughs) Well, you've got a very eloquent grin, Henry.

HMJr: Who are you - who are you talking at?

K: Oh, all the people in the - the - the crowd here in the Navy Department.

HMJr: Fine.

K: They - we got the street closed off, and we'll have the band, and we'll have quite a crowd, I think.

HMJr: Well, I - I - I'd be delighted to come.

K: And the Department, incidentally, is going over like a house afire.

HMJr: Well, they would under your leadership.

K: (Laughs) Thank you, Henry.

HMJr: All right.

K: All right, that will be fine.

HMJr: Thank you.

K: Goodbye.

7/23/42 8

Draft of HM,Jr's remarks to Navy Department employees in front of Navy Building when Secretary Knox will also address them on results of their 10% Deduction Plan.

Draft 7/24/42

Mr. Knox, Mr. Bard, Ladies and Gentlemen:

This is certainly a stirring and heart-warming demonstration. I share with you the pride and satisfaction that all of you must feel over the outstanding success achieved by the Navy Bond Campaign. There is always satisfaction in a job well done. That is particularly true in this case, for sound and adequate financing is one of the most important phases of our all-out war effort. To prosecute the war during this ~~next~~ this year, it will be necessary for the Government to borrow at least $50,000,000,000, more than $4,000,000,000 a month. We hope that at least ~~$1~~ $12,000,000,000 ~~a month~~ of this will come through the sale of War Bonds to wage earners and salaried employees.

It is essential not only for the successful conduct of the war but for the economic welfare of the nation that as much as possible of the income of individuals be invested in Government securities. This is imperative for a number of reasons. One is that this money is actually needed to finance the war. It helps to pay for the ~~tools~~ weapons our courageous fighting forces need to defeat the enemy. Another reason is that by investing as much as possible of our current income in war bonds, we reduce unnecessary spending and thus help to keep prices down. ~~Every~~ war bond dollar we ~~gain this way~~ get means one ~~less bank~~ dollar less that we shall have to borrow from the banks.

Regraded Unclassified

We all know that the supply of civilian goods is being drastically curtailed by the demands of war production. With more money to spend for fewer goods, prices are bound to increase unless we deliberately resolve to spend less and save more. In war time spending as usual is as bad as business as usual. By investing every cent we can in War Bonds, we can kill three birds with one stone. First we can help buy planes and guns and ships, for our fighting men. Second we can help keep down the cost of living for ourselves and for the government. And third, we can protect our own future security with the savings we accumulate now.

To accomplish these objectives the slogan of our War Bond Campaign has been "Everybody -- Every Pay Day -- 10%." It is proper that we who are in Government service should set an example for those employed in business and industry. The Treasury Department last month, and now the Navy Department, have gone over the top in this campaign. Over 90% of ~~their~~ the employees of both departments are investing more than 10% of their total pay in War Bonds every pay day. We of the Treasury and you of the Navy have thus said to employees everywhere, in other Government Departments and in private business and industry, "We have shown the way. This job can and must be done."

Personally and on behalf of my ~~fellow employees~~ associates in the Treasury Department, I congratulate you. By your success in this campaign you have demonstrated the truth of your War Bond slogan, "Navy Dollars are Fighting Dollars."

My thanks and congratulations to you all. Keep up the good work.

July 23, 1942.
4:52 p.m.

General Doolittle: Ah - Doolittle, Mr. Secretary. How are you, sir?

HMJr: I'm all right, General. Ambassador Litvinov left here a little while ago - hello....

D: Yes, sir.

HMJr: ....and he gave me this sort of peculiar message. He said that we had been misinformed, and he wanted to know who told us thirty thousand rubles a month. Well, I told him....

D: Yeah.

HMJr: ....I didn't know who the message came from. But I told him that - he said - if you've got a pencil - hello....

D: Yes, sir.

HMJr: ....that they proposed to charge seven thousand five hundred rubles a month for five men....

D: Yes.

HMJr: ....which works out at $280 per man per month.

D: Yeah.

HMJr: Then he said, "However, we will treat the American aviators in a manner similar to their rank of our own....

D: Uh huh.

HMJr: ....soldiers."

D: Yeah.

HMJr: So I said, "Well, does that mean you're going to charge them or not charge them?" He said, "Well, my impression is that they're not going to be charged anything."

D: Uh huh.

HMJr: But he said, "That's the message that I got, that they're going to be treated just like officers of similar rank - given the same food and shelter."

D: Yes. Well, now in our army, and I presume in theirs, an officer....

HMJr: Yes.

D: ....is obliged to furnish his own quarters, his own food and shelter, and his own uniforms. An enlisted man has all that furnished for him.

HMJr: Yes.

D: So (laughs) I suppose that they are supposed to - to - or at least our Government is supposed to pay this $280 per man per month for them. Now they get $6 a day....

HMJr: Yes.

D: ....when they're on a mission of this kind. Our people all got a per diem of six dollars per day.

HMJr: Yeah.

D: Now that's a hundred and eighty bucks, and they're only a hundred bucks in the hole according to that.

HMJr: Well - ah - at least we've gone from seventy-five hundred rubles....

D: Well, we've got it down to a quarter of what it was.

HMJr: We have a quarter.

D: It's a pretty good stroke of business.

HMJr: Well, I - we've got him down from thirty thousand rubles to seventy-five hundred.

D: Yes, sir. That's a quarter.

HMJr: And that's a quarter, and - you might check up on it and let me know whether that is so, see?

D: Yes, sir.

HMJr: Now I - don't tell me where you heard it from because I don't think it's any of his business.

D: Right.

HMJr: Because if he knew he might want whoever it was disciplined, and if I don't know I can't tell him.

D: Right.

HMJr: So - but I would be curious to know whether that - what he's told me today checks, and you have ways of finding out, haven't you?

D: I will get in touch with our Cable Department and see if we have any further information on it.

HMJr: Right. Well....

D: Okay, Mr. Secretary, I'll call you back as soon as I get any information. That might be in the morning.

HMJr: That - that's all right.

D: Right, sir.

HMJr: Thank you.

D: Goodbye.

July 23, 1942.
4:57 p.m.

HMJr: Hello.

Operator: Miss Tully stepped out of her office for a moment.

HMJr: Is Mrs. Brady there?

Operator: I'll see. The operator went off the line. I'll have her in just a moment.

4:59 p.m.

HMJr: Hello.

Operator: Mrs. Brady.

HMJr: Hello.

Kathryn Brady: Yes, Mr. Secretary.

HMJr: Mrs. Brady, would you make a note for Grace Tully?

B: Uh huh.

HMJr: There's a letter coming over from Edward Foley resigning as General Counsel. He's going in the army.

B: Uh huh.

HMJr: And - I'd appreciate it if she'd see that the President writes him a nice letter....

B: Uh huh.

HMJr: ....for the work he's done here in the Treasury, which has been excellent.

B: Uh huh. All right, sir. I'll take care of it.

HMJr: I thank you.

B: All right.

Secretary Morgenthau's statement

before Senate Finance Committee on July 23,1942

You will recall that in his Budget Message of January 5th, President Roosevelt asked for additional taxes for the fiscal year 1943, exclusive of Social Security taxes, of seven billion dollars. On March 3rd, I appeared before the Committee on Ways and Means of the House and presented recommendations for a tax program to produce seven billion, six hundred million dollars in additional annual revenue from taxes. On May 6th I wrote a letter to the Chairman of the Committee on Ways and Means recommending a reduction in personal income tax exemptions to produce approximately one billion, one hundred million dollars more revenue.

These two recommendations together involved a tax program of eight billion, seven hundred million dollars of additional revenue. These amounts represented what I believed, and still believe, was the very least that the American people could afford to provide.

It is only against the background of our war expenditures that we can tell whether the Revenue Bill before you will fulfill its purpose. We are now spending one hundred fifty million dollars a day, or almost five billion dollars a month. In the fiscal year that is beginning we expect to spend the almost inconceivable sum of seventy-seven billion dollars to win this war for human freedom.

There can be no compromise with these war expenditures. We would not reduce them if we could. Our whole effort must be to translate our spending as fast and as effectively as possible in the actual production and use of our war materials. If our expenditures this year reach seventy-seven billion dollars, our receipts in revenue from the people must bear some reasonable relationship to that colossal figure. If the House Bill were to become law it would be necessary to borrow from the public during this fiscal year about fifty-three billion dollars.

To the extent that we enlist our current income in taxes to cut down this borrowing, we shall be protecting the future economic soundness of our country and our free institutions. To the extent that we fail, we shall be endangering the survival of all that we are fighting to preserve.

It is interesting to remember that only two years ago, in the fiscal year 1941, we were devoting only about seven percent of our national income to defense expenditures. In the present fiscal year we shall be spending about half of our national income on the war.

Thanks to the foresight of President Roosevelt and the splendid cooperation of Congress, we expect to devote to the war effort in our first complete fiscal year of war a proportion of our national income roughly comparable to the proportion being spent by Canada and approaching that being spent in Great Britain.

We get a different picture, however, if we look at the percent of expenditures financed through taxes in the three countries. In the fiscal year 1941 Canada financed about seventy percent of all its expenditures by taxation, and in the fiscal year 1943 it expects to raise about fifty-five percent from taxes.

The United Kingdom, in the fiscal year 1941, financed forty-four percent of all its expenditures by taxation, and in the fiscal year 1943 it expects to raise fifty-three percent from taxes. In the United States, however, including Federal, State, and local governments, only thirty-seven percent of all fiscal 1943 Government expenditures would be financed by taxation on the basis of the Revenue Bill now before you. It is clear that we are substantially behind Great Britain and Canada in the proportion of our expenditures which we are raising from taxes. Quite frankly, I do not see why we should not do at least as well as Great Britain and Canada.

Taxation and the Cost of Living

Taxation does more than supply money to finance the war. It does more than apportion the war burden now, once and for all, instead of leaving it for further distribution through taxes after the war. Wartime taxation also plays an important part in preventing rapid and continued increases in the cost of living. The President has announced a seven-point program for holding down the cost of living. Ceilings have been placed on prices. This fact may have caused many people to be unduly optimistic about the future of the cost of living.

It cannot be too strongly emphasized that if the price ceilings are to be maintained and rapid and continuous price rises avoided, the pressure of the large and expanding volume of consumer purchasing power on the diminishing supply of goods must be reduced.

To reach a much larger volume of consumer purchasing power, the Bill now before you includes such a broad reduction of personal exemptions that it will affect almost seven million individuals who have never paid direct taxes to the Federal Government before. If this section of the Bill is passed as it stands, some thirty-one million income tax returns will be filed in 1943 as against only seven million, seven hundred thousand in 1940.

For the first time in our history the income tax is becoming a people's tax.

Taxes cannot, by themselves, win the battle against inflation. The battle must be fought with determined and coordinated effort on many fronts. Taxation can be fully effective in this battle only if it is accompanied by restraint and self-denial in other fields. Nevertheless, taxation by itself can make the price situation more controllable and less dangerous than it otherwise would be, and it is an essential anti-inflationary weapon that must be used to the utmost.

Inflation has been well described as "the ruthless process whereby sacrifice is imposed inequitably upon a people who have lacked the unity, the courage and intelligence to impose that sacrifice equitably upon themselves." It is for us to show that we have the unity, the courage, and the intelligence to check inflation now.

Treasury Program a Minimum Program

The Administration's revenue program was presented last Spring as a minimum. On March 3rd, when I first came before the Ways and Means Committee, our total contemplated expenditures for the fiscal year 1943 were sixty-three billion dollars.

Since then they have risen by fourteen billion dollars, and the total war appropriations, authorizations and requests for this and succeeding fiscal years have risen by seventy-five billion dollars. It is true that the Bill before you would produce by far the greatest revenues in our history, and I would not wish for one moment to minimize the task performed by the Ways and Means Committee. Yet this Bill would provide only six billion, three hundred million dollars additional revenue in place of the eight billion, seven hundred million dollars we recommended in the Spring. It would fail by about two billion, four hundred million dollars to reach that minimum of last Spring, which is even more emphatically the very least we can afford to provide today.

In presenting its revenue program to the Committee on Ways and Means, the Treasury outlined methods of taxation which it considered most desirable and appropriate to raise the required amounts. I still believe that these proposals are sound and present the best sources for a revenue program of this size. They are based upon the principle of ability to pay, and they avoid such devices as a general sales tax, which would fall with the greatest impact upon those least able to bear the burden. The various provisions of the Administration program are well known and it is not necessary to repeat them here. I should like, however, to emphasize certain points which I hope will be most carefully considered by the Committee.

1. Special Privileges

The Revenue Bill as it stands violates the basic principle of equity which is so important to an all-out war finance program. It does this by leaving certain highly privileged groups free from tax on large portions of their income.

The first of these especially favored groups are the recipients of tax-free interest from State and municipal securities. Exemption of interest on State and local securities is a serious breach in our system of taxing according to ability to pay. For example, in the case of one individual, out of a total reported income of approximately nine hundred seventy-five thousand dollars, over six hundred sixty-eight thousand dollars came from State and local securities.

If the Bill as it passed the House should become law, this individual would pay only two hundred forty-three thousand dollars; if, on the other hand, your Committee would adopt my suggestion and remove this pre-Pearl Harbor exemption, he would pay eight hundred thirty-two thousand dollars. Let me put the illustration another way. If this exemption is retained he would have seven hundred thirty-two thousand dollars left after taxes; if it is abolished, he would have one hundred forty-three thousand dollars left.

The glaring unfairness of this exemption may be seen in another way.

Under the tax rates in the House Bill, a person with a surtax income of one hundred thousand dollars from other sources who holds a three percent tax exempt security receives as much net return after taxes as from a taxable security yielding 20 percent. The existence of this special privilege for all holders of tax-free securities costs the Government and the people of the United States, under the House rates of tax, about two hundred million dollars a year; and it will cost still more as our wartime taxes tempt more and more wealthy individuals to shift their investments into the hide-out of tax exempt securities.

How can we expect to obtain an all-out war effort from all our people if we go on permitting a group of individuals and corporations owning fourteen billion dollars of State and local securities to go tax free on the income from these securities? We are asking our young men to give their lives for their country, and at the same time we are allowing many wealthy persons, safe behind the lines, to escape their fair share of the war's financial burden. At a time when we are straining our energies to the utmost to defeat a powerful and ruthless foe, common decency requires that we abolish these special tax shelters, and do it now.

Another highly privileged group having large amounts of income exempt from income tax are the owners of oil wells and mines. I refer to those provisions of the law dealing with percentage depletion. Percentage depletion is a serious breach in our system of taxation according to ability to pay.

I cannot believe that the taxpayers of America would knowingly sanction a provision of the law which allows owners of oil and gas wells to deduct from their income twenty-seven and one-half percent of their gross receipts from such wells--not for one year, two years, or the period necessary to return investment, but for an unlimited period.

For example, a leading oil company owned a number of oil properties which had cost it three million dollars. At the time the case was examined percentage depletion of three billion, six hundred million dollars had already been allowed and the properties still had three-fourths of the oil left.

Certainly we cannot justify this exemption on the ground that it encourages exploration and drilling for oil. There is grave doubt that it has a substantial effect on oil discovery. It would have cost the Federal Government about one-third as much to have paid all the cost of every wild-cat well that was drilled in 1941 as to have allowed percentage depletion and the associated intangible drilling expenses.

The annual cost of these allowances under the proposed rates would be about two hundred million dollars.

The privilege of filing separate income tax returns furnishes another example of special tax advantage to many married couples having larger than ordinary incomes. In families in which the income is earned partly by the husband and partly by the wife and in families in which income-earning property can be divided between husband and wife, the tax on the family income is less than where the husband or wife receives the whole income.

The family is the true economic unit, and it is unfair for the amount of tax on the family to vary depending upon who earns the income or upon who in the family has income-producing property. Ability to pay taxes must be judged in terms of family incomes and not the incomes of members of the family. The failure to require joint income tax returns constitutes a violation of the fundamental principle upon which our tax system has been based.

The adoption of mandatory joint returns would also eliminate another discrimination prevailing under existing law.

Married couples living in the eight so-called community property States receive tax advantages which are in no way commensurate with any special relationship that may exist between husbands and wives in those States. For example, take a family in which the husband has a salary of ten thousand dollars after deductions. If the family has its residence in, say, California, and filed community property returns, the family tax would be one thousand, seven hundred eighty-eight dollars, while if the family lives in, say, Iowa, the tax would be two thousand, one hundred fifty-two dollars, or over twenty percent more. The discrimination is even more pronounced with larger incomes.

In this national emergency, how can we complacently permit the citizens of these community property States a more favorable tax status than those of the rest of the country?

These examples of special privileges are intolerable at a time like this, when we are imposing heavy taxes on persons with small incomes and there is pressure for limiting wages and farm prices. The country is in greater danger today than ever before in its history. The war is now in its most critical phase, and only by pulling together as a united people can we make the effort that will turn the tide toward victory.

At such a time any special privilege for any group not only deprives the Treasury of revenue that is badly needed for the war effort, but it hinders the war effort by undermining the morale without which the war cannot be won.

2. Excess Profits Tax

Another similar hindrance to the prosecution of this "people's war" is the existence of excessive profits in wartime. There is no easier way to stir the righteous anger of the American people than to let them hear constantly of excessive wartime profits that are not being recovered by adequate taxation. I have said repeatedly that we are determined to take the profit out of war, and the Treasury's recommendations have been framed with this determination in mind.

An effective excess profits tax does much more than produce badly needed revenue in time of war. It also reassures the masses of our farmers and factory workers that industry is not being rewarded unduly for its part in the winning of the war.

I do not believe that any patriotic American needs the "incentive" of profits to produce for war at this time. Millions of our people are willing to pay new and genuinely burdensome taxes, to buy War Bonds without stint, and to do without many of the accustomed luxuries and even conveniences of daily life. Their only "incentive" is their firm resolve to win this war and build a better future.

Experience has shown, however, that when excess profits taxes are too high they may result in extravagance and waste in the conduct of business. It is vitally important that we stimulate business to produce for war purposes as economically and efficiently as possible, if for no other reason than to avoid a waste of war materials and labor and to hold down the cost of the war to the Government. Moreover, a post-war credit to industry will help toward the rebuilding of our economic life. For these reasons we have recommended a ninety percent excess profits tax coupled with a ten percent credit for return to the corporation after the war.

The credit should, of course, be restricted in such a manner that it would be used for the direct employment of labor, the conversion of plant to peacetime business or for other uses promoting economic adjustment and growth.

3. <u>Tax on Freight and Express</u>

One tax that would be imposed by the Bill before you directly threatens the stability of prices. This is the tax on freight and express which would add to the cost of producing and supplying practically every commodity and service. In great numbers of cases the added cost would make it impossible for businesses to continue to operate under the price ceilings which have been imposed and the breaches in the price ceilings which would thereby be caused would threaten the whole price structure.

Conclusion

I shall not attempt today to discuss the more technical aspects of the long and complex Bill before you, nor to enlarge further upon the subjects I have mentioned already. The Treasury staff stands ready, as always, to assist you in every way possible in carrying out your difficult and responsible task. I should like, however, to make just one more appeal. Every day consumed in your Committee's work will lose us substantial amounts of revenue under the excise tax portions of the Bill. Every day that can be saved in enacting this Bill will enable it to produce just so much more in needed revenue. Every day saved will give our citizens additional time to adjust themselves to the impact of the most severe tax bill in all our history.

I am discussing our tax problem with you today on broader grounds than that of revenue alone. It is my conviction that the people of this country want a courageous tax bill, and want it with the least possible delay. They are ready for greater sacrifices than some of us imagine. The overwhelming majority of them, I am convinced, want us in Washington to show a determination that is worthy of their own. They will be critical of us only if we seem to palter or haggle, or if we pay too much attention to the demands of selfish groups, or if we seem half-hearted in asking self-denial of the people as a whole.

Our acceptance of sacrifice on the home front is a yardstick of our determination to win the war.

For this reason it is unthinkable to me that we should be straining every effort on the fighting fronts abroad and on the production line at home, and at the same time be anything less than all-out in the financing of the war effort. This war, above all others, can be won only by hard fighting, by the acceptance of risks and deprivations, and by the united effort of civilians and fighting men alike. In this kind of war a tax bill can be a decisive battle. It could be lost by narrow vision and faulty leadership. It can be won by boldness and courage. I am confident that this Committee will live up to its high responsibilities and keep faith with a united people.

Warren 7/23/42

Comments on Treasury Policy

As one surveys the record of the Treasury in the conversion of the country from a peace to a war basis, he finds much reason for congratulations and enough reasons for complacency. In two years, the production of the country has doubled; and most of the increase of production has been on government account. Not only have 10 million persons been added to the list of gainfully employed, but other millions who were then employed have been transferred to new occupations, often remote from their former residence. Whole new cities and new industries have been built, and armies and fleets assembled and equipped.

On the financing of these programs, the Treasury has raised both by taxation and borrowing sums unparalleled in American history; and perhaps in the whole of universal history. All this has been done without imposing on the public anything that could be called privation or hardships; without visibly disturbing the credit structure; without even causing a ripple in the pattern of what are called money rates. By the usual pragmatic tests of fiscal achievement, this is a record of outstanding success; certainly in comparison with the analogous period a generation ago the operation of the Treasury has demonstrated an efficiency, a sort of professional competence that, as I said above, not only silences criticism, but afford reasons for congratulation and for complacency; but none for confidence.

So gradual, for our economy, were the successive transitions from peace to neutrality, from neutrality to non-belligerency, from non-belligerency to participation short of war, and finally to war itself, that one finds it difficult to remember that peace, even an uneasy peace, is one kind of world and war is another kind. As each of these successive phases made its increasing demands upon the Treasury, those demands were readily met by a new enlargement or an elaboration of an existing mechanism; and these several mechanisms carried the additional load without betraying any conspicuous evidence of over-load.

This is the occasion for what I have called both gratification and complacency. We may be gratified at the magnitude and efficiency of the achievement to date, but in my opinion we are only complacent, if we project their past into the future. The fact that no individual part of the mechanism has as yet broken under the load, does not prove that the whole machine is not overloaded. While I can see that there is no qualitative difference between a budget of, say, $6 billion and one of $12 billion; and while I would not be sure that there is a qualitative difference between a budget of $12 billion and one of $20 billion, I am willing to make the flat assertion that a budget of $75 billion differs from a budget of $6 billion or $12 billion or $20 billion not merely in mathematical magnitude, but in its character -- that it differs in kind as war differs from peace; and that however well the individual elements of our financial structure seem to be carrying their specific load, the structure in its present form was never designed to carry a load of this weight and bulk; and that, flatly, it cannot carry it.

To be specific, if we are confronted (as we are) with a budget equal to one-half (or more) of the so-called national income, either the structure must be re-designed from the ground up specifically to carry this load, or the load itself, in its own blind way, will determine the shape of the structure. And, if the structure is re-designed to carry the indicated load, the new design will be totally unlike the America that we know; if we allow the burden of the load itself to determine the shape of America, it will be totally unlike the America we have known. Because we have no idea of the duration of this load, we can offer no assurance that, when the war is over, we can, under either alternative, reshape the country at will. We can only say that some alternatives appear to leave more opportunity for a future exercise of optional will, and that others appear to offer less.

We will begin with a very simple but completely neglected figure. The figure 65 is one-half of 110; but there is a world of difference whether with a war budget of $65 billion and a national income of $110 billion, we spend half our national income on the war effort; or spend a sum of dollars equal to half the national income.

If we choose the first alternative, the Treasury undertakes to recapture out of the national income one dollar out of every two in that total. If we choose the second alternative, the Treasury undertakes to recapture some fraction less than half of an estimated national income, and to provide the balance by the creation of dollars. Since these dollars, as created, and expended, will be added to the previously estimated income, the latter total will rise, and with it the uncaptured fraction. Under the latter alternative, the methods of creating dollars is determinable by relative cost and convenience. In its relevance to the main problem, it does not matter whether the Treasury employes the Bureau of Printing and Engraving to fabricate the dollars it creates; employs the Reserve banks on a cost plus contract, as proposed by Mr. Patman; or employs the existing mechanisms of the banking system. As an element in war finance, each of the three is identical, and preference can be discovered by consulting costs and conveniences rather than tradition or inapplicable canons of imputed monetary orthodoxy.

There are, then only two alternative methods of shaping our structure to carry its over-load; recapture or inflation. Every proposal falls under one of these heads. Both require laying the hand of force upon the individual's entire income, in a manner beyond American experience. By either choice, we break with our monetary and financial past; and as we break with our monetary and financial past, we break many strands from our social and political past. For some of these strands, the rupture will be irreparable; for others the reparability will depend upon the duration of time; but broadly speaking, the degree to which we will retain any sort of volitional control of our future will depend upon the quality of thought expended on the present decision. A continuance of the present mixed design of recapture and inflation, inherited from an earlier period to which it was adapted and perpetuated in a present to which it is, by agreement, not applicable, is almost the surest, if not the surest way of surrendering our future to the casualities of time and circumstance.

While mathematically we would say it was possible to recapture half of a national income, it must be remembered that the national income -- or rather that figure of $110 billion commonly called the national income -- is a sum of individual income, including innumerable duplications of simple and complex type. Its very existence depends upon its kinetic quality and we have no real idea of the extent to which this may be interrupted or even destroyed by efforts of recapture.

But, mathematically, it is at least conceivable that it is possible to recapture half the national income. Some idea of the implication of this phrase is indicated by two ostensible facts. If we assume that there are about 55 million persons gainfully employed at the present time, the residual income after recapture would average $1200 or less. Or, put another way, if the present exemptions were converted into ceilings and the tax were 100 percent of all income above the present exemptions, it will recapture approximately the required sum. This gives some impression -- not a very exact impression, but the most exact I have -- of what is implied in the glib phrase "devoting half our national income to the war effort." Unless one is prepared to look that statement in the face, he need not both to read farther, because I intend to argue that if the alternative method is used, the fact will come out the same.

Having looked at these figures, I recall the expression I used earlier. Only force -- the full force of the state -- can effect such a recapture; and all ideas of voluntary saving can immediately be dismissed. One could not expect the individual voluntarily to reduce his expenditures to such ceilings, nor, if his maximum income was his present exemption, could he be expected to do much saving.

When I spoke of the kinetic quality of income, the term was obscure and I will now give an example. For most home owners in New Jersey, the state property tax would constitute the first lien on retained income, and will constitute roughly 50 per cent of this income. These taxes, of course, are the source of income of the office holder of New Jersey, and to the extent that the proposed recapture induced tax delinquency, the incomes of these office holders would cease.

Several methods of recapture have been proposed, but they are all expressive of two basic ideas. One of these may be called the ceiling income principle, the other the rationing principle. Under the former, the income tax would be a uniform 100 per cent of all income above specified maximum, which, as shown above, would be in the vicinity of the present exemptions. This 100 per cent tax could be divided into a simple tax (a non-recoverable contribution) and an element of forced saving (a contribution recoverable at some time and on some terms in the future). With incomes at this level, there would, of course, be no problem of wage controls, price controls, rationing or even consumers preference. The retained income would in no case exceed the closest minimum of absolute necessities.

The rationing principle is much the same. That is, the individual would receive a coupon book entitling him to buy specific amounts of enumerated necessities; and either no articles or only a limited list of articles could be purchased without the coupon. In short, his money would not be legal tender for the purchase of any goods except as accompanied by its appropriate coupon. The remainder of his income would literally have no value except for hoarding, (i.e., the purchase of small denomination, non-interest bearing public debt) or for investment (in interest bearing public debt). This would not entirely eliminate the need of wage control, but it would eliminate the need for price control, since supply could be equated to an absolutely limited demand.

Neither Germany nor England seem to have accepted either of these principles in a pure form; but seem to have adopted elements of each; and, since they are both mere variants of the principle of recapture, they are not in mutual conflict. In both countries, there seems to be a margin of optional spending money left for the purchase of unrationed goods and services; but in both countries the limits of domestic production and the isolation of the blockade greatly reduce the amount and variety of unrationed articles. In both countries, a flourishing black market exists, which would, of course, be impossible if either plan of recapture were strictly in use. I do not know about Germany, but for England, it is more than doubtful if anything like half the national income is recaptured by the Treasury.

Both schemes, or a combination of the two, present no serious administrative difficulties when applied to persons in receipt of regular income from a single source. More difficulties would arise in the cases of the self-employed, such as farmers, or the casually employed by several employers. These groups can certainly be more easily reached by the ration or coupon method than by the ceiling income method. For the farmers, this is no great matter, for the total of farm income is so small that if it were all recaptured or all exempted, it would have little effect on war finance.

Superficially, both forms of recapture seem more drastic than inflation; seem to be more of a break with the past; seem to be less in accord with the "American Way." While verbal horror of inflation is widespread, even unanimous, this opposition to date has been merely verbal. As a matter of fact, we have employed and are employing inflation or a major element in our war finance; it has been so employed somewhere and in other times as a method of war finance; at least as much is known of the social and economic consequences of inflation as a method of war finance as is known of the social and economic consequences of drastic income taxation; and much more than is known of the social and economic consequences of such devices as income ceilings and non-spendable money. This knowledge has given it a bad name -- so bad, indeed, that there is an impulse to experiment with devices which are more favorably regarded principally because they are less known. For myself, I admit a certain propensity toward the ceiling income scheme -- of which there is no example in history; and of a deep dread of inflation, of which history affords many examples, and about which I know a good deal. I suppose that one could readily assemble 50 tax experts among American universities; but he would have a dreadful time collecting five tax economists. Even England, which has had a long experience with relatively large taxation, has never developed more than two or three, and those none too good.

Now, with all its evil reputation, a case can be made for inflation as a measure of war finance; and I will undertake the office of devil's advocate. There are three initial facts in its favor: (1) the mechanism already exists and its utilization is fully subject to administrative action, without additional legislation, (2) it can be used to provide large sums with great rapidity, (3) it has demonstrated its capacity to capture larger fractions of the national income than any other demonstrated type of taxation.

For inflation is not a peculiar financial monstrosity; it is a form of taxation and should be regarded as objectively as any other form of taxation. As a form of taxation, inflation has two unique qualities apart from those listed above. (1) It is not merely a tax on current income, but a levy on capital, or invested saving -- for which saving converts income into capital, the capital levy in the form of inflation converts capital into income accessible to the state, without conflicting with the mass of contractual relationships that impose real obstacles to the maximizing of other forms of taxation. (2) When every other form of taxation rouses resentment against the state, as the responsible party, the incidence of inflation is such that the resentments are not directed against the "Hidden Hand," but against a succession of groups in the community. In the present instance, when inflation has already aroused some feeling, in the population, the public resentment has been successively diverted against farmers, organized labor, the black market, Leon Henderson,

Treasury Department 46
Division of Research and Statistics

Date July 31, 1942

To: Secretary Morgenthau

From: Mr. Haas

Attached is a memorandum on Treasury Finance, prepared by Mr. Warren in response to your request.

the Standard Oil, and other groups whose responsibility is inconsiderable.

The charge is often made that inflation is inequitable. Non-schematic inflation, like any other form of inflation, is conspicuously erratic. Strategic groups and adroit individuals are able to avoid its incidence; while weak groups and the vast majority of the population thus contribute correspondingly more than their theoretically equitable share. This is not peculiar to taxation by inflation. Equity is of course difficult to define, but I have never seen it demonstrated that inflation was more inequitable than any other form of taxation, attempting to capture an equal proportion of the national income. In any form of taxation the consideration given to equity varies inversely with the amount of revenue required; and when one is considering budgets equal to half the national income, equity must be considered in very elementary terms; such, for example as those applied by draft boards.

There is, however, one definite pragmatic test of equity. The administration of taxation by inflation must be sufficiently equitable to prevent the inevitable group antagonisms from reaching the stage where they disrupt national unity; but this would be true of any other form of taxation of equal magnitude.

Treasury Department 46
Division of Research and Statistics

Date July 31, 1942

To: Secretary Morgenthau

From: Mr. Haas

Attached is a memorandum on Treasury Finance, prepared by Mr. Warren in response to your request.

Warren 7/23/42

Comments on Treasury Policy

As one surveys the record of the Treasury in the conversion of the country from a peace to a war basis, he finds much reason for congratulations and enough reasons for complacency. In two years, the production of the country has doubled; and most of the increase of production has been on government account. Not only have 10 million persons been added to the list of gainfully employed, but other millions who were then employed have been transferred to new occupations, often remote from their former residence. Whole new cities and new industries have been built, and armies and fleets assembled and equipped.

On the financing of these programs, the Treasury has raised both by taxation and borrowing sums unparalleled in American history; and perhaps in the whole of universal history. All this has been done without imposing on the public anything that could be called privation or hardships; without visibly disturbing the credit structure; without even causing a ripple in the pattern of what are called money rates. By the usual pragmatic tests of fiscal achievement, this is a record of outstanding success; certainly in comparison with the analogous period a generation ago the operation of the Treasury has demonstrated an efficiency, a sort of professional competence that, as I said above, not only silences criticism, but afford reasons for congratulation and for complacency; but none for confidence.

So gradual, for our economy, were the successive transitions from peace to neutrality, from neutrality to non-belligerency, from non-belligerency to participation short of war, and finally to war itself, that one finds it difficult to remember that peace, even an uneasy peace, is one kind of world and war is another kind. As each of these successive phases made its increasing demands upon the Treasury, those demands were readily met by a new enlargement or an elaboration of an existing mechanism; and these several mechanisms carried the additional load without betraying any conspicuous evidence of over-load.

This is the occasion for what I have called both gratification and complacency. We may be gratified at the magnitude and efficiency of the achievement to date, but in my opinion we are only complacent, if we project their past into the future. The fact that no individual part of the mechanism has as yet broken under the load, does not prove that the whole machine is not overloaded. While I can see that there is no qualitative difference between a budget of, say, $6 billion and one of $12 billion; and while I would not be sure that there is a qualitative difference between a budget of $12 billion and one of $20 billion, I am willing to make the flat assertion that a budget of $75 billion differs from a budget of $6 billion or $12 billion or $20 billion not merely in mathematical magnitude, but in its character -- that it differs in kind as war differs from peace; and that however well the individual elements of our financial structure seem to be carrying their specific load, the structure in its present form was never designed to carry a load of this weight and bulk; and that, flatly, it cannot carry it.

To be specific, if we are confronted (as we are) with a budget equal to one-half (or more) of the so-called national income, either the structure must be re-designed from the ground up specifically to carry this load, or the load itself, in its own blind way, will determine the shape of the structure. And, if the structure is re-designed to carry the indicated load, the new design will be totally unlike the America that we know; if we allow the burden of the load itself to determine the shape of America, it will be totally unlike the America we have known. Because we have no idea of the duration of this load, we can offer no assurance that, when the war is over, we can, under either alternative, reshape the country at will. We can only say that some alternatives appear to leave more opportunity for a future exercise of optional will, and that others appear to offer less.

We will begin with a very simple but completely neglected figure. The figure 65 is one-half of 110; but there is a world of difference whether with a war budget of $65 billion and a national income of $110 billion, we spend half our national income on the war effort; or spend a sum of dollars equal to half the national income.

If we choose the first alternative, the Treasury undertakes to recapture out of the national income one dollar out of every two in that total. If we choose the second alternative, the Treasury undertakes to recapture some fraction less than half of an estimated national income, and to provide the balance by the creation of dollars. Since these dollars, as created, and expended, will be added to the previously estimated income, the latter total will rise, and with it the uncaptured fraction. Under the latter alternative, the methods of creating dollars is determinable by relative cost and convenience. In its relevance to the main problem, it does not matter whether the Treasury employes the Bureau of Printing and Engraving to fabricate the dollars it creates; employs the Reserve banks on a cost plus contract, as proposed by Mr. Patman; or employs the existing mechanisms of the banking system. As an element in war finance, each of the three is identical, and preference can be discovered by consulting costs and conveniences rather than tradition or inapplicable canons of imputed monetary orthodoxy.

There are, then only two alternative methods of shaping our structure to carry its over-load; recapture or inflation. Every proposal falls under one of these heads. Both require laying the hand of force upon the individual's entire income, in a manner beyond American experience. By either choice, we break with our monetary and financial past; and as we break with our monetary and financial past, we break many strands from our social and political past. For some of these strands, the rupture will be irreparable; for others the reparability will depend upon the duration of time; but broadly speaking, the degree to which we will retain any sort of volitional control of our future will depend upon the quality of thought expended on the present decision. A continuance of the present mixed design of recapture and inflation, inherited from an earlier period to which it was adapted and perpetuated in a present to which it is, by agreement, not applicable, is almost the surest, if not the surest way of surrendering our future to the casualities of time and circumstance.

While mathematically we would say it was possible to recapture half of a national income, it must be remembered that the national income -- or rather that figure of $110 billion commonly called the national income -- is a sum of individual income, including innumerable duplications of simple and complex type. Its very existence depends upon its kinetic quality and we have no real idea of the extent to which this may be interrupted or even destroyed by efforts of recapture.

But, mathematically, it is at least conceivable that it is possible to recapture half the national income. Some idea of the implication of this phrase is indicated by two ostensible facts. If we assume that there are about 55 million persons gainfully employed at the present time, the residual income after recapture would average $1200 or less. Or, put another way, if the present exemptions were converted into ceilings and the tax were 100 percent of all income above the present exemptions, it will recapture approximately the required sum. This gives some impression -- not a very exact impression, but the most exact I have -- of what is implied in the glib phrase "devoting half our national income to the war effort." Unless one is prepared to look that statement in the face, he need not both to read farther, because I intend to argue that if the alternative method is used, the fact will come out the same.

Having looked at these figures, I recall the expression I used earlier. Only force -- the full force of the state -- can effect such a recapture; and all ideas of voluntary saving can immediately be dismissed. One could not expect the individual voluntarily to reduce his expenditures to such ceilings, nor, if his maximum income was his present exemption, could he be expected to do much saving.

When I spoke of the kinetic quality of income, the term was obscure and I will now give an example. For most home owners in New Jersey, the state property tax would constitute the first lien on retained income, and will constitute roughly 50 per cent of this income. These taxes, of course, are the source of income of the office holder of New Jersey, and to the extent that the proposed recapture induced tax delinquency, the incomes of these office holders would cease.

Several methods of recapture have been proposed, but they are all expressive of two basic ideas. One of these may be called the ceiling income principle, the other the rationing principle. Under the former, the income tax would be a uniform 100 per cent of all income above specified maximum, which, as shown above, would be in the vicinity of the present exemptions. This 100 per cent tax could be divided into a simple tax (a non-recoverable contribution) and an element of forced saving (a contribution recoverable at some time and on some terms in the future). With incomes at this level, there would, of course, be no problem of wage controls, price controls, rationing or even consumers preference. The retained income would in no case exceed the closest minimum of absolute necessities.

The rationing principle is much the same. That is, the individual would receive a coupon book entitling him to buy specific amounts of enumerated necessities; and either no articles or only a limited list of articles could be purchased without the coupon. In short, his money would not be legal tender for the purchase of any goods except as accompanied by its appropriate coupon. The remainder of his income would literally have no value except for hoarding, (i.e., the purchase of small denomination, non-interest bearing public debt) or for investment (in interest bearing public debt). This would not entirely eliminate the need of wage control, but it would eliminate the need for price control, since supply could be equated to an absolutely limited demand.

Neither Germany nor England seem to have accepted either of these principles in a pure form; but seem to have adopted elements of each; and, since they are both mere variants of the principle of recapture, they are not in mutual conflict. In both countries, there seems to be a margin of optional spending money left for the purchase of unrationed goods and services; but in both countries the limits of domestic production and the isolation of the blockade greatly reduce the amount and variety of unrationed articles. In both countries, a flourishing black market exists, which would, of course, be impossible if either plan of recapture were strictly in use. I do not know about Germany, but for England, it is more than doubtful if anything like half the national income is recaptured by the Treasury.

Both schemes, or a combination of the two, present no serious administrative difficulties when applied to persons in receipt of regular income from a single source. More difficulties would arise in the cases of the self-employed, such as farmers, or the casually employed by several employers. These groups can certainly be more easily reached by the ration or coupon method than by the ceiling income method. For the farmers, this is no great matter, for the total of farm income is so small that if it were all recaptured or all exempted, it would have little effect on war finance.

Superficially, both forms of recapture seem more drastic than inflation; seem to be more of a break with the past; seem to be less in accord with the "American Way." While verbal horror of inflation is widespread, even unanimous, this opposition to date has been merely verbal. As a matter of fact, we have employed and are employing inflation or a major element in our war finance; it has been so employed somewhere and in other times as a method of war finance; at least as much is known of the social and economic consequences of inflation as a method of war finance as is known of the social and economic consequences of drastic income taxation; and much more than is known of the social and economic consequences of such devices as income ceilings and non-spendable money. This knowledge has given it a bad name -- so bad, indeed, that there is an impulse to experiment with devices which are more favorably regarded principally because they are less known. For myself, I admit a certain propensity toward the ceiling income scheme -- of which there is no example in history; and of a deep dread of inflation, of which history affords many examples, and about which I know a good deal. I suppose that one could readily assemble 50 tax experts among American universities; but he would have a dreadful time collecting five tax economists. Even England, which has had a long experience with relatively large taxation, has never developed more than two or three, and those none too good.

Now, with all its evil reputation, a case can be made for inflation as a measure of war finance; and I will undertake the office of devil's advocate. There are three initial facts in its favor: (1) the mechanism already exists and its utilization is fully subject to administrative action, without additional legislation, (2) it can be used to provide large sums with great rapidity, (3) it has demonstrated its capacity to capture larger fractions of the national income than any other demonstrated type of taxation.

For inflation is not a peculiar financial monstrosity; it is a form of taxation and should be regarded as objectively as any other form of taxation. As a form of taxation, inflation has two unique qualities apart from those listed above. (1) It is not merely a tax on current income, but a levy on capital, or invested saving -- for which saving converts income into capital, the capital levy in the form of inflation converts capital into income accessible to the state, without conflicting with the mass of contractual relationships that impose real obstacles to the maximizing of other forms of taxation. (2) When every other form of taxation rouses resentment against the state, as the responsible party, the incidence of inflation is such that the resentments are not directed against the "Hidden Hand," but against a succession of groups in the community. In the present instance, when inflation has already aroused some feeling, in the population, the public resentment has been successively diverted against farmers, organized labor, the black market, Leon Henderson, the Standard Oil, and other groups whose responsibility is inconsiderable.

The charge is often made that inflation is inequitable. Non-schematic inflation, like any other form of inflation, is conspicuously erratic. Strategic groups and adroit individuals are able to avoid its incidence; while weak groups and the vast majority of the population thus contribute correspondingly more than their theoretically equitable share. This is not peculiar to taxation by inflation. Equity is of course difficult to define, but I have never seen it demonstrated that inflation was more inequitable than any other form of taxation, attempting to capture an equal proportion of the national income. In any form of taxation the consideration given to equity varies inversely with the amount of revenue required; and when one is considering budgets equal to half the national income, equity must be considered in very elementary terms; such, for example as those applied by draft boards.

There is, however, one definite pragmatic test of equity. The administration of taxation by inflation must be sufficiently equitable to prevent the inevitable group antagonisms from reaching the stage where they disrupt national unity; but this would be true of any other form of taxation of equal magnitude.

Finally, we have abundant evidence that taxation by inflation can be applied on a large scale over an extended period of time without disrupting the economy as a going concern. We do not positively know that to be true of any other form of taxation of comparable magnitude.

While as far as the Treasury is concerned, inflation is by far the easiest administered method of war finance, the general problem of schematic management of the inflation tax requires a more complex set of controls than either of the two forms of re-capture. Whether an absolute ceiling on all individual income; or with a complete rationing of consumer expenditure, only a single control is required, the whole civil economy is, so to speak, frozen in its tracks. Under inflation, exactly the opposite occurs. Under the continuous and progressive depreciation of the currency, society itself as well as its economic components, acquires an exaggerated fluidity. Everything is in motion, and the regulation of this movement requires the most devious controls, armed with the full force of the state. Yet even this is not beyond precedent. For some years, it is said that the Russian government exacted about one-half of the national income for budgetary purposes, by the mechanism of inflation. The feeling against inflation as a method of war finance, in spite of its utility, is that it commonly terminates in revolution. Its very success enables it to overload the entire structure to a point where the whole fabric bursts under the over-load. I do not know that this is inevitable, and it is not necessarily immediate. Some ten years elapsed between the German inflation and the installation of the Nazi regime, which as Spengler anticipated, was its consequence. As to its inevitability, one might argue that there have been no examples of "managed" or "schematic" inflation except the Russian; and that this experience is the best evidence of the time capacity. In short, I do not think we should rule out the applicability of inflation as an element of war finance, under one condition -- namely, that it is frankly acknowledged, and that the appropriate controls be accepted as essential to the scheme.

While one can make a case for either recapture or inflation, I do not think it is possible to make a case for a combination of the two. That is, to combine taxation with inflation, does not mean that the taxation "offsets" the inflation, or that it possesses any magical anti-inflationary quality. It means a duplication of burdens, a compounding of inequities; and such a disturbance of the economy as a going concern that I should say that the war effort, instead of getting the best of two worlds, would get the best of neither.

Nor, when one considers the magnitudes involved, can I see anything but harm in maintaining the voluntary element in war finance. Voluntary subscription, like voluntary enlistments, were an appropriate element of wars of lesser magnitude; but in an effort of this magnitude, in which half the national income is involved -- i.e., all the national income above a bare subsistence -- I can see no place for voluntary contributions.

I do not think we realize that a budget of $75 billion, whether financed by recapture or by inflation, means taking from the individual, one way or another, everything above a bare subsistence. It obviously has not taken anything like that yet; but we have not yet even approached that figure.

As the $75 billion budget is now visualized, it is proposed to take about one-third in taxes, and less than a third more out of income. Approximately half is to be derived from inflation. I believe this distribution invites disaster. The element of inflation is too large, if inflation is not to be the focal element; yet it is too small to derive for the effort the full benefit of taxation. Or, conversely, taxes are far too high if inflation is to be the focus and too low if inflation is to be avoided. In short, I believe the war effort can be financed either by recapture or by inflation; that the two might be combined (as they were a generation ago) if one can postulate a war as brief as that of 1917-18 -- namely 18 months. But given the uncertainties of duration, I believe that there is a better than even chance that an attempt to finance the war by a combination of recapture and inflation will lead to social and economic disaster.

RKO KEITH'S THEATRE
WASHINGTON, D. C.

July 23, 1942..

HARDIE MEAKIN

Dear Mr. Secretary:

I deeply appreciate your very kind note of July 22, in reference to the recent visit of the heroes to Washington.

Let me assure you that at anytime I can be of service, I will be honored if you will call upon me.

Sincerely,

Hardie Meakin

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

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

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

64

FROM 306

BUREAU War Savings Staff

CHG. APPROPRIATION Expenses of Loans

July 23, 1942

Mr. Fred A. Dragonette
Chairman
War Savings Committee for Pima County
Southern Arizona Bank and Trust Company
Tucson, Arizona

It is a pleasure to send you the greetings of the Treasury Department for Pima County's bond breakfast, at which I understand you are undertaking to sell one hundred thousand dollars or more in War Savings Bonds. The people of Pima County are participating loyally and generously in the War Savings Program and you have our best wishes for continued success in your efforts.

Henry Morgenthau, Jr.
Secretary of the Treasury.

HNG:eps

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1942.

TO Secretary Morgenthau

FROM Harold Graves

I attach hereto a memorandum from Mr. Sloan regarding the reprint of Mr. Scherman's "Invisible Greenbacks," from which you will note--

(1) That the War Savings Staff had nothing to do with the preparation or publication of this pamphlet; and

(2) That no distribution of the pamphlet has been made to our Administrators or to others in the field.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Mr. Graves

FROM Eugene Sloan EWS 7/23/42 7/23/42

Regarding Harry Scherman's article, "Invisible Greenbacks", I have the following to report:

1. No member of the Staff had anything to do with reprints of this article.

2. Mr. Buffington was in no way concerned in the reprinting and has sent none of this reprint to the field.

3. There are about 3,000 copies of this reprint in the Press Section, which are to be destroyed.

4. It was intended to distribute copies of this reprint to the State Administrators, in a routine manner, as other informatory data is distributed. The Field Division, however, had insufficient copies to provide the State Administrators. The only distribution effected, therefore, was an intra-office distribution.

   There is attached hereto a list of the persons receiving the pamphlet, which was attached to Field Memorandum #355, dated July 18, 1942. Instructions have been issued that there shall be no further distribution of this article.

Attach.

MEMORANDA
(Distributed within the office)

MAIN TREASURY BLDG.

Graves	4
Mills	1
Bryce	1
Milton	1
Gamble	1
Buffington	2
Odegard	1

DEMOLL BLDG.

Poland	1
Dallas (Miss)	1
James Clarke	1
Tomkins	1
Prior	1
J. Graves	1
Houghteling	6
Hyatt	2
Pulte	3
Elliott (Miss)	1
Morgenthau (Mrs.)	1

NAVY DEPT.

Miss Wooten Div. Savings Bonds Navy Dept. Washington, D. C.	3

SLOANE BLDG.

Hirzel	1	Powel	3
Read	2	Buckley	1
Coyne	1	Legler	1
Blyth	15	Hall	1
Paige	1	Hommer	1
Stephens (Mrs.)	1	Rapp	1
McDonald	5		
Wolfe	1		
O'Malley	1		
Betts (Mrs.)	1		
Adams	3		
R. Barrett	1		
Bray	1		
Callahan	3		
Mahan	3		
Duffus	3		
Gilchrist	1		
Jones (Mrs.)	2		
McCarty	2		

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1942

TO: THE SECRETARY

FROM: TED R. GAMBLE

Subject: Regional Labor-Management Conferences

Arrangements have been completed for a series of Labor-Management Conferences on Payroll Savings suggested by yourself, and listed below is a brief outline of programs:

1. Purpose - our purpose is to bring labor and management together to investigate, discuss and work out means of diverting 10% of America's payrolls into War Bonds through the proper use of the Payroll Savings Plan.

2. Invitations - (a) invitations to these meetings have been issued by the National Committee for Payroll Savings. Its members are:

Thomas C. Cashen	- Chmn., Railway Labor Exec. Asso.
William Green	- A. F. of L.
Philip Murray	- C. I. O.
J. J. Pelley	- Asso. of American RR
C. P. Witherow	- National Asso. Mfgrs.
Eric A. Johnston	- Pres., U. S. Chamber of Commerce

(b) invitations are being sent to:

1. executives of all firms with over 500 employees
2. labor representative of each such firm
3. women chairmen in each district
4. such volunteer chairmen who may be selected by the Administrator
5. President of the local Federal Reserve Bank
6. local civic leaders

3. The meetings will take place at:

Richmond, Va.	July 30	Atlanta, Ga.	Aug. 13
St. Paul, Minn.	Aug. 5	New York City	Aug. 17
Kansas City, Mo.	Aug. 7	Dallas, Texas	Aug. 17
Philadelphia, Pa.	Aug. 11	San Francisco	Aug. 17
Cleveland, Ohio	Aug. 11	Seattle, Wash.	Aug. 20
Chicago, Ill.	Aug. 11	Boston, Mass.	Aug. 25

The first meeting will be held at Richmond, Va. on July 30. It is planned to take our entire committee and field representatives to observe this meeting and return to Washington the next day to discuss any possible improvements for future meetings.

4. Preparation - Treasury field representatives are now in the several states bringing labor and management together and making all necessary arrangements.

5. Method of Conducting Meeting:

a. introduction of Treasury Chairman by local official
b. remarks by Treasury Chairman - purpose and background
c. actual demonstration of successful 10% plans by both management and labor
d. part played by women
e. questions and answers
f. how to put on a 10% drive
g. urge all present - both labor and management - to form committees and set machinery in motion for a new 10% drive within their respective plants by September 1st

6. Luncheon - in most cities Federal Reserve Bank has kindly offered to invite all in attendance to luncheon.

7. Press - proper publicity will be arranged for the national, local and labor press.

8. Displays - there will be numerous displays by companies, unions, and the Treasury itself of successful Payroll Savings Plans now in operation (literature, posters, billboards, etc.)

9. Labor Month - meetings will be keyed to activity by and for labor as planned in September.

10. Follow-Up - (a) each Administrator will be expected to arrange for similar meetings of smaller firms in his respective state.

(b) a check on results of firms participating

11. Administrators' Meeting - following these meetings the Administrators

from neighbo-ing states in attendance will meet with Washington representatives to discuss detailed follow-up of Payroll Savings Program.

SCHEDULE OF LABOR - MANAGEMENT MEETINGS

July 30	Richmond, Virginia	Engelsman (all attend)
August 1-2	(Return to Washington for check on Richmond meeting	
August 11	Atlanta, Georgia	Glenn
August 11	Philadelphia, Pa.	Engelsman
August 11	Chicago, Illinois	Fisher
August 5	Minneapolis, Minn.	Ross
August 13	Boston, Mass.	Engelsman
August 13	St. Louis, Mo.	Fisher
August 7	Kansas City, Mo.	Ross
August 14	New York, N. Y.	Sparks
August 17	San Francisco, Cal.	Odegard
August 20	Seattle, Washington	Odegard
August 17	Dallas, Texas	Engelsman
August 17	Cleveland, Ohio	Fisher

CONFIDENTIAL

UNITED STATES SAVINGS BONDS - TOTAL

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			
		July	June	May	July as percent of June
July 1942					
1	$ 28,418	$ 28,418	$ 29,539	$ 19,981	96.2%
2	24,269	52,687	45,442	39,430	115.9
3	27,277	79,964	67,046	72,048	119.3
6	46,531	126,495	98,208	88,605	128.8
7	31,110	157,605	132,341	122,575	119.1
8	43,451	201,056	154,085	157,866	130.5
9	39,918	240,974	192,659	181,431	125.1
10	47,755	288,729	206,523	201,464	139.8
11	36,127	324,856	236,552	232,801	137.3
13	47,164	372,020	259,772	246,756	143.2
14	30,102	402,122	281,724	271,525	142.7
15	33,807	435,929	303,163	296,152	143.8
16	31,670	467,599	334,398	317,861	139.8
17	37,659	505,257	345,497	337,371	146.2
18	21,929	527,186	368,782	371,066	143.0
20	53,257	580,443	387,369	385,098	149.8
21	21,686	602,129	414,804	409,987	145.2
22	34,511	636,640	429,158	439,987	148.3

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

July 23, 1942.

ource: 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.

CONFIDENTIAL
73

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			
		July	June	May	July as percent of June
July 1942					
1	$ 15,821	$ 15,821	$ 19,834	$ 12,679	79.8%
2	14,880	30,701	27,841	24,263	110.3
3	16,822	47,523	40,811	46,532	116.4
6	29,797	77,320	58,199	55,460	132.9
7	17,724	95,044	82,988	73,824	114.5
8	21,599	116,643	98,197	97,049	118.8
9	22,746	139,390	125,245	114,218	111.3
10	24,772	164,161	134,157	128,670	122.4
11	19,077	183,238	154,242	151,956	118.8
13	26,550	209,787	169,920	161,346	123.5
14	15,744	225,532	186,470	177,133	120.9
15	18,407	243,938	201,700	194,047	120.9
16	17,828	261,766	225,684	208,939	116.0
17	22,345	284,111	233,218	223,242	121.8
18	12,233	296,344	249,033	247,532	119.0
20	31,368	327,712	261,321	257,374	125.4
21	12,239	339,951	280,742	271,079	121.1
22	18,184	358,135	291,729	290,485	122.8

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

July 23, 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.

CONFIDENTIAL
74

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			
		July	June	May	July as percent of June
July 1942					
1	$ 12,597	$ 12,597	$ 9,705	$ 7,302	129.8%
2	9,389	21,986	17,601	15,168	124.9
3	10,455	32,441	26,235	25,516	123.7
6	16,734	49,175	40,009	33,145	122.9
7	13,386	62,561	49,353	48,751	126.8
8	21,852	84,413	55,888	60,817	151.0
9	17,172	101,585	67,414	67,213	150.7
10	22,983	124,568	72,366	72,794	172.1
11	17,050	141,618	82,310	80,845	172.1
13	20,614	162,232	89,852	85,410	180.6
14	14,358	176,590	95,254	94,391	185.4
15	15,400	191,991	101,464	102,106	189.2
16	13,842	205,833	108,715	108,923	189.3
17	15,314	221,147	112,279	114,129	197.0
18	9,696	230,842	119,749	123,534	192.8
20	21,888	252,731	126,048	127,724	200.5
21	9,447	262,178	134,062	138,908	195.6
22	16,327	278,505	137,429	149,502	202.7

ice of the Secretary of the Treasury,
ivision of Research and Statistics.

July 23, 1942.

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

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

CONFIDENTIAL

Sales of United States Savings Bonds
From July 1 through July 22, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

Date	Series E: Actual Sales: Daily	Series E: Actual Sales: July 1 to Date	Series E: Quota, July 1 to Date	Series E: Sales to Date as % of Quota	Series F and G: Actual Sales: Daily	Series F and G: Actual Sales: July 1 to Date	Series F and G: Quota, July 1 to Date	Series F and G: Sales to Date as % of Quota	Total: Actual Sales: Daily	Total: Actual Sales: July 1 to Date	Total: Quota, July 1 to Date	Total: Sales to Date as % of Quota
1	$ 15.8	$ 15.8	$ 23.6	66.9%	$ 12.6	$ 12.6	$ 19.4	64.9%	$ 28.4	$ 28.4	$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9	22.7	139.4	189.8	73.4	17.2	101.6	129.5	78.5	39.9	241.0	319.3	75.5
10	24.8	164.2	216.0	76.0	23.0	124.6	139.9	8[illegible].1	47.8	288.7	355.9	81.1
11	19.1	183.2	236.6	77.4	17.1	141.6	147.7	95.9	36.1	324.9	384.3	84.5
13	26.5	209.8	273.2	76.8	20.6	162.2	160.6	101.0	47.2	372.0	433.8	85.8
14	15.7	225.5	287.6	78.4	14.4	176.6	168.0	105.1	30.1	402.1	455.6	88.3
15	18.4	243.9	311.6	78.3	15.4	192.0	181.8	105.6	33.8	435.9	493.4	88.3
16	17.8	261.8	335.5	78.0	13.8	205.8	193.5	106.4	31.7	467.6	529.0	88.4
17	22.3	284.1	358.7	79.2	15.3	221.1	202.8	109.0	37.7	505.3	561.5	90.0
18	12.2	296.3	377.4	78.5	9.7	230.8	210.5	109.6	21.9	527.2	587.9	89.7
20	31.4	327.7	411.8	79.6	21.9	252.7	223.9	112.9	53.3	580.4	635.7	91.3
21	12.2	340.0	425.9	79.8	9.4	262.2	231.8	113.1	21.7	602.1	657.7	91.5
22	18.2	358.1	451.1	79.4	16.3	278.5	247.0	112.8	34.5	636.6	698.1	91.2
23			477.5				260.1				737.6	
24			503.8				270.7				774.5	
25			525.0				279.5				804.5	
27			562.7				295.1				857.8	
28			577.2				304.3				881.5	
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

Office of the Secretary of the Treasury, Division of Research and Statistics. July 23, 1942

Source: Actual sales figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. Figures have been rounded and will not necessarily add to totals.

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.

UNITED STATES SAVINGS BONDS, SERIES E

TOTAL DAILY SHIPMENTS BY DENOMINATIONS FROM JULY 1 TO JULY 22, 1942

Date of Shipment	Denominations - Number of Pieces					Total Pieces
	$25	$50	$100	$500	$1,000	
uly 1	441,453	79,590	78,344	2,256	2,527	604,170
2	515,964	94,404	93,481	3,068	3,510	710,427
3	464,350	80,760	79,220	8,320	3,565	636,215
6	736,205	82,647	89,767	8,475	2,235	919,329
7	678,221	163,951	160,712	24,510	13,894	1,041,288
8	558,650	106,000	115,461	15,039	3,790	798,940
9	440,389	89,212	112,623	7,807	5,816	655,847
10	672,288	117,122	107,512	5,508	5,967	908,397
11	643,310	121,615	135,412	5,062	15,649	921,048
13	654,983	118,591	98,816	6,314	8,528	887,232
14	673,000	109,750	102,000	7,775	10,000	902,525
15	548,501	156,626	152,361	12,270	14,535	884,293
16	384,250	91,600	107,800	13,010	19,955	616,615
17	555,023	138,080	124,232	8,378	10,066	835,779
18	599,366	109,552	98,646	6,052	9,777	823,393
20	629,367	60,200	98,900	4,150	9,885	802,502
21	603,350	57,130	93,272	11,947	10,035	775,734
22	583,946	82,850	92,000	6,535	9,777	775,108
otal	10,382,616	1,859,680	1,940,559	156,476	159,511	14,498,842

uly 23, 1942.
MRL/kwk

MRL

July 23, 1942.

Dear Eleanor:

Your letter of July 20 evidently crossed mine of July 21, telling you that an arrangement was being made to transfer Mr. Coven to New York in connection with the Lend-Lease work there. I am very glad that this can be done.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House.

via Secret Service Agent 7/24/42
5:25

GEF/dbs

Mmc - Copy of file to Thompson

THE WHITE HOUSE
WASHINGTON

July 22, 1942

Dear Henry:

I am enclosing a letter from Mrs. Cowen. You will remember you gave her husband a job in the Treasury sometime ago at my request. Do you think it is possible to have him transferred to the Lend-Lease program? They seem to be very nice people and have nothing in the world but his salary.

If you find that his work has been satisfactory, I shall be grateful for anything you can do.

Affectionately,

Eleanor Roosevelt

July [illegible], 1942

Dear Mr. [illegible]:

I [illegible] you have [illegible] what they [illegible] a job. [illegible] about Mr. Co[illegible] [illegible] to this [illegible] There [illegible] Treasury does not deduct [illegible] month, [illegible] last [illegible] months [illegible] for the [illegible] this [illegible] July [illegible] money [illegible] other [illegible]

[illegible] have friends [illegible] the Lend-Lease [illegible] was a [illegible] if the branch [illegible] opening [illegible] to trans[illegible] [illegible] here.

I [illegible] ve look-
[illegible] into some very dark hours but I cannot re-
ember any that looked as hopeless as those [illegible]
ow [illegible].

I [illegible]
to [illegible]

[illegible]

Ella Corwen

[illegible]

O. Box 360
eneral P.O.
NYC

JUL 21 1942

Dear Eleanor:

I am returning the letter which you enclosed with your note of July 14th, in reference to Mr. Samuel Cowen.

It will be possible to transfer Mr. Cowen to the New York office of the Procurement Division and this will be arranged.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House.

WNT:jc Cowen is a $1320 clerk.

Original file NMC
Copy of file to Thompson.

By Messenger Veach 4:12 7/21/42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 21, 1942.

TO Secretary Morgenthau

FROM Mr. Thompson

Cliff Mack advises that in reducing his Emergency Relief force he is taking all possible steps to assist displaced employees to acquire transfers to other positions. In New York he has been able to take care of about 30 such employees by transfers to Lend-Lease work. He can take care of Mr. Cowen in this way and will be glad to arrange for his transfer to the New York office.

THE WHITE HOUSE
WASHINGTON

July 14, 1942.

Dear Henry:

The enclosed letter is in reference to Mr. Samuel Cowen. Would it be possible to have him transferred to the New York Office? I know he needs this employment.

Affectionately,

Franklin Roosevelt

July 7,1942

ear Mrs. Roosevelt:

Mr. Cowen came home to-night with he news that the Newark office, Procurement Division, as being closed as of the end of this month and that ll of the work of that office as well as of the entire Eastern section, Pennsylvania, New Jersey andNew ork would be carried on from the New York office, and he Newark office employees would be out of work at he end of this month.

Can you help in having him transferred to the ew York office? The money he earns and that I receive or your orders is the only income we have.

These will be more than anxious days until he again placed. I will appreciate anything you can do have him placed.

Gratefully,

Ella Cowen

P.O. Box 360
General P.O.
N.Y.C.

Write

July 23, 1942

My dear Captain:

Thank you so much for sending me a copy of the letter from Captain Ralph Davison to Mr. C. I. Stanton.

I am sure that as a result of your efforts something will be done at last to make the New Hackensack airport safe.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Captain J. L. McCrea, USN,
Aide to the President,
The White House,
Washington, D.C.

Delivered by SS Agent 7/24/42 5:25

Original enclosure returned to Capt McCrea.

nmc

THE WHITE HOUSE
WASHINGTON

July 22, 1942

MEMORANDUM FOR THE SECRETARY OF THE TREASURY.

Knowing your interest in the New Hackensack Airport, I take pleasure in forwarding the attached copy of a letter which has recently been sent by the Bureau of Aeronautics to the Civil Aeronautics Administration in connection with that airport.

Very respectfully,

John McCrea

Aer-PL-3-LG
N1-9(1-875)
A2-13(1)
NA6

July 20, 1942

097190

My dear Mr. Stanton:

The assistance of the Civil Aeronautics Administration is requested in obtaining improvement of landing and take-off facilities at the New Hackensack, New York, civil airport.

This field is frequently used by transport planes of the Navy in transporting high Government officials of this country and of other United Nations on visits of Government business to Hyde Park, New York. The pilots of these planes report most unsatisfactory safety conditions for the landing of multi-engine aircraft, particularly at night, due to the many obstructions around the field together with lack of adequate lighting of obstructions and of runways.

In a report submitted by the Commanding Officer, Naval Air Station, Anacostia, and forwarded to this bureau by the Naval Aide to the President, the following recommendations for improvement of the field were made:

(a) Remove all obstructions for a distance of 1000 feet out from the end of each runway extended and to a width of 200 feet on either side of the centerline of each runway extended.

(b) Place red obstruction lights <u>above</u> all obstructions near the field in accordance with standard practice. At present some of the obstruction lights are twenty to thirty feet below the objects marked.

(c) Place standard flood lights at the head of each runway.

(d) Surface the extension of the SE end of the SE-NW runway.

Aer-PL-3-LG
N1-9(1-875)
A2-13(1)
NA6

097190

It is hoped that remedial action can be taken at an early date to effect improvement in the reported dangerous operating conditions at the New Hackensack airport, which might so easily result in fatalities to important Government officials as well as to naval personnel.

Very truly yours,

RALPH DAVISON
Captain, U.S.N.
Assistant Chief of Bureau

Mr. C. I. Stanton,
Acting Administrator,
Civil Aeronautics Administration,
Commerce Department,
Washington, D. C.

Copy to:
Capt. J.L. McCrea, USN,
Aide to the President,
CO, NAS Anacostia.

DM PLAIN

London

Dated July 23,1942

Rec'd 11:30 p.m.

Secretary of State,

Washington.

4099, twenty-third.

FOR THE SECRETARY OF THE TREASURY FROM CASADAY

The Chancellor of the Exchequer made the following announcement in the House of Commons yesterday:

"I have to inform the House that the arbitration between the Treasury and Messrs. Courtaulds Limited in respect of the sale of the Viscose shares has been concluded. The award of the umpire Mr. Justice Simmonds determines that the sum to be paid by the Treasury to Messrs. Courtaulds Limited in respect of the Viscose shares transferred by the company to the government shall be £27,125,000 with interest at the rate of 3 percent from March 1941 (the date when the shares were transferred) to the date of payment. I am informed that the directors do not propose to make a distribution to the stockholders during the war period of any part of the award above referred to. In this they have the approval of His Majesty's Government.

-2- #4099, July 23 from London.

Government. I am also informed that it has been decided to invest the sum awarded in subscriptions to current government issues.

The sum awarded is greater than the sum realized in the United States by the sale of the Viscose shares. That sum was approximately £15,000,000 gross and approximately £13,500,000 net after deduction of expenses in connection with the transaction. The House will remember that the transaction was an exceptional one, carried through in very special circumstances."

Asked whether the government is pledged to accept the award "in view of the fact that the shareholders in the company and many other American companies had their shares requisitioned by the government at a loss" Sir Kingsley Wood replied: "The Award is final". Asked whether the nation will be told "why this company is to have double value for its stock in comparison with what the nation actually received". The Chancellor of the Exchequer said that the circumstances were exceptional, adding "the honorable gentlemen will no doubt remember the need we were in at the time. It showed we were determined to do our utmost to

realize

realize resources for expenditure in America."

Sir Percy Harris asked on whose advice the government acted originally in this matter. This reference to the deal itself was the only reflection in the questions following the announcement, of the bitter attitude given wide expression at the time of the deal (reported in the Embassy's despatch no. 185 of March 31, 1941 and previous despatches and telegrams) is. Another attitude towards the matter found expression in a question by a labour member who asked whether the Chancellor is aware, "that this statement will cause a great deal of disquiet in view of the fact that he now proposes that £13,500,000 more than has been actually received by the Government should be paid to these shareholderss at a time when he is giving a parsimonious £1,000,000 to a large number of old-age pensioners?" In serious press comment this morning there is a notable absence of any tendency to hark back to the bitterness which was frankly and forcefully expressed at the time of the deal, the discussion of the announcement being practically confined to opinion on the fairness of the award itself, its effect on Courtauld shares and on the future prospects of that company. Two exceptions are

the DAILY HERALD'S

the DAILY HERALD'S headline "£14,000,000 lost on dollar deal" a bill which it said British taxpayers would have to foot, and the DAILY MIRROR'S headline "millions of your money". The award is considered on the whole fair though commentators regard the sum as by no means too high. The TIMES city editor for example points out that "in their statement issued in June, 1941 the Courtauld's directors put the written down value of the corporation's assets at $128,000,000 --this before adding anything at all for goodwill; 91 percent of this figure is $116,500,000 or nearly £29,000,000. No specific estimate was made by the Board of the value of the goodwill of the American business. But they pointed out that the prospects of continuing and increasing prosperity for the corporation with the largest home market in the world were real and substantial, and that at the date of the sale an expensive programme of plant reconstruction and expansion had not had time to bear fruit".

The FINANCIAL NEWS characterizes the award as "fair without being generous" also pointing out as does the FINANCIAL TIMES that the sum falls short of any allowances for good will.

WINANT

ATI

DM

PLAIN

London

Dated July 23,1942

Rec'd 11:30 p.m.

Secretary of State,

Washington.

4099, twenty-third.

FOR THE SECRETARY OF THE TREASURY FROM CASADAY

The Chancellor of the Exchequer made the following announcement in the House of Commons yesterday:

"I have to inform the House that the arbitration between the Treasury and Messrs. Courtaulds Limited in respect of the sale of the Viscose shares has been concluded. The award of the umpire Mr. Justice Simmonds determines that the sum to be paid by the Treasury to Messrs. Courtaulds Limited in respect of the Viscose shares transferred by the company to the government shall be £27,125,000 with interest at the rate of 3 percent from March 1941 (the date when the shares were transferred) to the date of payment. I am informed that the directors do not propose to make a distribution to the stockholders during the war period of any part of the award above referred to. In this they have the approval of His Majesty's Government.

-2- #4099, July 23 from London.

Government. I am also informed that it has been decided to invest the sum awarded in subscriptions to current government issues.

The sum awarded is greater than the sum realized in the United States by the sale of the Viscose shares. That sum was approximately £15,000,000 gross and approximately £13,500,000 net after deduction of expenses in connection with the transaction. The House will remember that the transaction was an exceptional one, carried through in very special circumstances."

Asked whether the government is pledged to accept the award "in view of the fact that the shareholders in the company and many other American companies had their shares requisitioned by the government at a loss" Sir Kingsley Wood replied: "The Award is final". Asked whether the nation will be told "why this company is to have double value for its stock in comparison with what the nation actually received". The Chancellor of the Exchequer said that the circumstances were exceptional, adding "the honorable gentlemen will no doubt remember the need we were in at the time. It showed we were determined to do our utmost to

realize

realize resources for expenditure in America."

Sir Percy Harris asked on whose advice the government acted originally in this matter. This reference to the deal itself was the only reflection in the questions following the announcement, of the bitter attitude given wide expression at the time of the deal (reported in the Embassy's despatch no. 185 of March 31, 1941 and previous despatches and telegrams) is. Another attitude towards the matter found expression in a question by a labour member who asked whether the Chancellor is aware "that this statement will cause a great deal of disquiet in view of the fact that he now proposes that £13,500,000 more than has been actually received by the Government should be paid to these shareholderss at a time when he is giving a parsimonious £1,000,000 to a large number of old-age pensioners?" In serious press comment this morning there is a notable absence of any tendency to hark back to the bitterness which was frankly and forcefully expressed at the time of the deal, the discussion of the announcement being practically confined to opinion on the fairness of the award itself, its effect on Courtauld shares and on the future prospects of that company. Two exceptions are

the DAILY HERALD'S

the DAILY HERALD'S headline "£14,000,000 lost on dollar deal" a bill which it said British taxpayers would have to foot, and the DAILY MIRROR'S headline "millions of your money". The award is considered on the whole fair though commentators regard the sum as by no means too high. The TIMES city editor for example points out that "in their statement issued in June, 1941 the Courtauld's directors put the written down value of the corporation's assets at $128,000,000 --this before adding anything at all for goodwill; 91 percent of this figure is $116,500,000 or nearly £29,000,000. No specific estimate was made by the Board of the value of the goodwill of the American business. But they pointed out that the prospects of continuing and increasing prosperity for the corporation with the largest home market in the world were real and substantial, and that at the date of the sale an expensive programme of plant reconstruction and expansion had not had time to bear fruit".

The FINANCIAL NEWS characterizes the award as "fair without being generous" also pointing out as does the FINANCIAL TIMES that the sum falls short of any allowances for good will.

WINANT

NPL

COPY NO. 13

BRITISH MOST SECRET
US. SECRET

OPTEL No. 251

Information received up to 7 A.M., 23rd July, 1942.

1. MILITARY

EGYPT. Late on 21st and during night 21st/22nd fighting was resumed in the central sector in the area of the RUWEISAT RIDGE. Early on the morning of 22nd we attacked on both the northern and southern flanks. Infantry and armoured units were involved on both sides. Our troops have gained ground at certain points, no details available.

RUSSIA. In the VORONEZH area the Russians retain the initiative and are launching heavy attacks against the German bridgehead over the River DON. German thrust towards the Lower DON has now reached that River east of the DONETS. West of the DONETS the Germans are attacking towards ROSTOV from the northeast, north and west.

2. AIR OPERATIONS

WESTERN FRONT. In the operations on night 21st/22nd over 550 tons of bombs including 62 4,000 lb. and 137 2,000 lb. were dropped over DUISBURG. Good fires were reported in the town and dock area.

22nd. Successful low level attacks carried out by four Bostons on a power station and chemical works in HOLLAND. In addition fighters carried out five harassing operations against ground targets, two Spitfires missing.

22nd and 22nd/23rd. Enemy aircraft operated on a very small scale, one JU 88 shot down by fighters.

EGYPT. 20th/21st. 36 bombers attacked TOBRUK, starting fires in dock area and on a ship. Mines were also laid off TOBRUK and MERSA MATRUH.

21st. Light bombers and fighter bombers effectively attacked enemy M.T. and damaged or destroyed a substantial number of vehicles. Two enemy fighters shot down and five of ours missing.

CRETE. Liberators bombed shipping in SUDA BAY and started fires on two ships and on the pier, a near miss also made on one large ship.

MALTA. Between 1:22 P.M. 21st and 9:15 A.M. 22nd, nine enemy bombers and a number of fighters were reported. Three enemy aircraft shot down and another probably destroyed. Two Spitfires missing.

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 259

Following is supplementary resume of operational events covering period 16th - 23rd July, 1942.

1. NAVAL

H.M.S. WELSHMAN returned safely from taking personnel and stores to MALTA. During her outward passage she was attacked by 28 aircraft in all, but in spite of several near misses sustained no damage. On the return journey, after being shadowed for 8 hours, she was attacked by a combination of 5 JU 88's and 15 Italian torpedo bombers. She was narrowly missed by 2 bombs and 1 torpedo, but again escaped damage. 2 Cruisers from NAPLES failed to intercept her. There were few convoys between ITALY and NORTH AFRICA but there are indications of a resumption of this traffic on a large scale in the very near future. Shipments of iron ore from BILBAO and neighbouring ports to BAYONNE and BORDEAUX which have been continually increasing were lower in June.

Attacks on Shipping. Shipping losses for first three weeks of July show marked improvement over June. Provisional figures for the week ending 19th July give 8 ships sunk in Atlantic by U-boats. The number of U-boats in the Atlantic is increasing and attacks have been made on convoys both in Eastern Atlantic and the American zones. There are continued signs that the enemy has sent submarines to West African waters. 13 attacks by surface craft on U-boats were reported during week and 20 by aircraft, 6 attacks were promising. 3 or 4 Japanese submarines were operating in Australian waters and the same number off East Africa.

Imports in convoy into UNITED KINGDOM for the week ending 18th were 362,000 tons, including 73,000 tons of oil. Imports for June amounted to 2,131,100 tons, including food 1,083,200 tons, raw materials 970,000 tons, aircraft vehicles and machinery 77,900 tons.

2. MILITARY

RUSSIA and EGYPT. All available information given in Daily OPTELS.

JAPAN. War against CHINA. There has been a resumption of pressure to the Northeast of KALGAN in SUIYUAN but so far there is nothing to indicate the beginning of large scale operations. To the South the Japanese having completed their operations in CHEKIANG and NIANGSI may be withdrawing. WENCHOW changed hands several times last week but it was re-occupied by the Japanese on the 18th July. It has been reported that a Japanese Division has been withdrawn from Central CHINA but its destination is at present unknown.

3. AIR OPERATIONS

WESTERN FRONT. A total of 83 bombers carried out daylight attacks on objectives in North-West GERMANY. Bomber Command operated on 2 nights against DUISBURG and VEGESACK respectively. The former attack was made under good conditions, the results of the latter raid were mainly unobserved. Very little enemy shipping was sighted by Coastal Command Aircraft and no sinkings were claimed.

MEDITERRANEAN. Our air operations continued on a large scale. Light bombers and fighter bombers were very active against objectives in the battle area and also made particularly effective attacks on enemy landing grounds causing heavy losses among Axis grounded aircraft. Fighters carried out numerous offensive patrols and successfully intercepted formations of escorted dive bombers. Medium bombers and Naval Albacores bombed concentrations in rear of the battle front at night. In the course of 5 night and 2 day attacks 180 Wellingtons and 41 heavy bombers raided TOBRUK Harbour on which 1,300 tons of bombs were dropped in 3 weeks ending 22nd July. Enemy aircraft were more active. Their bomber effort was directed chiefly against objectives in the battle area. Little bombing of back areas was attempted and no operations were reported at ALEXANDRIA or in the CANAL ZONE.

MALTA. A total of about 50 bombers escorted by 150 Fighters attacked the Island, the main objective being LUQA aerodrome.

SEA COMMUNICATIONS. Attacks against enemy shipping in the MEDITERRANEAN were continued in the IONIAN SEA and in the vicinity of the ports of CYRENAICA and the Western Desert.

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

WILHELMSHAVEN. 10th. Photographs taken 13th, although poor, show severe damage to two shops in the Deutsche Werke, the Armour Plate Shop and four other buildings in the Marine Werke gutted, six or seven large sheds gutted at the Bauhafen.

PARIS. At the Lorraine Dietrich Works 200 engines for fast motor-boats and 52 aeroplane engines are reported to have been completely destroyed.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

British	In the Air
Bombers	24
Fighters	12
Coastal	4
Army Co-Operation	2
Total	42

3 pilots are safe.

Enemy	Destroyed	Probably Destroyed	Damaged
Bombers	4	1	5
Fighters	2	2	7
Total	6	3	12

MIDDLE EAST (including MALTA

British	In the Air
Bombers	12
Fighters	33
Others	1
Total	46

One bomber crew, and four out of six of a second, and eight fighter pilots are safe.

Enemy	Destroyed	Probably Destroyed	Damaged
Bombers	13	5	9
Fighters	15	9	26
Miscellaneous	4	Nil	1
Total	32	14	36

Of the above total 3 were destroyed by A.A.

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theater or of British Naval Aircraft casualties.

6. HOME SECURITY

Some damage to Hoffman's (Ball Bearings) and Marconi Works at CHELMSFORD. Estimated civilian casualties for week ending 6 A.M. 22nd, killed 17, seriously wounded 26.

100

NUMBER 41

SECRET

OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

July 16–23, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

Office of Strategic Services

THE WAR THIS WEEK

The German offensive in southern Russia has now split into two distinct operations—a drive down the Don toward Stalingrad, and an encirclement of Rostov from three sides. Meanwhile, in the face of strong Soviet counterattacks, the Germans have with difficulty held the northern anchor of the offensive, the Don bridgehead at Voronezh. Despite the sweeping character of Nazi successes in general, some observers believe that the Germans may soon bring the first phase of the campaign to a close in the interests of consolidation. Time is a critical factor for both sides, and the German offensive has now consumed more than a month of the fighting season.

The general view persists that in Egypt Rommel must shortly resume the offensive or move back to a position where his supply routes will be less vulnerable. Latest press reports indicate a fresh British attack which may impel him to adopt the latter course.

Advices from Vichy portray Laval as losing ground both at home and with the Germans. Our chargé d'affaires at Vichy believes that German action in support of Doriot or an openly Nazi orientation of the Laval government may soon precipitate a crisis in the relations of France and the United States. Spanish troops are moving to the Canaries and Morocco, it is reported, and soon nearly half of the Spanish army will be overseas. On the other hand, Franco's most recent speech made no fresh promises to the Axis.

In the Far East, the Japanese have been withdrawing troops and yielding some previously occupied areas in the Chekiang theatre; and they have been developing their positions in the western Aleutians at heavy cost. In Manchuria there is no significant fresh evidence of Japanese preparations, but military authorities now believe that an attack in eastern Siberia in the next few weeks is likely. In India, finally, Nehru has expounded the Wardha resolution as demanding an immediate extrusion of British rule, after which the new India would welcome the aid of Allied armed forces.

Rostov Faces Encirclement

With the Russian admission of the loss of Voroshilovgrad, it has become apparent that the Nazis are already closing in on Rostov from the north and east. One attack has probably pushed south from Millerovo to Kamensk, where the main Moscow-Rostov railway crosses the Donets river. Moscow now acknowledges that this thrust has reached the area of Novocherkassk, only 20 miles from Rostov. Farther east, another drive has apparently turned south (perhaps at Migulinsk) and pushed across the Rostov–Likhaya–Stalingrad railway, striking the Don near Tsimlyansk, far below the "great bend", and above the point where it is joined by the Donets. This last operation has probably cut off the defenders of Rostov from direct rail communication with Stalingrad. Furthermore, the Germans now maintain that advance elements of this attack have crossed the lower Don and turned west toward Rostov.

Meantime, the *Luftwaffe* has been bombing Rostov from the west, and, according to German reports, has destroyed the bridges over the Don. Simultaneous ground attacks

from the west—one toward Rostov and one toward Likhaya (largely consisting of Italian troops)—now threaten to cut the bulk of Timoshenko's army into three parts. Two of these groups, those defending the triangle between the lower Don, the lower Donets, and the Rostov-Likhaya railway, have faced encirclement for several days now. In fact, the reported Soviet landing behind the German lines east of Mariupol probably represented an effort to relieve Nazi pressure on this triangle. Some of its defenders may already have withdrawn to safety. The third group, the troops south of the Don, will doubtless retreat southward to join the Army of the Caucasus—unless the Germans move sufficient forces across the river to intercept them from the east.

The Nazi Timetable

"Slowed only by rainfalls," the eastern phase of the Nazi offensive may now have progressed down the Don as far as Yelansk, against what appears to be fairly weak Russian resistance. Some observers believe that the Germans will now drive straight for Stalingrad without waiting for the fall of Rostov. Others maintain that difficulties of supply will necessitate a pause for consolidation and regroupment before the Nazis try to establish a bridgehead at the great bend of the Don.

In any case there are certain signs that the German offensive may be slowing. Allied air observers suggest that the *Luftwaffe* may now be experiencing difficulty in moving forward with the main offensive. Russian reports of the number of planes shot down during the week of July 12–18 confirm this impression. During this period, the Soviet communiqués claimed the destruction of 217 German planes, admitting the loss of 136 Russian aircraft. Compared to

Soviet claims for the previous week, these figures indicate a decline in activity of about 50 percent.

The reduction of Rostov itself may be a difficult operation, and any delay in the progress of the German offensive can scarcely fail to be of importance in a campaign where time and space are the prime factors. From the beginning of their large-scale offensive—June 22—the Nazis had about five months in which they might hope to complete the destruction of the Red Army. Already they have spent one month on the current phase of their offensive—a phase that may not be over for many days. Moreover, despite the success of the German holding attack around Rzhev, there has not yet been any indication of a major offensive anywhere north of the Kursk region. In other words, about two-thirds of the Rostov-Leningrad front is inactive. Yet Allied observers are almost unanimous in maintaining that the destruction of the Russian army in the Moscow sector—estimated as including perhaps 40 percent of the Soviet forces on the Eastern front—would be the only way for the invaders to reach a clearcut decision this year.

The Russian Position

Finally, there is some evidence that up to now the Russians have not been losing men and equipment at the same critical rate as in the great German encirclements of last summer and autumn. According to one British source, the Soviet armies have followed a new policy of withdrawal after a relatively short period of active fighting. Such a point of view finds confirmation in the comparatively small number of prisoners that the Germans are claiming. Of course a successful encirclement at Rostov would entirely alter this picture. And the fall of Stalingrad would severely limit the reinforcements that the Russians could send to the extreme south.

Even the capture of Stalingrad, however, might not entirely cut off Russian rail communication with the Caucasus. A reliable report suggests that the Soviets have completed a railroad running along the west shore of the Caspian Sea from Kizlyar to Astrakhan. Here, the report states, there is a bridge over the Volga which links the new railroad with a line running east of the river to join the main Russian net at Saratov.

Action on the Egyptian Front

According to press reports a battle is now under way in Egypt in which the British are striking along all three sectors of the front. This attack is still in its preliminary stages, but there is the possibility that it may develop into a major action.

Prior to this attack the desert stalemate had continued. Both sides had established front line defenses behind which they withdrew the bulk of their armor, and the week's activity consisted largely of patrols, raids, testing actions, and sharp fighting for the control of ridges in the northern and central sectors. Contrary to press reports, last week's fighting in the central sector was not a major engagement. Observers note that both sides directed their attacks against opposing infantry, the British perhaps hoping to force Rommel to withdraw his armor by whittling down its infantry support. More than 4,000 enemy prisoners were taken during the week following July 14.

Allied air forces have been giving close and effective support to ground operations, in addition to continuing their attacks on enemy supply lines, ports, and airdromes. Tobruk has been especially heavily bombed. Although targets have recently been more dispersed, it is stated that in one day Allied aircraft destroyed 23 tanks and 59 artillery pieces.

Light units of the Royal Navy have three times returned to shell Matruh, which Rommel is using as a forward depot supplied by coastal shipping. During June there was a marked increase in the rate of sinking of shipping going between Italy and North Africa.

Opinion as to the Next Turn in the Battle

Military observers have felt that the stalemate could not continue indefinitely, that probably within a fortnight Rommel would either strike or be forced to fall back to positions where his supply lines are less exposed. The key question is one of reinforcements. Auchinleck has received and is expecting further troops and armored equipment, and is believed to be numerically superior in men, tanks, guns, and planes.

The Axis has probably been resting and regrouping its forces behind its forward lines. There is some doubt as to whether large German air or land reinforcements are available for Rommel, in view of the unexpectedness of his advance into Egypt and the size of German commitments in Russia. A limiting factor on air reinforcements may also be lack of fuel and servicing facilities in western Egypt. It is believed, however, that Rommel has received some air replacements, and that several thousand Germans will have been flown to Egypt by the end of July, in addition to Italian reinforcements arriving by boat. Rommel's supplies appear to be adequate, and his efficient tank recovery system may have established a tank reserve.

Reports of Axis troops moving into the Greco-Aegean area persist, and some observers continue to speculate about an Axis attack on Auchinleck's weakened Syrian flank. No signs of immediate preparations for such an assault are evident, however.

Near Eastern Tensions

The Near East continues to be relatively quiet. Observers feel that the Egyptian king and his people will continue a cautious policy pending a decisive turn in the battle. In the Lebanon there have been minor bread riots, apparently instigated either by local interests or outside agents. At the same time the government of Iran is reported to be frantically trying to locate wheat supplies to tide over the critical period between now and August harvests. Meanwhile Rashid Ali, the exiled premier of Iraq, was received by Hitler and Ribbentrop, according to a DNB despatch.

In Turkey it is expected that Numan Bey, who has been very cordial to American representatives at Ankara, is to be appointed foreign minister, as soon as he has been elected a deputy, as the constitution requires. The Turkish government, also facing a critical wheat shortage, has raised by 50 percent the prices it will pay for cereals in 1942. Shipments of wheat are to be given first priority, even ahead of war material. The Nazis are reported to have promised Turkey some badly needed rolling stock and locomotives, despite Germany's own tight transport situation.

Laval Loses Ground

Laval has lost considerable ground in recent weeks according to the American chargé d'affaires at Vichy. While alienating elements in France by his expressions of hope for a German victory, Laval has in large measure failed to satisfy Nazi demands for collaboration. The German army and the SS are said to be backing Doriot. This situation has already brought about a new understanding between Laval and Déat, whose *Rassemblement National Populaire* now supports Laval and may join Laval's Legion. Our source feels that a crisis—even a rupture—in Franco-American relations may shortly be precipitated, either by German action in support of Doriot, or by an openly Nazi orientation of the present government, springing from Laval's tenacious desire for power. Continued German victories will tend to accelerate this tendency in France.

One of the principal German complaints is Laval's failure to produce more than about 20,000 workers in the current campaign (despite larger Vichy claims to the contrary). Labor conscription appears inevitable and Laval is said to be preparing already to draft some *affectés spéciaux*.

Minority groups in France are being made the scapegoats of Laval's policy of collaboration. He seems to be discussing with the Nazis the idea of sending as many as 100,000 Spanish Republican refugees from France to work in Germany; and many of those who have already departed were unskilled Czechs, Poles, Belgians, or North Africans—only a small fraction consisting of skilled French workers. Renewed demands on the part of Rome and Berlin for the return of political refugees from France are reported—demands to some of which Laval has already yielded. At the same time, the situation of the Jews in France is becoming worse each day. New restrictions against their appearance in public places have been followed, according to one informant, by an order that some 15,000 Jewish males be rounded up for work in eastern Poland and western Russia.

Bastille Day brought forth widespread demonstrations throughout the unoccupied zone. In Nice it is reported that about 4,000 participated by singing the *Marseillaise* and shouting "vive de Gaulle, vive les États Unis, vive l'Angleterre," while from other cities came word of demonstrations with great crowds shouting "down with Doriot the traitor" and "down with Laval," according to unconfirmed reports.

German Influence in French North Africa

In Casablanca control of commercial vessels arriving in the port has been initiated by a German Commission, whose "arbitrary" manner in exercising the control is reported to be causing considerable annoyance to ship officers. Vichy defended its action in meeting the German demands for this commission by stating that it wished to avoid any difficulties with Berlin that might imperil the "important" economic agreement with the United States. At the same time material drawn from intercepted letters reveals increasingly close control of all movements in North Africa by Axis personnel, whose numbers seem to be steadily growing.

Spain and Portugal

Reports indicate that Spain is planning to send at least 25,000 troops to the Canaries and Morocco, of whom more than 1,000 have already left. When all present troop movements are completed, almost half of the Spanish army will be overseas. At least one observer believes that the program is German inspired, for the purpose of closing the Straits and seizing Casablanca if Egypt should fall.

On the other hand, it is apparently believed in Lisbon that the Axis does not intend to draw Spain and Portugal into the war. Portugal has nevertheless had to accede to German restrictions confining Portuguese shipping to the United States to the port of Baltimore. Franco in turn, in a recent speech announcing elections for the new Cortes (the majority of which will presumably be stooges), attacked outworn liberalism and cited Bolshevism as the great threat against which Spain, if necessary, might again crusade. But the Caudillo avoided making any promises to Berlin and praised Spanish neutrality, adding the warning that Spain could raise an army of three million men. His position fitted the general policy pattern that seems to prevail in the Latin bloc —Pétain, Franco, Salazar and the Vatican—a policy of conservatism and non-belligerency looking forward to a negotiated peace, after which the bloc would emerge as the counterweight in Europe.

Japanese Withdrawals in Chekiang and Kiangsi

In China it now appears that the Japanese are in the process of relinquishing at least a part of their recent gains in Chekiang and along the Chekiang-Kiangsi railway. Chungking announces that Chinese troops have reoccupied several cities along the arc which the Japanese had extended through Chekiang Province—Chien-te, inland rail center southwest of the Japanese base at Hangchow; and Jui-an and Ch'ing-t'ien, in the southeast. The Japanese evidently still hold Wenchow at the southeastern extremity of the arc. Chinese troops, according to Chungking, have also recaptured Heng-feng and I-yang in Kiangsi, thus regaining at least temporary control over a fifteen-mile stretch of the Chekiang-Kiangsi railway.

Japanese withdrawal of forces from these areas is the chief explanation for the Chinese successes. Chinese reports indicate that Japanese troops taken from the Chekiang-Kiangsi sector are destined for service in Inner Mongolia or Manchuria, although there is also some possibility that the Japanese may be simply redistributing and reorganizing their troops in China, perhaps preliminary to a thrust against Changsha. In Central and North China, three independent brigades recently were expanded to divisions, and a reorganization in any case appears to be already in progress.

Optimistic Note in China

The slackening of Japanese pressure and the bombing of Hankow and Canton by American air forces appear to have added a mildly optimistic overtone to current public opinion in Chungking. A member of the Chinese foreign office is reliably reported to have said that popular belief in eventual victory is as strong as ever, and that talk of a negotiated peace is absurd. There is a strong feeling that China needs more help, particularly planes, according to this official, but even if China fails to obtain these, she will continue as before. Inflation and military defeats have not been causes of particular anxiety, and the Chinese are fully expecting that the Japanese will soon attack Siberia.

Nehru Explains the Wardha Resolution

In two interviews with an American representative at New Delhi, Pandit Nehru has made it abundantly clear that the Wardha resolution of the Congress Working Committee admits of no compromise with Great Britain. Even if the British should grant the demands put forth by the Congress at the time of the Cripps mission, it would not be enough, Nehru believes, since those proposals were merely a temporary expedient in the face of the Japanese invasion menace. Furthermore, since that time, Indian hatred for the British has increased greatly, Nehru declares.

This hatred, in the Pandit's opinion, threatens to make of India another Burma, inasmuch as British policy is creating pro-Japanese sentiment all over the country. The only way to stop the growth of this feeling, which Nehru deplores, is to launch such a campaign as the Working Committee has now proposed. That is the ethical justification for a movement which, viewed superficially, might seem to interfere with the Allied war effort. In any case, Nehru concludes, the campaign would interrupt war activities only briefly—since its results would not long be in doubt.

Concretely, what the Congress demands is the formation of an Indian provisional government by representatives of all parties. In turning over their powers to this government, the Viceroy and the provincial governors would be obliged to withdraw immediately. Minor officials, however, would remain, and their removal would occur only gradually—to obviate the dangers of a sudden administrative revolution. The new Indian nation, in Nehru's view, would assume Britain's obligation to the princes. But an upsurge of Indian patriotism among the inhabitants of the native states would probably soon force the princes to join the new union. As for the Allied troops now in India, a free India would not demand their withdrawal, but on the contrary would welcome their aid. To the commander-in-chief of the United Nations forces the provisional government would give unstinted cooperation.

The Pitfalls of Pakistan

As for the Moslem issue, Nehru declares that the Congress leaders can reach an understanding with Jinnah in two days, if the British do not interfere in the negotiations. Such a point of view is similar to that of Gandhi, who feels that the withdrawal of the British should precede a Hindu-Moslem settlement; so long as the British remain, they will be able to pit the two communities against each other on the principle of "divide and rule."

Jinnah, on the other hand, fears that an abdication of the British Raj before the establishment of Pakistan—a separate Moslem state—would mean that the Moslem minority would

be at the mercy of the Hindus. According to Gandhi, however, Jinnah has failed to reveal just what he means by Pakistan. An American observer on the spot suggests that this vagueness is an intentional maneuver. Pakistan is essentially a bargaining point, and Jinnah cannot be expected to reveal what it really implies until he has extracted the last ounce of concessions from the Congress and the British on this issue. Furthermore, he is probably not anxious to display before his own followers the economic drawbacks of the scheme—that is, the separation of such deficit areas as Baluchistan, the Northwest Frontier Province, and Sind from the central government of India, on which they are financially dependent.

In short, Jinnah can be relied on to oppose the Wandha resolution root and branch—since it calls for an immediate British withdrawal prior to a Hindu-Moslem settlement. As for the British, confidential advices suggest that the Viceroy's Council will take no action before the meeting of the All-India Congress Committee next month. Meantime, the Viceroy has apparently referred the whole issue to London for decision.

Significance of Brazilian Government Changes

Colonel Alcides Gonçalves Etchegoyen has now replaced Felinto Muller, recently removed as chief of police in Rio de Janeiro. Colonel Etchegoyen is a popular Army officer whose sympathies are definitely pro-Ally but whose previous career has not brought him into the public eye.

This is one of a series of recent government changes. Two members of the cabinet have resigned—Lourival Fontes, as minister of press and propaganda, long known for his pro-Nazi sentiments; and Francisco Campos, as minister of justice, who is also pro-Nazi. Major Coelho dos Reis now has the former post, while the latter has been placed temporarily under the jurisdiction of Marcondes Filho, the minister of labor.

In general it is felt that these changes notably benefit our position in Brazil, although there is some difference of opinion regarding the new minister of press and propaganda. Although it is said that Aranha approves the choice, the fact remains that Major dos Reis was the former right hand man of the minister of war, General Dutra, one of the members of President Vargas' cabinet who long opposed the cooperation of Brazil with the United Nations.

APPENDIX I

STRENGTHENING THE GERMAN WAR ECONOMY

During the present year the Germans have carried out fundamental changes affecting economic output, organization, and control, according to a study of the Economics Division made in collaboration with the Central European Section of the Office of Strategic Services. These changes have come gradually and unsensationally, but taken together they form the most significant mutation in the German economy since the war began. Impelling reasons were the miscarriage of plans in Russia and the entry of the United States into the war, which has now turned from a series of short campaigns—interspersed with periods of economic recuperation—to an enduring conflict.

Manpower shortages have precipitated the changes. The minimum goal is presumably the maintenance of past output, even in the face of a new draft on industry of two to three million men to replace losses on the Eastern Front. A maximum goal might aim to increase production for a war on two fronts.

The measures taken undoubtedly reflect a considerable degree of economic strain, and they will leave no appreciable slack in the German economy if they prove successful. But no basis exists for concluding that the Nazi economy must soon collapse, or even that the present scale of the peak effort will soon be reduced. Future efforts to obtain really large increases in output will necessarily be confined to European areas outside the Reich.

These changes have been accompanied by no noteworthy evidence of friction among the three chief power-wielding groups concerned. The Nazi Party, in executing the economic reorganization program, has retained and consolidated its position of leadership, but it appears also to have received the full cooperation and support of the army and the industrialists.

Five Categories of Changes

The measures taken fall into five main categories designed (1) to increase efficiency and production in the armament industry; (2) to maintain output with a reduced labor force in basic industry and civilian manufacture; (3) to simplify administrative organization and procedure; (4) to coordinate all labor-saving and recruiting activities; and (5) to conserve food stocks.

Agriculture, which was already highly centralized, does not appear to have been the subject of special attention, although attempts have doubtless been made to increase the supply of prisoners and other foreign labor used in the fields. Last April's reduction in rations probably reflected the impossibility of increasing food supplies within the next year.

1. The Armament Industry

Administrative Control. Various measures over a period of six months have brought the armament industry finally under full control of the newly appointed Minister of Armaments and Munitions, Albert Speer, the successor to Todt and a trusted party member. One of the latest and most significant steps in this direction was taken when the regional Armament Inspection Bureaus and Armament Commands, formerly under the Supreme Command of the Army, were transferred to Speer's Ministry. Speer also has assumed great influence in the field of labor. The important labor "Combing-out" Commissions (Prüfungstellen) operate under his authority. Perhaps most significant of all is the concentration and unification of control over armament production, accomplished by the establishment of committees of technical experts (Hauptausschüsse) for each of the major armament products. These committees are designed to hasten efforts to nationalize production and to see that technical information is exchanged between plants. They are coordinated by a new Armament Council, and all operate under Speer's direction.

Contract System. A new contract system for armaments items has been instituted, favoring competitive prices. Formerly, a relatively unrefined version of the "cost-plus" principle appears to have been used. Under the new system, all producers of a given article are classified into not more than five groups, based on relative efficiency as reflected in costs of production. A uniform price is fixed within each group, so that there can be from one to five group prices for every armament item. The uniform price is determined by the costs of production of a relatively efficient firm in each group, hence less efficient firms in the group face sharply curtailed profits or financial loss if they do not lower their costs. The fate of firms which consistently produce at costs higher than the group price is not known, although the alternatives would seem to be bankruptcy or being closed down.

A further incentive to efficient production is provided by making it advantageous for businesses to move up the scale to Group I. Firms in this group are not subject to the excess profits tax, and they are given priority with respect to labor and materials.

"Protection of the Armament Industry." A decree of March 21, 1942 "for the protection of the armament industry" increases the penalties (to include death) for any person who makes incorrect statements regarding needs for manpower or supplies of essential raw materials and machinery. Excessive requests—anticipating cuts by the Allocation Boards—appear to have become all but universal. While the decree does not constitute a new approach, the penalties are more severe than formerly, and clearly are designed to tighten administrative control. At the same time, an effort is made to end the "paper-work war" which had resulted from the mutual distrust of business and governmental bureaucracies.

2. Output of Basic Industry

Concentration of Production. In basic industry, and especially in civilian manufacture where there is extensive idle plant capacity, an intensified effort is being made to concentrate production among the most efficient producers. Concentration of production has long been a part of Nazi economic policy, but the new need for manpower has given it impetus. Nazi leaders cite the case of the cigarette industry, where output per worker per day varies between 4,000 and 25,400 as among small-scale producers and certain large-scale and highly mechanized firms. By concentrating production in the latter, they point out, the number of workers employed in the industry can be reduced by 22 percent (12,500 to 9,800).

The tobacco industry offers a relatively favorable example. Although similar conditions probably exist in other consumers' goods industries, employment already has been reduced to a low level. It is probable that the actual saving in manpower in this sector of the economy will be small. In heavy industry, the more efficient firms probably are producing at capacity already. However, intensified efforts to concentrate production in the most efficient plants doubtless will economize some further manpower. In addition, the long-term process of financial amalgamation and combination of large concerns seems to be moving more rapidly, both in Germany and, under German control, over most of the European Continent. In many cases this development prepares the way for actual physical integration of formerly independent units and aims, therefore, to speed up the processes of concentration.

3. Simplification of Economic Structure

Administrative Machinery. Simplification of the administrative machinery for control of prices, markets, raw material allocations, and other general economic activities is expected to result in increased efficiency and a saving of manpower. Existing trade organizations, cartels, and syndicates for certain industries are being abolished and their place is being taken by Reich Associations (*Reichsvereinigungen*). The functions of these associations are far-reaching: they regulate "market conditions" by drawing up production and import plans; establish sales quotas; fix prices; and in some instances have taken over the allocation of raw materials—formerly the function of the *Reichsstellen*. The Reich Associations are designed to form the nucleus for the European post-war economy, and in a few cases seem already to have extended their influence over allied industries in occupied and "friendly" countries.

While the German press hails the reorganization as an increase in self-administration in industry, pointing to the fact that the heads of the associations are leading industrialists, these high officials nonetheless must be approved by Nazi functionaries. The associations actually are administrative instruments designed to carry out state-determined policy.

Decrease in Government Personnel. Simplification of administration, and reorganization of the complicated structure of industry and trade organizations, is expected also to relieve the overburdened Germany bureaucracy, whose personnel has been cut about 40 percent by heavy drafts for the armed forces. All post-war planning and administrative activities not directly connected with the conduct of the war have ceased. In addition, it is expected that these changes will greatly reduce the amount of existing paper-work, in so far as they eliminate duplication of offices and overlapping functions. The result will be relief for the personnel of both industry and government.

4. Measures Relating to Labor

Centralization of Labor Control. Administration of labor has been further centralized under Fritz Sauckel, former party *Gauleiter* of Thuringia and high SS officer, who was appointed Commissioner General for Labor in March, 1942, to work in close cooperation with Speer. He is charged with the "combing out" of men from industry, and will be required to relate this process with measures to raise industrial efficiency in such a way that production will not suffer. He is also expected to obtain increased supplies of labor from domestic and foreign sources.

Sauckel has various agencies at his disposal. He has appointed the Nazi Party *Gauleiters* to newly created posts of *Gau* Controllers of Labor Allocation, to act as his watchdogs alike over officials, businessmen, and workers. Existing organizations dealing with labor problems have been placed at his disposal, and various intensive campaigns to recruit new workers and speed up production are under way. Compulsory methods of recruitment already are being introduced in certain of the occupied countries, and these measures are likely to be extended.

5. Conservation of Food Stocks

Reductions in Rations. Germany entered the war with an elaborate and highly organized agricultural control mechanism, centering in the Reich Food Estate (*Reichsnährstand*). This estate, established as early as 1933, regulates every aspect of agricultural production and distribution. The only present change affecting this control mechanism was the recent replacement of its director, Albert Darre, a party member since 1930, by Herbert Backe, a former Secretary of State.

Tightening up in this sector took the form on April 6 of substantial reductions in the food rations. It was apparent that administrative changes alone could not at this time remedy the food problem. Early indications of poor crops through most of Europe and the failure of plans to expand agricultural output in the European area outside Germany seem to have provided the immediate motivation for the reduction. The new ration levels, however, will tend to keep consumption in line with the longer-run supply outlook. Even at this lower level, rations are nutritionally adequate, especially for the major categories of workers.

APPENDIX II

RUBBER—THE UNITED NATIONS AND THE AXIS REVERSE POSITIONS

The Japanese conquests and the careful preparation for war of the German *Wehrmacht* have in effect reversed the respective rubber positions of the United Nations and the European Axis. Now that the main rubber-producing regions of the world are in the hands of Japan, the availability of crude rubber to Axis Europe is limited only by the amount of merchant shipping at their disposal, and by their ability to run the blockade. The British believe that blockade-running has assumed considerable proportions and that the Germans have succeeded in running through at least 25,000 metric tons of crude rubber in the first six months of this year. At the same time, the German synthetic rubber program has reached the point of large scale production, and can in itself supply more than half of the European Axis requirements. Since additional capacity for synthetic rubber is under construction, production may be expected to expand even further in the next year.

The United Nations, on the other hand, and especially the United States, are in the unhappy position of having lost their principal source of rubber, and of not yet having solved the problem of alternative sources of supply. The synthetic rubber program, in spite of discussion and planning in the last two years, is still in its infancy and cannot be expected to contribute in any notable degree to our rubber supply until next year. In the meantime, the United States is dependent mainly upon its stockpile of crude rubber and at the same time is expected to contribute from this supply to the military requirements of the other United Nations. Fortunately, our stockpile of crude is considerable, while that of Axis Europe is believed to be reduced to almost nothing.

Axis and Allied Positions Compared

In comparing the rubber position in the United States and Axis Europe, two considerations must be taken into account: (1) normal consumption of rubber is on a very different scale in the two countries, and (2) consumption of rubber by motor vehicles for essential civilian transportation in the United States is on a scale unknown in any other country. For both reasons our civilian consumption cannot be cut to anything like the level to which it has been reduced in Axis Europe, without disrupting the economy.

A comparison of the respective positions of Axis Europe and the United States in 1942 follows:

	Axis Europe [1]	United States [2]
	[In thousands of metric tons]	
Supply:		
Synthetic production [3]	135	23
Crude imports:		
Far East	50	270
Africa	5	10
Western hemisphere	?	10
Total imports	55	290
TOTAL SUPPLY	190	313
Consumption:		
Military requirements	194	229
Foreign requirements	0	125
Industrial and civilian requirements [4]	30	149
TOTAL CONSUMPTION	224	503
Stocks of crude:		
On hand 1/1/42	0	538

[1] Estimates based to a considerable degree upon data from the British Ministry of Economic Warfare.
[2] Figures from War Production Board.
[3] Including all kinds of synthetic rubbers.
[4] Industrial and civilian requirements will be met in part from production of reclaim rubber, not shown above.

Axis Blockade Running

No imports into the United States from the Far East are expected in 1943, and only some 30,000 tons from Africa and the Western Hemisphere. The production of Ceylon and India, if still available, will go to Great Britain. Far Eastern imports into Axis Europe, however, may well increase, unless blockade running can be stopped. If Germany conquers the Near East and makes a junction with Japan, the Axis rubber problem will be solved.

Even though Germany fails to join hands with Japan, sufficient ships are available for blockade running on a greater scale. Japan has requisitioned about 300,000 tons of ships in the Far East, distributed as follows—German, 19 ships; Italian, 15; and French, 24. Although it is not known specifically how many of these ships are available to the European Axis, sufficient tonnage certainly exists to fill the Axis needs for crude rubber. The route used by most of the blockade runners appears to be through the South Pacific, around the Horn, and across the South Atlantic to a West African port (Dakar or Casablanca), a route very difficult for the United Nations to patrol, even if air and naval equipment were not needed elsewhere.

American and German Synthetic Programs

United States synthetic rubber production is now in the preliminary, experimental stage that German production reached in 1938. The Germans have pro-

gressed to the point where they have at least two large-scale units (at Hüls and Schkopau) and five small units operating in Germany proper, with five small units in the occupied and other Axis countries. There are various reports, as yet unconfirmed, that some twenty-six other plants are either operating or being constructed. Undoubtedly Germany has planned sufficient synthetic expansion to take care of almost all her requirements, although blockade running may reduce the need for carrying out this expansion.

Our own synthetic program has been hampered by a number of factors, such as competition of interests, shortages of strategic materials for plant construction, and so on. Among these factors, the controversy over the chemical process to be used (alcohol vs. petroleum) has recently assumed prime importance. Butadiene has been made successfully from alcohol for years in Russia, though the process is not as well known in this country as that using petroleum. Whatever the merits of the controversy, in which the adherents of the alcohol process claim that their method is simpler chemically and could be set up for large-scale production more quickly, our synthetic program is now fixed at 800,000 tons annually, the majority of which is to be derived from petroleum. Perhaps a quarter of the total amount will be derived from alcohol. WPB estimates that nearly 400,000 tons will be available by the end of 1943, and that we will be producing at the rate of 800,000 tons per year by the end of 1944. If the program is achieved on schedule, our rubber problem will be largely solved in two years' time.

Stockpiles and Scrap Utilization

In the meantime, we have a crude stockpile on which to draw, one which is sufficient for two years' military consumption, or about one year's normal peacetime consumption. We likewise have an annual reclaim capacity of about 400,000 tons. Since only crude has been accepted as suitable for military and foreign requirements, our present program envisages withdrawals from our stock of crude this year and next, coupled with severe civilian rationing and greater utilization of reclaim rubber. The voluntary scrap drive has been disappointing in its results, but additional scrap undoubtedly exists which could be requisitioned by the government, as well as the tires on many of our 30,000,000 cars. We are now riding on our principal stock of scrap. The Germans have already requisitioned tires throughout Occupied Europe.

The fact that the Germans have little or no stockpile, and may be drawing to the end of available scrap supplies in Occupied Europe, has spurred them to expand their synthetic production, and run crude through the blockade. Without success in these two factors, their 1942 position would be considerably worse than that of the United States, since they have long since economized on rubber uses as far as possible without producing disruptive effects. We in the United States have not yet carried our economies that far. If blockade running could be eliminated and the two main synthetic factories in Germany permanently put out of action by aerial bombing, the contrast between the Axis and United States rubber positions would be turned in favor of the latter, and there is also little doubt that the Axis military machine would suffer.

APPENDIX III

THE UNDERGROUND MOVEMENT IN AUSTRIA

Loosely organized and relatively cautious in action, Austria's underground movement nevertheless has managed to survive, according to recent reports received from a source whose information is considered very reliable. The groups from which the movement receives its chief strength are the former trade unions and the Socialists—the latter now calling themselves the "Revolutionary Socialists."

Both trade unions and socialists were forced underground initially by the Dollfuss regime in 1934. Following Austria's annexation in 1938, the clandestine trade unionists were obliged to abandon any attempt at centralized organization and cling to their factory units. Inter-union contacts are limited to near-by factories, and sometimes even the maintenance of contacts within a factory involves incredible difficulties. In some munitions works, women in different departments have been forced to wear different colored dresses, to facilitate the efforts of supervisors to prevent unauthorized movement within the plant.

Organization and Functions

In many of the larger factories, particularly the metal works, underground unions are represented in every workshop, and there are executive committees for the whole factory. Dues and subscriptions are regularly collected and the funds properly administered. A wage dispute in one such factory resulted in selection by the underground of a slate of delegates whose election caught the employer completely by surprise. When he refused to deal with them and the *Deutsche Arbeitsfront* threatened to call in the Gestapo, the underground union provided 400 marks each for the five delegates in case they should suddenly need it.

In the past the factory groups have concerned themselves chiefly with mutual aid and support, especially in caring for relatives of imprisoned workers. More recently, longer working hours, unpaid overtime, wage reductions, and generally harsher working conditions have led to occasional open conflicts, with outspoken and vigorous protests. There have even been some short strikes, limited to a single department in a given plant. In general, however, our source believes that the strength of the underground trade unionists should not be overestimated—they are valuable primarily in maintaining the fighting spirit of the industrial workers in individual factories, at a time when no legal trade union movement is possible.

The "Revolutionary Socialists"

After the suppression of the Social Democratic Party by Dollfuss, the Revolutionary Socialists formed strong underground mass organizations. With the advent of the Nazis, the Revolutionary Socialists themselves put an end to the mass character of the movement, organizing instead a limited number of small "conspiratorial centers," led by new militants unknown to the police. These new organizations are factory "cells," and while they are separated from the loose trade union groups, some members participate in trade unionist activity as well.

The Socialist units, like those of the trade unionists, work more or less on their own, but with a thin network of cells forming a tenuous district and area organization.

Activities of the Revolutionary Socialists are very limited, and for the present are relatively harmless. No activities are undertaken which might endanger the existence of the underground movement, which the Socialists wish to safeguard, feeling that revolutionary mass action can take place only after the Germans have suffered decisive military defeat.

Meanwhile the Socialists engage in propaganda activity: so-called "Schmieraktionen" or "splashing expeditions"—painting hasty slogans and symbols on walls and pavements; or "Streuaktionen"—scattering small propaganda leaflets. When Nazi orators are speaking, the Socialists occasionally manage to break up a meeting by the uninterrupted shouting of the Nazi slogan, "Sieg Heil," our informant notes. Organized market brawls are started by small women's groups who vociferously dispute with each other about the food situation, profiteers, war victims, and the hopelessness of the war.

U. S. GOVERNMENT PRINTING OFFICE: 1942

July 24, 1942
9:30 a.m.

GROUP

Present: Mr. Bell
Mr. Sullivan
Mr. Graves
Mr. Buffington
Mr. Gamble
Mr. Thompson
Mr. Paul
Mr. Cairns
Mr. Blough
Mr. White
Mr. Odegard
Mr. Schwarz
Mrs. Klotz

H.M.JR: Norman? I thought we might all get acquainted again.

MR. THOMPSON: General Lewis has indicated that he would like you to visit the Morgenthau barracks some time.

H.M.JR: Is that on his own?

MR. THOMPSON: That is on his own, yes. It came to me directly, so I assume it is on his own.

H.M.JR: I will go over there next week.

MR. THOMPSON: He said he would like personally to take you through, and he can't do that until he gets through with this board that he is on that is trying these German saboteurs.

H.M.JR: Is he on that?

MR. THOMPSON: So I understand. He said he was.

H.M.JR: Harold was saying last night it takes nine Generals to try nine Germans.

MR. GRAVES: Eight - I said eight.

H.M.JR: You mean to say that they have tied Lewis up on that?

MR. THOMPSON: That is what he said. He said he could from twelve-thirty to one-thirty any time - luncheon time.

H.M.JR: We could do it before the board sits. They can't start much before ten; most boards don't. Remind me next week.

MR. THOMPSON: Elmer Davis has asked for a detail this week of one of Eddie Bartelt's organization men for two or three weeks to help him out.

H.M.JR: Good.

MR. THOMPSON: So we can do that?

H.M.JR: Sure.

MR. THOMPSON: We turned in a hundred and two thousand pounds of scrap rubber from the Treasury. That is quite a contribution.

H.M.JR: A hundred and two thousand pounds? Wonderful.

MR. THOMPSON: A lot of rubber mats are missing around here.

MR. BELL: I have heard a lot of complaints about rubber cushions. People went out of the office, and when they came back found their rubber cushions gone, some of them private property.

H.M.JR: Really?

MR. BELL: Yes.

MR. THOMPSON: We had to call a few of them back.

MR. BELL: One Red Cross lady had a rubber cushion, her own property. She went out of the room, and when she came back it was gone.

H.M.JR: A hundred and two thousand pounds?

MR. THOMPSON: A hundred and two thousand - that is quite a lot of rubber.

H.M.JR: What else?

MR. THOMPSON: That is all.

MR. BELL: I have nothing.

H.M.JR: Mr. Graves?

MR. GRAVES: You asked me to speak to you about a letter which Mr. Bartholomew has written you about Professor Welch.

H.M.JR: Oh, yes. Well, I just thought that you and your associates could talk it over; and if you think Bartholomew is right, then do something about it.

MR. GRAVES: Yes, I will.

H.M.JR: How is that?

MR. GRAVES: Fine. Nothing more.

H.M.JR: Well, I have got a memo here. I asked you to get Mr. Arthur Szyk, the cartoonist.

MR. GRAVES: Yes, our people have been in contact with him, and I haven't heard with what result.

I have no doubt he is working, but I will find out and report to you.

H.M.JR: Want to bet on it?

MR. GRAVES: Our people have been in contact on it.

H.M.JR: You know that he is working?

MR. GRAVES: I mean he is going to work, that he is going to make some cartoons.

H.M.JR: Do you want this?

MR. GRAVES: Yes.

(The Secretary handed Mr. Graves a follow-up memorandum dated July 24, 1942.)

H.M.JR: What else?

MR. GRAVES: I have nothing.

H.M.JR: White?

MR. WHITE: There are a number of questions all related to the silver; a couple of them should be answered today.

H.M.JR: Well, look, the way this meeting is going, if you silverites want to stay behind maybe we can answer a couple of them. I mean, stay now. I know what you have got on your mind. I mean, stay after this meeting, Harry.

MR. WHITE: Yes, sir. That is all. There is a matter of Swiss francs which I will bring up at the same time.

MR. GAMBLE: Mr. Bruce Barton is doing that article for us that you suggested he do on the New York campaign. It will be ready later this week.

H.M.JR: Good.

MR. GAMBLE: The Richmond people have set a meeting for August the twenty-first, and they expect to have the whole community, an area for a hundred miles surrounding it - Blue Flag Day.

H.M.JR: Blue Flag Day?

MR. GAMBLE: Blue Flag Day they are calling it. They are going to try to get every firm in that area up to ninety and ten on that date, and that is the date they want you to come and speak to these plants. I know it is quite a ways off, but that is an answer to your suggestion that we set these meetings--

H.M.JR: August twenty-first?

MR. GAMBLE: August twenty-first.

H.M.JR: Blue Flag Day - I don't like that. Can't you call it Treasury Flag Day?

MR. GAMBLE: That is the administrator's phrasing in this.

H.M.JR: I don't like it.

MR. GAMBLE: They want to have the first Blue Flag City in America. Our Minute-Man flag was a blue flag.

H.M.JR: Yes.

MR. ODEGARD: Change it to New Flag Day.

MR. BELL: Minute-Man Flag Day.

MR. GAMBLE: Treasury Flag Day would be better.

H.M.JR: I don't like it. What color was the Confederate flag?

MR. GRAVES: Red, white and blue.

MR. SULLIVAN: Stars and bars.

H.M.JR: Anything but Blue Flag - Freedom Flag, anything. What day is that, August--

MR. GAMBLE: August twenty-first - twilight meeting.

MR. SULLIVAN: Voluntary Flag.

H.M.JR: That is a Friday. Does it have to be a Friday?

MR. GAMBLE: We could make it the twentieth.

H.M.JR: What?

MR. GAMBLE: Yes, sir.

H.M.JR: Wait a minute - yes, I can do it on the twentieth.

MR. GAMBLE: Fine. Another item, Mr. Skouras would like to have us come to New York for the subject that he is talking about.

H.M.JR: Would like what?

MR. GAMBLE: He would like to have you come to New York for the subject - this film subject. He says it can't be properly made here, and it only would require an hour or two of your time there. He would like to do it either next Wednesday, the twenty-ninth, or Friday, the thirty-first.

H.M.JR: Do you mind bringing it up again Monday?

MR. GAMBLE: Yes, sir.

H.M.JR: I will know better where I am at.

MR. GAMBLE: All right, sir. These drug people, representatives of the drug industry, would like to meet with you on Tuesday to talk to you about the three-million-dollar campaign.

H.M.JR: If I am going to go up there, you know, somebody has got to write what I am going to say. Then I have got to learn it, then forget it, so to speak - I mean, in the sense that I can't read from notes. It is something - I would have to learn that part the way any actor does, so somebody would have to write the thing.

What do you want on Tuesday?

MR. GAMBLE: Representatives of the drug industry.

H.M.JR: The drug people have six hundred radio programs a year advertising stomach remedies. I didn't know that there was so much stomach trouble in the country.

MRS. KLOTZ: I thought there was more, judging from the way people behave. (Laughter)

MR. GAMBLE: Mr. Harry White says that the reason we have so much stomach trouble in the country is because they have the programs. (Laughter)

MR. PAUL: The power of suggestion.

H.M.JR: What time do you want me to see the stomach people? (Laughter)

MR. GAMBLE: Any time on Tuesday, Mr. Secretary.

H.M.JR: I don't know who Colonel Sherrill is. He is down for three o'clock.

MR. BELL: He is the Manager of the City of Cincinnati, and he wanted to see you. He came in through Mr. Julian, and I think it is about taxes.

H.M.JR: Three-fifteen.

MR. GAMBLE: Fine.

H.M.JR: Yes, sir?

MR. GAMBLE: The only other item I have is the breakdown of the program for the Richmond meeting on the thirtieth. I thought you might want to see it. (Paper handed to the Secretary.) That is the first of the twelve regional meetings.

H.M.JR: I am still waiting for somebody to give me a report on Heroes' Day.

MR. GAMBLE: On Heroes' Day?

H.M.JR: Yes.

MR. GAMBLE: You knew that was the reason for this display. We thought we would have a couple of minutes with you when you could look at this display.

H.M.JR: I want the money, money, money.

MR. GAMBLE: I don't think we will be able to give you that information until Monday of this coming week.

(Mr. Schwarz entered the conference.)

MR. GAMBLE: You see, these people had this bond stock on consignment. Until they replenish their bond stock and we get a report from the merchants themselves, we won't know exactly how much money they took in.

H.M.JR: When is it going to show up in the Federal Reserve? Harold says they don't pay up until the twenty-fourth.

MR. GAMBLE: It should start showing up as of today. That is, they report to the Federal Reserve the end of the week, which would mean yesterday or today, in the instance of most of those merchants. If they have replenished their bond stock it would be a little earlier than that.

H.M.JR: Last night I finally got WMAL. They put on this Treasury program from ten-fifteen to ten-thirty, and they went through this rigmarole and then they said, "We are very sorry, we are moving from one station to another; until we get moved to our new place, we will not be able to do anything about it."

MR. WHITE: Was that after Hull's speech, ten-fifteen?

H.M.JR: Yes.

MR. WHITE: It doesn't matter because I think everybody was asleep by then. (Laughter.)

H.M.JR: Will somebody tell me why the President gave Mr. Hull the great build-up he did on that speech? What was the purpose of it?

MR. WHITE: Why also did anybody let him read a sales speech like that?

MR. SULLIVAN: Yes, but the President's remarks made it ten times as bad.

MR. SCHWARZ: The President said he read it first and it was a great speech.

MR. WHITE: I was wondering whether it was - in the first part whether it was for Argentine's and Chile's benefit. That is the only explanation.

H.M.JR: The only other thing was that he would even give one, and whether - I mean, who was it to influence? I don't know. Anybody that listened to it and heard the poor old man cough every two minutes - did you listen?

MRS. KLOTZ: No.

H.M.JR: I mean to hear him cough all the time.

MR. WHITE: I thought that was the radio.

H.M.JR: You know, it was tragic - I mean, you felt sorry for him.

MR. SULLIVAN: He appeared to be very uncomfortable.

MR. WHITE: I don't think that was the worst of it. I think the speech was at least twice too long for what it contained. It was very uninspiring except for a few early paragraphs. I can't understand any of his assistants writing a speech like that for him to say.

H.M.JR: I only listened a very few minutes. I didn't get much, but then I read the summary in the New York Times today. There is absolutely nothing in it.

MR. WHITE: I listened to the whole of it.

MR. SULLIVAN: I did. I kept waiting for the reason for the speech.

H.M.JR: We were waiting for the Treasury program. That is the only reason we listened.

MR. SULLIVAN: We both got the same results.

H.M.JR: I just can't understand it. I think it is the worst thing that has happened in I don't know when. To build people up and then give them that! And it is not because I don't love the State Department. (Laughter)

Anything else?

MR. GAMBLE: That is all.

MR. GRAVES: May I ask you this. You told me last night you wanted to talk quotas with me today. I will not be here Monday, Tuesday, and Wednesday.

H.M.JR: That is all right, but it ought to be very carefully explained to the press. Who is going to explain it?

MR. GRAVES: We will prepare a release, and Mr. Odegard and I will see to it that it is carefully done.

H.M.JR: You know, Kuhn told me a month or two ago he had brought in somebody to help him on my mail. He was going to bring him in and introduce him to me.

MR. THOMPSON: Mr. Crampton.

H.M.JR: Is he still with us?

MR. ODEGARD: Yes.

MR. THOMPSON: Kuhn says he is very good, too.

H.M.JR: O.K. Peter?

MR. PAUL: Mr. Secretary, may I go ahead? I have to be up on the Hill at ten o'clock.

I haven't anything except that if there is any time set - are you leaving this afternoon?

H.M.JR: I hope so.

MR. PAUL: Well, I just wanted to see you a few minutes, if possible.

H.M.JR: What about?

MR. PAUL: About giving you a final report on the taxes.

H.M.JR: Well--

MR. PAUL: Never mind, let it go until Monday - let it go until Monday. I don't know what time I will be back or whether they will have an afternoon session or not.

H.M.JR: Will there be a session tomorrow?

MR. PAUL: No, no session tomorrow.

H.M.JR: Well then--

MR. PAUL: I think they will finish about one today.

H.M.JR: Anything else?

MR. PAUL: No.

(Mr. Paul left the conference.)

H.M.JR: Blough?

MR. BLOUGH: Well, I will wait just a few minutes and let Mr. Odegard go ahead.

MR. ODEGARD: The only thing I have was on this survey that you want made. We were to have a meeting in Mr. Sullivan's office, but this Navy speech and the nine-thirty meeting precluded any discussion of that this morning. My own feeling is that we ought to rely, probably, upon Mr. Blough's people to get the information as to the mechanical problem in connection with the withholding. So far as the attitude of the employees, the workers themselves, is concerned, we ought to get a regular polling group to do that.

H.M.JR: I am disappointed. I asked to have it cleared Wednesday night and get it out in the field.

MR. BLOUGH: Mr. Secretary, you recall I spoke to you Wednesday afternoon. We were still working on the statement late, and I said that we couldn't hold the meeting Wednesday. We hoped to hold it yesterday.

H.M.JR: Why can't you hold it right now - after this meeting?

MR. SULLIVAN: We have some of the men in my office.

MR. BLOUGH: We had it scheduled for nine o'clock.

H.M.JR: Why can't you stay down, not go on the Hill?

MR. BLOUGH: I have to go on the Hill, but we can stay long enough to get this straightened out.

H.M.JR: Why not do it right away?

MR. SULLIVAN: Mr. Kanne was coming in at ten-thirty - the Collector from Hawaii. Shall I bring him in?

H.M.JR: All right. You fellows had better go to work. You had better go ahead on that.

MR. BLOUGH: I had nothing except that, Mr. Secretary.

(Mr. Sullivan, Mr. Blough and Mr. Odegard left the conference.)

MR. CAIRNS: Bernie spoke to you yesterday, I believe, about the use of the first War Powers Act. We will get you the memorandum before Cabinet meeting.

H.M.JR: Good. Be sure I get that.

MR. CAIRNS: That is all. We got Ed off last night.

H.M.JR: When does he have to come back?

MR. CAIRNS: Either the tenth, eleventh, or twelfth.

H.M.JR: He got the extension?

MR. CAIRNS: Yes. He was to report Monday, but he complained bitterly, and they said, "You can come back on the tenth, eleventh, or twelfth," and he didn't decide last night which date he would pick.

MR. BELL: There isn't any question, is there? (Laughter)

MR. CAIRNS: He is anxious to get in the fight.

H.M.JR: I say he is lucky that the War Department will wait until the tenth, eleventh, or twelfth.

MR. CAIRNS: That is all I have.

H.M.JR: Chick?

MR. SCHWARZ: I have nothing.

MR. BUFFINGTON: Mr. Purcell is still after me to see if I can arrange a brief appointment with you, possibly Tuesday of next week, if that was convenient.

H.M.JR: I gave him one. He didn't like it.

MR. BUFFINGTON: He didn't call me until eleven o'clock that morning, and he said he had a meeting of his securities people in Philadelphia.

H.M.JR: He is doing a lot of stuff in the newspapers.

MR. BUFFINGTON: Yes.

H.M.JR: I can see him at three-thirty.

MR. BUFFINGTON: Tuesday?

H.M.JR: Tuesday, and I don't want - I want you to get it right from the horse's mouth that I don't want any more publicity for the Victory Fund Committee until you have got something to sell in your hands. See? I know you don't agree with me, but it is like Purcell; he keeps calling meetings, is going to organize, and they are going to do things. I don't like to do it that way. I mean when you boys have got something to sell I will help you with all the publicity that you are entitled to - when you have got something. But, again, to give out something two weeks - I would much rather let it rest the way it is until we have got something to give you to sell, and then we will give you the story.

MR. BUFFINGTON: I might say that that suggestion came from all the executive managers who were trying to get something ahead of that two and a half percent.

H.M.JR: All right. I just - here in the Treasury I don't mind your suggesting it. I don't like to keep talking about what I am going to do two or three weeks in advance. I like to say, "Here is something for the Victory Fund to do tomorrow." I know they are restless, but they will just have to be patient, and then they can make it up by showing how good they are. But let's not keep - I mean the papers are just flooded with stuff about people either excusing themselves for what they should have done or making promises of what they are going to do.

MR. BUFFINGTON: That is all.

MR. BELL: There is a good deal of that in the Districts. Do you want that sort of curtailed, too?

H.M.JR: I would like them to stop until they go to work.

MR. BELL: Then have it all come out at once.

H.M.JR: Yes.

Now, I will go right into silver, Bell and White, and you had better get hold of Bernstein, and Huntington, you stay, will you?

July 24, 1942
10:00 a.m.

SILVER

Present: Mr. Bell
Mr. White
Mr. Cairns
Mr. B. Bernstein
Mr. E. M. Bernstein

H.M.JR: Go ahead, Harry.

MR. WHITE: There are several questions. The most immediate is the order which WPB wants to issue, and they have asked for the Treasury's approval. The order--

H.M.JR: Let's see now, I get all mixed up. Call it either Henderson or Nelson.

MR. WHITE: This is Nelson. The order restricts the use of silver in the United States with the intent, first, of confining the uses to the most important purposes, war industries; and secondly, with the purpose of making the price ceiling which has been established by Henderson's organization effective. The mere establishment of a price ceiling by Henderson's organization, which is thirty-five and three-eighths cents, does not prevent American manufacturers from going into Mexico and Canada and paying what they wish for it. They have been going down there, and we just got a cable saying that one transaction is taking place at sixty cents; but there are a number of transactions.

H.M.JR: Now, wait, you have got to give me the whole picture. Let me do it, and where I am wrong tell me, because I can't keep track of it. I haven't had time. This is the way - I sent you a little notice, no manufacturer - let me start with the silver manufacturer in the United States, see?

MR. WHITE: Right.

H.M.JR: Now, a silver manufacturer in the United States can't import any more from Mexico because somebody got out an order this week that you can't import unless you get a license. Is that right?

MR. WHITE: He can import, but he can't use it. In effect he can't unless he has a license. It isn't an import restriction; it is a use restriction, but in effect that is what it amounts to.

H.M.JR: The net effect is that a silver manufacturer can no longer import silver.

MR. WHITE: Unless he complies with certain conditions.

H.M.JR: All right. Also if he wants to buy it now, he has got to pay more than seventy-two cents, hasn't he? Can he buy it - can he go to the market?

MR. WHITE: He has got to have an allocation even for domestic silver; in other words, there have to be priorities. They are establishing a priority system. If they are willing to pay seventy-two cents, that will add so much to the silver supply that probably the non-essential users will be able to get all they want. They now figure that there will be enough silver to satisfy some of what they call non-essential users.

H.M.JR: Wait a minute. You made a statement that if they begin to pay seventy-two cents it will so increase--

MR. WHITE: Yes. Then if they pay seventy-two cents, they will get all the domestic supply, and the domestic supply is about five million ounces a month in addition.

H.M.JR: Well, will they?

MR. WHITE: Will they pay seventy-two? I think a good many of them will.

H.M.JR: Wait a minute. Again let me go back. You think if domestic users could get a priority to get silver at seventy-two cents - are you implying it is going to increase the production?

MR. WHITE: No, but instead of silver going to the Treasury, it will all go to industry so it will be an additional supply so far as industry is concerned. We get it now--

H.M.JR: All right. Now, what is this particular thing that you are putting up - that Henderson is putting up to me this morning?

MR. WHITE: This is Nelson. Nelson's group is asking our approval on that order.

H.M.JR: Now, what does the order do?

MR. WHITE: The order restricts the ability to use silver according to licenses. In other words, it gives the authority to the WPB to say, "You cannot use this silver unless you will fulfill these conditions." And one of the conditions which they are going to establish, though it doesn't appear in the order, is that they can't pay more for silver abroad than the price ceiling established here.

H.M.JR: What is the price ceiling here?

MR. WHITE: Thirty-five and three-eighths cents on foreign silver.

H.M.JR: It doesn't make sense. They have just got out this order now, haven't they? Is this another order?

MR. WHITE: I just read about it in the paper, but they asked us - I don't know whether it is official.

MR. BELL: That is Henderson's order.

H.M.JR: There is something confusing here to me.

MR. B. BERNSTEIN: I think there will be in effect three orders, the first one of which has gone out. That regulates the importation of foreign silver. The order currently being considered provides the system of priorities covering foreign silver and how foreign silver will be used.

Now, on top of that there will be the order fixing the price.

H.M.JR: Do that again. There will be three things?

MR. B. BERNSTEIN: The first one controls the importation.

H.M.JR: And that will be done through which agency?

MR. B. BERNSTEIN: WPB has already furnished that order in the form of an amendment. The second one will fix the order of priorities with regard to foreign silver, and in effect it will mean that the non-war producers will get very little, if any, foreign silver. The third step will be perhaps a reconsideration or, in any event, a fixing by Henderson of the price of foreign silver.

MR. WHITE: That, I think, is all right, except for the last point. The last point is as follows: They have fixed the price of silver along with the prices of all other commodities in the general price ceiling. It happened to be thirty-five and three-eighths cents.

They didn't specify silver; silver came in among the others. They are confronted with two problems. One, shall they have a special price applying to domestic silver, because if they don't make a special exception for domestic silver the American producers, manufacturers, will not be able to offer seventy-two cents for domestic silver. If they can't offer seventy-two cents, the silver will go to the Treasury instead of to the domestic manufacturers, so they want to place a ceiling, a special ceiling, on newly-mined silver which would be just enough to divert silver from the Treasury to the domestic users.

H.M.JR: That would be seventy-two cents?

MR. WHITE: Seventy-two cents.

H.M.JR: But they will have the domestic price of seventy-two cents for the silver manufacturer, and they will tell them that, "You can't pay in Mexico more than thirty-five cents.

MR. WHITE: That is right, that is the way it will be now. I have raised the question with them informally.

H.M.JR: Do you agree on it?

MR. B. BERNSTEIN: Yes, I would have thought that they were also reconsidering or being subjected to pressure, by us and by others, on the question of the thirty-five cent price.

MR. WHITE: They weren't by others, but they were by us. We raised the question with them informally, and it arose out of Betata's discussion that until Nelson's outfit implemented the price ceiling it didn't worry anybody because they could go down to Mexico and buy more. But in the light of the new order, what it would mean would be that Mexico wouldn't be able to get more than thirty-five cents for its silver. Now, Mr. Betata came in here and asked your opinion or approval on the establishment of an export tax. He told us that he was thinking of a ten-cent tax, which would mean that if the thirty-five cent ceiling price still remained here that the miners in Mexico, or the miners, silver owners, would be able to get only twenty-five cents out of their share, and the Government would get ten cents, which would mean that the supply of silver would be curtailed.

Besides that, certainly the Mexicans are going to be very disturbed and very angry by an arrangement which doesn't permit them to get more than thirty-five cents at a time when they could get much more, and at a time when domestic manufacturers are sending it into industry at seventy-two cents.

So I asked the Henderson outfit to consider the feasibility of raising the ceiling on foreign silver to forty-five cents; what would they think of that proposal, explaining what the Mexican Government had in mind. They are now considering it. They indicate that they might look favorably upon that, but I didn't ask them for a formal opinion yet. If they raise it to forty-five, then Nelson's outfit will put that into effect. Nelson's outfit says, "We don't care what the price is; that is not our business; that is OPA's business; but whatever price OPA sets, we are going to effectuate, and we will also see that whatever silver comes in will be used for the most important uses."

H.M.JR: Do you know - for instance, does OPA say tothe chocolate manufacturers that, "You can only pay so much for cocoa in Brazil?"

MR. WHITE: They are going to do that.

H.M.JR: But I mean, have they?

MR. WHITE: No, not to my knowledge.

H.M.JR: I would like to know of any case - that is as good an example as any - if they say to a chocolate manufacturer, "You can only pay so much for cocoa in Brazil."

MR. WHITE: They haven't been able to do that; it wouldn't have meant anything, Mr. Secretary, but that point has been troubling them a great deal. I think it is because that has been troubling them that they got Nelson's outfit to issue this order, which would make it possible for them to put a ceiling on the foreign silver; but they can't do it alone. They don't have the authority to do it alone.

H.M.JR: Personally, this stuff - oh, Gawd, everybody makes everything just as difficult as they can for you instead of just as easy. Let me ask you this: For the American manufacturer, why should they try to put a ceiling above the price that we pay our own silver miners?

MR. WHITE: They do that in order to increase the supply of silver, because the silver that we buy is gone, so far as the users are concerned - the market is concerned.

H.M.JR: You don't understand me. I mean, if they want to try to control what the man pays, the prices, and they are going to permit the manufacturer - in order to get any silver in this country, he is going to have to pay seventy-two cents. Right?

MR. WHITE: For newly-mined domestic silver he would have to pay seventy-two. He might get some, I don't know how much, but not as much as he wants.

H.M.JR: What?

MR. WHITE: Of foreign silver.

H.M.JR: No, but I mean - don't make it more confusing, Harry. Provided he gets the license, the manufacturer in this country who is going to buy domestic silver would have to pay, roughly, seventy-two cents.

MR. WHITE: If he gets the license.

H.M.JR: So what I am trying to say is this, why is it any of our business to say to the manufacturer, "Well, you can buy this silver anywhere in the world that you want as long as your cost, landed, in New York does not exceed our own domestic price."

MR. WHITE: Their answer to that is as follows: They say, "Silver is not any different from cocoa or anything else," and they say that our price ceilings which we have established are being threatened on a broad front.

H.M.JR: But that is ridiculous; the price ceiling is seventy-two cents. It isn't thirty-five cents.

MR. WHITE: Well, the seventy-two cent price doesn't apply to all the silver; it only applies to part of the silver.

H.M.JR: It applies to any silver that a manufacturer wants to use.

MR. WHITE: The non-essential uses.

MR. B. BERNSTEIN: In the past, Mr. Secretary, for all the materials that were produced in which they used silver the price those people paid for silver was thirty-five and three-eighths cents.

H.M.JR: When they bought outside of the country.

MR. B. BERNSTEIN: And since what they tried to do was freeze the prices on the basis of it, the situation as of March thirty-one this year - at that time manufacturers were able to get silver at the thirty-five and three-eighths price.

H.M.JR: But, Bernie, I mean I am not arguing for higher-priced silver. Personally, I still stand where I did. I would remove all silver restrictions and just have it treated like anything else, but treat silver just like a commodity. Let's say that the sugar price in this country, using sugar - we can grow sugar, and let's say the ceiling in this country is five cents, see? Then, why should we say that in Cuba you can't pay more than two and a half cents for sugar?

MR. E. M. BERNSTEIN: Three-fifths of the imported silver goes into essential war uses; it is for those war uses they want to keep the price down, and for them they reserve the greater part of the foreign silver. They don't want them to have to pay seventy-two cents an ounce.

MR. WHITE: In other words, it--

H.M.JR: Yes, but the whole thing is so inconsistent. On the one hand you say for the war uses it is going to be thirty-five cents, and for the silversmith it is going to be seventy-two cents.

MR. WHITE: That is precisely what they are saying in the conservation order.

H.M.JR: You haven't told me that. I have had to dig that out. No one has told me that, if that is what it is.

MR. WHITE: It is to discourage non-essential users by charging them a higher price and yet providing a new supply for them which otherwise wouldn't be available to anybody because it would go into the Treasury.

H.M.JR: How do you get that? Can't they get it now - if I wanted to go out today, and I am International Silver Company, wherever they are, and buy silver in Utah at seventy-two cents, can't I buy it?

MR. WHITE: Not if their old price ceiling stayed in effect, which was thirty-five cents. Then the Government was the only one that could pay more than thirty-five.

MR. BELL: Didn't that apply to foreign silver only?

MR. WHITE: No, they excluded domestic silver.

MR. BELL: Yes, but why isn't the Secretary's statement correct then?

MR. B. BERNSTEIN: I think it has. Gorham has paid seventy-two cents. The point Harry was making--

H.M.JR: Gorham has paid seventy-two?

MR. B. BERNSTEIN: Yes. The point Harry was making, it seems to me, is this, that only those manufacturers who could afford to absorb the difference between the thirty-five cent price and the seventy-two cent price were in a position to go out and pay the seventy-two cent price. Other important manufacturers, the price on whose product was fixed, couldn't afford to pay seventy-two cents where they previously had been paying thirty-five; and they are bringing pressure on OPA to let them raise the price of their product so that they in turn could come down here and pay seventy-two cents for silver.

H.M.JR: Well, to make it thoroughly cockeyed, they should leave it at thirty-five cents, and then these people sell their goods, and then ask them, "How much money did you lose on it?" Then we pay up the difference in the losses, whatever it is on the books. That would be the perfect set-up. You see, leave it at thirty-five, they will sell at the other - some can pay seventy-two, others can't - and then say, "How much are you losing on your silver spoon?" "I am losing so much." "Just draw a check on the Treasury."

MR. B. BERNSTEIN: I don't know whether you are serious or kidding.

H.M.JR: I am not kidding.

MR. B. BERNSTEIN: That is right. I talked to one of the boys last night, and they feel it is cheaper to have subsidies to make up the losses.

H.M.JR: No, that is what is--

MR. BELL: They are talking about that in other commodities.

H.M.JR: They will have to do that on meat right now. Boston is getting no meat because the packers can't stand the fifteen-cent price on hogs, so they say, "To hell with it; we are not going to butcher any hogs."

MR. WHITE: You remember, we said a long time ago that fixing prices does not meet the situation, and we are beginning to see all the rips opening up in the seams. The first one was the import goods. The second is that matter you are raising; but the further reason is they want to put a ceiling on domestic silver because they are afraid that even with the uses restricted to non-essential uses the bidding up of domestic silver might cause the price to go to a dollar an ounce. So they want to set a ceiling even on domestic silver of seventy-two cents so as to prevent the bidding up of that.

MR. E.M.BERNSTEIN: There will be three categories of silver users as a result of the import order and the forthcoming conservation order. There will be the essential users of silver for war purposes, at thirty-five and three-eighths cents, first claim on the foreign; there will be priority users who will have foreign silver, and they will pay thirty-five and three-eighths cents; they have priorities from 1-a to 10-a. There will be those beyond that level of priorities who will not be able to get foreign silver, and if there is domestic silver for them they will all get domestic silver and they will pay seventy-two cents an ounce.

H.M.JR: Well, this thing is unusually complicated because we have the seventy-two cent price that the industries buy at, the thirty-five cent world price which will be fixed, and then Harry White comes along and suggests that we add an extra ten cents so that Mexico can collect a tax.

MR. WHITE: It is a complicated situation, but I think--

H.M.JR: Supposing Canada wants to put on fifteen cents. They need a fifteen-cent tax. Then what are you going to do?

MR. WHITE: Well, it is a question of reasonableness.

H.M.JR: Now, this is the way I feel. This situation is like cocoa. I personally think, Harry, this. I mean, left to myself - I mean I would say, let them have a free-for-all on silver up to seventy-two cents. That is what I would say, but you can't do it that way. So I think - I don't see how the position is tenable - your ten cents tax. I think they had better go ahead and try to freeze the foreign price at thirty-five cents, put a ceiling of seventy-two cents on for domestic, and then let these fellows go to the State Department - Mexico, and so forth and so on - and then let the State Department take the burden if they want to increase the price above thirty-five cents.

MR. WHITE: That was our original position, Mr. Secretary, and the only reason it is revised is because Mr. Betata came to you.

H.M.JR: Certainly he got nothing out of me.

MR. WHITE: He hasn't gotten anything out of us, either.

H.M.JR: I just think the thing is so cockeyed that we had better just be ultra-conservative on this thing and say, "The price is thirty-five cents; that is what it is." Let them freeze the foreign silver at thirty-five, the domestic at seventy-two, and if Mexico and Canada or Peru or somebody else doesn't like it let them go to the State Department and complain.

MR. CAIRNS: That gives Nelson what he wants?

MR. WHITE: Yes, that gives Nelson what he wants. We answer Mexico by saying, "We have great sympathy but unfortunately that is not a matter which relates to us", and they immediately will bring pressure to bear on the State Department and on OPA, and it will be their baby. We are not in any way overlooking a responsibility which we have - I really don't see it - because at that point it is a question of international relations; and it is no different, it seems to me, than cocoa or any one of the other imported articles about which we are troubled. Why should we ask them to make a difference on silver for Mexico and not ask a difference for cocoa for Columbia? It isn't our affair.

H.M.JR: Sure, or long staple cotton from - which country did we buy from?

MR. WHITE: Well, Peru - we used to buy it from Egypt.

H.M.JR: Another way would be to have one of Jesse Jones' Metal Reserve Corporations buy the silver from Mexico at forty-five cents and let Jesse take the ten-cent loss, you see, and sell it to Nelson at thirty-five cents.

MR. WHITE: They are doing the same thing with some things, with copper.

MR. B. BERNSTEIN: Mr. Secretary, before the discussion is closed, and I am glad you gave me an opening--

H.M.JR: That is another way out, let Jesse buy it at forty-five cents, absolve the ten-cent loss, and Nelson gets it at thirty-five.

MR. WHITE: Bernie has his foot in the door with his scheme. (Laughter)

MR. B. BERNSTEIN: Doing what you are suggesting here neither increases the supply of silver for war and non-war uses nor eliminates the possible hardship that will exist for Mexico and other countires. Now, I am not attempting to argue the propriety of the position that you are suggesting, but assuming that a solution must some time be found--

H.M.JR: I am not arguing, but I will now proceed to go ahead and argue. (Laughter)

MR. B. BERNSTEIN: Not at all. I just say that some time a solution will be found which will both make more silver available for the market and at a price which will be deemed to be fair by the foreign countries. The Metals Reserve Company can do it by redeeming silver certificates at the Treasury for silver coins, melting the silver and selling it to the market, say, at fifty cents an ounce.

H.M.JR: But that is the thing, Bernie - listen, before we go into that - just hold that a minute - I want to ask Bell if the thing that I suggested - you hold yourself a minute.

MR. BELL: Yes, I think that is all right. I was going to raise the question as to whether you should warn Henderson or Nelson, one or the other, that undoubtedly they will get this pressure through the State Department so they are prepared to meet it.

MR. WHITE: I have already informed Henderson's men that they can expect considerable pressure. We can repeat it higher up.

H.M.JR: Are you satisfied? Do you see anything else - I mean from a Treasury standpoint?

MR. BELL: I think that is the way to do it.

H.M.JR: At least we are doing it then as strictly Treasury people.

MR. BELL: I think that is right. I don't see how you can distinguish between commodities.

H.M.JR: You are all right?

MR. BELL: Yes.

MR. CAIRNS: Yes.

H.M.JR: White?

MR. WHITE: I think that is the thing to do. I don't think we have any special responsibility to Mexico.

H.M.JR: Now, going back to my conversation with McCabe of Lend-Lease, in which he told me that he didn't see how they could redeem silver certificates for coinage purposes but that they could do it for strategic purposes, I told him on the phone that my chief interest was in getting silver for England and for Australia for coinage purposes. He seemed to be surprised at that. I said, "Well, that is what I am interested in."

Now we have got, gentlemen, to do something about helping England and Australia and these other countries, Iran and Iraq, whatever they are, to get this silver so that they can have it for small coins. I think we have just got to move on it.

MR. WHITE: Mr. Secretary, I think one of the reasons we have our difficulties is that the negotiations with Lend-Lease have been through Mr. Ecker. I have explained them in great detail at least five times, and the man doesn't assimilate easy.

H.M.JR: That man Wyzanski is nobody's fool. Didn't Wyzanski come over?

MR. WHITE: No. They will come over now. In the memo they say they are ready to come over, but I mean all the negotiations have been by Ecker. He would call me up after every meeting and I would have to go over it all again, so I don't think it has been adequately represented to them.

H.M.JR: I would like to really go to town on that. I think that is really a Treasury responsibility when another treasury calls up and says, "We need silver."

MR. BELL: I think we should do everything we can to get silver for coinage in those countries where we have caused the shortage.

H.M.JR: So if you and Judge Wyzanski, who has been brought down off the bench to help on this thing--

MR. WHITE: Their memo doesn't foreclose it.

H.M.JR: No, it is very nice.

MR. WHITE: So that the next step is to call them and show them the emphasis.

H.M.JR: And McCabe said he would be interested if it was a coinage thing I wanted.

MR. BELL: We did get a reply from McCabe that it couldn't be done?

MR. WHITE: Not that it couldn't be done, but that they didn't like the policy.

H.M.JR: He sent over an unsigned draft for us to consider. They didn't want to close the door.

MR. BELL: He will do it; if he can do it, he will.

MR. WHITE: I don't think we will have difficulty convincing him.

H.M.JR: Do you remember Wyzanski?

MR. BELL: Very well. He is very able.

H.M.JR: They have brought him down to help out.

MR. WHITE: He has another idea in there, which he said they wouldn't like, to redeem silver certificates at a dollar twenty-nine cents an ounce. That seems to them a little bit preposterous a price, but what they would be willing to do would be to direct the Treasury, as their agents, to buy domestic silver at seventy-two cents. Now, it may be that can work out. They may be able to buy it directly but pay just a little more than we pay and get seventy-two cent silver. That, however, is not the understanding you had with the Silver Committee and the Silver Committee might object to it.

A third change in your idea to them is with reference to the terms. You remember that you suggested that it would be an ounce-for-ounce return. They don't wish to make those special terms. They prefer not to now. It may be possible to convince them, but that is another distinction between their position and the Silver Committee's position.

MR. BELL: Why isn't that a good suggestion of buying at seventy-two cents for the Lend-Lease?

MR. WHITE: It would be better if the Silver Committee - if it would be all right with the Silver Committee.

H.M.JR: Now, I think, gentlemen, that we have spent about all the time that silver is worth, forty-five minutes.

MR. WHITE: There is a letter that you have to sign, if that is the case.

MR. B. BERNSTEIN: The industrial users of silver want to buy some of our seventy-two cent silver, but for the processors to sell it to them you have got to give them an extension of time under certain contracts that they have to deliver the silver to you. We have done it in the past. We have given them an additional six months' time. Then they will sell that silver to Gorham and Handy and Harman, and so on. Ed signed a memorandum to you.

H.M.JR: Wait a minute, you are going a little bit fast. Explain it to me once more.

MR. B. BERNSTEIN: On newly-mined domestic silver the customary way it is delivered to us is as soon as the smelter gets it he pays his seventy-two cents to the miner and gives you a transfer of title. That protects him in case legislation is changed. The delivery date on that silver is now here.

H.M.JR: Is now what?

MR. B. BERNSTEIN: Now arrived. Under the contract they have got to make deliveries to you this month. If you will give them an additional six months in which to deliver that silver they are going to turn around and be able to sell silver to industrial users at seventy-one point eleven cents.

H.M.JR: If they get a license. But that releases - that makes it possible?

MR. B. BERNSTEIN: Yes.

H.M.JR: I want you gentlemen to know this, that there are two things - I think it is a great mistake to shut down these silversmiths unless - I mean on the price business, you see - only on the price business. But if it is a question of a silversmith or a straight war need then it should go for war purposes. But if it is a question of the silversmiths not being able to function on account of this price tangle I think we should be sympathetic to the silversmiths.

MR. WHITE: That is right.

They have asked for our approval of their order. I don't know whether we have to answer.

H.M.JR: Do I have to?

MR. BELL: You are just saying there is no objection.

MR. WHITE: That is the order establishing priorities and conservation.

MR. BELL: Can you get away with that, just saying there is no objection?

MR. WHITE: It would satisfy them better.

There is one other matter that I would like to raise. We are negotiating with the Swiss now on the question of the acquisition of Swiss francs. We would like to ask to buy two million dollars' worth, more, of Swiss francs.

H.M.JR: We bought two million.

MR. WHITE: We bought one, and we didn't use it but we are saving it. We expect to need about ten million. So that the Stabilization Fund, if they acquiesce to our--

H.M.JR: I thought you bought two.

MR. WHITE: It was one. We bought two million Swiss francs, wasn't it?

MR. E. M. BERNSTEIN: One million Swiss francs.

H.M.JR: Wait a minute, we gave the Vatican - made available to them two hundred and fifty thousand dollars' worth of Swiss francs.

MR. WHITE: Not out of this. It was other Swiss francs.

H.M.JR: But that was two million dollars, wasn't it?

MR. WHITE: Two hundred and fifty thousand Swiss francs - no, it would be much less than that.

H.M.JR: Wasn't there two million dollars' worth of Swiss francs?

MR. E. M. BERNSTEIN: In an option fund there was - we had the right to buy it at any time. We didn't have the right--

H.M.JR: Am I not right, it was two million dollars?

MR. E. M. BERNSTEIN: Yes, sir, it was that much at one time.

H.M.JR: What has happened to that?

MR. E. M. BERNSTEIN: It has been apportioned to the Vatican and to some other places.

H.M.JR: The State Department, the Red Cross - have you used that all up?

MR. E. M. BERNSTEIN: No, sir, there is still a little left.

H.M.JR: You didn't buy that outright?

MR. E. M. BERNSTEIN: No, sir.

H.M.JR: Option from whom?

MR. E. M. BERNSTEIN: From the Swiss National Bank.

H.M.JR: But you haven't used that all up?

MR. E. M. BERNSTEIN: No, sir.

H.M.JR: And that wasn't through the Stabilization Fund?

MR. E. M. BERNSTEIN: No, sir.

H.M.JR: Now you want to buy a million dollars' worth?

MR. WHITE: Two million dollars' worth.

H.M.JR: Of Swiss francs?

MR. WHITE: Yes, that would be how many--

H.M.JR: From whom do you want to buy?

MR. WHITE: From the Swiss, and negotiations are going forward.

H.M.JR: Swiss National Bank?

MR. WHITE: I think it will be the Swiss National Bank that will make it available, but the Swiss Government will have to give its approval.

H.M.JR: And the Stabilization Fund--

MR. WHITE: The Stabilization Fund would then have two million and a third - two and a third million dollars' worth of Swiss francs, and the State Department anticipates a need for ten million the rest of the year. So I don't think we will get stuck with it unless the war ends--

H.M.JR: What price?

MR. WHITE: The par price.

MR. BELL: Par? That is nineteen, isn't it?

MR. WHITE: Twenty-three cents.

H.M.JR: What was that other two million dollars - what did we pay for that?

MR. E. M. BERNSTEIN: We always get it for par when we get it from the Swiss.

MR. BELL: You pay gold for it, don't you, so they give you par?

MR. E. M. BERNSTEIN: Not because we pay gold. It is because when they sell it to us we give them dollars. They get gold if they want it.

MR. WHITE: Twenty-three cents is the official--

H.M.JR: What is it in the market?

MR. WHITE: It was twenty-eight and thirty-two, and I think it even went as far as thirty-four.

H.M.JR: So it is a good buy?

MR. WHITE: Yes, it is a good buy.

H.M.JR: Could we make a little money on it?

MR. WHITE: We can if you want to. We can charge the State Department.

H.M.JR: What are we in business for, our health? (Laughter)

MR. WHITE: Since it is the State Department, maybe we can make a little money. (Laughter)

H.M.JR: I would charge them something. All right, that is approved. Anything else?

MR. WHITE: That is all. This letter to the Senator on silver will have to wait because it speaks of coinage.

July 15, 1942

Secretary Morgenthau

Mr. Foley

The shortage of silver available for use in industry and the arts has created a market demand for newly-mined domestic silver at a price in excess of 71.11 per ounce, the price now paid for such silver by the coinage mints. In the immediate future this type of silver will probably be sold to consumers.

However, title to more than 6,000,000 ounces of the production of the refineries for the months of July through November has already been transferred to the United States under Instruments of Transfer. An Instrument of Transfer vests title to the silver in the United States immediately upon its acceptance and the silver is required to be delivered at some future time, usually within the next five months. Some of the refineries that have executed Instruments of Transfer calling for deliveries in the months of July through November are anxious to have them cancelled or modified in order that this silver may be sold to industrial and artistic consumers.

Instruments of Transfer have been modified on numerous occasions in the past to permit late deliveries. It is my opinion that you have the legal authority to agree to a modification of the Instruments of Transfer so as to postpone the delivery dates until sometime in the future.

If you approve our taking steps to modify the Instruments of Transfer, will you please indicate your approval below.

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

APPROVED:
(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

RB:FH:ecr- 7/14/42

JUL 24 1942

Attention: Mr. Lund

Dear Sirs:

Reference is made to your inquiry as to the views of the Treasury Department concerning the proposed Order M-199 to be issued by the War Production Board.

It does not appear that the problems dealt with by the Conservation Order M-199 affects the functions of the Treasury Department with respect to silver, and accordingly the Treasury Department raises no objection to the issuance by the War Production Board of the proposed Order.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

War Production Board,

Washington, D. C.

BB:nrd - 7/22/42.

July 25, 1942

MEMORANDUM FOR THE FILES

Subject: Meeting on the Lend-Leasing of Silver
Mr. White's office, July 24, 1942

Present: For Lend-Lease: Mr. Ecker, Mr. Van Buskirk, Mr. Wysensky

For Treasury: Mr. White, Mr. B. Bernstein, Mr. E. M. Bernstein

Mr. White opened the meeting by stating that the proposed letter from the Lend-Lease Administration met part of the requirements for an adequate program of lend-leasing silver to friendly foreign countries. The willingness of the Lend-Lease Administration to provide silver for industrial purposes fully met that part of the silver problem. However, some of the most important requirements are not met by the Lend-Lease Administration's proposal. The two most important are the need for silver for coinage purposes, and the failure to provide for a separate lend-lease agreement for the return of silver on an ounce-gram basis after the war. Mr. White made a brief statement on the position of the Senate Special Silver Committee and the desirability of shaping the program in a manner that would be approved by the Committee.

Mr. Ecker stated that it was difficult to say how silver coinage could be regarded as a defense article. The Lend-Lease Act limits the Lend-Lease Administration, he said, to the provision of defense articles. Mr. B. Bernstein pointed out that the effective production of defense articles depends upon an adequate coinage, and that silver coinage is an essential part of a satisfactory monetary system.

The question was raised by Lend-Lease people whether the additional silver coinage required was solely due to the presence of troops of the United Nations in these areas. Mr. White replied that clearly the presence of the troops was an important factor in the need for additional silver for coinage. Nevertheless, the principal reason for the increased need for coinage is the expansion of production and employment as a consequence of war production. Mr. White pointed out that if we do not lend-lease silver to England for coinage that England will, of necessity, divert silver from industrial uses to provide itself with the necessary coinage. This silver will come out of the war effort whether silver is diverted from use in England and replaced by other metals or whether silver is acquired in the open market, which will reduce the available supply for the American war effort.

Mr. Wysensky admitted that the Lend-Lease Administration can lend-lease silver for coinage where it is so clearly connected with the war that no doubt exists of the connection. He cited a hypothetical case of the reconquest of Norway. If silver coinage should be needed to re-establish the monetary system of Norway, the Lend-Lease Administration would feel justified in providing such coinage.

Mr. E. M. Bernstein inquired whether the Lend-Lease Administration would honor a requisition from one of the United Nations for silver for coinage if the requisition stated that such silver was needed because of the presence of troops and war production. Mr. Van Buskirk replied that the request would be investigated and a decision based on that. He offered little hope that silver for coinage would be made available. The Lend-Lease people made it clear that the principal reason they objected to the provision of silver for coinage is that silver provided for this purpose might be regarded by the public as a direct lending of money or equivalent to a direct lending of money.

The question was briefly discussed on the desirability of having silver lend-leased for war production uses and returned after the war on an ounce-for-ounce basis. Mr. Van Buskirk said he saw no more reason for the separate agreement for the return of silver than for the return of any other material that is lend-leased.

Mr. White pointed out that it is difficult to ignore the Silver Committee's desires in this respect. The strength of the Silver Committee is not to be measured merely by their attitude towards silver. Their dissatisfaction with the silver program will be manifested in their attitude on every important measure. Mr. White added that the Senate Special Silver Committee has in mind the Pittman Act under which Treasury silver was made available for sale to foreign countries during the last war and the Treasury required to repurchase the silver at a dollar an ounce, which was more than twice the market price. While the Senate Special Silver Committee is in no position to ask for such generous treatment this time, they would like to see a post-war demand created for silver for replacing silver provided the United Nations out of the Treasury's stocks.

The meeting adjourned with the Lend-Lease Administration still holding firmly to the view that the lend-leasing of silver for coinage purposes is in general outside the functions of the Lend-Lease Administration and would be misunderstood by the public; that there is no need for a separate lend-lease agreement on industrial silver provided for war uses.

E. M. Bernstein

July 24, 1942

Conference in Secretary Morgenthau's Office
Thursday, July 24, 1942
11:05 A. M.

Present: Secretary Morgenthau
Sir Frederick Phillips
Sir Frederick Leith-Ross
Mr. D. W. Bell
Mr. H. D. White

The meeting had been arranged at the request of Phillips, who had said that Sir Frederick Leith-Ross would like to call on the Secretary. After some preliminary pleasantries, Leith-Ross spoke to the Secretary about the proposal to establish an International Relief Organization and remarked that the Secretary was the person most necessary to talk with since there was the question of financing the relief. The Secretary said he did not know much about it yet inasmuch as he was busy with problems that were more immediate. Leith-Ross said he hoped the Secretary would find time to go into the matter as he felt it was something that ought to be initiated in the not too distant future. Leith-Ross also intimated he would be glad to talk about the details with the Secretary any time the latter felt interested. The Secretary responded that he would be glad to go into it some time. Sir Frederick Phillips also said the people in London had been thinking about post-war monetary problems and would like to discuss it sometime with the Secretary and the Secretary said he would be glad to.

Secretary Morgenthau asked Phillips and Leith-Ross whether they were familiar with the point rationing system. Leith-Ross said he wasn't in on that end of it but made a few comments; Phillips said he had observed some of the things about it from his recent sojourn in London. The Secretary asked whether it would be possible for Phillips to have prepared a memorandum setting forth briefly some of the characteristics of the point rationing system in England and whether he had any memoranda or reports available which he could send to the Treasury. Phillips said he would be glad to have prepared such a memorandum and see what was available.

The meeting adjourned after about fifteen minutes.

146-A

July 24, 1942

Knox told me at lunch today that Hopkins, King and Marshall were over in England, and that the President's instructions were not to come back from England until they have gotten an agreement from the British that they would attack somewhere on the Second Front with us this summer.

7/24/42 147

Reading copy of HM,Jr's remarks to Navy Department employees in front of Navy Department Building at noon today, when Secretary Knox also addressed them, on their Payroll Deduction Plan.

IT RAINED!

Mr. Knox, Mr. Bard, Ladies and Gentlemen:

This is certainly a stirring and heart-warming demonstration. I share with you the pride and satisfaction that all of you must feel over the outstanding success achieved by the Navy Bond Campaign. There is always satisfaction in a job well done. That is particularly true in this case, for sound and adequate financing is one of the most important phases of our all-out war effort. To prosecute the war during this year, it will be necessary for the Government to borrow at least $50,000,000,000, more than $4,000,000,000 a month. We hope that at least $12,000,000,000 of this will come through the sale of War Bonds to wage earners and salaried employees.

It is essential not only for the successful conduct of the war but for the economic welfare of the nation that as much as possible of the income of individuals be invested in Government securities. This is imperative for a number of reasons. One is that this money is actually needed to finance the war. It helps to pay for the weapons our courageous fighting forces need to defeat the enemy. Another reason is that by investing as much as possible of our current income in War Bonds, we reduce unnecessary spending and thus help to keep prices down. Every War Bond dollar we get means one dollar less that we shall have to borrow from the banks.

We all know that the supply of civilian goods is being drastically curtailed by the demands of war production. With more money to spend for fewer goods, prices are bound to increase unless we deliberately resolve to spend less and save more. In war time spending as usual is as bad as business as usual. By investing every cent we can in War Bonds, we can kill three birds with one stone. First,we can help buy planes and guns and ships for our fighting men. Second, we can help keep down the cost of living for ourselves and for the government. And third, we can protect our own future security with the savings we accumulate now.

To accomplish these objectives the slogan of our War Bond Campaign has been "Everybody -- Every Pay Day -- 10%". It is proper that we who are in Government service should set an example for those employed in business and industry. The Treasury Department last month, and now the Navy Department, have gone over the top in this campaign. Over 90% of the employees of both departments are investing more than 10% of their total pay in War Bonds every pay day. We of the Treasury and you of the Navy have thus said to employees everywhere, in other Government Departments and in private business and industry, "We have shown the way. This job can and must be done."

Personally and on behalf of my associates in the Treasury Department, I congratulate you. By your success in this campaign you have demonstrated the truth of your War Bond slogan, "Navy Dollars are Fighting Dollars".

My thanks and congratulations to you all. Keep up the good work.

July 24, 1942
4:15 a.m.

INFLATION

Present: Mr. Bell
Mr. White
Mr. Cairns
Mr. B. Bernstein
Mr. Paul
Mrs. Klotz

H.M.JR: In order to save me and also for efficiency, I hope you agree to what I am doing. Until the tax bill is through - you see, at Cabinet - I mean - you see what I am leading up to - at Cabinet I brought up - I gave the President this memorandum which Bernstein prepared. As I understood it, it was his idea; he did the work on it. I think I am correct. I mean, I am a little bit - I don't know just who to work with. You are through with the bill, so I am just a little bit hamstrung - or am I confusing you?

MR. PAUL: No, not at all. I can tell more after you get on a little bit.

H.M.JR: The point is I have got to work - I mean, normally, once the tax bill is over, and I have got something, then I would say to you - I would say, "Paul, do this as General Counsel," but in the meantime, with you up on the Hill and wanting to keep the thing - I will try my best to keep you informed when you can do something, and I will let you tell me - I would like to work with the fellow direct. That is what I am getting at.

MR. PAUL: That is right, and I think you should work with - depending on which--

H.M.JR: O.K.?

MR. PAUL: Yes, which part it is, whether it is Foreign Funds or another part.

H.M.JR: And it is up to these fellows to keep you posted as much as possible, and when you are here,like I said, "If he is here, tell him to come in." If not, they would have had to tell you. Is that right?

MR. PAUL: That is all right.

H.M.JR: When I get through any of - these two can have their day in court if they are not satisfied, but in the meantime let's keep winning the war. I will tell you what I have done. Then, if you are not satisfied - anyway, instead of the President - to my amazement he took the memorandum and as a basis of that, he read the first page. He discussed the whole question of inflation and prices for about fifteen or twenty minutes, and he asked me if we were in tune with the Attorney General. I said, "It isn't a question of being in tune; we just haven't discussed it with anybody outside the office," and I take it that is right.

MR. BERNSTEIN: That is correct.

H.M.JR: And so he was sparring around a lot, and in view of the fact that Jim Forrestal just before Cabinet got hold of me and said, "Wasn't it terrible the President wasn't going to go ahead, the House leadership had licked him on the thing, and he wasn't going to do anything." So the President - from his discussion nobody at Cabinet could tell whether he was going to go to Executive Order, because he asked, "What would you say if I sent a message to Congress?" So finally I turned to the President, and I said, "Well, I don't understand. Are you going to do this by Executive Order, or aren't you?" I thought I might as well nail him down, and in a very disagreeable manner he turned to me and said, "Of course I am going to do it by Executive Order," so - well, that was the first I think anybody in the room knew it. But I wanted to know it, so he said--

(Mr. Murphy entered the conference.)

H.M.JR: Harry will tell you, Henry. He will post you. You haven't missed much. Then at the end of Cabinet I said to the President, "Is it agreeable if I give a copy of this memorandum of Bernstein's to Sam Rosenman," and he said, "It is." I then got hold of Sam, and Sam knew nothing about it. He didn't know. He said, "Don't tell me after three weeks' discussion in the papers there isn't an Executive Order drawn." I said, "No, Sam, if there is I don't know about it, and I also understand Ginsberg has been sitting up every night trying to work one out, but I would be amazed if there was one."

MR. PAUL: I was at dinner last night with Leon, and he said, "The President has had something written for several days there," and I don't know whether he meant a message or--

H.M.JR: It was a message; I saw it. It was a message to Congress.

MR. PAUL: That clears that up then.

H.M.JR: But Leon hadn't seen any Executive Order, had he?

MR. PAUL: No, that is what I couldn't tell. He was just talking along, and this was kind of incidental, and I couldn't tell whether he was referring to an order or a message, but whatever it was, he said it had been there for several days.

H.M.JR: It was a message. I told him that the President told me I could see the Order before it was in its final form, that Bernstein was here and available, and at the Judge's disposal. I explained to him about what you (Paul) were going to be in the future. That seemed to please him very much, and I also told him that if they got along anywhere during the week end I would like to know, see?

So Bernie will hear from Judge Rosenman, see? Now, the point that I am making - I don't know whether you want to get in on this thing or not. That is the point.

MR. PAUL: I may as well get in on the fringe of it because we just finished our preliminary session with the Senate Committee and I may as well break into some of this stuff I know nothing about.

H.M.JR: Well, anyway, I told them that Bernstein - and if he calls you and you want to go over with him when he goes over to Sam, that is up to you.

MR. PAUL: You will get in touch with me?

MR. BERNSTEIN: Sure, I will.

H.M.JR: Is that - I mean, I am moving very fast because I want to get out of the office, but--

MR. PAUL: That is fine as far as I am concerned.

H.M.JR: Is that all right with you?

MR. PAUL: Yes.

H.M.JR: All right. Now, the other gentlemen in the room are also all very much interested in prices and inflation, and I would like all three of them kept posted, and their advice asked and sought as you go along on this thing. That is why they were invited in here. They all have done a lot of work on it for a couple of years, and as we go along - because there is nothing that is more important to the Treasury than this, see, Bernard and Paul and Huntington? So as you go along, would you please let Bell know, and White, and Murphy, who is here, or Haas.

MR. PAUL: What about this further idea of yours, Huntington?

MR. CAIRNS: I found another statute which specifically named you, which is, I think, preferable to the one discussed here: "Such regulations and restrictions as may be prescribed by the Secretary of the Treasury." I think in scope that it may be just as advantageous, or more advantageous, than section 5-b.

MR. PAUL: Shouldn't we write that up in the same way?

MR. CAIRNS: I think we ought to rewrite this memo.

MR. BELL: Use both.

MR. CAIRNS: Use both, yes.

H.M.JR: Judge Rosenman is starting from scratch. He knows nothing about it. He doesn't bluff. I could tell from the way the President took it that he is very much in the dark, because Judge Rosenman said, "For three weeks they have been talking about it." He just couldn't believe that there wasn't somewhere an Executive Order giving the President the powers.

MR. WHITE: If the President said he intended to do it by Executive Order he must have had some power in mind under which he could do it.

H.M.JR: No, you don't know the President. I mean, you don't know the people around him as well as I do. I mean they would let him get out on the end of this limb and he wouldn't have anything.

MR. WHITE: The answer is he doesn't know of any power he has?

H.M.JR: The answer is I am willing to bet ten to one that he has nothing in his hand. That is all the more reason--

MR. WHITE: You fellows have explored all the powers of the President?

MR. BERNSTEIN: No, I wouldn't put it that way. I mentioned this idea yesterday, and the Secretary was interested enough in it that we worked that idea up, namely, the 5-b idea. We didn't attempt to look up all existing legislation or the commander-in-chief powers. The newspapers indicated that Biddle was supposed to be working on that problem of canvassing all existing legislation to see whether the President had any power under the legislation or under the Constitution.

H.M.JR: Listen, gents, all I want to do is to lay the ground for you. I want to get out of here, and if you want to continue the discussion go into Mr. Bell's room, will you?

MR. WHITE: Yes.

H.M.JR: But the idea is everybody please put his brain on this thing - everybody.

July 24, 1942.
4:33 p.m.

HMJr: Harry.

Harry White: Yes, sir.

HMJr: Stimson told me before Cabinet that he'd read your memorandum and that Hull had sent Herbert Feis over to see him to discuss it. Hello....

W: I'm listening, sir.

HMJr: ....and that both he and Herbert Feis are reluctant about having special currency.

W: Did....

HMJr: Well, I didn't discuss it. I said, "Well, Stimson, the next move is up to you and Hull, and when you're ready, we're ready."

W: I see.

HMJr: I thought you'd like to know.

W: Yes - so that we just stay put.

HMJr: We stay put.

W: Yeah.

HMJr: Okay.

W: Goodbye.

Nathan Straus
630 Sixth Avenue
New York, N.Y.

July 24th, 1942

Dear Henry,

Accept hearty congratulation on your statement printed in the New York Times this morning. It is the most lucid analysis of a complex tax problem that I have ever read. Please do not trouble to reply.

As ever

Cordially yours,

N.S.

Hon. Henry Morgenthau Jr.
2434 Belmont Road
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 24, 1942

TO Secretary Morgenthau

FROM Mr. Murphy

Subject: Recent Changes in Prices and Yields of Government Securities

During the week ended last night, there was little movement in the prices of Government securities. Most issues showed no change or declined 1/32, while no issue moved more than 2/32. Both the taxable 1-1/2 percent notes and the 2-1/2 percent bonds of 1967-72 declined 1/32, closing last night at 100-5/32 and 101-5/32, respectively. The new 2's of December 1949-51 were unchanged at 100-6/32.

The restricted 2-1/2's of 1962-67 continued unchanged through the week at 100-8/32 bid and 100-16/32 asked, a mean of 100-12/32.* This price appears high in view of the announcement that the issue will be reopened early in August, but we are informed that bonds can actually be sold at the bid. As the interest loss which a prospective purchaser of this issue would suffer by awaiting the reopening would amount to not more than 3/32, the remainder of the premium must be due to the preference of some purchasers for early delivery of actual securities. We are informed that the extraordinarily wide spread in this issue -- amounting to 8/32 -- is due in large part to the time required for transfer of registration, during which time the bond must be "carried" by the dealer.

Prices of short- and medium-term securities continue substantially below their March 19 levels, reflecting both amortization of premiums and, in the case of the shorter issues, real market declines. Prices of longer-term bonds, however, are generally above their levels of that date. (See attached chart and tables.)

---

* Except as otherwise indicated, all quotations given in this memorandum and in the attached tables are means of bid and asked quotations.

Certificates of indebtedness improved slightly during the week. The average rate on the weekly offering of bills, which was increased to $350 millions, rose fractionally to 0.368 percent.

Purchases by the Federal Open Market Account during the week were unusually light, totaling only $7 millions, and consisted of $5 millions of bills and $2 millions of certificates. Sales of bills amounted to $2 millions, which, with bill maturities of $42 millions, resulted in a net decrease in the portfolio of $37 millions.

Attachments

Table II

Price and Yield Changes of United States Securities
March 19, 1942 to July 23, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	March 19, 1942	July 23, 1942	Change	March 19, 1942	July 23, 1942	Change
	(Decimals are thirty-seconds) 1/			(Percent)		
TAXABLE SECURITIES						
ills						
Average rate last issue	-	-	-	.20	.37	+.17
ertificates						
1/2% 11/1/42	-	100.024	-	-	.41	-
5/8 2/1/43	-	100.014	-	-	.60	-
axable Notes						
3/4% 3/15/43	100.12	100.04	-.08	.37	.56	+.19
3/4 9/15/44	99.31	99.23	-.08	.76	.88	+.12
3/4 12/15/45	99.21	99.08	-.13	.84	.98	+.14
1 3/15/46	99.29	99.11	-.18	1.02	1.18	+.16
1-1/2 12/15/46	-	100.05	-	-	1.46	-
axable Bonds						
2% 3/15/48-50	101.28	101.04	-.24	1.67	1.79	+.12
2 6/15/49-51	101.04	100.10	-.26	1.83	1.95	+.12
2 9/15/49-51	-	100.08	-	-	1.96	-
2 12/15/49-51	-	100.06	-	-	1.97	-
2 12/15/51-55	100.12	100.02	-.10	1.96	1.99	+.03
2-1/2 3/15/52-54	103.23	103.31	+.08	2.09	2.04	-.05
2-1/4 6/15/52-55	101.06	101.06	.00	2.12	2.12	.00
2-1/2 3/15/56-58	103.05	103.04	-.01	2.24	2.23	-.01
2-1/2 6/15/62-67	-	100.12	-	-	2.48	-
2-1/2 9/15/67-72	100.27	101.05	+.10	2.46	2.44	-.02
TAX-EXEMPT SECURITIES						
holly Tax-exempt Notes						
2% 9/15/42	101.04	100.09	-.27	5/32*	.05	-5/32*
1-3/4 12/15/42	101.11	100.19	-.24	2/32*	.24	-5/32*
1-1/8 6/15/43	101.04	100.22	-.14	.22	.35	+.13
1 9/15/43	101.03	100.23	-.12	.26	.37	+.11
1-1/8 12/15/43	101.16	101.00	-.16	.26	.40	+.14
1 3/15/44	101.10	100.28	-.14	.34	.47	+.13
3/4 6/15/44	100.27	100.15	-.12	.37	.50	+.13
1 9/15/44	101.16	101.03	-.13	.39	.49	+.10
3/4 3/15/45	101.00	100.18	-.14	.41	.54	+.13
artially Tax-exempt Bonds						
3-3/8% 6/15/43-47	103.21	102.16	-1.05	.41	.57	+.16
3-1/4 10/15/43-45	104.06	103.02	-1.04	.57	.74	+.17
3-1/4 4/15/44-46	105.06	104.06	-1.00	.72	.80	+.08
4 12/15/44-54	108.11	107.07	-1.04	.91	.94	+.03
2-3/4 9/15/45-47	106.06	105.14	-.24	.94	.99	+.05
2-1/2 12/15/45	105.28	105.04	-.24	.90	.96	+.06
3-3/4 3/15/46-56	110.08	109.02	-1.06	1.11	1.20	+.09
3 6/15/46-48	107.28	106.31	-.29	1.09	1.16	+.07
3-1/8 6/15/46-49	108.08	107.12	-.28	1.13	1.18	+.05
4-1/4 10/15/47-52	115.20	115.01	-.19	1.33	1.27	-.06
2 12/15/47	104.23	104.15	-.08	1.15	1.14	-.01
2-3/4 3/15/48-51	107.28	107.16	-.12	1.38	1.36	-.02
2-1/2 9/15/48	107.07	106.28	-.11	1.33	1.33	.00
2 12/15/48-50	104.21	104.16	-.05	1.28	1.27	-.01
3-1/8 12/15/49-52	110.22	110.18	-.04	1.65	1.60	-.05
2-1/2 12/15/49-53	106.16	106.16	.00	1.60	1.57	-.03
2-1/2 9/15/50-52	106.20	106.28	+.08	1.66	1.60	-.06
2-3/4 6/15/51-54	108.18	108.22	+.04	1.74	1.69	-.05
3 9/15/51-55	110.20	110.20	.00	1.78	1.74	-.04
2-1/4 12/15/51-53	104.29	105.07	+.10	1.70	1.65	-.05
2 6/15/53-55	103.10	103.18	+.08	1.68	1.64	-.04
2-1/4 6/15/54-56	104.28	105.15	+.19	1.80	1.74	-.06
2-7/8 3/15/55-60	110.00	110.14	+.14	2.00	1.94	-.06
2-3/4 9/15/56-59	109.10	109.21	+.11	2.01	1.97	-.04
2-3/4 6/15/58-63	109.12	109.30	+.18	2.07	2.02	-.05
2-3/4 12/15/60-65	110.00	110.14	+.14	2.10	2.07	-.03

July 23, 1942.

Treasury Department, Division of Research and Statistics.

1/ Decimals in prices of certificates are cents.
* Excess of price over zero yield.

Table I

Price and Yield Changes of United States Securities
July 16, 1942 to July 23, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	July 16, 1942	July 23, 1942	Change	July 16, 1942	July 23, 1942	Change
	(Decimals are thirty-seconds) 1/			(Percent)		
TAXABLE SECURITIES						
lls						
Average rate last issue	-	-	-	.36	.37	+.01
rtificates						
1/2% 11/1/42	100.019	100.024	+.005	.43	.41	-.02
5/8 2/1/43	100.008	100.014	+.006	.61	.60	-.01
able Notes						
3/4% 3/15/43	100.04	100.04	.00	.56	.56	.00
3/4 9/15/44	99.24	99.23	-.01	.87	.88	+.01
3/4 12/15/45	99.09	99.08	-.01	.96	.98	+.02
1 3/15/46	99.12	99.11	-.01	1.17	1.18	+.01
1-1/2 12/15/46	100.06	100.05	-.01	1.46	1.46	.00
able Bonds						
2% 3/15/48-50	101.05	101.04	-.01	1.78	1.79	+.01
2 6/15/49-51	100.10	100.10	.00	1.95	1.95	.00
9/15/49-51	100.08	100.08	.00	1.96	1.96	.00
2 12/15/49-51	100.06	100.06	.00	1.97	1.97	.00
2 12/15/51-55	100.03	100.02	-.01	1.99	1.99	.00
2-1/2 3/15/52-54	104.00	103.31	-.01	2.04	2.04	.00
2-1/4 6/15/52-55	101.05	101.06	+.01	2.12	2.12	.00
2-1/2 3/15/56-58	103.04	103.04	.00	2.23	2.23	.00
2-1/2 6/15/62-67	100.12	100.12	.00	2.48	2.48	.00
2-1/2 9/15/67-72	101.06	101.05	-.01	2.44	2.44	.00
TAX-EXEMPT SECURITIES						
olly Tax-exempt Notes						
2% 9/15/42	100.10	100.09	-.01	.08	.05	-.03
1-3/4 12/15/42	100.20	100.19	-.01	.23	.24	+.01
1-1/8 6/15/43	100.22	100.22	.00	.37	.35	-.02
1 9/15/43	100.22	100.23	+.01	.41	.37	-.04
1-1/8 12/15/43	101.00	101.00	.00	.41	.40	-.01
1 3/15/44	100.28	100.28	.00	.47	.47	.00
3/4 6/15/44	100.15	100.15	.00	.50	.50	.00
1 9/15/44	101.03	101.03	.00	.49	.49	.00
3/4 3/15/45	100.18	100.18	.00	.54	.54	.00
rtially Tax-exempt Bonds						
3-3/8% 6/15/43-47	102.18	102.16	-.02	.56	.57	+.01
3-1/4 10/15/43-45	103.03	103.02	-.01	.75	.74	-.01
3-1/4 4/15/44-46	104.06	104.06	.00	.83	.80	-.03
12/15/44-54	107.07	107.07	.00	.97	.94	-.03
2-3/4 9/15/45-47	105.12	105.14	+.02	1.02	.99	-.03
2-1/2 12/15/45	105.03	105.04	+.01	.98	.96	-.02
3-3/4 3/15/46-56	109.04	109.02	-.02	1.20	1.20	.00
3 6/15/46-48	107.00	106.31	-.01	1.16	1.16	.00
3-1/8 6/15/46-49	107.12	107.12	.00	1.19	1.18	-.01
4-1/4 10/15/47-52	115.00	115.01	+.01	1.28	1.27	-.01
2 12/15/47	104.16	104.15	-.01	1.14	1.14	.00
2-3/4 3/15/48-51	107.17	107.16	-.01	1.36	1.36	.00
2-1/2 9/15/48	106.29	106.28	-.01	1.33	1.33	.00
2 12/15/48-50	104.15	104.16	+.01	1.27	1.27	.00
3-1/8 12/15/49-52	110.18	110.18	.00	1.61	1.60	-.01
2-1/2 12/15/49-53	106.16	106.16	.00	1.57	1.57	.00
2-1/2 9/15/50-52	106.28	106.28	.00	1.60	1.60	.00
-3/4 6/15/51-54	108.21	108.22	+.01	1.70	1.69	-.01
3 9/15/51-55	110.20	110.20	.00	1.74	1.74	.00
2-1/4 12/15/51-53	105.07	105.07	.00	1.65	1.65	.00
2 6/15/53-55	103.18	103.18	.00	1.64	1.64	.00
2-1/4 6/15/54-56	105.15	105.15	.00	1.74	1.74	.00
2-7/8 3/15/55-60	110.15	110.14	-.01	1.94	1.94	.00
2-3/4 9/15/56-59	109.22	109.21	-.01	1.96	1.97	+.01
2-3/4 6/15/58-63	110.00	109.30	-.02	2.01	2.02	+.01
2-3/4 12/15/60-65	110.15	110.14	-.01	2.06	2.07	+.01

July 23, 1942.

Treasury Department, Division of Research and Statistics.

1/ Decimals in prices of certificates are cents.
* Excess of price over zero yield.

UNITED STATES TREASURY
VICTORY FUND COMMITTEE
FIRST FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK BUILDING
BOSTON, MASSACHUSETTS

July 24, 1942.

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

Dear Mr. Secretary:

In compliance with the request contained in your telegram of July 7,1942, there is quoted below a summary of the views of the Victory Fund organization of the First Federal Reserve District as to the type of issue the Treasury should offer during the month of August and suggestions for the next three months period, prepared by Mr. J. O. Stubbs, Executive Manager of the Committee:

"1. It has been predetermined by the Treasury that the tap 2½% issue due 1962/67 will be reopened in August. The consensus of opinion is, however, that it should be supplemented by a short (6 to 8 months) certificate issue.

2. The opinions expressed as to the procedure over the next three months were predominantly in favor of the following:

a. Periodic drives, three or four times a year, rather than an attempt to sustain a steady sales effort day in and day out. A volunteer organization will be much more effective in drives of this sort rather than the present method of frequent offerings. A sufficient preparatory period should be allowed to perfect details of organization, mechanics of procedure and education of solicitors as to all the aspects of the securities to be offered, holding back a few details concerning the new offering which could be announced signalizing the start of the drive; drives to last two to three weeks, depending on amount of money to be raised. After completion of the drive, members of organization to be permitted to go about their own business for a month or six

166

weeks before starting to prepare for the next drive. During this period paid staff and key men of the organization could be correcting flaws that have developed and lay plans for the future.

b. During the drive, solicitors should have a variety of issues to offer, such as:

1. A six to eight months' certificate suitable for corporation, and other buyers of this type of paper.

2. A medium term issue. This might be a serial one-ten year issue with different rates for different maturities, a five-year bond convertible at maturity into a higher rate longer term bond, or an issue similar to the recent July Treasury issue.

3. A long term tap issue of registered bonds similar to the outstanding one, primarily for the insurance market.

4. Most important, an issue which would be available for purchase by all types of investment buying covering the whole field of institutions, banks, trusts and individuals.

   In order to insure a wide sale, this bond should incorporate the following features:

   a. Full negotiability at all times. There is very real sales resistance to any restrictions covering resale of bonds.

   b. In coupon form with six months' interest payments with the privilege of registration. Individuals, particularly, are adverse to registered bonds for obvious reasons.

   c. Complete freedom for hypothecation. Inability to use securities as collateral naturally hurts their sale.

   d. Acceptance at par for payment of inheritance taxes after the cessation of hostilities.

Although there have been many suggestions as to interest rates, we feel that that is a matter completely in the hands of the Treasury and we have, therefore, prepared this memorandum from the point of view of merchandising, both in the manner of procedure and type of security to be sold."

Respectfully yours,

W. W. Paddock

Chairman.

UNITED STATES TREASURY
VICTORY FUND COMMITTEE
SECOND FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK
OF NEW YORK

33 LIBERTY STREET
NEW YORK, N. Y.

July 24, 1942.

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

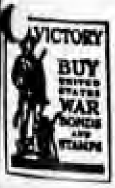
Dear Secretary Morgenthau:

Enclosed is confirmation of a telegram which I sent to you today, setting forth the views of the Victory Fund Committee of the Second Federal Reserve District, concerning the Treasury's August financing and its program for the next three months, as requested in your wire of July 7th.

Yours faithfully,

Chairman.

Enc.



VICTORY FUND COMMITTEE - SECOND FEDERAL RESERVE DISTRICT.

FEDERAL RESERVE BANK OF NEW YORK

CONFIRMATION OF TELEGRAM

TO BE MAILED

July 24, 1942.

WE HAVE TODAY TELEGRAPHED YOU AS FOLLOWS:

MORGENTHAU

SECRETARY OF THE TREASURY
WASHINGTON DC

A meeting of the Victory Fund Committee of the Second Federal Reserve District was held July 20th to consider the request contained in your wire of July 7th for the views of the Victory Fund organization concerning the Treasury's August financing and its program for the next three months. Subsequently, the views expressed by the full Committee, together with views obtained from the Regional Chairmen, were consolidated by its Executive Committee for submission to you. They are as follows:

1. It was assumed that the Treasury would have to borrow approximately $8 billion of new money during the months of August, September and October, 1942, exclusive of funds received from the sale of War Savings Bonds, tax savings notes and increased offerings of Treasury bills.

2. In addition refunding of $2.1 to $2.3 billion of maturing securities will be necessary during this period.

3. The Committee suggests that these sums be raised on about the following schedule and with the offerings indicated:

   A. August 1st or thereabouts reopen the 2 1/2% Treasury bonds of 1962-67 to realize $500 to $750 million. This bond should be issued in coupon (bearer) as well as in registered form, if possible, and provision should be made for redemption in case of death, termination of trust, etc., as in case of Series F and G War Savings Bonds; and if these changes are made the outstanding bonds of this issue should be brought into conformity with the new issue. The books for this issue should be kept open three or four weeks.

   B. August 15th or thereabouts offer a one year certificate of indebtedness in amount of about $1 1/2 billion. It would be anticipated that eventually the Treasury would have outstanding approximately $6 billion of such certificates, maturing in February, May, August and November.

WE HAVE TODAY TELEGRAPHED YOU AS FOLLOWS:

C. Early September refund \$662 to \$894 million maturities of September 15, October 15, and December 15 with a Treasury note plus a cash offering of the same note to realize \$500 to \$750 million. It is suggested that a three, four, or five year note be considered.

D. Late September or early October offer an issue or issues of intermediate Treasury bonds totaling approximately \$4 or \$5 billion. This would be a step toward larger less frequent offerings and should involve extensive prior preparation of the market, a selling campaign and a period of about two weeks for completion of the sale. If such a program is to be adopted an early decision is necessary in order to allow sufficient time for adequate preparation.

E. Late October refund November 1st maturity of \$1 1/2 billion certificates of indebtedness with another one year issue of certificates of indebtedness.

4. General suggestions included the view that:

(a) Limit on Series A tax savings notes should be increased to \$5,000 or \$10,000;

(b) The interest rate on Series B tax savings notes should be increased to .72 of 1%;

(c) The Victory Fund Committee if given responsibility for sales of Series F and G War Savings Bonds as well as market and semi-market issues, would be able to concentrate sales effort more effectively;

(d) Market bond issues under war financing conditions should be limited to fixed maturities without option of prior payment by the Treasury.

The Victory Fund Committee had available to it, in considering your request for its views, the report submitted to you by the principal member banks in New York City presenting their suggestions as to the general outlines of a desirable Treasury financing program. The Victory Fund Committee deemed the general principles suggested by the New York City banks to be constructive, and expressed satisfaction that its recommendations for Treasury financing during the next three months are consistent with these general principles.

Allan Sproul,
Chairman, Victory Fund Committee

W62WASH LONG B126 NY 24-1235P

MORGENTHAU

A MEETING OF THE VICTORY FUND COMMITTEE OF THE SECOND FEDERAL RESERVE DISTRICT WAS HELD JULY 20TH TO CONSIDER THE REQUEST CONTAINED IN YOUR WIRE OF JULY 7TH FOR THE VIEWS OF THE VICTORY FUND ORGANIZATION CONCERNING THE TREASURY'S AUGUST FINANCING AND ITS PROGRAM FOR THE NEXT THREE MONTHS. SUBSEQUENTLY, THE VIEWS EXPRESSED BY THE FULL COMMITTEE, TOGETHER [redacted] WITH VIEWS OBTAINED FROM THE REGIONAL CHAIRMEN, WERE CONSOLIDATED BY ITS EXECUTIVE COMMITTEE FOR SUBMISSION TO YOU. THEY ARE AS FOLLOWS:

1. IT WAS ASSUMED THAT THE TREASURY WOULD HAVE TO BORROW APPROXIMATELY $8 BILLION OF NEW MONEY DURING THE MONTHS OF AUGUST, SEPTEMBER AND OCTOBER, 1942, EXCLUSIVE OF FUNDS RECEIVED FROM THE SALE OF WAR SAVINGS BONDS, TAX SAVINGS NOTES AND INCREASED OFFERINGS OF TREASURY BILLS.

2. IN ADDITION REFUNDING OF $2.1 TO $2.3 BILLION OF [redacted] MATURING SECURITIES WILL BE NECESSARY DURING THIS PERIOD.

3126 - SHEET TWO

3. THE COMMITTEE SUGGESTS THAT THESE SUMS BE RAISED ON ABOUT THE FOLLOWING SCHEDULE AND WITH THE OFFERINGS INDICATED:

A. AUGUST 1ST OR THEREABOUTS REOPEN THE 2 1/2 0/0 TREASURY BONDS OF 1962-67 TO REALIZE $500 TO $750 MILLION. THIS BOND SHOULD BE ISSUED IN COUPON (BEARER) AS WELL AS IN REGISTERED FORM, IF [redacted] POSSIBLE, AND PROVISION SHOULD BE MADE FOR REDEMPTION IN CASE OF DEATH, TERMINATION OF TRUST, ETC., AS IN CASE OF SERIES F AND G WAR SAVINGS BONDS; AND IF THESE CHANGES ARE MADE THE OUTSTANDING BONDS OF THIS ISSUE SHOULD BE BROUGHT INTO CONFORMITY WITH THE NEW ISSUE. THE BOOKS FOR THIS ISSUE SHOULD BE KEPT OPEN THREE OR FOUR WEEKS.

B. AUGUST 15TH OR THEREABOUTS OFFER A ONE YEAR CERTIFICATE OF INDEBTEDNESS IN AMOUNT OF ABOUT $1 1/2 BILLION. IT WOULD BE ANTICIPATED THAT EVENTUALLY THE TREASURY WOULD HAVE OUTSTANDING APPROXIMATELY $6 BILLION OF SUCH CERTIFICATES, MATURING IN FEBRUARY , MAY , AUGUST AND NOVEMBER.

C. EARLY SEPTEMBER REFUND $662 TO $894 MILLION MATURITIES OF SEPTEMBER 15, OCTOBER 15, AND DECEMBER 15 WITH A TREASURY NOTE PLUS A CASH OFFERING OF THE SAME NOTE TO REALIZE $500 TO $750 MILLION. IT IS SUGGESTED THAT A THREE, FOUR, OR FIVE YEAR NOTE BE CONSIDERED.

D. LATE SEPTEMBER OR EARLY OCTOBER OFFER AN ISSUE OR ISSUES OF INTERMEDIATE TREASURY BONDS TOTALING APPROXIMATELY $4 OR $5 BILLION. THIS WOULD BE A STEP TOWARD LARGER LESS FREQUENT OFFERINGS AND SHOULD INVOLVE EXTENSIVE PRIOR PREPARATION OF THE MARKET, A SELLING CAMPAIGN AND A PERIOD OF ABOUT TWO WEEKS FOR COMPLETION OF THE SALE. IF SUCH A PROGRAM IS TO BE ADOPTED AN EARLY DECISION IS NECESSARY IN ORDER TO ALLOW SUFFICIENT TIME FOR ADEQUATE PREPARATION.

E. LATE OCTOBER REFUND NOVEMBER 1ST MATURITY OF $1 1/2 BILLION CERTIFICATES OF INDEBTEDNESS WITH ANOTHER ONE YEAR ISSUE OF CERTIFICATES OF INDEBTEDNESS.

GENERAL SUGGESTIONS INCLUDED THE VIEW THAT:

(A) LIMIT ON SERIES A TAX SAVINGS NOTES SHOULD BE INCREASED TO $5,000 OR $10,000;

(B) THE INTEREST RATE ON SERIES B TAX SAVINGS NOTES SHOULD BE INCREASED TO .72 OF 1 0/0;

(C) THE VICTORY FUND COMMITTEE IF GIVEN RESPONSIBILITY FOR SALES OF SERIES F AND G WAR SAVINGS BONDS AS WELL AS MARKET AND SEMI-MARKET ISSUES, WOULD BE ABLE TO CONCENTRATE SALES EFFORT MORE EFFECTIVELY;

(D) MARKET BOND ISSUES UNDER WAR FINANCING CONDITIONS SHOULD BE LIMITED TO FIXED MATURITIES WITHOUT OPTION OF PRIOR PAYMENT BY THE TREASURY.

126 - SHEET FIVE

THE VICTORY FUND COMMITTEE HAD AVAILABLE TO IT, IN CONSIDERING YOUR REQUEST FOR ITS VIEWS, THE REPORT SUBMITTED TO YOU BY THE PRINCIPAL MEMBER BANKS IN NEW YORK CITY PRESENTING THEIR SUGGESTIONS AS TO THE GENERAL OUTLINES OF A DESIRABLE [redacted] TREASURY FINANCING [redacted] PROGRAM. THE VICTORY FUND COMMITTEE DEEMED THE GENERAL PRINCIPLES SUGGESTED BY THE NEW YORK CITY BANKS TO BE CONSTRUCTIVE, AND EXPRESSED SATISFACTION THAT ITS RECOMMENDATIONS FOR TREASURY FINANCING DURING THE NEXT THREE MONTHS ARE CONSISTENT WITH THESE GENERAL PRINCIPLES.

ALLAN SPROUL,

CHAIRMAN, VICTORY FUND COMMITTE

SECOND FEDERAL RESERVE DISTRICT.

FEDERAL RESERVE BANK
OF
PHILADELPHIA

OFFICE OF THE
PRESIDENT

July 18, 1942

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

My dear Mr. Secretary:

Upon receipt of your telegram of July 7, I asked each of the twelve Regional Members of the Victory Fund Committee in this district to obtain the views of their County Chairmen concerning the forthcoming Treasury financing and to be prepared to discuss the subject in a private meeting scheduled for Wednesday, July 15, at this Bank. This meeting was held as planned, with Mr. George Buffington attending. Permit me to say that it was a real pleasure to have had Mr. Buffington with us. His presence added greatly to the interest and enthusiasm of every one of us and he was most helpful in exploring the various phases of the fiscal problems confronting the Treasury and in searching for effective solutions.

We also have conferred on the usual confidential basis with responsible officials representing commercial banks and trust companies, mutual savings banks, and insurance companies to obtain independently their views on the types of issues most appropriate to meet Treasury requirements during the next three months. This was done in a desire to cover our market discreetly yet as comprehensively as possible in view of the magnitude of the task ahead of us.

The results of our inquiry may be summarized in two parts: (1) Comments and suggestions relating to various issues that the Treasury might offer during the next three months in the light of prevailing conditions in the market, and (2) specific recommendations month by month for your consideration.

<u>Comments and suggestions</u>.

1. <u>Increased supply of short-term securities</u>.

It was the general consensus that the weekly offerings of Treasury bills might be increased gradually to $400 million a week in August and to $500 million in September. With the continued efforts of the Federal Reserve Banks, assisted by the Victory Fund Committees, the market for the bills can be broadened further in order to relieve pressure on money centers, to increase the effectiveness of short-term surplus funds, and to aid the Treasury in meeting its current needs. Our own educational attempt shows that considerable interest can be aroused in the bills as a means of liquid investment for surplus bank funds and that the outlook for continued interest is reasonably good.

4m

Similarly, we believe that Certificates of Indebtedness could be utilized to good advantage in spite of recent weakness in the market. These certificates are looked upon with favor in our district and we know of no disposition on the part of investors to sell them for profit. Over a suitable period of time the supply of these certificates might be increased by $5 billion. Moreover, our experience with the certificates does not indicate valid objections to an increase in supply on a quarterly basis. Taking into account the maturity spacing of the two certificate issues now outstanding, another issue of the certificates due in May 1943 might well be offered in August.

It is believed that, together with the Treasury's 2½% registered bonds, due 1962-67, to be soon reoffered, Certificates of Indebtedness would meet the Treasury requirements during August. Of course, as an alternative, Treasury Notes could be offered, but the difficulty with this suggestion is that there seems to exist some unbalance in the market with respect to the notes, particularly the 1½% issue due in December 1946, and it would apparently take some time to correct the situation. Nor would it be advisable to offer in August any intermediate bond issue for the obvious reason that some time should be allowed to elapse for market adjustment incident to the issue just completed.

2. The Treasury 2½% Registered Bonds due 1962-67.

The views on this issue in our district are mixed. It is generally felt that these bonds are designed primarily for insurance companies and savings banks. The representatives of our insurance companies indicated that they would be interested in this issue but not to the same extent as they were when first offered. Mutual savings banks, on the other hand, expected to increase their purchases over the amount they bought last time. Outside of these two sources, it was believed that the market for this issue is limited, principally because of the rate differential between these bonds and open market issues of longer maturity and the restriction that arises from registration. The consensus was that if $500 million could be obtained through these bonds during August it would be worth the effort. Members of our Victory Fund Committee are prepared to push this issue to the utmost, emphasizing patriotic reasons to offset or minimize such objections as may be raised on business grounds.

3. Short, nonmarketable Treasury notes.

The majority favored a new issue designed principally for the employment of business funds, rising primarily from surplus earnings, liquidation of assets such as receivables and inventories, and depreciation accruals. Trust, estate, and a great variety of public funds can be more readily attracted through such an issue than through bills and certificates. The principal argument in favor of this issue is that it would meet the needs of those who will invest funds only in a security that is liquid and is not subject to market fluctuations. This is important from the standpoint of merchandising and reaching available funds of all types. As to the amount of funds of this type available, the only way to find out is to seek them out through suitable offerings. An addition of one or two more new issues would hardly complicate the present securities structure inasmuch as there are already some 75 varieties outstanding. The sale of such a short-term issue could be vigorously promoted on a selective basis by the Victory Fund Committee. The books could be kept open indefinitely as in the case of War Savings Bonds. Several members of the Committee cited examples of available funds from business concerns in their regions and believed that they could attract these funds if they had suitable securities.

Such an issue could well be offered in August but if not in August it should then be seriously considered for October. September would be inopportune because of the quarterly instalment due on income taxes. The principal features of this issue may be as follows:

Maturity:	3-5 years.
Issue price:	$100.
Redeemability:	Not callable but redeemable after 30 days from issue date upon 60 days' notice, at par and accrued interest, except no interest will be paid if held less than 6 months.
Marketability:	Not negotiable, but eligible as collateral.
Limitation:	None on the amount of ownership.
Denomination:	$1,000 and over.
Rate:	As follows:

Years held	Rate	Years held	Rate
6 months..	1/2%	$3\frac{1}{2}$ years..	1 3/8%
1 year....	3/4"	4 years..	1 1/2"
$1\frac{1}{2}$ years..	7/8"	$4\frac{1}{2}$ years..	1 5/8"
2 years...	1"	5 years..	1 3/4"
$2\frac{1}{2}$ years..	1 1/8"		
3 years...	1 1/4"		
Average.	.90%	Average for 5 years..	1.1175%

The rates suggested here are not out of line with those in the open market and are not likely to disturb the existing short and intermediate term rate structure.

The only possible conflict might be with the Tax Savings Notes. To meet this, the rate of Series B Tax Savings Notes could be adjusted to the rates now prevailing in the short-term market. The sale of Tax Savings Notes should be promoted vigorously by the Victory Fund Committee.

4. War Savings Bonds.

It was the consensus that the lack of greater success than has been achieved in the sale of Series F and G War Savings Bonds is largely attributable to two factors: (1) Shortcomings in the organizational set-up and selling methods, and (2) certain features of the bonds themselves, particularly the discount feature of Series G. Difficulties have been cited in connection with Trust funds wherein a minor comes of age and desires to redeem the bonds. Payment in this case is accomplished by partial refunding of prior interest paid through deduction from the principal amount redeemed. This feature is complicated and the payment of less than par for early redemptions other than in the event of death, is generally distasteful. Psychologically, it is a deterrent to sales. It was suggested that some of the objections to Series G could be removed by eliminating the discount feature and providing for gradually rising rates on successive coupons.

It was also suggested that a supplemental bond might be offered on an open-end basis to be on sale continuously. It might be similar to the G Bond except that it could be sold at par, made redeemable at par and carry a low rate of interest. It was agreed that the entire subject of War Savings Bonds should receive renewed consideration by the Treasury if the sales are to be built up and maintained.

Specific suggestions.

Compilations below are rough approximations based on the assumption that weekly offerings of Treasury bills are increased to $400 million in August and to $500 million in September, and that war expenditures are increased as indicated by the present trend.

August financing	Billion
Total requirements..............................	$4.4
Regular borrowing - trusts, war savings, tax notes and Treasury bills................	2.2
Additional issues.......................	$2.2

Suggested:
(a) 2½% bonds, 1962-67, open-end.
(b) Short-term, nonmarket, open-end issue,
or
3/4% Certificates of Indebtedness, due May 1943.

September financing	
Total requirements..............................	$2.6
Regular borrowing - trusts, war savings, and Treasury bills.........................	2.0
Additional issues.......................	$.6

	Billion
Suggested: 1-1 1/4% Treasury note, due September 1945.	
October financing	
Total requirements...........................	$5.1
Regular borrowing - trusts, war savings, Treasury bills, tax notes..................	2.0
Additional issues.....................	$3.1

Suggested:
(a) Short-term, nonmarket, open-end issue.
(b) 2½% bonds, 1962-67, open-end.
(c) 2 1/8-2 1/4% bonds, 1951-53, or 1953-55.

Conclusion.

We believe that the financing program suggested here is feasible and will meet the requirements of the Treasury. The views in this district are that the general program should include types of issues that will meet well-defined needs. The Victory Fund Committees can then exert vigorously intelligent efforts in the marketing of Treasury securities, particularly if issues could be publicized several days in advance of subscriptions. A definite policy expressed in appropriate issues will contribute substantially to the solution of fiscal problems.

The greatest problem is how to arouse the public to realize the seriousness of the war situation. Probably national drives of the former Liberty Loan type extended over a few weeks several times a year might serve as a general stimulus not only to the sale of all kinds of Treasury securities but also to public morale. Some such program might accomplish desirable results and give Committeemen respite from monthly drives.

We greatly appreciate the opportunity of sharing these comments and suggestions with you and hope they will be of some value to the Treasury.

Sincerely yours,

Alfred H Williams

"A good market on which business can be transacted frequently is the best method to obtain and perpetuate placement on an investment basis.

"In dealing with large investors, one cannot violate two time tested principles of sound investment practice, i. e., quick marketability, emergency collateral value, and get results even though the actual exercise of those privileges would be exceedingly remote. In summation, offer marketable coupon bonds with optional registration privileges to all experienced investors, and use the maturity principle to accomplish the kind of placement desired."

Another suggestion was that a TAP issue be offered to mature-say in thirty years, available in coupon form, fully negotiable, available as collateral, and with three variations as to interest:

1 - A 2% rate for the first ten years, with option at the end of the ten years of presenting the bond for payment, or retaining it at the investors option, the interest rate for the remaining twenty years to be 2½%.

2 - A progressive coupon rate over the period of thirty years to average 2½% over the entire period if held to maturity.

3 - A 25-year bond, with a 2% rate for the first ten years, and a 3% rate to maturity after that.

Obviously, this suggestion would have many variations, again, an attempt to give the investor who holds his bond an incentive to hold it, and not offer for resale.

As a further suggestion - a Government Bond with an annuity feature so that individuals could be paying in - say for five years, and then hold for a given number of years, without drawing any interest at all, and then on an annuity basis receive X Dollars per month for a given number of months representing accrued interest plus gradual disbursement of principal.

Lastly, there could be offered Corporations and individual tax payers, a ten-year Note acceptable for Income Taxes, with a graded coupon rate, to be of ample inducement to hold them, tenderable for taxes, after having held them - say for three years.

The opinion was unanimously expressed that occasional conventional type offerings should come in pairs - say a three-year offering and a seven-year offering, or a two-year offering and a ten-year offering, so that the salesmen could have an alternative to offer to suit individual requirments.

The following could be a summary of the issues offered, and the money raised for the fiscal year 1942-43:

War Savings Bonds - all types	$ 12,000,000,000
Long Term 2½s	9,000,000,000
Maturities from 7 to 10 years	5,000,000,000
Ten-year Notes, receivable for all taxes...	6,000,000,000
Short-term issues from 2 to 5 years	6,000,000,000
Bank open credit	15,000,000,000
TOTAL	$ 53,000,000,000

Our whole thesis is an all-out effort to increase sales to the public, and by "public" we include Corporations, Partnerships, Trustees, Endowment Funds and individuals. To do this, bonds should be available as collateral, for at some stage the Banks may be asked to cooperate in financing the investor who can make - say a 25% down payment, borrow the rest at Bank, on an agreed formula of installment payments. Corporations will probably have to be persuaded to work with smaller cash balances in Bank, buy bonds that are fully negotiable, and borrow periodically should their depleted cash balance demand it, instead of the present policy of such large cash balances, that borrowing at all is completely outside of their plan.

The local Committee is anxious to bring its efforts into uniformity with what is being done in other districts. It will welcome, as soon as they can be formulated, the Treasury's outline of what the program of financing is to be for as far ahead as it can be projected. What degree of pressure is to be put upon the public, particularly corporations? To what extent is it desired that part of the financing load be carried by individuals and corporations pledging their private credit to assume the burden?

Respectfully submitted,

Chairman
Third Regional Committee
Fourth Federal Reserve District
VICTORY FUND COMMITTEE

July 22, 1942

UNITED STATES TREASURY

VICTORY FUND COMMITTEE

Fifth Federal Reserve District

FEDERAL RESERVE BANK BUILDING
RICHMOND, VIRGINIA

July 22, 1942.

Dear Mr. Secretary:

In response to your telegram of July 7, I am pleased to submit herewith a memorandum containing the suggestions of the Victory Fund Committee of the Fifth Federal Reserve District on financing the cash requirements of the Treasury for the three months beginning August 1, 1942. This memorandum presents the views of the ten members of the District Committee who met in Richmond on yesterday.

Sincerely yours,

Hugh Leach

HUGH LEACH,
Chairman, Victory Fund Committee,
Fifth Federal Reserve District.

HL:CCP
Enclosure

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

SUGGESTIONS ON FINANCING

TREASURY CASH REQUIREMENTS

FOR THE

THREE MONTHS BEGINNING AUGUST 1, 1942

SUBMITTED JULY 22, 1942

BY

VICTORY FUND COMMITTEE

FIFTH FEDERAL RESERVE DISTRICT

Any plan for financing Treasury cash requirements for a three months' period involves the necessity for an estimate of those requirements. Such an estimate cannot readily be made even though the estimated budget deficit for the fiscal year 1943 as revised on April 24, 1942, is available. The plan outlined in this memorandum is based on the probability that the Treasury will require $7 billion and possibly a little more in the three months' period. This estimate allows for receipts from the sale of special issues to trust accounts, from war savings bonds, from tax anticipation notes, and from the weekly issuance of $350 million of Treasury bills.

On the basis of the above estimate, the following plan for financing the cash requirements is presented:

	Amount (In Millions)
1. Increase the weekly issue of Treasury bills from $350 million to $400 million on August 5, to provide	$ 650
2. Reopen the 2½% bonds of 1962-67 about August 1, to provide	550
3. Sell in the market in August a Certificate of Indebtedness with a maturity of one year and a coupon of 7/8 (a maturity of around nine months and a coupon of 3/4 is the next choice), to provide ...	1,500
4. Offer in September a $1,500 million note issue with a maturity of around two and one half to three years to refund three issues maturing in September, October and December, amounting to $894 million, or two separate issues - one for refunding and one for new money, to provide	600
5. Sell in the market in October a bond with a somewhat longer maturity and a somewhat higher coupon than the 2% bond issued in July, to provide	3,000
Total	$ 6,300

In addition to the above, offer during the latter part of August or the first of September a non-market issue with a maturity of 2½ or 3 years, to remain open indefinitely. It is thought by some that such an issue might provide at least $1 billion, but there appear to be no available data upon which a reliable estimate could be based.

TREASURY BILLS:

There was formerly little interest in Treasury bills outside of New York and Chicago, except occasionally for special purposes. However, when the bill rate rose to around 0.37 per cent there was manifested an increased interest on the part of banks outside those cities. This interest has been stimulated somewhat through the efforts of Federal Reserve banks in explaining the advantages of bills as short-term investment paper and also through the action of the Federal Reserve banks in establishing a 3/8 of one per cent buying rate on all Treasury bills offered to them. The rise of short-term rates to present levels has occurred without pressure on the long-term rate and it is thought that the rate on ninety-one day bills could go to 1/2 of one per cent without affecting long-term rates. Such a rate would undoubtedly result in a much wider distribution of bills among banks, thus lessening the strain on the principal money markets. Moreover, it would probably attract additional funds from investors other than banks. This implies that the buying rate of the Federal Reserve banks would be raised to 1/2 of one per cent with suitable protection to the holders of outstanding bills.

While there has been an increased interest in Treasury bills in the Fifth Federal Reserve District, it is thought that the distribution is not as broad as it should be and the Victory Fund Organization is planning to stimulate the sales of this security.

REOPENING THE 2-1/2% BONDS OF 1962-1967:

It is suggested that this issue be reopened about August 1 and that it be left open a month. This bond appeals to many insurance companies and to some other investors because of the 2-1/2% coupon and because of its marketability even though it cannot be purchased by banks; but it is doubted that its reopening will yield at this time much more than $550 million. It is not likely that there will be any considerable demand for this issue in the Fifth Federal Reserve District.

- 2 -

MARKET FINANCING:

There appear to be at least three plans that could be followed in raising $1,500 million in August, as follows:

(1) Issue a bond with a somewhat longer maturity and a somewhat higher coupon than the 2 per cent bond that was issued in July.

(2) Issue a note.

(3) Issue a Certificate of Indebtedness with a maturity of one year and a coupon of 7/8, or with a maturity of around nine months and a coupon of 3/4 per cent.

Some banks prefer to hold maturities within a ten-year limit; others will go to twelve years, or beyond, in order to get a higher coupon. When the 2 per cent bond was issued in July, there were many investors who desired a 2-1/8 or 2-1/4 per cent bond with a longer maturity. It is entirely possible that another bond issue in August would be a success, but it seems desirable to refrain from crowding this area so soon. The amount of new money which will be needed by the Treasury in September will be relatively small, but the requirement for October will probably justify a bond issue of unusual size. By that time there should be a good demand for such an issue.

There appears to be little market demand for a note at this time. Moreover, it is thought that the Treasury might issue a note in September to refund maturing issues, as follows:

Issue	Maturity	Amount (In Millions)
U. S. Treasury Notes	September 15, 1942	$ 342
R. F. C. Notes	October 15, 1942	320
U. S. Treasury Notes	December 15, 1942	232
	Total	$ 894

If this is done, the Treasury might very well make the note issue large enough to provide some new money. A favorable market at that time might absorb an issue of $1,500 million, with a maturity of two and a half to three years. While the practice of separating refunding from new money issues is generally desirable, it might be well in this instance to consider one issue for both purposes, in view of the fact that all three issues maturing in the remainder of the calendar year aggregate only $894 million. A decision as to the relative merits of one or two note issues can be made more appropriately when the time of this financing approaches and more data on cash requirements are available. It might develop that the bond issue suggested for October could be offered to greater advantage during the latter part of September.

There remains for consideration for August financing a certificate of indebtedness. Since this method of financing was resumed, the Treasury has sold two $1,500 million issues, as follows:

Issue	Issue Date	Maturity Date	Rate
A-1942	4-15-42	11-1-42	1/2%
A-1943	6-25-42	2 -1-43	5/8%

It is thought that the market will readily take another $1,500 million of certificates, especially if the maturity is long and the interest rate is higher than 5/8 of one per cent. A maturity of one year and a coupon of 7/8 is suggested. The next choice would be a maturity of around nine months and a coupon of 3/4 per cent. In this connection, it might be well for the Federal Reserve banks to consider the advisability of establishing preferential discount rates on loans secured by Government obligations maturing within one year.

NON-MARKET ISSUE WITH MATURITY OF 2-1/2 TO 3 YEARS:

The plan of financing Treasury requirements for the next three months also contemplates the offering of a new special issue in the form of a 2-1/2 to 3 year non-marketable Treasury obligation. It would be the purpose of this issue to attract the idle funds of various types of business organizations. Business concerns without war orders are expected to have smaller inventories and receivables and larger cash balances than usual. In addition, some business concerns will have available reserves for depreciation and depletion which cannot be utilized in the customary manner. While the proposed issue would not be marketable, it would be redeemable at par upon sixty days' notice. Its appeal would be enhanced if it were made eligible as security for loans. All notes sold during a month would be dated on the first of that month. The issue would be available to all classes of purchasers except banks receiving demand deposits, without limit as to amount. The interest rate should be sufficient in comparison with market rates to attract funds and yet not so high as to disrupt the short-term market and should be arranged to induce the investor to hold the security. It is highly desirable that the security be in coupon form, if practicable. There appears to be a growing impatience on the part of investors with respect to the mechanical difficulties incident to registered securities. Use of the word "tap" in connection with Government issues should be avoided.

In view of the tremendous sums that must be borrowed to finance the war, it seems desirable to carry a suitable variety of "merchandise on the shelf." Many investors prefer the usual types of market issues; others are interested in guarantee of principal and other special features. Why not give them an opportunity to buy what they like? There is no way to tell in advance of a trial how much appeal a given issue would have. To the extent that it attracts funds that are not invested in bills, certificates, or other types of issues, it would diminish the large amount that must inevitably be borrowed from commercial banks -- a result that is greatly to be desired. The Victory Fund Committees are now in a position to determine the investment appeal of such an issue.

MISCELLANEOUS SUGGESTIONS

It is believed that the sale of tax anticipation notes could be increased, if

(a) the amount of Series A notes which can be purchased and used in any one calendar year were fixed at $5,000 to $10,000, and

(b) the rate of interest paid on Series B notes were increased to 0.72 per cent.

The present limit of $1200 on Series A notes seems much too small and short-term rates have firmed since the rate of 0.48 per cent was established for Series B notes.

C
O
P
Y

1942 JUL 28 AM 10 15

W25WASH F12 ATLA 28-10A

HENRY MORGENTHAU JR

SECTY OF THE TREASY

RETEL REGRET MISUNDERSTANDING DELAYED OUR SENDING VIEWS ON FUTURE FINANCING. CONCENSUS OF OPINION SEEMS TO BE THAT LONG 2 1/2 REGISTERED ARE SUITABLE FOR PERIODICAL OFFERING. ALSO THAT SOME CONSIDERATION BE GIVEN TO NEW TYPE OF BOND WITH REDEMPTION FEATURES DESIGNED TO APPEAL TO LARGE CORPORATIONS WHO MAY HAVE EXCESS CASH.

MCLARIN.

FEDERAL RESERVE BANK OF CHICAGO

July 25, 1942

OFFICE OF THE PRESIDENT

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

Dear Secretary Morgenthau:

On July 8th I wrote the banks, investment dealers and Victory Fund Committeemen of the Seventh Federal Reserve District quoting your telegram and asking for their views with respect to Treasury financing. Many have responded and I believe good feeling was engendered and good public relations served by your request.

Naturally some suggestions are not feasible and others are too general to be helpful. I am enumerating those which have substantial support:

1. The following suggestions have been made in connection with the 2 1/2% issue due 1962-67, known as the "tap issue" -

   (a) The bonds be issued in bearer form with a provision engraved on the face that they cannot be held by banks.

   (b) The issue be eligible at par for payment of Federal Inheritance Taxes and those Federal Income Taxes already accrued and payable after death.

2. Investment bankers unanimously favor a negotiable coupon bond suitable for funds of investors.

3. An issue maturing in five years is suggested by many banks.

4. Several widely separated banks believe that a 2 1/4% bond in registered form and maturing in from twelve to fifteen years would be popular.

5. Substantial sentiment was expressed for an issue which would pay a rate depending upon the length of time held. This would provide an incentive for institutional buyers to hold to maturity. Insurance companies especially are interested in this type. One important insurance executive suggested a twenty-five year bond paying two rates of interest; i.e., 1 1/2% for five years and 3% for twenty years, giving an effective yield of 2.62% if held to maturity. The issue would be non-negotiable for five years. The funds of one large insurance company would be attracted by an issue of twenty year 2 1/2% bonds which would mature at 110 but only if held to maturity by the original purchaser.

FEDERAL RESERVE BANK OF CHICAGO

-2 Honorable Henry Morgenthau, Jr. July 25, 1942

6. There are several expressions of sentiment for a lottery feature, through which drawings would be made every month of a certain number of E and F bonds, the numbers selected by the drawing to be paid at par.

7. One large bank suggests that if reserve requirements in New York and Chicago are adjusted prior to the financing, it would be feasible for the Treasury to:

   (a) Expand the bill market from week to week until 500 million a week is being offered.

   (b) Offer early in August a 3/4% certificate issue due May 1, 1943, but if the bill rate is changed to 1/2 of 1%, a certificate issue should not be offered until such change has been made effective.

   (c) This suggested procedure would care for August requirements and leave the market clear for an offering by the Treasury of a note issue in September at a price that would be in line at that time. At present, in the judgment of this bank, it would appear that a 1 5/8% note due July 15, 1947 should be worth about a 1.60 basis, or 100 1/8. Perhaps in September this issue would bring 100 1/4. Another possibility in September would be a 1 3/8% note due September 15, 1946 which should sell on about a 1.32 basis or about 100 10/32.

   (d) Treasury has 342 million 2% notes due September 15, 1942. By holding the note issue off until September, the Treasury could at the same time offer an exchange for this September maturity.

8. One outstanding trust company has recommended that a non-market risk, short term security be issued with maturity not to exceed five years, redeemable after six months and carrying progressively higher interest rates for each six months period held by the purchaser. It believes that if such an issue would be eligible as collateral to secure trust deposits under the Trust Acts of the various states and for borrowing at commercial banks, many institutions would purchase the issue in large amounts.

9. One outstanding mutual life insurance company has the following recommendations:

   (a) Issue longer term Treasury Bonds with interest rates higher than 2%.

   (b) Issue Treasury Bonds at present yield rates:

-3 Honorable Henry Morgenthau, Jr. July 25, 1942

1. Noncallable and payable, however, at a premium above par at maturity if held to maturity from date of issue by the original subscriber.

2. If callable and so held to bear a higher rate of interest from the first call date at par to the maturity date.

10. Several have indicated that such a gradually scaling up of the yield as maturities are lengthened would not upset the market for outstanding issues.

11. Numerous suggestions have been received indicating that an incentive for institutional investors to hold bonds to maturity should not be overlooked.

Our Regional Victory Fund Committees have been organized and are in a position to render efficient service in the sale of any Treasury issue. They are assisting the State Administrators in every state in the district in the sale of F and G bonds.

Very truly yours,

C. S. Young

President.

Buffington

W40G24WASH (LONG) H46 8TL 25-1027

MORGENTHAU

1942 JUL 25 PM 12 07

RE BMR YOUR TELEGRAM OF JULY 7, FOR AUG FINANCING MAJORITY
OF DISTRICT VICTORY FUND COMMITTEE
FAVORS AN ISSUE OF EITHER CERTIFICATES OF INDEBTEDNESS OR TREASURY
NOTES IN ADDITION TO REOPENING 2-1/2'S OF 1962-67.
A 3/4 PC CERTIFICATE WOULD BE MORE POPULAR IN THIS AREA BOTH
AMONG LARGE ABD SMALL BANKS THAN THE PREVIOUS TWO CERTIFICATES WHICH
CARREEDXXX CARRIED LOWER COUPONS.
SEVERAL MEMBERS FELT THAT TREASURY BILL
OFFERINGS SHOULD BE INCREASED TO $400,000,000 WEEKLY BEGINNING WITH
THE ISSUE DATED AUG 2XXX 22 WHEN MATURITIES INCREASE TO $250,000,000
ALSO, SOME FAVOR EARLY CONSIDERATION OF REGISTERED SHORT-TERM
VARIABLE COUPON NOTE DESIGNED TO ATTRACT IDLE CORPN FUNDS
THAT ARE NOT BEING CURRENTTY INVESTED IN BILLS OR CERTIFICATES
LETTER BEING SENT AIRMAIL TODAY OUTLINING VIEWS ON FINANCING PROGRAM
DURING NEXT THREE MONTHS

DAVIS.

PH TREASURY TELEGRAPH TREASURY TELEGRAPH

FEDERAL RESERVE BANK
OF
ST. LOUIS

July 25, 1942.

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

My Dear Mr. Secretary:

This is the letter outlining the views of the Eighth District Victory Fund Committee on the Treasury financing program for the next three months which I mentioned in my telegram today.

As reported in the telegram, there was general agreement that a public offering of marketable securities in August should be either certificates of indebtedness or notes. In addition, there was considerable sentiment, particularly among the bank representatives, for an increase to $400,000,000 per week in the current weekly offerings of Treasury bills.

As a basis for making recommendations, it was assumed that $2 billions would be raised in August and that the necessary financing in September and October will total around $5 billions in addition to funds raised through War Savings Bonds and Treasury bill offerings at the present rate of $350,000,000 a week. This amount could be raised as follows:

September and October Financing
(In millions of dollars)

Additional Treasury bills	$ 550
Treasury notes (Assuming August financing in certificates)	2,500
Registered short-term variable coupon notes	2,000
Total	5,050

There was considerable divergence of opinion among the Committee members with respect to the advisability of issuing a registered short-term variable coupon note designed primarily to attract idle corporation funds. On the one hand those favoring such an issue recognized that it would keep the financing out of the commercial banks and thus aid in combatting inflation. Also it would be a type of security that the Victory Fund Committee organizations are well qualified to distribute and through their efforts it

Page 2.

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

July 25, 1942.

might bring in a very substantial volume of funds to the Treasury. Up to date corporations have not ~~invested~~ in marketable Treasury bills and certificates to the extent their cash resources warrant. This has been largely due to their unwillingness to assume even the small market risks involved, the relatively low interest return on recent short-term issues, and general unfamiliarity with methods of purchasing Government securities on original offering.

The figure of $2 billions shown for sales of a registered short-term note which would be "on tap" during September and October is purely a guess. Unquestionably this amount of funds is available for investment in such an issue. The main problem is the inertia which exists among corporation executives that would have to be overcome by a well-organized, vigorous, and intelligent sales program.

The members who oppose such an issue question its popularity with corporate investors. While the amount of corporate funds that might be attracted has perhaps been exaggerated, the only way to find out definitely is to try the issue. If the results prove disappointing the offering could be stopped at any time without interfering with the general Treasury financing program. My personal opinion is that much of the opposition to this type of issue comes from bankers who are apprehensive about the temporary loss of deposits resulting from corporations using their funds to purchase it.

The primary reason for recommending Treasury notes is their appeal to the banks of the district at this time. An increase in weekly bill offerings and an issue of certificates of indebtedness in August would fairly well meet the liquidity requirements of the banks for the time being. Moreover, the recent offerings of Treasury bonds have been in the intermediate-term section of the list so that it would appear advisable to avoid that market for a few months. Since the banks have thus recently acquired substantial amounts of intermediate bonds and very short-term securities, three- to five-year notes would fit in well to their portfolios from the standpoint of a balanced maturity distribution. The banks also are partial to Treasury notes because they have a fixed maturity rather than an optional call period. The fact that the Treasury has fairly small debt maturities in 1947 is another reason for considering a five-year note now.

UNITED STATES TREASURY

VICTORY FUND COMMITTEE

Fourth Federal Reserve District

Federal Reserve Bank Building

CLEVELAND

Chairman
. J. Fleming

July 24, 1942.

Executive Manager
Hugh D. MacBain

Mr. George Buffington,
Assistant to the Secretary,
Treasury Department,
Washington, D.C.

Dear Mr. Buffington: -

Some time ago, the Secretary suggested that he would be pleased to hear the views of the various Victory Fund Committees on the type of issues to be offered for sale in the next several months by the Treasury. In line with this, the Victory Fund Committee of the Fourth Federal Reserve District asked representative bankers and securities dealers in this district to submit their views. As was to be expected, there was no unanimity of opinion and therefore it is not possible to submit a composite view of this district. The following views, however, represent the majority opinion:

(1) It was felt by most of the individuals consulted that it would be very helpful if larger allotments in full were made on new issues of Treasury Bonds and Notes. In this connection we are developing new outlets for Government issues and in the case of the recent 2% issue, 1949-51, we experienced some difficulty with inexperienced buyers in explaining that on their subscriptions they received only a 52% allotment. We believe that if subscriptions could be alloted in full up to, say, $250,000, it would be very helpful. We believe it would do away to quite a degree with purchasers trying to guess the success of any issue, and padding their subscriptions accordingly. This might be a disastrous experience for a new buyer of Government Bonds.

(2) There was a majority opinion to the effect that the present time is propitious for a long term Tap issue. It was felt quite strongly, however, that considerable sales resistance could be broken down if the 60-day waiting period before the issue became negotiable, which existed in the outstanding issue, were eliminated. Needless to say, a Tap issue in coupon form is also much more salable than a registered issue.

UNITED STATES TREASURY

VICTORY FUND COMMITTEE
Fourth Federal Reserve District

Federal Reserve Bank Building
CLEVELAND

Chairman
. J. Fleming

Executive Manager
Hugh D. MacBain

Mr. George Buffington. -2- July 24, 1942.

(3) There was a decided preference for a "split" offering, that is, a Tap issue for part of the desired amount and a shorter term issue eligible for banks for the remainder of the desired amount. For that part of the issue which would be largely bought by banks and corporations, the Pittsburgh market felt that a ten to twelve year issue would be readily salable in conjunction with the Tap. The Cleveland area felt that a Certificate of Indebtedness, say, a ten or eleven month issue, would be the most attractive from the bank angle in conjunction with a long term Tap.

Mr. Rowe of Cincinnati, who is Chairman of the Third Area of the Victory Fund Committee of the Fourth Federal Reserve District, prepared a lengthy memorandum outlining the various points of view of that Area which he would like submitted to the Treasury, and it is enclosed herewith.

Very truly yours,

Hugh D. MacBain

Hugh D. MacBain,
Executive Manager.

FRD
enc

- GOVERNMENT FINANCING -

Southwestern Ohio presents the following opinion on "GOVERNMENT FINANCING" - in response to Secretary Morgenthau's request that sub-divisions of the nation-wide VICTORY FUND COMMITTEE express themselves on the subject.

The suggestion for the offering to be made in August is a split between a two-year note and a seven-year bond, with perhaps only the total to be raised being announced, with allotments to be made on the basis of subscriptions received. Something other than a reopening of the long term TAP issue is definitely desired.

In addition to the above specific suggestion, the members of the Southwestern Ohio Group offer not a composite, but a collection of the views expressed at the various conferences held on this subject. It was the general feeling that intelligent consideration could not be given to individual monthly offerings without taking account of the two-year job which lies ahead.

Our question is - What kind of financing can be successful which will raise $75 Billions over the next two years, not counting the $24 Billions, to be raised by sales based upon 10% of income?

As a premise, let us take $30 Billions as an amount for the Banks for the two-year period.

Now facing the problem of what kind of bond the public, namely individuals of large means, corporations, trustees and institutions, would want or be expected to purchase. The amount involved, namely $45 Billions, is so huge that four questions naturally arise.

199-A

2 - The second school of thought says: Recognition should be given both to what is good for the investor of all classes, and what is wise policy for the Government. No. 1 above would end up with a large demand obligation, built up by the issuance of Series E, F and G bonds, and a stupendous turnover and large aggregate of short term obligations, calling for renewal, plus issuing more obligations in addition, mainly of maturities less than ten years. The minority who are of this belief contend:

(a) - It is not a certainty that money is easy because of management alone. It is easy because it is very hard to make money with borrowed money. Private debts have been liquidated steadily since 1929. We have no foreign competition for money as we had in the other war. Capital took flight to this country, etc. etc.

(b) - The program ahead of us of borrowing another $100 Billions over the next two years might inject a "fear" element, which could upset quotations badly. Every time a Bank officer decides upon an additional large purchase of Governments, he has to a greater or lesser degree a stirring within him of "fear" about next day's quotations.

(c) - The amount of demand obligations and short term maturities will grow and grow if the orthodox pattern is continued, and is there not a market risk which must be weighed and considered? Is this risk great enough to call for planning and devising some method by which we may have a larger proportion of the new debt really funded?

The above two schools of thought, in our opinion, present the problem as a whole. If the first school of thought is right, the subject needs no further discussion. If the second school of thought has merit in it, we are faced with suggesting a Treasury program designed to give weight to their contentions.

The minority offer, in order to provide time for a careful study of what kind of publicly offered bonds can be devised, that will have proper attraction for investors, and have features which will assist after market stability, the following suggestion:

1 - Can there be an active quoted market for all of this additional amount of Government obligations, without danger to our whole general economy?

2 - How large can the United States Government demand obligations become?

3 - How large can the total short-term obligations become?

4 - Is it advisable to give the buyers of long maturities some reasonable assurance of a constant market value approximating par?

The Government may not be able to indefinitely sell enough bonds to the public, not only to meet its deficit needs, but to provide funds to buy back, either directly or through its many agencies, all bonds offered for sale not absorbed by the open market.

It is the opinion of some people that the Defense Bonds or War Bonds, namely Series E, F and G, constitute and will constitute as large an obligation to redeem on demand as the Treasury has any right to have outstanding.

As we see it, the fundamental problem can be stated as two schools of thought:

1 - One school of thought - a majority of the local Committee says: The method of Federal borrowing which has been built up during this whole deficit period can safely be continued without changing the pattern. We are in a period of regulated prices; the Government has maintained easy money, and can continue to do so; it is wise, however, for Banks to limit their maturities to ten years and less, with staggered maturities desirable; the Banks should provide a tremendous portion of the funds needed during this fiscal year. Corporations, if they can buy any bonds, should buy short ones, and rely upon the open market. Institutions should buy long ones, but the market on them should not be restricted. It is not necessary nor advisable now to work up ideas or anything which might be considered a departure from the orthodox pattern set up over this period. To depart from the pattern might break down the entire managed or controlled structure.

For Banks, could not the Treasury Department to some extent copy the British Deposit Receipt plan, so that Banks could carry some portion of their loans to the Government under another caption in their balance sheet than their Government Bond account, with the advantage of segregating the unquoted portion of Government holdings. This could be in the form of a revolving credit agreement, with a large group of Banks participating voluntarily, the amount of each Bank's commitment to fluctuate upward or downward as their own deposits shift, based upon a percentage of deposits. As the receipts would be renewed rather automatically, this should have a fair rate of interest. This would retard the increase in quoted bonds outstanding, and give the Treasury Department time to plan open market offerings. It would also give existing markets more time to digest outstanding issues.

The open Bank credit might be argued as giving the Treasury too great power of naming the rate from time to time, and become almost compulsory upon the Banks. On the other hand, if - for example, 1,000 Banks participate in this open Governmental credit group, they could choose a group of - say ten Bankers representing all sections of the country, who would meet with the Treasurer from time to time, andhold a normal conference between lender and the buyer, and it might become a salutary discussion of Federal fiscal policies, as is the case when a group of Banks is formed to handle a Regulation V loan, and certain Banks undertake what servicing is necessary, and expect to confer from time to time with the borrower on behalf of the group.

The following suggestion, also from the minority, is an effort

Honorable Henry Morgenthau, Jr., July 25, 1942.
Secretary of the Treasury,
Washington, D. C.

Should the Treasury not wish to use the short-term market during the next three months to the extent suggested, consideration might be given to offering a 2-1/4 per cent bond. Several members of the Committee recommended such an issue. No doubt it would appeal to certain individuals who have purchased their limit of War Savings Bonds and who want an issue with a wider market than is enjoyed by the 2-1/2's of 1962-67, or for one reason or another do not like registered securities. Also it would find some market from institutional savings. However, a very substantial amount would be purchased by banks with the smaller banks particularly attracted because of the higher yield. In view of the fact that banks will have to be relied upon for a substantial amount of the new financing over the next year, it is questionable whether they should be given the opportunity to acquire on original offering a type of security that is not especially adapted to bank needs.

Very truly yours,

Chester C. Davis

Chester C. Davis,
Chairman, Victory Fund Committee,
Eighth Federal Reserve District.

Via Air Mail.

FEDERAL RESERVE BANK

OF MINNEAPOLIS

OFFICE OF
THE PRESIDENT

July 18, 1942

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

Dear Secretary Morgenthau:

At a meeting of the Victory Fund Committee of the Ninth Federal Reserve District held here yesterday, the contents of your telegram of July 7 were discussed, in which you requested such suggestions as might seem pertinent to the committee for your consideration in connection with the next three months' Treasury financing. I give below a summary of the conclusions of the committee's discussion.

The committee believes:

1. A higher maximum limit on Tax Anticipation Warrants Series A and a higher rate on Series B would be helpful.

2. The upper limit for sales of Series F and G Bonds might well be raised to at least $250,000.

3. Corporations would be attracted by a 3 to 5 year issue unlimited as to individual subscription, but not available for purchase by banks. These notes would sell better if they were made eligible for borrowing at banks.

4. At least one of the larger institutional purchasers favors a 14-year 2¼% issue.

5. The reopening of the 2½% long term tap issue will be welcome and sales should be in satisfactory volume.

6. Country banks would welcome a "package issue", i.e., a serial issue with equal amounts ranging from 1 to 10 years and sold in units including the same proportion of each year's maturity. Country banks could use this issue as the basic part of their bond portfolio and thereafter they would buy general issues as their funds became available. One committee member recommended that these package issues should also be limited to sale in the same package. The main advantage of this arrangement would be that one-tenth of the issue would mature each year and this would furnish a reliable measure of liquidity.

Regards,

J. N. Peyton

PRESIDENT

Sup)

JNP:B

FEDERAL RESERVE BANK
OF
KANSAS CITY

July 24, 1942

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

Dear Mr. Morgenthau:

In response to your wire of July 7, I am glad to communicate to you the views of the Victory Fund Committee for this district with respect to the types of issues which the Treasury should offer during the month of August. These views were formally adopted at a meeting of the District Victory Fund Committee which was held here on Wednesday of this week, at which all members of the committee were present except two. Prior to the meeting, the members of the committee had conferred with members of the regional and other committees in their respective localities, and all views thus obtained were reported and considered at the meeting. While some discussion was had with reference to the types of issues which should be offered during the next three months, it was agreed that the committee should undertake to make suggestions only concerning the issues which should be offered during the month of August.

In formulating their views, the committee assumed that the August offerings would total approximately two billion dollars, and that the issue of 2½ per cent registered bonds of 1962-67, which is to be reopened, would be included in that total.

The presumption was indulged that as much as $500,000,000 may be obtained from the reopening of the 2½ per cent issue, although it was generally thought that this was a somewhat liberal estimate. For the balance of the financing, it was the view of the committee that the following two issues should be offered:

(1) A note issue with a maturity of not to exceed three years, which would be designed to attract idle corporate and public funds. Such an issue would be registered and nonmarketable, and would remain open for such period as the Treasury might determine. Without attempting to otherwise specifically suggest its features and terms, it was agreed that it should be redeemable after

Page 2--Honorable Henry Morgenthau, Jr.--7-24-42.

a specified time from its issue, and thereafter following notice of a fixed number of days. Interest would be payable semiannually at progressively higher rates for each six months' period to provide an inducement to purchasers to hold the issue to maturity. It would not be available for subscription or purchase by commercial banks but could be purchased by others without limitation.

It was generally believed that such an issue could be readily marketed, and that the Victory Fund Organization would be of great assistance in placing it. Each member of the committee separately expressed his approval of an issue of this type, except one, who stated that he did not favor it.

(2) An issue of certificates of indebtedness, or a note issue with a maturity of not more than two years. Either of such issues would be designed primarily for commercial banks, and the rate on either issue would conform closely to the market rate at the time of offering.

With respect to the 2½ per cent bonds of 1962-67, which are to be reopened, the following suggestions presented by one of the members of the committee were approved:

"(1) That the Treasury announce the issue by advertisements in the newspapers in the larger cities, and, if possible, follow up such advertisements with newspaper stories. In connection with the advertisements attention should be called to the fact that the issue is fully marketable after 60 days with the exception that it cannot be purchased for ten years by banks. Emphasis should also be placed upon the fact that the bonds, being fully negotiable, would constitute acceptable collateral. In connection with newspaper publicity, I think that the Treasury might better obtain this publicity if press releases were sent not only to the papers but to key bankers who might, in turn, request the papers to carry appropriate publicity.

"(2) That members of the Victory Fund Committee be given selling arguments why the bonds are attractive rather than having the unattractive features emphasized.

Page 3--Honorable Henry Morgenthau, Jr.--7-24-42.

"(3) To expedite the actual delivery of the bonds. As matters now stand deliveries are in some cases being held up from 60 to 90 days which makes it exceedingly difficult to sell such people the second time."

The committee also was of the view that Treasury bills should be continued to be offered in such volume each week as the market would absorb them at or slightly under the buying rate for Treasury bills which has been established by the Federal Reserve banks. In that connection, several members expressed themselves as feeling that the rate on Treasury bills has now been pegged by the establishment of the buying rate by the Federal Reserve banks. It was also suggested that Treasury bills up to some fixed amount remain on tap at the highest bid price at which bills were awarded on the last previous offering. It was reported that many individuals and corporations are unwilling to submit bids, but that they would purchase bills if they were available in stipulated amounts at around 3/8 per cent discount.

Bearing on the general financing program, one of the members of the committee expressly requested that I communicate to you his opinion that the F and G War Savings Bonds should be discontinued. He feels that these issues are building up an enormous demand liability which is potentially dangerous. In substitution for them he suggested that longer term marketable issues be offered at a rate not exceeding 2½ per cent.

On behalf of the Victory Fund Organization for this district, I express sincere appreciation for the opportunity and privilege of expressing these views.

Respectfully yours,

H. G. Leedy

H. G. Leedy
President

HGL:FN

to meet the desire to issue a long term bond in sizable amounts, and preserve principal by a device that would provide a continuous quotation of approximately par:

A Government Bond, with a 50-year maturity, available for purchase by Corporations, Trustees, Insurance Companies, Endowment Funds, and other large investors; this bond to be offered as a TAP issue for the duration of the war in coupon form, with coupon sheets, similar to interest warrants, payable at a value as announced periodically. An appropriate formula could be worked out under which periodically - say every second year for example, the going rate for long term money of the highest credit in the world would be reviewed, and if the initial rate on the bonds was shown to be too high or too low, a rate would be named for the next two years, similar review and rate naming to be done each two years to maturity. Proponents suggested that this should insure an approximate continuous value of par for such an issue of bonds.

They made further comment as follows:

"Obviously, every single detail of an issue of this kind needs careful study, and the suggestion is made as a broad outline only.

"With a large number of salesmen in the field, under the direction of the Victory Fund Committees, selling a bond of this kind continuously, the Banks and Dealers could easily be in a position to take modest blocks offered for resale, hold them in their own portfolio for a few days, and deliver from this temporary stock as the salesmen brought in orders day after day, so that this could be a great factor in after market stability.

"As an additional method to help future marketability, this bond also might be given the privilege of being used when paying inheritance taxes. If between the rate reviewing dates each two years the bond should drop to a slight discount, it would be attractive to Estates getting ready to pay inheritance taxes, and to individuals of advanced years thinking of having a well rounded Estate with available cash equivalent for inheritance taxes.

"It can be argued that a Bond issue, with an adjustable coupon rate, would be unsatisfactory to the Treasury Department, in that its future cost for service on the issue is unknown. On the other hand, the future cost for all renewals is unknown, particularly as one looks ahead - say ten years.

"The power to name the rate, without consulting the lender, can be argued as smacking of totalitarianism; on the other hand, a free money market has always in the past determined money rates, and some of this is now reason why the free money market in itself would demonstrate any change in long term money rates which occur."

People we consulted here are unanimously opposed to reopening the previous TAP issue, on the ground that after market is seriously affected by registration, the sixty-day clause before offering for resale, and particularly the fact that with Banks excluded from the market for ten years, and Banks making an important part of the general market structure, great fears are expressed about lack of liquidity.

One of those consulted about this TAP issue, made the following statement:

"The so-called "tap" issue was obviously offered to meet the anticipated needs of this market. However, the "tap" issue ran afoul of the traditional orthodox yardstick for measuring a standard investment. Registration, sixty-day delayed open market quotations, absolute limitation as to the permissible field of investment, etc., unintentionally, but nevertheless, effectively established a barrier to a maximum accomplishment. It is our belief that placement on a desirable basis, and avoidance of any widespread use of the collateral privilege, could have been achieved, and many more bonds sold, if the mandatory provisions had been eliminated and length of maturity relied upon to naturally restrain purchase (except in a nominal way) by those for whom the issue was not intended. Further, that nominal interest on the part of Banks, primarily as a pairoff against a limited amount of time money, would be compensated for by the contribution it would make to the establishment of a better quoted market, which, in turn, would foster and encourage greater investment and retention on the part of those who should own the bond.

C
O
P
Y

W11G22WASH LNG M7 DLS 23-510P

SECRETARY OF THE TREASURY 1942 JUL 24 AM 9 44

Referring your telegram July 7. After conferring with members of seven regional Victory Fund Committeess in this District, I am pleased to give you their views with reference to types of issues they think the Treasury should offer during next three months. They believe a short-term tap issue of Treasury notes, with graduated interest rates, designed to attract temporarily idle funds held by corporations other than banks, would be well received in this district. The notes should be ineligible for purchase by banking institutions but should be eligible as collateral for bank loans. The committees also feel that an issue similar to the Treasury 2 1/2 percent registered bonds, due 1962-67, should be offered and that the subscription books should be kept open for sometime. A number of committee members have suggested that it would be desirable to make these bonds payable at par in the event of the death of the holder so the funds could be used in payment of estate taxes. There is considerable feeling that a seven to ten year bond issue would be well received by commercial banks desiring to invest trust funds. Some interest was expressed in reports that serial bond issue might be offered, but the discussion did not indicate that there would be any particular demand in this district for securities of that type. Securities of the types mentioned above in addition to Treasury bills, certificates of indebtedness, tax anticipation notes, War Savings, Savings bonds, and regular market issues would seem to fairly well provide for the needs of nearly any investor.

Gilbert 24th

URY TELEGRAPH

TREASURY TELEGRAPH

W05G13WASH L77 SF 24-446

MORGENTHAU

REURTEL 7TH

FROM INQUIRIES MADE THROUGH VICTORY FUND COMMITTEE GENERAL CONSENSUS IS THAT G'S AND TAP WILL TAKE CARE OF INTERMEDIATE AND LONG TERM NEEDS AND TO BALANCE THE PATTERN THERE IS CURRENTLY NEEDED A 12-MONTH C OF I WITH ALTERNATIVE OF NOTE YIELDING 1 PERCENT

DAY.

[illegible]GTON

212

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 24, 1942.

TO Secretary Morgenthau

FROM Harold Graves

Mr. Callahan reports that Mr. Arthur Szyk has agreed to do some cartoons for us.

He will come to Washington within the next week or two for a conference, and in the meantime will be at work upon some ideas.

I am assuming that you will want to meet Mr. Szyk when he is in Washington, and have so advised Mr. Callahan.

want to see
him when
he comes

Analysis of Exposure to Payroll Savings Plans

July 18, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.........	479	483	99
(2) Firms with 500 to 4,999 employees..........	5,064	6,129	83
(3) Firms with 100 to 499 employees............	20,760	27,024	77
(4) Subtotal - large firms......................	26,303	33,636	78
(5) Firms with less than 100 employees.........	94,997	*	*
(6) Total business organizations...............	121,300	*	*
II. Governmental organizations.........................	*	*	*
III. Grand total.....................................	121,300	*	*
Part B - Summary by Number of Employees Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.........	7,805,861	*	*
(2) Firms with 500 to 4,999 employees..........	6,796,879	*	*
(3) Firms with 100 to 499 employees............	4,842,942	*	*
(4) Subtotal - large firms......................	19,445,682	*	*
(5) Firms with less than 100 employees.........	2,407,652	*	*
(6) Total business organizations...............	21,853,334	30,000,000 1/	73
II. Governmental organizations			
(1) Federal Government.........................	957,603	2,100,000 1/	46
(2) State and local governments................	1,160,838	2,700,000	43
(3) Total governmental organizations...........	2,118,441	4,800,000	44
III. Grand total.....................................	23,971,775	34,800,000 1/	69

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

July 24, 1942.

1/ Excludes agricultural employees, military personnel, employees on WPA or NYA or CCC projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.

* Data not available.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans

(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	July 11	July 18		Apr. 18	July 11	July 18
Alabama	149	229	229*	285	52	80	80
Arizona	43	61	64	64	67	95	100
Arkansas	44	51	53	142	31	36	37
Northern California	512	630	631	631	81	99	100
Southern California	756	883	890	1,178	64	75	76
Colorado	113	124	125	125	90	99	100
Connecticut	277	345	363	622	45	55	58
Delaware	21	51	51	87	24	59	59
District of Columbia	52	98	101	152	34	64	66
Florida	147	182	186	186	79	98	100
Georgia	133	303	334	410	32	74	81
Idaho	31	31	31	34	91	91	91
Illinois	1,300	1,692	1,716	2,253	58	75	76
Indiana	415	593	600	600	69	99	100
Iowa	165	201	202	272	61	74	74
Kansas	276	279	279*	279	99	100	100
Kentucky	136	184	185	313	43	59	59
Louisiana	179	257	266	385	46	67	69
Maine	60	137	141	198	30	69	71
Maryland	177	247	248	405	44	61	61
Massachusetts	639	813	840	1,532	42	53	55
Michigan	689	875	881	1,030	67	85	86
Minnesota	376	424	424*	424	89	100	100
Mississippi	59	63	63	143	41	44	44
Missouri	472	634	635	664	71	95	96
Montana	40	45	45	45	89	100	100
Nebraska	103	112	112	123	84	91	91
Nevada	14	16	16	21	67	76	76
New Hampshire	89	123	128	145	61	85	88
New Jersey	463	768	794	870	53	88	91
New Mexico	33	38	38	41	80	93	93
New York	2,060	3,113	3,180	4,257	48	73	75
North Carolina	282	409	409	499	57	82	82
North Dakota	14	19	19	19	74	100	100
Ohio	1,126	1,260	1,317	1,740	65	72	76
Oklahoma	166	217	218	348	48	62	63
Oregon	211	273	275	275	77	99	100
Pennsylvania	1,682	1,982	2,006	2,035	83	97	99
Rhode Island	154	225	226	335	46	67	67
South Carolina	71	133	138	176	40	76	78
South Dakota	21	25	25	25	84	100	100
Tennessee	199	290	305	449	44	65	68
Texas	326	490	506	1,378	24	36	37
Utah	36	44	44	44	82	100	100
Vermont	59	61	61	63	94	97	97
Virginia	281	365	371	371	76	98	100
Washington	234	325	326	326	72	99	100
West Virginia	134	182	186	272	49	67	68
Wisconsin	278	403	407	680	41	59	60
Wyoming	17	18	19	19	89	95	100
Alaska	2	2	2*	2	100	100	100
Railroads	49	49	49	52	94	94	94
Total	15,365	20,374	20,760	27,024	57	75	77

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

July 24, 1942

* Data are for July 11, inasmuch as no July 18 report was received.

Firms Employing 500 Persons or More Participating in Payroll Savings Plans

(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	July 11	July 18		Apr. 18	July 11	July 18
Alabama	41	62	62*	83	49	75	75
Arizona	9	11	13	13	69	85	100
Arkansas	16	16	17	22	73	73	77
Northern California	122	125	129	173	71	72	75
Southern California	121	134	135	142	85	94	95
Colorado	25	30	30	30	83	100	100
Connecticut	114	125	129	157	73	80	82
Delaware	15	18	18	22	68	82	82
District of Columbia	32	37	37	40	80	93	93
Florida	28	32	32	62	45	52	52
Georgia	86	113	118	120	72	94	98
Idaho	11	11	11	11	100	100	100
Illinois	391	437	440	556	70	79	79
Indiana	88	126	127	165	53	76	77
Iowa	22	29	29	39	56	74	74
Kansas	23	24	24*	24	96	100	100
Kentucky	38	48	48	72	53	67	67
Louisiana	29	43	43	76	38	57	57
Maine	48	57	57	60	80	95	95
Maryland	84	93	93	105	80	89	89
Massachusetts	237	282	283	334	71	84	85
Michigan	265	281	281	303	87	93	93
Minnesota	79	80	80*	82	96	98	98
Mississippi	26	31	31	38	68	82	82
Missouri	103	121	121	138	75	88	88
Montana	3	3	3	3	100	100	100
Nebraska	23	24	25	32	72	75	78
Nevada	4	4	4	5	80	80	80
New Hampshire	29	32	32	32	91	100	100
New Jersey	142	174	175	208	68	84	84
New Mexico	5	5	5	5	100	100	100
New York	759	835	840	1,086	70	77	77
North Carolina	103	129	129	139	74	93	93
North Dakota	0	0	0	0	-	-	-
Ohio	412	429	432	497	83	86	87
Oklahoma	31	39	40	49	63	80	82
Oregon	48	54	54	54	89	100	100
Pennsylvania	551	583	585	628	88	93	93
Rhode Island	61	73	73	97	63	75	75
South Carolina	84	94	94	103	82	91	91
South Dakota	5	5	5	5	100	100	100
Tennessee	50	64	65	114	44	56	57
Texas	63	79	82	140	45	56	59
Utah	8	10	10	11	73	91	91
Vermont	12	12	12	12	100	100	100
Virginia	93	104	105	105	89	99	100
Washington	49	67	67	76	64	88	88
West Virginia	36	66	66	70	51	94	94
Wisconsin	127	138	138	154	82	90	90
Wyoming	1	1	2	2	50	50	100
Alaska	3	3	3*	3	100	100	100
Railroads	109	109	109	115	95	95	95
Total	4,864	5,502	5,543	6,612	74	83	84

July 24, 1942

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

* Data are for July 11, inasmuch as no July 18 report was received.